

Republic of Trinidad and Tobago

Public Expenditure and
Financial Accountability

Public Financial Management Performance
Assessment Report

Final Report

Client: European Commission Delegation Trinidad and Tobago

The DFC Group Spain

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The information contained in this report does not necessarily reflect the position or opinion of the government of Trinidad and Tobago or of the European Commission. Responsibility for the views expressed and for any errors of fact or judgement remains with the consultant who is accountable for providing an accurate assessment of events, opinions and comments. The PEFA Assessment exercise and the consultant aims to be as factual as possible.

Currency and Exchange Rates

Currency Unit – Trinidad and Tobago Dollar TT\$

Euro 1 = TT\$ 9.0

US\$1 = TT\$ 6.05

Fiscal Year

October 1st to September 30th

PEFA Assessment Period

FY 2004/2005, FY 2005/2006, FY 2006/2007,

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Table of contents

| | |
|---|-----------|
| Acknowledgements | 2 |
| Table of contents | 3 |
| Abbreviations and Acronyms | 5 |
| Summary Assessment | 7 |
| Integrated Assessment of PFM Performance | 8 |
| Assessment of the impact of PFM weaknesses | 16 |
| Prospects for reform planning and implementation | 17 |
| 1 Introduction | 21 |
| 1.1 Objective of the PFM-PR | 21 |
| 1.2 Process of preparing the PFM-PR | 22 |
| 1.3 Methodology | 23 |
| 1.4 Scope of the assessment | 23 |
| 2 Country background information | 25 |
| 2.1 Description of country economic situation | 25 |
| 2.2 Description of budgetary outcomes | 27 |
| 2.3 Description of the legal and institutional framework for PFM | 29 |
| 3 Assessment of the PFM systems, processes and institutions | 37 |
| 3.1 Budget credibility | 37 |
| 3.2 Comprehensiveness and transparency | 43 |
| 3.3 Policy-based budgeting | 50 |
| 3.4 Predictability and control in budget execution | 54 |
| 3.5 Accounting, recording and reporting | 66 |
| 3.6 External scrutiny and audit | 70 |
| 3.7 Development Partner practices | 74 |
| 3.8 Management of Oil and Gas Revenues | 77 |
| 4 Government reform process | 79 |
| 4.1 Description of recent and on-going reforms | 79 |
| 4.2 Institutional factors supporting reform planning and implementation | 80 |
| Annexes | 83 |
| 5 Annex 1: Terms of Reference: For a study to review the Public Finance Management (PFM) system in Trinidad and Tobago | 85 |
| Background of the Study | 85 |
| Objective of the assessment mission | 86 |
| Description of the Assignment | 86 |
| Specific tasks in the preparation of the PFM-Performance report | 87 |

| | |
|--|------------|
| Methodology | 87 |
| Stakeholders: donors and national authorities | 88 |
| Expert's Profile | 88 |
| Location and duration | 88 |
| Proposed schedule | 89 |
| Reporting | 89 |
| Annex 2: PFM Performance Measurement Framework Indicators Summary | 91 |
| Annex 3: List of Stakeholders Interviewed | 103 |
| Annex 4: List of Documents Consulted | 105 |
| Annex 5 Comparison of PEFA (2008) Ratings with the 2006 PEFA | 106 |
| 5.1 Budget credibility | 106 |
| 5.2 Comprehensiveness and transparency | 107 |
| 5.3 Policy-based budgeting | 108 |
| 5.4 Predictability and control in budget execution | 108 |
| 5.5 Accounting, recording and reporting | 110 |
| 5.6 External scrutiny and audit | 111 |
| 5.7 Development Partner practices | 111 |
| Annex 6 Comments and Responses on the Draft Report on the PEFA Assessment | 113 |

Abbreviations and Acronyms

| | |
|---------|--|
| AG | Auditor General |
| AGA | Autonomous Government Agencies |
| AO | Accounting Officer |
| CBTT | Central Bank of Trinidad and Tobago |
| CF | Consolidated Fund |
| CoA | Comptroller of Accounts |
| COFOG | Classifications of Functions of Government |
| CPI | Consumer Price Index |
| DMFAS | Debt Management and Financial Accountability System |
| EAA | Exchequer and Audit Act |
| EC | European Commission |
| FDI | Foreign Direct Investment |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GFS | Government Financial Statistics |
| GNI | Gross National Income |
| GRAP | Generally Recognised Accounting Practice |
| HDI | Human Development Index |
| IA | Internal Audit |
| IADB | Inter-American Development Bank |
| ICT | Information & Communication Technology |
| IFMIS | Integrated Financial Management Information System |
| IIA | Institute of Internal Auditors |
| IMF | International Monetary Fund |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| LG | Local Government |
| MDA | Ministries, Departments and Agencies |
| MF | Minister of Finance |
| MoF | Ministry of Finance |
| MTEF | Medium Term Expenditure Framework |
| NA | National Assembly |
| NT | National Treasury |
| ODA | Official Development Assistance |
| PAC | Public Accounts Committee |
| PE | Public Enterprise |
| PEFA | Public Expenditure and Financial Accountability |
| PETS | Public Expenditure Tracking Survey |
| PFC | Policy Formulation Committee |
| PFM | Public Finance Management |
| PFM PMF | Public Finance Management Performance Management Framework |

| | |
|-----|----------------------------|
| PI | Performance Indicator |
| PPP | Public Private Partnership |
| PU | Procurement Unit |
| SBS | Sector Budget Support |
| SCM | Supply Chain Management |
| SNG | Sub National Government |
| SoE | State Owned Enterprise |
| ToR | Terms of Reference |
| TSA | Treasury Single Account |
| TT | Trinidad and Tobago |
| VAT | Value Added Tax |

Summary Assessment

This Public Expenditure and Financial Accountability (PEFA) assessment was initiated and sponsored by the European Commission. It has been undertaken with the formal agreement and active support of the Government of Trinidad and Tobago. The assessment adopts the widely accepted methodology of the Public Financial Management Performance Measurement Framework (PFM-PMF) issued by the PEFA multi-donor programme in June 2005. The approach is based upon a careful consideration of the demonstrated observable public financial management (PFM) systems, procedures and practices in Trinidad and Tobago at the time of the assessment as determined through direct interviews with Government officials and the reviews of official documents and reports. It is also based upon the use of corroborating evidence sought from a variety of independent sources where ever possible.

The purpose of the PFM Performance Report is to assess the current status of the public financial management system of the central government. It should serve to identify both areas of strength and weakness. It is not designed to comment upon any aspects of specific fiscal or expenditure policy and has been careful not to do so. It has not taken into account considerations of capacity, except to the degree implicit in the capacity to successfully carry out the assessed PFM procedures. It is important also to underline that the objective of the assessment has not been to evaluate and score the performance of institutions or any PFM offices or officials, but rather to assess the capacity of the PFM systems themselves to support sound fiscal policy and financial management¹.

The PEFA performance review for Trinidad and Tobago presents a second assessment of the 31 high-level indicators of the PEFA Performance Measurement Framework. The first PEFA Assessment for Trinidad and Tobago was carried out in 2006. It is anticipated that such PEFA assessments shall continue to be carried out every three to four years and in doing so will provide a clear and accessible basis for monitoring PFM reform progress over the long term.

It is anticipated that the PEFA assessment shall support the on-going dialogue between the government and its development partners on aid delivery modalities and arrangements

¹ In essence this assessment provides a measure of whether the main necessary conditions for delivering upon sound PFM practice has been met, rather than providing an insight into all of the sufficient conditions necessary to conclude that sound PFM is being carried out. For example while it assesses whether the PFM systems provide a sound framework for assessing fiscal risk arising from Public Enterprise activity, it makes no comment as to what authorities do or should do in response to the information provided by the fiscal risk assessment. Such responses may be purely political and a comment on such would be beyond the remit or competence of a PEFA assessment.

for support to PFM reform in Trinidad and Tobago. While this report, by design, neither articulates specific recommendations for PFM improvements nor details an action plan, it is anticipated that the results, which establish areas of both strength and weakness, shall assist the government in further defining its PFM reform priorities and subsequent reform activity sequencing and pacing schedule. Further, it should serve separately as a useful tool to development partners for supporting dialogue in providing harmonised development partner support to the Government's PFM reform efforts.

Integrated Assessment of PFM Performance

In the following sections of the summary the performance of PFM systems, procedures and practices as measured through the PEFA assessment are described in terms of six critical dimensions of PFM as defined within the PEFA methodology. These are credibility of the budget; comprehensiveness and transparency; policy based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and oversight.

Credibility of the budget

When considered at the aggregate level, and restricted to an assessment of primary expenditure, Trinidad generally performs well with respect to the credibility of the budget especially with regards to revenue estimates versus outturns. While the assessment scores the management and tracking of expenditure arrears well, there is some indication that informal procedures are used to procure goods and services that address commitment retroactively which may be leading to significant levels of expenditure arrears. Such arrears are not reported on so it is impossible to quantify the amount. The Trinidad and Tobago Manufacturers' Association (TTMA) membership reports long delays in receiving payments when supplies are made to MDAs. This suggests that arrears could be significant.

Revenue outturns match very well the budget projections and thus provide a sound starting point for achieving a credible budget. Trinidad and Tobago relies on the revenues and expenditure forecasts emanating out of Article IV consultations with the IMF. As a consequence of the large proportion of revenues derived from oil and gas, and the high price volatility the Budget Division adopts an intentional conservative posture. The upshot of this has been revenue outturns exceeded budget estimates for all three fiscal years considered.

The fully credible revenue forecasting, along with a successful debt management strategy that has brought debt/GDP levels to 28.3%, has provided the fiscal space to facilitate the specification of a meaningful fiscal framework. This serves as an effective and realistic top-down budgetary discipline tool which can expect to meet service delivery demands, while being cognizant of the economic and political dynamics and demands.

The aggregate expenditure out-turns matches the budget estimates quite closely and shows a dramatically improving performance over the three years considered. It clearly reflects a measure of fiscal discipline exercised through a fiscal framework that is effectively applied as an instrument of top-down discipline to the budgetary process (see

PI-12), coupled with effective cash and debt management (PI-17), and budget release predictability (see PI-16), as well as sound salary management (see PI-18). The story is more mixed with respect to the effectiveness of non-salary expenditure controls (see PI-4, PI-19, PI-20).

For all three years considered in this assessment, actual revenue outturns have exceeded revenue estimates. It should be noted though, that such revenue excess has not led to significant expenditure over budget at the aggregate level (see PI-1) but shows more significant variance at the vote level (see PI-2). The evidence suggests that excess revenue over budget estimate has been channelled principally to debt reduction and investment in the Heritage and Stabilization Fund.

When one considers the variance of expenditure outturn for budgetary votes up and above aggregate expenditure deviation from aggregate budget estimates there is evidence that there is generally not as effective budget control as is achieved at aggregate levels. The PFM systems deliver predictable and well controlled virement procedures with well documented and suitably controlled procedures. The low variances up and above the expenditure deviation at the aggregate level would seem to suggest a strong coupling between the budget formulation and preparation process, and in turn between budget estimate and implementation. However, the absence of cabinet approved ceilings being included in the budget call circulars, have led to budget holders submitting budget estimates that are several times the ceilings adopted by the Budget Division and approved by the Minister of Finance. That acknowledged; the budget releases are not fully aligned with the votes and that the commitment control procedures though largely effective are on occasion bypassed. While the Exchequer and Audit Act accommodates for a supplementary budget process, this does not appear to introduce significant adjustments to the original budget estimates

Two factors that can undermine the credibility of the budget are significant extra-budgetary activities, and the poor monitoring of fiscal risk, debt and contingent liabilities. The PFM systems effectively address fiscal risk vis-à-vis the Consolidated Fund that might emanate out of unforeseen expenditure burdens arising out of sub national government loans or public enterprise bail outs (see PI-9). When it comes to extra-budgetary activity, the government has been careful to address extra-budgetary activity by way of reporting on and controlling internally generated funds, unbudgeted bail outs, unreported deferred funding through Public Private Partnerships (PPPs), unreported unconventional debt instruments to address losses in Public Enterprises (see PI-7(i)).

The lack of a standard for budget estimates with respect to development partner contributions impact negatively on budget credibility. There are neither standard definitions for such budget estimate elements as pledges, available funding, commitments nor are there clear and consistent methods for determining Development Partner funded budget estimates. What is employed, when provided by development partners, is instead a reflection of some combination of pledge, commitment and projected disbursement. This, rather than a careful estimate of actual disbursement based upon commitment, the likelihood of disbursement given the applicable conditionalities and the absorptive capacity taking into account the procurement planning and implementation schedules of the projects to be financed. The limited attention to actual budget estimates rather than the

unfiltered adoption of pledges, commitments and projected disbursements tend to undermine the credibility of the budget (see D-2).

Comprehensiveness and transparency

Fiscal forecasts are realistic and debt management is based upon a debt management strategy with a regular, accurate and timely reporting and monitoring of the debt stock. The budget documentation is complete, comprehensible and comprehensive including the macroeconomic assumptions, the fiscal balance along with the make up of any deficit financing, the debt profile and status, the financial assets, the historical budget outturns and clear explanations on the impacts of new major revenue and expenditure policy initiatives.

The government has adopted standards for the budget formulation and execution, based on economic and administrative budget classifications. The Budget Division can produce consistent documentation according to GFS/COFOG standards. The budget documentation includes a table that segregates expenditure in accordance with functional classifications. However, at this time budget execution and financial reporting remains on an economic and administrative classification. The chart of accounts incorporates and is consistent with the administrative and economic budget classifications.

All revenues generated directly by Departments are transferred to the Consolidated Fund which operates as a Treasury Single Account. Almost all expenditure is made through a centralised payments system. This arrangement provides effective control over the extent of extra-budgetary expenditure by the ministries that can be undertaken. The Ministry of Finance has the capacity to oversee revenue and expenditure transactions through daily bank reconciliations and to monitor the public entities plans and financial management. There are no unreported Public-Private Partnerships, nor unreported unconventional financing instruments for addressing losses of Public Enterprises. All security agency funds are reported on in aggregate, even if details of expenditure remain undisclosed. The financial reports consolidation process includes a reconciliation process between sources of funds and applications which reasonably assures that there are no significant extra-budgetary funds outside development partner funds.

A review of the mechanisms for the vertical and horizontal allocation of resources to Sub-national Government suggests a transparent system which incorporates parliamentary oversight. The budget allocation process provides reliable information on the allocations to be made to them but not before the start of their detailed budgeting processes. The budget releases to sub-national government entities are timely and fully predictable.

There is a fairly careful risk assessment of Public Enterprise operations using a comprehensive risk analysis framework, however at this time not all major public enterprises are complying fully with the Investment Division's financial reporting requirements to make the system fully effective. There is the timely and regular audited fiscal reporting of most Public Enterprises operations to permit effective oversight by the Investment Division but not all yet.

There is a fairly high level of transparency in Trinidad and Tobago's budget processes. There is broad transparency demonstrated by way of inter-governmental fiscal relations,

the oversight of public enterprises and public borrowing, and with respect to public access to key fiscal information. However, one area that remains opaque is procurement. Awarded contracts are not published. The culture of transparency with regards to budget documentation is active and there is budgetary, tax revenue and audit information that is made available in a timely fashion on the Internet through the government book shop and public and academic libraries. There is also no information however available on the amounts of resources received by the front line facilities such as primary schools and primary health care facilities.

Policy-based budgeting

The budget process occurs within a pre-announced resource envelope based upon three-year credible macro-fiscal forecasts derived from the Article IV forecasts. There is very clear policy direction from the cabinet to the budget holders through the budget call circular. However the lack of cabinet approved budget ceilings dilutes the effectiveness of the bottom-up elements from the budget entities. This is even though the budget schedule provides ample time for budget holders to prepare their budget. Without definite ceilings it is difficult to systematically prioritise programmes and projects. The fiscal framework is derived from a three year revenue forecast and a three-year pro-forma expenditure profile. Trinidad and Tobago adopts a single budget process with both the recurrent and capital budget process coordinated by the Budget Division within the Ministry of Finance. The fiscal framework defines economic classifications that are linked to the annual budget ceilings.

The budget process encompasses policy input from the cabinet at the beginning and the end of the budget process through the Policy Formulation Committee; a sub committee of Cabinet. There are strong institutional arrangements in place for ensuring both strong policy as well as technical review of the budget. The budget process occurs in accordance with a definite budget calendar and is guided by clear and timely budget call circulars that facilitate an early budget preparation process by the budget holders. However, the budget preparation process as carried out by the budget holders is not based upon indicative or hard budgetary ceilings. The MDAs have approximately eight weeks to prepare their budget bids. Finalised ceilings authorised by cabinet which are provided towards the end of the budget preparation cycle allow about a week for Ministries to finalise their budgets with approved bids incorporated.

The national vision, mission and development objectives have been articulated within the Government's Vision 2020. It was formally launched in 2006 as the national development strategic framework aiming to raise growth and reduce poverty. This national strategy is operationalised through three year operational plans; the current one spanning the years 2007 to 2010. This national development framework incorporates the sector strategies. Strategies are not developed within a fiscal frame nor are they fully costed with both recurrent cost implications taken into account. There are links between the sector development plans and the budget made through annual public sector investment programmes (PSIPs). Such links occur mainly on a qualitative basis. All projects included in the PSIP are cabinet approved. They are however not developed within fiscal frames

The inclusion of PSIP projects into the development budget process is not guided by ceilings. Some MDAs report that their budget submissions do not specifically include forward linked recurrent costs emanating out of the development projects. However, the Budget Division reports that such costs are estimated and included in the recurrent budgets as part of the reconciliation process. The effectiveness of such an arrangement is brought into question since MDAs report that they are not made aware of such recurrent budget considerations being made and reflected in the approved budgets. It is difficult to see how in budget execution such recurrent factors can be properly addressed. Further, the absence of cabinet approved ceilings guiding the budget preparation process has resulted in budget bids received from MDAs exceeding final approved ceilings by as high as a factor of four in the last budget cycle. The extremely large budget reconciliation adjustments, coupled with the very late communication of finalised budgetary allocations to the MDAs leaves no time for them to realign their priorities with the final approved ceilings. The emphasis on maintaining top down discipline serves the fiscal discipline objective well. However, the absence of cabinet approved ceilings from the budget process therefore undermines the bottom up elements of the budget process and almost certainly impacts negatively the opportunities to achieve both technical and allocative efficiency.

Debt sustainability analysis is performed on an annual basis by the Central Bank of Trinidad and Tobago. The debt sustainability assessment has become somewhat routine especially because of the very low debt stock levels that are currently at only 28% of GDP.

The executive typically completes its budget submissions two to three weeks prior to the start of the fiscal year². The Parliament approves the appropriations within a month after the start of the fiscal year after review of the budget proposals. The Exchequer and Audit Act allows for continued spending by the executive for just the first month of the new fiscal year.

While the quantum of development partner contribution is small, its strategic and policy impact can be substantial especially with regards to the piloting of new initiatives and the transfer of expertise. Estimates of the projects funded by development partners are included in the budget, however the actual expenditure is not reported on within the budget.

Predictability and control in budget execution

Predictability in budget execution is premised upon revenue adequacy which in turn requires sound revenue administration. Many elements of revenue administration work well and appear to have been enhanced by the implementation of a new tax administration software system. These include clarity of taxpayer obligations and liabilities, the legal constraints on officer discretion in the application of penalty waivers and rates, the sustaining of vigorous tax awareness and educational programs, the selection basis, planning and implementation of tax audits. However, there remain

² Last year, which was an election year, was an election year the budget was submitted to parliament about six weeks prior to the close of the fiscal year and resulted in the budget being past prior to the close of the fiscal year. This schedule though was not adhered to in the most recent budget cycle.

important difficulties with respect to collection of tax arrears and the timely and regular complete reconciliation of tax assessments, tax arrears, tax collections and tax payments into the consolidated fund.

Cash management and debt management are very well managed and facilitate highly predictable budget releases. Trinidad and Tobago uses a centralised payments system out of the Consolidated Fund which beyond daily bank balance consolidation that informs and guides budget releases facilitates effective debt management. The effective management of debt and the government policy to reduce debt below 30% of GDP has ensured adequate fiscal space within which to operate budget releases and hence avoid the need for cash rationing or undermining the administration's capacity to disburse to the ministries in accordance with agreed draw-down schedules announced over a three month forecast horizon. Debt management is enhanced by having the authority to incur loans being vested in a single authority - the Minister of Finance. Debt is monitored using the DMFAS system and regularly reconciled and reported on with respect to stock as well as debt service.

The government employs a manual system for non-salary expenditure management, accounting and financial reporting. Budget allocation and budget release discipline is strong. Commitment control is effected through the implementation of a Vote Book expenditure control system. It is generally effective even though there are some informal procurement arrangements that bypass the arrangement with respect to commitments (issuance of purchase orders, referred to as invoice orders) though not payments. There remain some issues pertaining to procurement planning and reporting on commitments which may contribute to the end of year rush to spend unutilised funds at the close of the year. This in turn may be part of the reason for working around procurement procedures. Civil society elements report that there are substantial payment delays especially towards the end of the fiscal year.

Payroll management is facilitated using a transverse computerised human resource management and payroll system, Integrated the Human Resource Information System (IHRIS). This system directly links three databases: the establishment of posts, the personnel database which serve as control files, and the payroll database. Changes to these databases leave an audit trail and permit only selected access dependent upon function. The databases are encrypted. All civil servants are registered through IHRIS that include appropriate fields to protect against duplication. There are effective controls with respect to the creation of new posts, that include budgetary controls, the hiring of new employees (controlled by the posts database), and the assignment of promotions, transfers, allowances and terminations. Further, through the use of verification procedures, exception reports and staff surveys there is fair assurance of the integrity of the payroll management system.

While effective controls exist for each of the main steps of the expenditure cycle (see PI-20), procurement controls remain less than fully effective for all classes of budget expenditure. The legal regulatory requirements do not clearly establish the Central Tender Board Ordinance to extend to special purpose companies (all of which are state owned enterprises) which operate on their own procurement rules. Expenditure under the Infrastructure Development Fund is implemented through these special purpose

companies and so means that a substantial proportion of development expenditure is not subject to public procurement regulations. Civil society elements state their concern for the lack of transparency and competition they experience with procurement carried out by the special purpose companies.

Internal audit in Trinidad and Tobago remains rudimentary and does not focus on systemic issues. The Internal Audit Units elaborate annual audit plans which when reported on are not disseminated to the office of the Auditor General. Upon specific requests made by the Auditor General they are provided though.

Accounting, recording and reporting

Bank account balances are determined daily. Full bank accounts take place monthly, but given that it is all done manually it takes eight weeks after the close of a given month to complete the reconciliation process. Reconciliation and clearance of suspense accounts take place monthly within a month of the close of the month (except for a few identified accounts) and are force closed as part of the end of year procedures.

Government accounting standards that promote some disclosure are applied across all MDAs consistently and are included in the annual reports that present the audited annual financial statements. The monthly expenditure returns are comprehensive, consistent with the budget classification and structure, and allow direct comparison of budget implementation to the original budget. The reporting format distinguishes commitments and expenditure. They are issued within 30 days of the close of the month has ensured their timeliness and hence their effectiveness as a management tool. The report also includes a reconciliation of revenues, net changes in debt position, expenditures and consolidated bank balances. This aggregate reconciliation provides assurance as to the accuracy of the reports.

No reporting on the resources (in cash or in kind) disbursed to the front-line service delivery units are carried out on a routine basis. There have been no Public Expenditure Tracking Surveys (PETS) nor any other special surveys carried out in Trinidad and Tobago; nor are there any planned to be carried out in the near future. The administrative structure of the chart of accounts reflects entities specified to the level of primary schools and health clinics. Therefore, in principle, it should be possible to track and report upon cash and kind resources received by such entities. However, the accounting system being manual would make the reporting on cash and in kind resources a considerable administrative burden. It should be noted though that the total expenditure on primary schools and primary health care clinics is reported on in the budget.

Consolidated government accounts are prepared annually with revenue and expenditure information as well as a table of financial assets and liabilities. There is however no specific reporting on non-salary expenditure returns. The annual appropriations accounts are completed within four months after the close of the fiscal year and audited within seven months of the close of the fiscal year.

External scrutiny and audit

Both the position and the office of the Auditor-General (AG) meet most of the standards of independence set by INTOSAI for supreme audit institutions. These include the legal

requirements with respect to the appointment and termination of the Auditor-General, the financing of the budget, the hiring of staff, the auditor's jurisdiction and the timing and extent of dissemination of audit reports. In practice not all central government entities are audited every year. It is estimated that three quarters of total expenditure is audited each year. A range of audits are performed, including systems audits, financial and compliance, procurement and systems audits. Public Enterprises are audited by private audit firms. At this time these audit reports are not disseminated to the Auditor-General. The standards applied are the International Organisation of Supreme Audit Institutions (INTOSAI).

Audit reports along with audited financial statements are submitted to the legislature within seven months from the end of the fiscal year which is equivalent to three months from submission to the AG. The Comptroller of Accounts prepares an aggregated financial statement on ministry financial statements.

The accounting officers are responsible implementing corrective measures emanating out of the Auditor General findings. There is little evidence of systematic and timely follow up on external Audit findings and it is often left to the field auditors to ensure that recommendations are followed through as part of subsequent audits. It appears that there may be opportunities missed to strengthen further the PFM system as the recommendations made by the Auditor-General are not enforced through the full implementation of corrective measures.

Trinidad and Tobago is characterised by a strong democratic tradition and the parliamentary oversight of the government's budget processes also includes actual expenditure achievements and the quality of expenditure management. The parliamentary debates cover fiscal policies as well as the details of revenue and expenditure estimates. However, the very limited time allocated to this function (significantly less than one month) calls into question the effectiveness of such parliamentary review. In practice, it usually begins with the tabling before parliament of the appropriations bill about two weeks before the end of the fiscal year. It usually allows for passing the budget to occur one month after the start of the financial year.

The Supplementary Budget Estimates presented by the Minister of Finance and voted by the parliament, is reviewed once a year. This stance is consistent with the Government's emphasis on a strong fiscal discipline objective to its public finance management. Clear rules exist with respect to in-year budget amendments by the executive.

A review of expenditure anomalies as identified through external audit is done through a public accounts committee (PAC). The PAC is able to review less than 10% of audit reports, even though reviews involve in-depth hearings when they occur. At the present time PAC relies on the Auditor General to ensure that Accounting Officers fully implement its recommendations. However there have not been systematic or timely follow up on PAC recommendations across all MDAs.

Assessment of the impact of PFM weaknesses

When viewed from the perspective of the three main objectives of a sound PFM system, namely aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services; Trinidad and Tobago scores well with respect to fiscal discipline. The PFM systems demonstrate some capacity for allocating resources in accordance with priorities (front end), however there are still challenges with regards to how effective the expenditure of such resources are (back end). The utilisation of a multi year fiscal framework (derived from the Article IV consultation forecasts), with a definite budget calendar that facilitates the meaningful bottom-up participation by ministries, along with the sound cash management and debt management, and the achievement of predictable budget releases and effective payroll management all point to efficient delivery of services. However these positives are negatively impacted by the absence of cabinet approved ceilings at the beginning of the budget formulation cycle, weaknesses in procurement management and the lack of financial feedback at the end of the service delivery cycle – the receipts by the front line facilities such as primary schools and primary health care facilities.

There are two main factors that colour the PFM of the central government in Trinidad and Tobago:

1. *The employment of manual non-salary expenditure control and accounting systems:* The employment of manual non-salary expenditure control and accounting systems, while not seeming to compromise on quality or basic effectiveness introduces some delay in reconciliation and reporting. It has for example though discouraged the reporting on expenditure arrears due to the high administrative burden that that would introduce given the manual systems.
2. *The diluted role of parliament in budgetary oversight:* Trinidad and Tobago has a strong democratic tradition and has clear parliamentary rules encoded in its standing orders. However, the one day a week attendance of parliamentarians, coupled with many of its members being in the government constrains the time that it can garner to effectively review budget documentation as well as audit reports.

Aggregate Fiscal Discipline

With respect to aggregate fiscal discipline Trinidad and Tobago's comprehensive management of debt; effective fiscal risk assessment and oversight of public enterprises; credible fiscal forecasts that serves as the basis for top-down budgetary discipline; and a comprehensive and effective commitment control process all point to the ability to deliver strongly on aggregate fiscal discipline (see PI-1, PI-2, PI-3, PI-16 and PI-17). This is further strengthened by a strict commitment control system supported by an effective cash management system. The absence of significant extra-budgetary activity also contributes to the achievement of fiscal discipline (see PI-7). However, there remain some concerns with respect to the accrual of expenditure arrears and procurement management.

Strategic Allocation of Resources

Trinidad and Tobago still needs to take a number of important steps towards achieving a budgetary process to be fully capable of the strategic allocation of resources (see PI-5, PI-11 and PI-12). However, there are a number of important steps that it has taken towards adopting the basis for policy based budgeting. It requires the improvement of the development of sector strategy fiscal frames and full costings of the sector strategy elements with a more direct link to the budget. While there is very strong policy dialogue incorporated into the budget process, the absence of cabinet approved ceilings at the beginning of the budget cycle leaves a vacuum for defining priorities which has led to persistent large mismatches between budget bids and the availability of fiscal resources. The budget classification in Trinidad and Tobago remains principally economic and administrative and so is not directly capable of supporting a policy based budgeting process and thus the input for achieving the strategic allocation of resources. Although the development objectives do not rely heavily upon Development Partner inputs, there are missed strategic opportunities that arise due to the lack of a close alignment of development partner grants with the budget process and an almost total absence of timely reporting on project and programme achievements consolidated into the national consolidated financial reporting framework. Not tracking resources received by front line service delivery units such as primary schools and primary health care facilities (see PI-23) is a missed opportunity to better manage the achievement of effectiveness.

Efficient Service Delivery

There are areas that Trinidad and Tobago has had much success in contributing to efficient service delivery. These include the improving collection of revenues which provides a sound basis for achieving the efficient delivery of services; and also there have been considerable efficiency gains that have arisen as a consequence of Trinidad's sound cash and debt management both with respect to efficient liquidity management, as well as with respect to the market response to sound debt management with the subsequent reduction in the cost of money to government. The improving performance of the tax administration offers increasing opportunity for improving revenue collection. However there remain some difficulties with respect to the collection of tax arrears and the comprehensiveness of revenue reconciliation processes. Significant contributions to efficient service delivery can be made through effective monitoring of transfers to frontline service delivery units to guide policy and inform the strategic allocation of resources. One other factor that appears to have adversely affected the efficiency of service delivery has been some areas of concern in procurement management (see PI-19).

Prospects for reform planning and implementation

The Ministry of Public Administration, recently instituted, is responsible for the transformation of the public sector in Trinidad and Tobago. The minister of Public Administration has been an active champion for public sector reform. It has responsibility for the development of a number of transverse systems aimed at supporting improved efficiency and effectiveness in service delivery. Its focus includes:

- Human Resource Management:
- Leadership development
- Customer service delivery

- Communication
- Legislative reform
- Information and communications technology (ICT), and
- Public service re-branding

There are also a number of ministry specific projects. Ministry of Public Administration is also responsible for coordinating the reform efforts being undertaken in other ministries and agencies including the Ministry of Finance. At this time no other elements outside of the human resource management programme under the public finance management reform fall under the active coordination umbrella of the Ministry of Public Administration. This separate development persists despite a number of synergies including legislative reform, ICT and customer service delivery.

The Government of Trinidad and Tobago has embarked upon a number PFM reforms since 2005. There are five main areas of PFM reform activity planned that involve principally the Ministry of Finance, Inland Revenue Board and the Office of the Auditor-General. These are:

- Amendments to the Legal and Regulatory framework,
- A financial management improvement programme
- Reform of public procurement
- A revenue modernization programme, and
- Improvements in external scrutiny and PFM performance monitoring

The commitment to continuing improvements in PFM in Trinidad has political championship at the very highest levels through the Prime Minister and the Minister of Finance. Implementation oversight and monitoring is the responsibility of the Economic Management Division headed by a Deputy PS. Specific improvements are carried out by divisional heads.

By way of development partner participation and support of PFM improvements, this would require a broader dialogue within the budget formulation process of the Economic Management Division, the Inland Revenue Board and the Office of the Auditor-General which serve as the main drivers of PFM improvements at this time. Such dialogue would identify within their strategies and budgets reform improvement programmes and projects that could be flagged for support from development partners.

Table 0.1 Overall summary of PFM Performance Scores

| PFM Performance Indicator | | Scoring Method | Dimension Ratings | | | | Overall Rating |
|--|--|----------------|-------------------|-----|------|-----|----------------|
| | | | i. | ii. | iii. | iv. | |
| A. PFM-OUT-TURNS: Credibility of the budget | | | | | | | |
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | M1 | B | | | | B |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | M1 | C | | | | C |
| 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 | A | A | | | A |
| PI-8 | Transparency of inter-governmental fiscal relations | M2 | A | C | A | | B+ |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities | M1 | A | A | | | A |
| PI-10 | Public access to key fiscal information | M1 | B | | | | B |
| C. BUDGET CYCLE | | | | | | | |
| C(i) Policy-Based Budgeting | | | | | | | |
| PI-11 | Orderliness and participation in the annual budget process | M2 | A | D | C | | C+ |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | M2 | C | A | D | B | C+ |
| C(ii) Predictability and Control in Budget Execution | | | | | | | |
| PI-13 | Transparency of taxpayer obligations and liabilities | M2 | C | A | A | | B+ |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | M2 | B | A | B | | B+ |
| PI-15 | Effectiveness in collection of tax payments | M1 | D | A | D | | D+ |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | M1 | A | B | A | | B+ |
| PI-17 | Recording and management of cash balances, debt and guarantees | M2 | A | A | A | | A |
| PI-18 | Effectiveness of payroll controls | M1 | A | B | A | C | C+ |
| PI-19 | Competition, value for money and controls in procurement | M2 | D | B | D | | D+ |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | M1 | B | C | B | | C+ |
| PI-21 | Effectiveness of internal audit | M1 | C | C | C | | C |
| C(iii) Accounting, Recording and Reporting | | | | | | | |
| PI-22 | Timeliness and regularity of accounts reconciliation | M2 | C | A | | | B |
| PI-23 | Availability of information on resources received by service delivery units | M1 | D | | | | D |
| PI-24 | Quality and timeliness of in-year budget reports | M1 | A | A | A | | A |
| PI-25 | Quality and timeliness of annual financial statements | M1 | B | A | C | | C+ |
| C(iv) External Scrutiny and Audit | | | | | | | |
| PI-26 | Scope, nature and follow-up of external audit | M1 | B | B | B | | B |
| PI-27 | Legislative scrutiny of the annual budget law | M1 | C | C | D | A | D+ |
| PI-28 | Legislative scrutiny of external audit reports | M1 | D | C | C | | D+ |
| D. DONOR PRACTICES | | | | | | | |
| D-1 | Predictability of Direct Budget Support | M1 | NS | NS | | | NS |
| D-2 | Financial info provided by donors for budgeting/reporting on proj./program aid | M1 | D | D | | | D |
| D-3 | Proportion of aid that is managed by use of national procedures | M1 | D | | | | D |

Key: **NS**: No score

1 Introduction

1.1 Objective of the PFM-PR

The purpose of this Public Expenditure and Financial Accountability (PEFA) Assessment has been to assess the current status of the Central Government of Trinidad and Tobago's Public Finance Management (PFM) systems, procedures and practices using the PEFA methodology. This is based upon a set of 28 high-level performance indicators that measure the current status of the Central Government's PFM systems, plus 3 high-level performance indicators that measure the performance of development partner practices with respect to the impact on the government's budgetary processes. This assessment is being carried out in order to set a baseline for the continued use and assessment of these indicators. The performance indicators, which are scored on a rating system from A to D is presented along with a narrative to provide a brief description of PFM processes and procedures adopted by the government, and also to support and explain the scorings. In addition to the performance indicators, the PFM performance report reviews the country context in which such PFM is carried out, the legal and regulatory framework, the institutional arrangements and an assessment of the PFM reforms currently being undertaken.

This assessment aims to benchmark current PFM systems, procedures and practices within the central government of Trinidad and Tobago and through the identification of weaknesses, serve as a basis for guiding improvements to achieve better public financial management. The PEFA approach is consistent with Trinidad and Tobago setting its own agenda for PFM reform around which a coordinated program of development partner participation can be aligned. This Performance Measurement Report is intended to serve as a common information pool on PFM performance in the Central Government of Trinidad and Tobago for government, development partners and other stakeholders at country level. The report set out below and the baseline established will also serve as one element of the monitoring and evaluation (M&E) framework available for monitoring on a long term basis the outcomes of the PFM reform.

In keeping with the "*Strengthened Approach*", and hence adopting a harmonised approach, it was agreed to conduct a full PFM assessment in accordance with the Performance Measurement Framework developed by the PEFA Secretariat. The immediate impetus for carrying out this PEFA Assessment is in the short-term the European Commission's (EC) move from project support to sector budget support. The EC will use the PEFA assessment as a basis for information and PFM performance monitoring so as to fulfil its internal requirements for transitioning to sector budget support. The EC Guidelines for Budgetary Support mandate a preliminary assessment of Public Financial Management to ascertain the feasibility of such an approach to development aid in the country.

The broader rationale though for carrying out this PEFA Assessment has been to benchmark the PFM performance of the central government of Trinidad and Tobago against a widely adopted international standard, to provide feedback on the outcome of its extensive PFM reforms over the past decade and a half, and to identify areas of weakness to guide the areas of focus for continuing improvements. Further this assessment should serve to provide all development partners with a common information pool on the PFM systems, procedures and practices as a way to assist with their decision making with regards to the most effective aid modalities for continuing support to Trinidad and Tobago. Finally, it is to serve as a basis for achieving effective dialogue on how to achieve improved outcomes from development partner participation in the budgetary process.

In 2006 a PEFA assessment, sponsored by the European Commission was carried out for Trinidad and Tobago. The intended purpose was to set a base line against which future progress made in the PFM systems could be measured. However, as highlighted in a Note to the Chargé d'Affaires (AIDCO E1/JL/D92008) 28052 this report deviated from the PEFA methodology in many of the indicators using an impressionistic assessment of several indicators, not justifying scorings on the basis of evidence and in the case of some dimensions not assessing them individually. For this reason, the present PEFA Assessment is to be adopted as the base line assessment for future reference on PFM progress made. for the reasons stated above.

It is important to emphasise that the purpose of this evaluation has not been to evaluate and score particular institutions or responsible individuals in the Government. It makes no comment on fiscal or expenditure policy, nor does it address any issues pertaining to capacity or capacity development. The focus of the PFM Performance Measurement Framework both with respect to intent and execution is solely on the PFM systems. The report, in keeping with the "*Strengthened Approach*" intentionally does not proffer any recommendations.

1.2 Process of preparing the PFM-PR

This PEFA assessment was sponsored by the European Commission which prepared the terms of reference (TOR). The TOR was circulated to a number of development partners and to the government. During the mission a presentation of the PEFA methodology was made to Government Officials as well as to Cooperating Partners. An Interim Report including a Work plan was prepared and disseminated to the EC and a number of government officials who were to participate in the interview process.

There was excellent cooperation from Government officials in terms of making time available on short notice in spite of their own pressing work demands. Officials were fully engaging during meetings and any information requested was provided promptly. In particular a number of officials agreed to meet the Consultants together as a way of accommodating the tight interview schedule. One outcome of the interview process which involved a great number of personnel, covering a cross section of PFM officials in the central government, was a clear demonstration of how well officials understand the PFM systems and procedures for which they are responsible, and to what degree they focus upon grappling with the challenges of improving performance further.

There was an exit workshop to present the aide memoir. The draft report was shared with the Government and its cooperating partners for their comment and input. Copies were also sent to the PEFA Secretariat for review. A final workshop held with government officials and the development partners was carried out after the revision of the draft report and its finalization order to discuss the findings of the assessment.

1.3 Methodology

The PEFA evaluation is envisaged to be carried out between October and November 2008. The field mission was carried out between October 6th and 23rd 2008. Meetings were arranged with the assistance of the NAO and the EC Delegation.

The PEFA assessment involved:

- Reviewing legal and regulatory documentation, budget documentation and financial and audit reports;
- Assessing the requirements for further analysis and evaluation of PFM practice in the central government of Trinidad and Tobago, based upon:
 - Interviews with Government Officials in the Ministry of Finance, Central Bank of Trinidad and Tobago, the Parliament, the Office of the Auditor-General, the Ministries of Local Government, Education, Public Works, Public, and Public Administration; development partners including the European Commission and IADB.
 - Quantitative analysis of official financial and budgetary data;
 - Reviews and assessment of legal and regulatory documentation;
 - Assessments of PFM procedures and systems; and
 - The application of professional judgement.

An important consideration in developing these indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the indicators. The reliability of the indicators can only be as good as the accuracy of the financial data upon which they were calculated. The consultants therefore emphasised the completeness and quality of financial data in determining the PEFA indicator measures.

1.4 Scope of the assessment

The assessment focuses on all public revenues and expenditures of the central government and the institutions responsible for such. The scope of the PEFA Assessment is limited to the central government and does not include the Local Governments. Nor does it include an assessment of the public enterprises (commercial and non commercial, financial and non financial). Consequently, this assessment covers approximately 83% of the public sector. Table 1.1 provides a summary of public sector expenditure indicating the proportion of central government expenditure.

Table 1.1 Proportion of Central Government Expenditure to Total Public Sector Expenditure (million TT\$)³

| | 2009 | |
|-----------------------------------|-----------------------|---------------|
| Central Gov Expenditure | 45,193,030,770 | 83.1% |
| Local Authorities | | |
| Grants and Subventions | 1,307,580,842 | 2.4% |
| Own Revenue | 86,250,976 | 0.2% |
| Local Authorities Subtotal | 1,393,831,818 | 2.6% |
| Statutory Bodies | | |
| Own Revenue | 3,312,822,609 | 6.1% |
| grants and subsidies | 4,456,503,950 | 8.2% |
| Statutory Bodies Subtotal | 7,769,326,559 | 14.3% |
| Total | 54,356,189,147 | 100.0% |

Source: Draft Estimates of the Revenue and Expenditure of the Statutory Boards and Similar Bodies and of the Tobago House of Assembly

Payments in Trinidad and Tobago are highly centralised. In respect of analysis performed, the assessment segregates out primary expenditure and domestic revenues from grants (except for direct budgetary contributions) and loan revenues and grant and loan funded expenditure.

The structure of the rest of the evaluation report is as follows:

- Chapter 2 provides background information and the economic and fiscal context for the evaluation;
- Chapter 3 explains the scores for the 31 individual performance indicators;
- Chapter 4 describes the government's reform programme; and
- A series of appendices provides more detailed reference information, including the TOR for the evaluation (Annex 1); a summary of the PEFA scoring calibration (Annex 2); a list of the stakeholders visited by the team (Annex 3), a list of the documentation reviewed (Annex 4), a comparison of the findings of the PEFA 2006 assessment with the present assessment (Annex 5), and the response to comments received from the government, the development partners and the PEFA Secretariat (Annex 6).

³ While the expenditure data for the Public Entities, the Central Government and the Provincial Government are derived from published consolidated financial information, only the transfers to the local authorities are. The local authority expenditures from own revenue have been estimated.

2 Country background information

2.1 Description of country economic situation

2.1.1 Country context

Trinidad and Tobago a Caribbean island with a land area of 5,128 sq km is a middle-income country with a GDP per capita of \$13,999 (2006). It has a population of about 1.3 million. Economic performance has been remarkable both in comparison to regional economies as well as to other energy producing countries. It has experienced fourteen successive years of economic growth averaging 9% for the years 2002 to 2007. In 2006 real GDP grew 12%. Real GDP growth is projected at 3.5 percent in 2008. Table 2.1 provides a summary of key economic indicators.

The current account has steadily maintained a positive balance and net foreign assets continue to accumulate rapidly. Foreign Direct Investment is growing. It increased from US\$ 690 million in 2000 to US\$830 million in 2007. International reserves including the Heritage and Stabilization Fund were 6.5 Billion USD in 2006. There is low unemployment. Unemployment figures have remained at approximately 5% for several years. The level of unemployment was 5.3% at the end of the second quarter of 2008. Such performance is being sustained by the overall growth in the economy with a continuing diversification away from the energy sector.

Fiscal policy has maintained a strong pro-cyclical stance over the past few years. The non-energy fiscal deficit increased to 15.4% of GDP in 2007. Non-energy tax collections increased as a ratio of GDP even with reductions in the personal and corporate tax rates. Central government's fiscal operations are projected to record surpluses on the overall budget balance. Total deposits into the Heritage and Stabilization Fund is estimated to be 2.5% of GDP for the fiscal year 2007/2008. The fund is currently US\$15,338 million, or 10.1% of GDP.

Moody's Investor Services and Standard and Poor's have improved and are currently among the highest in Latin America and the Caribbean. Its foreign currency ratings had significant upgrades from "A-" in April 2005 to "A" in July 2008.

Since 2004 inflation has started rising after a period of remarkable progress in lowering the inflation rate. Inflation rates are currently over 7% and may be rising. Consumer price inflation is at historically high levels with the inflation rate increasing to 11.9% year-on-year to July 2008. Rising food prices continue to exert a strong influence on headline prices. Liquidity management initiatives have included several tightening measures to mop up much of the excess liquidity and hence reign in demand side pressures. Most effective

has been the introduction of temporary reserve requirements on commercial banks and the issuance of specialised long-term sterilization bonds.

The current account has remained positive for the past six years and continues to grow strongly. FDI inflows, never high have been declining in the past few years. The balance of payments surplus in 2007 was US\$1,541.1 million. This outturn was the result of the strong performance of the merchandise account which increased the current account surplus by 11.9% to US\$5,380.9 million. On the other hand the capital account weakened during 2007 declining by 4.1% and registering a deficit of \$3839.8 million.

Table 2.1 Selected Economic Indicators

| | 2005 | 2006 | 2007 ⁴ |
|--|-------|-------|-------------------|
| Population and unemployment | | | |
| Total population ⁵ , millions | | 1.3 | |
| Unemployment rate, % | 5.0 | 5.0 | 5.0 |
| Annual Percentage Changes | | | |
| Real GDP | 8.0 | 12.0 | 6.0 |
| Energy | 8.4 | 20.6 | 3.8 |
| Non Energy | 7.7 | 6.6 | 7.5 |
| CPI (annual average), % | 6.9 | 8.3 | 8.5 |
| GDP Deflator | 10.3 | 7.5 | 4.2 |
| External sector | | | |
| Current account balance/GDP | 23.8 | 25.7 | 19.4 |
| Gross Official Reserves (US\$ Million) | 4,015 | 5,134 | 6,334 |

Source: IMF Report 2008; Unemployment Data Standard and Poors Ratings Direct 2007.

2.1.2 Overall government reform program

The Government's Vision 2020 for Trinidad and Tobago was formally launched in 2006 after tabling it before parliament. It is the government's development strategic framework aiming to raise growth and reduce unemployment and poverty. It was produced after extensive consultation with private sector, academia, labour, civil society and development partners. It identifies five main goals as Developing Innovative People, Nurturing a Caring Society, Enabling Competitive Business, Investing in Sound Infrastructure and Environment, and Promoting Effective Government. The Vision 2020 is set to be achieved through the implementation of a number of three year operational plans. The first such plan covers the period 2007 to 2010.

2.1.3 Rationale for PFM reforms

The implementation of a bold development plan requires a sound public finance management framework, its timely and successful implementation being consequent to the successful implementation of PFM reforms. In 2004 the government commenced upon a number of major financial management and budget reforms in order to improve the fiscal

⁴ Projected data using baseline scenario

⁵ Mid-year estimate.

sustainability, alignment of spending with the new national priorities and the maximisation of existing resources towards these priorities. This reform has begun to achieve some improvements however, there remain a number of areas that still require improvement especially as it pertains to efficiency in service delivery and the effectiveness of expenditure in line with strategically allocated resources.

2.2 Description of budgetary outcomes

2.2.1 Fiscal performance

Trinidad and Tobago has maintained a budget surplus through the three years reviewed through both revenue measures and expenditure restraint. Trinidad and Tobago's revenue benefited from strong economic growth. The taxation revenues increased steadily in the energy sector but actually saw a decline in the non energy sector. The improvement in the fiscal balance has also benefited from lower debt service costs achieved through sound debt management.

The effective debt management strategy has enabled the country to achieve a sustainable fiscal framework, as defined by a decreasing debt to GDP ratio. Public debt as percentage of GDP decreased from 38.7% in 2004/05 to 28.3% in 2006/07. The improved budgetary performance has contributed to lower interest costs. Government debt and the costs of servicing that debt are expected to fall further in the medium-term. Table 2.2 provides a summary of the central government's fiscal operations. The medium-term budget plan calls for surpluses to continue. The government's fiscal objective in the medium-term is to restrain increases in overall expenditure, sustain the revenue to GDP ratio around 30 per cent and to continue to reduce debt stock to current levels.

Table 2.2 Central government fiscal operations (TT\$, million)

| | 2004/05 | 2005/06 | 2006/07 |
|-------------------------------------|---------|---------|---------|
| Total revenue | 29,649 | 38,911 | 41,218 |
| Energy | 15,614 | 24,069 | 24,512 |
| Non Energy | 14,035 | 14,846 | 16,706 |
| Total expenditure | 24,141 | 31,198 | 36,188 |
| Current | 21,342 | 26,602 | 29,984 |
| Wages and Salaries | 5,309 | 5,456 | 6,369 |
| Goods and Services | 3,172 | 3,811 | 4,995 |
| Interest Payments | 2,542 | 2,453 | 2,542 |
| Transfers and Subsidies | 10,320 | 14,882 | 16,078 |
| Capital expenditure and Net Lending | 2,799 | 4,596 | 6,204 |
| Overall Balance | 5,508 | 7,713 | 5,030 |
| Financing | -5,508 | -7,713 | -5,030 |
| Foreign financing | -1,273 | -411 | 20 |
| Domestic financing | -4,235 | -7,302 | -5,050 |
| GDP (in TT\$ million) | 91,249 | 109,620 | 123,444 |
| Total revenue, % of GDP | 26.46% | 28.46% | 29.32% |
| Total expenditure, % of GDP | 25.80% | 25.80% | 25.80% |
| Budgetary balance, % of GDP | 6.04% | 7.04% | 4.07% |
| Primary balance, as % of GDP | 8.82% | 9.27% | 6.13% |
| Public Debt as % of GDP | 38.70% | 32.20% | 28.30% |

Source: IMF Report 2008

2.2.2 Allocation of resources

Vision 2020 is the government strategic development framework which aims to raise economic growth and reduce poverty. The national strategic priorities are translated in 3-year operational plans. Sector budget allocations tend therefore generally reflect the overall priorities of the government; however the longer-term strategic framework is not developed within a fiscal envelope (see PI-12). As depicted in Table 2.3, the largest functional category of government spending is expenditure on health and social security and welfare (about 20% of total expenditure). Educations remain at approximately 13%. Strong growth is seen in the area of transport and communications.

Table 2.3 Actual expenditure by functional classification (as a percentage of total expenditures)

| | 2005 | | 2007 | |
|---|-----------------------|-------------|-----------------------|-------------|
| General Public Services | 4,940,296,609 | 21% | 9,208,078,747 | 27% |
| Defence/Public Order and Safety | 2,403,204,243 | 10% | 3,241,319,283 | 9% |
| Education Affairs and Services | 3,342,263,465 | 14% | 4,483,011,305 | 13% |
| Health/Social Security Welfare | 5,280,477,628 | 22% | 6,519,842,087 | 19% |
| Housing Community Affairs | 706,228,653 | 3% | 2,249,530,966 | 7% |
| Agriculture | 518,818,406 | 2% | 862,673,612 | 2% |
| Transportation and Communication | 974,802,148 | 4% | 2,320,843,485 | 7% |
| Other Economic Services | 657,662,726 | 3% | 929,137,161 | 3% |
| Expenditure Not Classified by Major Group | 5,159,646,548 | 22% | 4,768,236,059 | 14% |
| Total | 23,983,400,426 | 100% | 34,582,672,705 | 100% |

Source: Estimates of Revenue and Expenditure.

Table 2.4 shows the allocation of expenditure by economic classification. Revenue is at approximately 33% of GDP. Less than 6% of the total expenditure reflects compensation of government employees (i.e. salaries and wages.). The compensation of employees accounts for about a sixth of total spending at the central government level. The share of transfers and subsidies to statutory bodies and sub-national governments, increased from 11.3% in 2004/05 to 13% of GDP in 2006/07. Growth in payments for capital expenditure reflects the government commitment to address infrastructure backlogs and accelerate economic growth.

Table 2.4 Actual expenditure by economic classification (as percentage of total expenditures)

| | 2004/2005 | 2005/2006 | 2006/2007 |
|-------------------------------------|-----------|-----------|-----------|
| Revenue | 32.5 | 35.5 | 33.4 |
| Energy | 17.1 | 22.0 | 19.9 |
| Non Energy | 15.4 | 13.5 | 13.5 |
| Expenditure | 26.5 | 28.6 | 29.3 |
| Current | 23.4 | 24.3 | 24.3 |
| Wages and Salaries | 5.8 | 5.0 | 5.2 |
| Goods and Services | 3.5 | 3.5 | 4.0 |
| Interest Payments | 2.8 | 2.2 | 2.1 |
| Transfers and Subsidies | 11.3 | 13.6 | 13.0 |
| Capital Expenditure and net lending | 3.1 | 4.2 | 5.0 |
| Overall noneenergy balance | - 11.1 | - 14.9 | - 16.8 |
| Overall balance | 6.0 | 6.9 | 4.1 |
| Total Financing | - 6.0 | - 6.9 | - 4.1 |
| Foreign Financing | - 1.4 | - 0.4 | - |
| Domestic Financing | - 4.6 | - 6.7 | - 4.1 |

Source: IMF Report, August 2007

2.3 Description of the legal and institutional framework for PFM

2.3.1 The legal framework for PFM

The legal framework for PFM in Trinidad and Tobago encompasses a range of laws and regulations that emanate out of the Constitution. The main PFM laws are the Exchequer and Audit Act, the Central Tenders Board Ordinance, the Value added Tax Act, the Customs Act and the Income Tax Act. Other acts include the Development Loans Act, the External Loans Act, the Guarantee of Loans (Company Act), and the Guarantee of Loans (Statutory Bodies Act). These all stipulate ceilings above which the Minister of Finance cannot exceed. Parliamentary procedure is bound by the Standing Orders.

Constitution

The Constitution of the Republic of Trinidad and Tobago (1976) provides the basis for public financial management. It assigns clear roles and responsibilities to the different arms of government (executive, judicial and legislative). It enshrines within it the establishment of a Consolidated Fund within which all public revenues must be deposited except as specified by law; and which restricts all withdrawals of money except as authorised by an Appropriation Act. Parliament may authorise expenditure in advance of appropriation where the appropriation bill is still to be enacted into law by the start of the fiscal year.

The position of Auditor General is enshrined in the constitution. He or she is appointed by the president after consultation with the prime minister and the leader of the opposition. His tenure in office shall be up to the age of 65. He or she may not be removed from office except where a Tribunal appointed by the president specifically recommends that he or she be removed from office. The salary of the Auditor General is charged directly to the Consolidated Fund. It requires that all officers, courts, authorities and all enterprises that are owned or controlled by the State be audited annually and grants the Auditor General authority over access to all books, records, returns and documents relating to the accounts. The Auditor General reports are disseminated to parliament and the Minister of Finance.

The key areas pertaining to public finance management include:

- The general guidelines for the regulation of financial affairs of government (See Chapter 8);
- The role of the Consolidated Fund to which all government revenues must be deposited (See Section 112);
- The authorisation of expenditure (See Section 113);
- Appointment of the Auditor General (see Section 117);
- Setting up of the Public Accounts Committee made up of six to 10 members with the Chairman being a member of the opposition (see Section 119)

The Exchequer and Audit Act (EAA)

The EAA details the financial management regulatory framework for government institutions, which include the entities under their ownership or control. The EAA adopts a rule-driven approach rather than an output-based and responsibilities-based approach to financial management. The EAA, in concordance with the Constitution, addresses the Consolidated Fund, the budgetary process, the timeliness of financial reporting, controls and reporting, the prerequisites for the issuance of government guarantees. It also restricts the powers of accounting officers to move funds between budget sub-heads. The EAA

regulates the borrowing operations of the government and specifies a single officer authorised to borrow on behalf of any government entity.

Procurement legislation

The requirements for a procurement framework are prescribed in the Central Tenders Board Ordinance No 22, 1961, regulations and a number of circulars. The Central Tenders Board Ordinance governs procurement across central government and sub national government but does not cover the procurement under the State Owned Enterprises including the Special Purpose Companies that are employed for carrying out projects funded through the Infrastructure Development Fund. Authority to carry out procurement is devolved to the ministries and local authorities based upon thresholds with all procurement above TT\$1,000,000 being carried out by the Central Tenders Board. Article 20 of the Central tenders Board Ordinance requires the Board to “invite members of the public in general” for carrying out procurement and in so doing establishes open competition as the default procurement method. The justification of more restricted methods is merely subject to the Board’s desire or expediency provided it is approved by the Minister. However, through a number of issued circulars guidelines have been developed for the justification of less competitive procurement methods.

2.3.2 The institutional framework for PFM

Legislature

The Constitution vests the legislative power in the Parliament which consists of the House of Representatives with 41 seats, and the Senate with 31 seats. The parliament is responsible for passing laws, oversight of the executive and providing a forum where people’s representatives can publicly debate issues of national concern. At this time members of parliament meet once a week throughout the year with brief recessions in July and at Christmas and Easter. The parliament may not amend budgets proposed by the executive. Their options are limited to either passing or rejecting the budget. The Parliament has the prerogative to establish Committees that should oversee the activities of the executive. Among these are a number of committees dealing with fiscal oversight:

- The *Committee of the Whole* – made up of the entire house of representatives is responsible for reviewing and debating the budget
- The *Finance Committee* – is responsible for reviewing fiscal policy
- The *Public Accounts Committee (PAC)* - this committee examines the financial statements as well as audit reports on the statements of all government departments and constitutional institutions. It also examines the Auditor-General’s reports, and other financial statements or reports referred to it.
- The *Public Accounts (Enterprises) Committee (PAEC)* – this committee examines the financial statements as well as audit reports on the statements of all state owned enterprises.

Executive

The Government apparatus in Trinidad and Tobago is composed of 41 constitutional bodies and ministries, and 11 local authorities. The president is the chief of state and the prime minister is the head of government. The Cabinet is appointed by the prime minister. The executive is accountable for its actions and policies to the Parliament.

Judiciary

The Judiciary of Trinidad and Tobago is an independent branch of government. Its independence is guaranteed by the Constitution. The Trinidad and Tobago court structure consists of the Supreme Court of Appeal, High Courts, Magistrates Courts and other courts established by an Act of Parliament. The judicial system of Trinidad and Tobago includes a number of specialised appeal courts amongst which are Tax Appeals Board.

Auditor-General

The office of the Auditor-General is the supreme audit institution in Trinidad and Tobago. It is an independent constitutional body, accountable to the Parliament. The Auditor-General derives its independence, powers and mandate from the Constitution and the Exchequer and Audit Act. The Auditor-General is appointed by the President after consultation with the Prime Minister. He or she may not be removed from office except where a Tribunal appointed by the president specifically recommends that he or she be removed from office. The Auditor-General is empowered to audit any and all government entities including security agencies. It must report on its activities and the performance of its functions to the Assembly at least once a year.

The Ministry of Finance

The functions of the Ministry of Finance are detailed in the Exchequer and Audit Act (EAA). The Minister of Finance is accountable to the Cabinet and Parliament for ensuring compliance with its responsibilities under the EAA. The Minister is empowered to delegate the day-to-day operations of the Ministry of Finance. The Ministry of Finance is empowered to develop the overall macroeconomic and fiscal framework, co-ordinate intergovernmental fiscal relations and the budget preparation process, manage the implementation of a budget and promote and enforce revenue, manage the government's assets and liability. It also plays a financial oversight role over other organs of state in all spheres of government.

The Budget Division

The Budget Divisions is responsible for fiscal policy. It is responsible for expenditure planning and guiding the budget formulation process. It is responsible for critical infrastructure planning and budgeting. The Budget Office is also responsible for Public Private Partnerships (PPPs). In particular, it identifies project opportunities, and provides technical assistance in carrying out feasibility studies, procurement and management of the project.

Comptroller of Accounts

The Comptroller of Accounts is responsible for the accounting of the Consolidated Fund, arranging banking services for national Government, bank reconciliation, managing the chart of accounts, developing and implementing accounting policies, and preparing consolidated financial statements.

The Economic Management Division

The Economic Management Division responsible for Debt Management and Macro fiscal forecasting and policy development is also responsible for coordinating Public Finance Management Reform.

The Central Tenders Board

The Central Tenders Boards (CTB) is a unit of the Ministry of Finance which carries out procurement over TT\$ 1,000,000 and provides technical assistance to ministerial and local authority tender committees. It is the “*sole and exclusive authority in inviting, considering and accepting or rejecting offers for the supply of articles or for the undertaking of works or any services necessary for carrying out the functions of Government or any statutory bodies, and to dispose of surplus or unserviceable articles belonging to the Government or any statutory bodies.*” It also issues circulars and guidelines on public procurement. At this time it does not make public the list of contracts awarded nor does it institute a public procurement complaints mechanism.

Financial Systems

There are a number of financial management systems for the central and provincial governments. These include:

- Payroll and Human Resource Management at national and provincial levels (using Peoplesoft software);
- Revenue administration and tax collection (using GENTEX software); and
- Customs administration (using ASYCUDA v2.7 currently being upgraded to ASYCUDA World).

Currently there are ongoing efforts to implement an integrated financial management system (IFMS) which modernises and extends the functionality of the existing systems.

Ministries, Departments and Agencies

The Minister is the political head of the ministry, and the Permanent Secretary is, the head civil servant and the accounting officer. The Minister is responsible for setting policies and is accountable for the achievement of departmental outcomes. This includes seeking legislature’s approval and adoption of the department’s budget vote. The accounting officer is responsible for the management of the implementation of the budget for which he is accountable to Parliament.

Public Enterprises

A wide spectrum of public enterprises exists in Trinidad and Tobago including in such sectors as energy, communication, transport, construction, and agribusiness. The Investments Division of the Ministry of Finance is the shareholder representative for government. It has the responsibility to oversee the State-Owned Enterprises (SoEs). Public Enterprises are required to submit to the National Treasury their annual budget and corporate plans prior to the start of the financial year, as well as quarterly operational reports, monthly cash flow statements and annual audited financial statements. Private Audit companies are employed as external auditors. As part of their oversight function the Investment Division employs internal audit to ensure system integrity of the SoEs.

The Central Bank of Trinidad and Tobago

The Central Bank of Trinidad and Tobago (CBTT) has operational independence which is constitutionally guaranteed. As part of its activities, the CBTT performs international banking and international treasury services, acts as banker and funding agent of the government and facilitates the effective functioning of the domestic financial markets. It

keeps track of all public sector borrowing. The CBTT publishes fiscal statistics and information in its Quarterly Bulletins and Annual Economic Reports.

Table 2.5 Matrix of Institutional Responsibilities for PFM Functions

| PFM Function | Ministry of Finance | | | | | | | | | | | | | | | | | |
|--|---------------------|----|-----|------------|----------|-----|----|-------|-----|----|----|----|-----|------|-----|------|------------|-------------|
| | Cabinet | FM | PSF | Budg. Div. | MEc. Div | CTB | IR | Cust. | CoA | IA | LM | PS | MTC | DPSM | OAG | CBTT | Parliament | DPs |
| Policy Elaboration and Planning | | | | | | | | | | | | | | | | | | |
| Policy/Budget Approvals | ✓ | ✓ | | | | | | | | | ✓ | | | | | | | ✓ |
| Loan Approvals | Endorse | ✓ | | | | | | | | | | | | | | | | |
| Supplemental Budgets | ✓ | ✓ | | | | | | | | | ✓ | ✓ | | | | | | ✓ |
| National Development Plan (Vision 2020) | ✓ | ✓ | | ✓ | | | | | | | ✓ | ✓ | | | | | | |
| Sector Development Plans | | | | | | | | | | | ✓ | ✓ | | | | | | |
| Public Sector Investment Programmes | | | | | | | | | | | ✓ | ✓ | | | | | | |
| Budget Formulation/Preparation | | | | | | | | | | | | | | | | | | |
| Budget Address | | ✓ | | | | | | | | | | | | | | | | |
| Macro-Fiscal Framework | ✓ | | | ✓ | | | | | | | | | | | | | | IMF Program |
| Annual Budget Estimates | | ✓ | ✓ | ✓ | | | | | | | ✓ | ✓ | | | | | | |
| Revenue Administration/Collections | | | | | | | | | | | | | | | | | | |
| Tax Revenue | | | | | | | ✓ | ✓ | | | | | | | | | | |
| Mineral and Mining Royalties | | | | | | | ✓ | | | | | | | | | | | |
| Grants/Loans | | | | | | | | | | | | | | | | | | ✓ |
| Budget Execution | | | | | | | | | | | | | | | | | | |
| Debt Management | | | | ✓ | | | | | | | | | | | | | ✓ | |
| Financial Asset Management | | | | | | | | | | | | | | | | | ✓ | |
| Budget Allocation/Cash Management | | | ✓ | ✓ | | | | | ✓ | | | | | | | | ✓ | |
| Virement Control | | | ✓ | | | | | | | | | ✓ | | | | | | |
| Establishment Control | | | | ✓ | | | | | | | | | | ✓ | | | | |
| Personnel Rolls | | | | | | | | | | | | ✓ | | | | | | |
| Payroll | | | | | | | | | ✓ | | | ✓ | | | | | | |
| Procurement/Supply Chain | | | ✓ | | | ✓ | | | | | | ✓ | ✓ | | | | | |
| Non-Salary Recurrent Expenditure | | | | | | | | | ✓ | | | ✓ | | | | | | |
| Capital Expenditure | | | | | | | | | ✓ | | | ✓ | | | | | | ✓ |
| Payments | | | | | | | | | ✓ | | | ✓ | | | | | | |
| Financial Reporting | | | | | | | | | ✓ | | | ✓ | | | | | | ✓ |
| Accounting | | | | | | | | | ✓ | | | ✓ | | | | | ✓ | |
| Internal Audit | | | ✓ | | | | ✓ | ✓ | | ✓ | | | | | | | | |
| External Scrutiny/ Budget Oversight | | | | | | | | | | | | | | | | | | |
| External Audit | | ✓ | | | | | | | | | | | | | ✓ | | | |
| Budget Oversight | ✓ | | | | | | | | | | | | | | | | | ✓ |
| Expenditure/Audit Oversight | | | | | | | | | | | | | | | | | | ✓ |
| PFM Reform | | | | | | | | | | | | | | | | | | |
| Reform Policy/Approval | | | ✓ | | | | | | | | | | | | | | | |
| Reform Coordination/Monitoring | | | ✓ | | | ✓ | | | | | | | | ✓ | | | | ✓ |
| Reform Implementation | | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | | ✓ | | | ✓ | | | |

Abbreviations: MF - Minister of Finance, PSF – Permanent Secretary Finance, PF – Budg. Div – Budget Division, MEc. Div – Macro Economic Division, CTB- Central tender Board, IR - Inland Revenue Division, Cust. – Customs Division , CoA – Comptroller of Accounts, IA - Internal Audit, LM – Line Minister, PS – Line Minister Permanent Secretary, MTC – Ministry Tender Committee, DPSM – Department of Public Sector Management, OAG – Office of Auditor General, CBTT – Central Bank of Trinidad and Tobago, DP – Development Partners.

2.3.3 The key features of the PFM system

The financial year for Trinidad and Tobago is October 1st to September 30th. For local government it is also from October 1st to September 30th. The budget process begins in January. Usually the proposed budget is submitted in mid September after the Budget Statement even though in 2007/2008, an election year, it was submitted a month earlier. The annual appropriations law is typically passed by parliament in October. In 2007 it was passed in September before the close of the fiscal year.

Trinidad and Tobago has a payments and accounting system operated out of a single consolidated fund account set up in the Central Bank of Trinidad and Tobago. The payroll based on an integrated software management system, are managed and operated independently by each of the ministries. The Government of Trinidad and Tobago adopts a cash accounting basis for the preparation of its accounts. The final accounts are prepared by the ministries and a consolidated financial information report by the Comptroller of Accounts.

Since 2006 the government has employed a fully integrated human resource management and payroll management system. The Integrated Global Payroll (IGP) is integrated into the Human Resource Information System (IHRIS). Over 85,000 employees and pensioners are paid via this system

The Office of the Auditor-General is independent and has jurisdiction over all ministries and statutory bodies. The Constitution and Exchequer and Audit Act provided the Auditor-General the requisite independence and jurisdiction to receive all documentation necessary to carry out her work and places no restrictions on the publication of her findings. The Accounting Officer is responsible and held accountable for implementing all recommendations emanating out of an audit and PAC recommendations.

While comprehensive procedures exist for the legislature's budget review, these have been overtaken by tradition and practice that is not fully consistent with the rules. The rules are only partially respected. The time allowed for the legislature's review is clearly insufficient. There is a total of approximately 5 days for review by the House of Representatives. The fiscal policy is reviewed within a 4 day window, and while the details of revenue and expenditure are allowed 7 days for review, in practice it is reviewed within a single day. The parliament can only approve or reject the proposed budget

3 Assessment of the PFM systems, processes and institutions

3.1 Budget credibility

3.1.1 PI-1 Aggregate expenditure out-turn compared to original approved budget

This PEFA assessment covers the fiscal years 2004/2005, 2005/2006 and 2006/2007; 2006/2007 being the most recent fiscal year for which final appropriations accounts were available at the time of the assessment. The reporting formats of the budget documentation permit an identification of debt service elements. Only direct budget support is included in the non tax revenue items. Programme and project support are identified separately within the financial reporting documentation and so make it possible to identify and measure primary expenditure estimates as well as primary expenditure achievements. The original approved expenditure estimates presented in Table 3.1 were obtained from budget documentation and audited financial statements for 2005, 2006 and 2007.

The Government of Trinidad and Tobago has adopted a cash accounting basis for its central government accounts with the fiscal year being defined from October 1 to September 30. Outstanding commitments for goods, works and services (i.e. open purchase orders) not delivered by the end of the fiscal year are cancelled and payments are then completed for all outstanding bills (i.e. verified invoices). Any unspent funds at the close of the fiscal year are returned to the Treasury and are lost by the Ministry. One consequence of this implementation of the end of year procedures is that a number of Ministries tend towards increased expenditure rates in the last month as Ministries seek to avoid having to return unspent funds to the Treasury (see PI-20). This pressure on spending may contribute to the accrual of expenditure arrears, as well as contribute to an increased incidence of direct procurement during the last month

The adoption of a cash accounting standard with the return of funds to the Treasury does not strictly match expenditure periods to budget estimate periods as would be the case for say a modified cash accounting that facilitated continuing payments for a limited period extending into the next fiscal year. This would contribute to a tendency for measured actual outturn to be less than budget estimate unless careful procurement planning was taken into account both with budget preparation as well as cash flow planning.

The match of aggregate actual expenditures to original primary expenditure exceeded 5% in two of the three years and in one year was 1%. Over the three years there were improvements in the ratio of actual primary expenditure outturns to budget estimates. In all three budget years, revenues exceeded budget estimates (see indicator PI-3). These

results point to Trinidad and Tobago principally channelling excess funds over revenue estimates to debt reduction and investment in the Heritage and Stabilization Fund Account.

Table 3.1 Comparison of Budget Estimates against Actuals (Primary Expenditure, T\$)

| | 2004/2005 | | 2005/2006 | | 2006/2007 | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Original Estimates | Actuals | Original Estimates | Actuals | Original Estimates | Actuals |
| Expenditure | 27,567,851,946 | 30,633,750,516 | 35,916,855,714 | 39,295,563,743 | 37,634,643,944 | 41,538,807,838 |
| Debt Servicing (MoF) | 3,753,178,784 | 5,558,536,864 | 7,914,446,886 | 12,967,074,031 | 6,534,105,798 | 10,132,111,808 |
| Charges on Account of the Public Debt | 5,280,619,004 | 4,776,053,882 | 3,499,135,890 | 3,390,343,872 | 4,286,100,940 | 4,278,666,685 |
| Primary Expenditure | 18,534,054,158 | 20,299,159,770 | 24,503,272,938 | 22,938,145,840 | 26,814,437,206 | 27,128,029,346 |
| Difference (Amount) | 1,765,105,612 | | - 1,565,127,098 | | 313,592,140 | |
| Difference Percentage | 10% | | -6% | | 1% | |

Source: Budget Estimates and Audited Financial Statements 2004/2005, 2005/2006, and 2006/2007, 2008/2009.

The appropriate interpretations of the result of a comparison of primary expenditure estimates to actual primary expenditure are premised upon the availability of accurate financial data. There are many elements of the PEFA assessment that suggest such accuracy is achieved as demonstrated by the low quantum of arrears (see PI-4), the regular and timely reconciliation of bank accounts (see PI-22), the timely and comprehensive financial reporting (see PI-25) and comprehensive external audit (see PI-26).

In the three fiscal years reviewed there were no substantive major exogenous factors that significantly impacted on budget expenditure.

| No. | Credibility of Budget | Score | Justification |
|------|---|-------|---|
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | B | Actual primary expenditure deviated from expenditure estimates by 10% in one of the three years considered. Deviations were 10%, -6% and 1% respectively. |

3.1.2 PI-2 Composition of expenditure out-turn compared to original approved budget

To obtain a measure of how much the reallocations between budget votes have contributed to variance up and above the deviations in the overall levels of expenditure, an analysis of budget deviations between budget estimates and actual out-turns by budget head was performed for the years 2004/2005, 2005/2006 and 2006/2007. The budget to expenditure deviations for each Budget Vote is presented in Table 3.2.

An analysis of this table shows that the average weighted deviations were above 10% for one of the year reviewed under this assessment.

The significant variances up and above the expenditure deviation at the aggregate level and shown in Table 3.3 suggest a weak coupling between the budget formulation and preparation process, and in turn between budget estimate and implementation. It

demonstrates that the budget releases are not very closely aligned with the original vote even though the commitment control procedures with respect to expenditure management may be largely effective. The Exchequer and Audit Act accommodates for a supplementary budget process, and this appears to have been used to channel excess revenues over estimate (see PI-3) to primary expenditure.

Table 3.3 shows the results of the analysis of the expenditure variance by vote. It indicates that the variance in excess over total deviation was more than 10% in one of the three years reviewed.

Table 3.2 Expenditure composition variance in excess of total expenditure deviation

| | 2005/06 | 2006/07 | 2007/08 |
|-------------------------------------|---------|---------|---------|
| Total Primary Expenditure Deviation | 13.9% | 13.3% | 8.3% |
| Total Primary Expenditure Variance | 9.5% | -6.4% | 1.2% |
| Variance over Expenditure Deviation | 4% | 7% | 7% |

Source: Author's calculations derived from the data presented in Table 3.1 and Table 3.3.

| No. | Credibility of Budget | Score | Justification |
|------|--|-------|---|
| PI-2 | Composition of expenditure out-turn compared to original approved budget | C | Variance in primary expenditure composition exceeded overall expenditure deviation by more than 10% in one of three the years considered. Variance in expenditure composition exceeded overall deviation primary expenditure by 4%, 7% and 7% respectively. |

Table 3.3 Comparison of Budgeted and Actual Expenditure (T\$)

| | | 2004/2005 | | 2005/2006 | | 2006/2007 | |
|----|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | Estimate | Actual | Estimate | Actual | Estimate | Actual |
| 01 | President | 11,978,925 | 11,528,956 | 12,452,168 | 13,858,854 | 16,598,854 | 16,055,386 |
| 02 | Auditor General | 19,420,225 | 17,338,952 | 25,406,060 | 17,416,507 | 24,942,169 | 23,498,672 |
| 03 | Judiciary | 239,994,000 | 205,406,896 | 240,760,300 | 229,602,089 | 295,308,429 | 272,058,109 |
| 04 | Industrial Court | 27,928,000 | 25,244,245 | 32,059,323 | 29,963,558 | 38,719,023 | 33,888,191 |
| 05 | Parliament | 45,859,735 | 42,237,415 | 58,441,785 | 58,168,530 | 73,391,188 | 64,930,650 |
| 06 | Service Commissions | 45,261,245 | 41,683,960 | 45,150,551 | 41,622,927 | 58,981,838 | 51,746,858 |
| 07 | Statutory Authorities Service Commission | 4,017,916 | 3,159,882 | 4,510,582 | 3,859,698 | 5,246,436 | 4,976,697 |
| 08 | Elections and Boundaries Commission | 41,156,533 | 39,057,210 | 63,014,416 | 38,010,484 | 69,493,242 | 47,818,309 |
| 09 | Tax Appeal Board | 4,208,900 | 3,025,704 | 5,942,842 | 3,920,723 | 6,800,709 | 4,098,387 |
| 11 | Registration Recognition and Certification Board | 2,475,648 | 1,737,837 | 2,868,255 | 1,931,158 | 3,298,045 | 2,745,131 |
| 12 | Public Service Appeals Board | 1,225,472 | 1,099,027 | 2,062,966 | 1,732,790 | 2,646,868 | 2,564,327 |
| 13 | Office of the Prime Minister | 1,459,024,871 | 1,435,661,924 | 144,593,928 | 145,742,727 | 181,402,777 | 150,580,608 |
| 15 | Tobago House of Assembly | 1,022,900,000 | 1,123,224,335 | 1,235,511,352 | 1,139,325,398 | 1,640,094,598 | 1,609,813,016 |
| 16 | Central Administrative Services Tobago | 11,758,290 | 11,015,189 | 15,988,181 | 12,019,816 | 16,991,924 | 14,272,285 |
| 17 | Personnel Department | 25,763,280 | 22,493,392 | 32,097,859 | 26,755,336 | 39,544,367 | 27,539,327 |
| 18 | Ministry of Finance | 30,420,000 | 71,834,487 | 83,562,000 | 90,156,403 | 89,295,000 | 85,139,110 |
| 20 | Pensions and Gratuities | 1,022,761,804 | 1,092,292,012 | 1,254,161,200 | 1,158,863,550 | 1,274,762,100 | 1,302,024,186 |
| 21 | Ministry of Planning and Development | 95,657,704 | 76,300,722 | 103,206,721 | 90,053,609 | 110,856,332 | 101,041,262 |
| 22 | Ministry of National Security | 2,331,545,729 | 2,414,857,924 | 2,826,840,776 | 2,740,932,418 | 3,296,429,542 | 3,694,772,303 |
| 23 | Ministry of the Attorney General | 178,937,175 | 159,728,640 | 174,432,412 | 149,457,422 | 189,480,112 | 159,487,343 |
| 24 | Ministry of Legal Affairs | 87,418,500 | 67,603,093 | 93,039,780 | 76,951,482 | 131,671,781 | 111,547,826 |
| 25 | Ministry of Agric., Land and Marine Resources | 452,961,232 | 447,038,095 | 582,994,867 | 491,475,632 | 651,187,652 | 605,786,680 |
| 26 | Ministry of Education | 3,140,333,843 | 3,009,172,780 | 3,258,706,097 | 2,865,633,138 | 3,375,020,093 | 3,354,606,328 |
| 28 | Ministry of Health | 1,861,374,600 | 2,232,756,134 | 2,826,939,471 | 2,134,434,550 | 2,837,940,565 | 2,692,150,938 |
| 30 | Ministry of Labour and Small and Micro Ent. Dev. | 153,700,190 | 156,360,562 | 130,023,775 | 102,579,731 | 147,871,668 | 132,362,305 |
| 31 | Ministry of Public Administration and Information | 426,143,560 | 408,249,499 | 503,600,504 | 479,208,682 | 629,418,978 | 592,616,896 |
| 35 | Ministry of Tourism | 125,693,655 | 113,404,518 | 170,128,320 | 118,894,853 | 143,469,352 | 139,943,345 |
| 36 | Ministry of Housing | 306,303,300 | 385,788,325 | 266,294,884 | 284,580,823 | 456,963,708 | 442,796,145 |
| 37 | Integrity Commission | 10,345,950 | 12,557,157 | 24,523,338 | 17,936,138 | 18,633,862 | 11,496,177 |
| 38 | Environmental Commission | 4,272,650 | 3,302,485 | 5,915,187 | 5,111,083 | 6,860,574 | 5,311,954 |
| 39 | Ministry of Public Utilities and the Environment | 954,643,451 | 1,156,292,825 | 2,100,655,387 | 2,155,023,945 | 2,428,849,274 | 2,478,450,155 |
| 40 | Ministry of Energy and Energy Industries | 386,775,800 | 1,037,342,482 | 1,163,883,492 | 1,755,216,090 | 726,204,851 | 1,234,338,266 |
| 42 | Ministry of Local Government | 867,491,526 | 990,810,894 | 1,154,268,050 | 947,335,731 | 1,308,069,909 | 1,172,671,272 |
| 43 | Ministry of Works and Transport | 1,275,216,082 | 1,603,326,207 | 1,941,683,080 | 2,068,701,669 | 1,902,535,417 | 2,150,227,117 |
| 46 | Ministry of Sport and Youth Affairs | 195,246,912 | 181,667,076 | 252,213,212 | 264,254,364 | 345,435,349 | 330,398,925 |
| 47 | Ministry of Foreign Affairs | 232,705,270 | 217,900,726 | 328,084,751 | 228,904,190 | 340,868,109 | 292,444,324 |
| 48 | Ministry of Trade and Industry | 146,627,050 | 102,250,995 | 131,452,121 | 101,063,123 | 169,894,369 | 152,580,355 |
| 54 | Ministry of Science, Technology and Tertiary Education | 1,011,400,000 | 1,127,978,083 | 1,275,840,726 | 1,162,838,899 | 1,609,688,156 | 1,654,563,951 |
| 55 | Ministry of Community Development, Culture and Gender | 233,546,145 | 229,154,446 | 232,147,540 | 262,347,900 | 302,275,690 | 290,397,224 |
| 56 | Ministry of Social Development | 39,558,990 | 17,274,682 | 1,697,814,679 | 1,422,259,820 | 1,848,934,296 | 1,614,289,008 |
| | Totals | 18,534,054,158 | 20,299,159,769 | 24,503,272,938 | 22,938,145,840 | 26,814,437,206 | 27,128,029,346 |

Source: Budget Documents and Audited Financial Statements for 2004/2005, 2005/2006 and 2006/2007

3.1.3 PI-3 Aggregate revenue out-turn compared to original approved budget

The principal sources of domestic revenue were from income tax with lesser though significant contributions from taxes on international trade and transactions and taxes on domestic goods and consumption. In 2006/2007 tax revenue constituted approximately 90% of total government revenue. Income tax, Customs and VAT constituted 75%, 6% and 18% respectively for a total of 99% of tax revenue and 88% government revenue. Non tax revenue is principally property income which is approximately 9% of total central government revenue.

A comparison of budgeted versus actual revenues demonstrates actual exceeding revenue estimates in 2005/2006, 2006/2007 and 2007/2008 by up to 22% but showing a decreasing trend of outturns over estimates over the three years reviewed (see Table 3.5 below).

The Budget Division of the Ministry of Finance is responsible for the preparation of fiscal forecasts. The process of estimating revenue forecasts is intricately tied into the preparation of forecasts under Article IV consultations with the IMF. However, the government always adopts a more conservative posture on its revenue forecasts than indicated in the IMF Report. For the most part the excess of revenues over budget estimates is applied to the Heritage and Stabilization Fund.

Table 3.4 Comparison of Budgeted and Actual Revenue Receipts (Domestic, T\$)

| | Estimates | Outturns | Deviation | |
|------------------|-----------------------|-----------------------|----------------------|------------|
| | | | Amount | Percentage |
| 2004/2005 | | | | |
| Tax Revenue | 20,123,696,575 | 25,401,282,797 | 5,277,586,222 | 26% |
| Non Tax Revenue | 2,969,013,228 | 3,299,952,591 | 330,939,363 | 11% |
| Capital Receipts | 345,084,950 | 9,130,514 | - 335,954,436 | -97% |
| Total | 23,437,794,753 | 28,710,365,902 | 5,272,571,149 | 22% |
| 2005/2006 | | | | |
| Tax Revenue | 28,688,657,421 | 33,493,216,197 | 4,804,558,776 | 17% |
| Non Tax Revenue | 3,909,789,763 | 3,910,970,474 | 1,180,711 | 0% |
| Capital Receipts | 24,147,825 | 4,043,469 | - 20,104,356 | -83% |
| Total | 32,622,595,009 | 37,408,230,140 | 4,785,635,131 | 15% |
| 2006/2007 | | | | |
| Tax Revenue | 30,410,713,095 | 34,209,142,432 | 3,798,429,337 | 12% |
| Non Tax Revenue | 3,305,299,099 | 4,271,680,094 | 966,380,995 | 29% |
| Capital Receipts | 44,368,750 | 29,581,702 | - 14,787,048 | -33% |
| Total | 33,760,380,944 | 38,510,404,228 | 4,750,023,284 | 14% |

Source: Budget Estimates and Audited Financial Statements 2004/2005, 2006/2006 and 2006/2007;

Table 3.5 Comparison of Budgeted and Actual Revenue Receipts restated (Domestic T\$)

| | 2004/05 | 2005/06 | 2006/07 |
|----------------------|----------------|----------------|----------------|
| Revenue Estimates | 23,437,749,753 | 32,622,595,009 | 33,760,380,944 |
| Revenue Outturns | 28,710,365,902 | 37,408,230,140 | 38,510,404,228 |
| Deviation, R million | 5,272,571,149 | 4,785,635,131 | 4,750,023,284 |
| Deviation, % | 22% | 15% | 14% |

Source: Budget Estimates and Audited Financial Statements 2004/2005, 2006/2006 and 2006/2007;

| No. | Credibility of Budget | Score | Justification |
|------|---|-------|--|
| PI-3 | Aggregate revenue out-turn compared to original approved budget | A | Domestic revenue collection exceeded 97% in all three of the last three budget years. The ratio of aggregate revenue out-turn to original approved budget were 122%, 115% and 114% respectively. |

3.1.4 PI-4 Stock and monitoring of expenditure payment arrears

An unpaid bill outstanding for more than 30 days after verification of the invoice is deemed to be a payment in arrears. The relatively low levels of indebtedness and the effective commitment control mechanisms might suggest that the accrual of significant levels of arrears does not pose a significant risk. However, it would further require continuing careful procurement planning and commitment control monitoring and management of in year expenditure to ensure that such risk does not become significant. The adoption of a cash accounting basis does not include the reporting on expenditure arrears, even though the MDAs report to the Comptroller of Accounts payments which have been applied to arrears on personnel emoluments. The monthly expenditure returns do not include any reporting on expenditure arrears. There is currently no explicit consolidation of expenditure arrears reported on in the financial statements; however MDAS submit their stocks of outstanding commitments at the close of the year. While, without an accompanying aging report on outstanding commitments the level of expenditure arrears cannot be determined, it serves as an effective proxy because it is kept at such a low ratio of total expenditure (see table below) and the stock of outstanding commitments always exceeds the expenditure arrears.

Table 3.6 Stock of outstanding commitments at the close of the fiscal year (T\$)

| | 2004/2005 | 2005/2006 | 2006/2007 |
|-------------------------|----------------|----------------|----------------|
| Outstanding Commitments | 59,085,725 | 69,394,726 | 66,103,297 |
| Annual Expenditure | 25,857,696,634 | 35,905,219,871 | 37,260,141,154 |
| Ratio | 0.23% | 0.19% | 0.18% |

The stock of outstanding commitments is generated annually and reported upon by the Auditor General. However such data neither segregates outstanding commitments for which supplies, works or services have been received nor is it aged and so it is not possible to determine what proportion of outstanding commitments is converted into expenditure arrears. Given the low ratio of outstanding commitments, this measure serves as an effective proxy (since outstanding commitments will always exceed expenditure arrears) for monitoring the stock of arrears.

| No. | Credibility of Budget | Score | Justification |
|------|--|-------|---|
| PI-4 | Stock and monitoring of expenditure payment arrears | B+ | |
| (i) | Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock | A | The ratio of expenditure arrears to total expenditure for all three years considered remains very low and was considerably lower than 2%. |
| (ii) | Availability of data for monitoring the stock payment arrears | B | The stock of outstanding commitments is generated annually and reported upon by |

| No. | Credibility of Budget | Score | Justification |
|-----|-----------------------|-------|--|
| | | | the Auditor General. However such data is not aged and so it is not possible to determine what proportion is converted into expenditure arrears. Given the low ratio of outstanding commitments, this measure serves as an effective proxy (since outstanding commitments will always exceed expenditure arrears) for monitoring the stock of arrears. |

3.2 Comprehensiveness and transparency

3.2.1 PI-5 Classification of the budget

The budgetary framework is structured on the basis of administrative and economic, classifications. The revenue budget is classified into recurrent and capital revenues, with each segregated by tax type. Further, revenues are classified as tax and non-tax revenue. This classification is used for formulation, execution and financial reporting of the budget and is consistent with the institutional arrangements for the implementation of the budget. The chart of accounts for the Central Government budget monitoring is derived from, and is an extension to the GFS 2001 standard and so facilitates ready monthly reports based upon that standard. Using a mapping table the economic and administrative classifications employed can produce consistent documentation according to GFS/COFOG standards at the functional as well as sub-functional level.

The government has been undergoing preparations to adopt an activity based budget approach with specific outputs specified. During the 2006/2007 fiscal year, the Call Circular included instructions to prepare for the transition from a line item budget structure to one that reflects output management. It makes it a requirement of all MDAs to prepare annual corporate plans.

| No. | Comprehensiveness and transparency | Score | Justification |
|------|------------------------------------|-------|--|
| PI-5 | Classification of the budget | C | The budget formulation and execution is based on economic and administrative classifications. Using a mapping table these can produce consistent documentation according to GFS/COFOG standards at the functional as well as sub-functional level. |

3.2.2 PI-6 Comprehensiveness of information included in budget documentation

The budget documentation presented to parliament includes fairly comprehensive information on the budgetary context, intent and recent financial achievements. Proposed budget estimates are prepared and published in the budget documentation. The approved votes, which never differ from the proposed allocations, are gazetted and promulgated as appropriation acts of parliament. The Budget format includes current estimates (budget

year), budget estimates revised estimates for the year prior to the budget year, and actual audited outcomes from two years previous to the budget year.

Budget documentation (2007/2008) is comprehensive, and consists of the following main components:

- The Budget Statement presented by the Minister of Finance which outlines new policy initiatives but without an explanation of their impacts on revenues or indicating expenditure consequences.
- The Draft Estimates of the Revenue contain the revenue estimates segregated by tax, non tax and capital revenues.
- The Details of Estimates of Recurrent Expenditure contain the economic classifications by budget head and sub-head
- The Estimates of Development Programme and Infrastructure Development Fund which is segregated into 5 main pillars. These are: pre-investment, productive sectors, economic infrastructure, social infrastructure and multi-sectoral and other services.
- Estimates of Expenditure which includes the approved establishment for each budget head and a consolidated statement of recurrent and development expenditure. It also presents a table of the functional classification of current account expenditure.
- Draft Estimates of the Revenue and Expenditure of the Statutory Boards and Similar Bodies

The table below summarises the availability of budget information.

| Elements of budget documentation | Availability | Notes |
|--|--------------|--|
| <i>Macro-economic assumptions</i> , incl. at least estimates of aggregate growth, inflation and exchange rate | Yes | Estimates for GDP growth, inflation, interest rates, unemployment rates, the exchange rate, and balance of payments position among a host of other assumptions are presented in the Budget Statement |
| <i>Fiscal deficit</i> , defined according to GFS or other internationally recognised standard | Yes | Fiscal deficit defined according to GFS is presented in the Budget Statement |
| <i>Deficit financing</i> , describing anticipated composition | No | The amounts of borrowings are included in the Revenue Estimates but without any indication of the composition. |
| <i>Debt stock</i> , incl. details at least for the beginning of the current year | Yes | There is a statement of outstanding public debt included in the public accounts made available to parliament. |
| <i>Financial assets</i> , incl. details at least for the beginning of the current year | No | No information on financial assets segregated as current and non-current assets is included in the budget documents |
| <i>Prior year's budget out-turn</i> , presented in the same format as the budget proposal | Yes | Yes, prior year's budget (budget year -2) out-turn is included. |
| <i>Current year's budget</i> (revised budget or estimated out-turn), presented in the same format as the budget proposal | Yes | The estimates of expenditure show the current year's revised budget (budget year - 1) in the same format as the budget proposal. |

| Elements of budget documentation | Availability | Notes |
|--|--------------|--|
| <i>Summarised budget data for both revenue and expenditure</i> according to the main heads of the classification used, incl. data for current and previous year | Yes | The budget includes summarised data (recurrent and development presented separately) according to the main heads of classification for both revenue and expenditure. |
| <i>Explanation of budget implications of new policy initiatives</i> , with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs | No | While a number of new policy initiatives are described in the Budget Statement they do not include estimates of the budgetary impacts in the majority of cases. |

| No. | Comprehensiveness and transparency | Score | Justification |
|------|---|-------|---|
| PI-6 | Comprehensiveness of information included in budget documentation | B | Budget documentation fulfils 6 benchmarks. The Budget documents are fairly comprehensive. |

3.2.3 PI-7 Extent of unreported government operations

One element of government operations which affects fiscal discipline and the efficient allocation of resources is reflected by unreported government expenditure. In general, given their nature, it is difficult to ascertain the full extent of unreported government operations, but every indication suggests that only very insubstantial, if any, unreported extra-budgetary expenditures occur excepting of development partner funded programmes and projects

The Line Ministries generate revenues which are budgeted for and accounted for within the financial statements. They do not operate separate bank accounts and all such funds are transferred to the consolidated fund. Under this arrangement it is highly unlikely that significant, if any, extra-budgetary expenditure of internally generated funds occurs.

While the Government subsidises a number of commercial public enterprises it addresses all subsidies through the budget. It also reports on guarantees as well as letters of comfort. For instance where subsidies are unforeseen, the Government may issue guarantees which allow the cash strapped commercial public enterprises to raise short term funds in the financial markets until the adjustment budget or next fiscal year when the subsidy can be accommodated through a budget process. Officials state that promissory notes, repurchase agreements, sell-backs and other off balance sheet financial instruments are never used to finance subsidies. Consequently, all subsidies are (by the next fiscal year) reflected in the budget.

Intelligence and security activity funds are all reported in the budget even if all the details of expenditure are not disclosed. The Auditor-General reviews and reports on these expenditures. Further the amounts are a very insignificant proportion of the budget.

Convertible IOUs have been employed to cover foreign exchange losses of the Central Bank of Trinidad and Tobago in the past to cover debt/equity ratio requirements.

However, this process is always disclosed in the Public Accounts, budgeted for and fully reported on as well as being closely monitored by the Auditor-General.

Public Private Partnerships (PPPs), principally operating as Build Own Lease Transfers (BOLT) are included at the time of the preparation of sector strategies and a summary of all PPPs and their values are included in schedules within the Public Accounts. We note though, that while there is disclosure of PPP operations in budget and other fiscal reports, the long term characteristics of the PPP commitment are not yet fully captured.

Finally the process of aggregating the financial Departmental statements into the consolidated financial information includes the application of an aggregate reconciliation mechanism on the sources and uses of funds. This process would reveal any gaps if funds were being diverted to extra budgetary activity.

Appendix A of the Estimates of Development Programme presents the sources of funds segregated as loans and grants. It has indications as to which budget heads such loans and grants are to be applied. The data in the appendix suggest that 1% of expenditure is estimated. However there is no reporting within the document or in the financial statements on actual disbursements made. Hence while grant and loan income estimates are included, actual expenditure (or disbursement) information is omitted. Based upon estimates of disbursement provided by IDB and the EC actual disbursements of loans and grants represent approximately 0.6% of actual expenditure. For this reason this sub-indicator is scored an A.

| No. | Comprehensiveness and transparency | Score | Justification |
|------|---|-------|--|
| PI-7 | Extent of Unreported government Operations | A | |
| (i) | Level of unreported extra-budgetary expenditure | A | All revenues generated directly by the MDAs are transferred to the Consolidated Fund. Intelligence and security agency budgets are reported on, if not in detail. There is no evidence of off balance sheet debt instruments being used to finance subsidies. The consolidation process of the final accounts includes an aggregate reconciliation process that would reveal any gaps in the sources and uses of funds. The level of unreported extra-budgetary expenditure remains insubstantial. |
| (ii) | Income/Expenditure information on development partner-funded projects | A | Complete income/expenditure data of development partner funded grant projects are not included in budgetary information. However development partner funded expenditure is less than 1% of total expenditure. |

3.2.4 PI-8 Transparency of inter-governmental fiscal relations

There are 2 City Corporations, 3 Borough Corporations and 9 Regional Corporations along with an association of local government authorities of Trinidad and Tobago. The fiscal year for local authorities is coincident with the central government's fiscal year. It is October 1st to September 30th. The transfers to the Sub National Government is summarised in Table 1.1 in Chapter 1. The funds transferred from central government to Sub National Government represent approximately 2% of the Central Government budget. The transfers to local authorities are transparent and are based upon a budget process that is fully integrated into the central budget process. The successful cash management implemented by the Treasury assures predictable disbursements to the SNG entities. Disbursements to SNG entities are made monthly.

The SNG entities are not provided budget ceilings as part of the budget call circular at the start of the budget preparation cycle (as is the case for all budget holders participating in the central budget preparation process). They are only provided with their allocations shortly before printing of the proposed budget and so too late for significant budget changes to be made.

The SNG entities prepare budgets which are integrated into the national budget documentation and submitted before parliament as part of the budget approval process. They also prepare financial reports consistent with the National Budget and which is consolidated into a financial report within 4 months of the end of the fiscal year.

| No. | Comprehensiveness and transparency | Score | Justification |
|------|--|-------|---|
| PI-8 | Transparency of Inter-governmental fiscal relations (M2) | B+ | |
| (i) | Transparent and objectivity in the horizontal allocation among SN government | A | The transfers to local authorities are transparent and are based upon a budget process that is fully integrated into the central budget process. The successful cash management implemented by the Treasury assures predictable disbursements to the SNG entities. Disbursements to SNG entities are made monthly |
| (ii) | Timeliness of reliable information to SN government on their allocations | C | The SNG entities are not provided budget ceilings as part of the budget call circular at the start of the budget preparation cycle. They are only provided with their allocations shortly before printing of the proposed budget and so too late for significant budget changes to be made. |

| No. | Comprehensiveness and transparency | Score | Justification |
|-------|--|-------|---|
| (iii) | Extent of consolidation of fiscal data for government according to sectoral categories | A | The SNG entities prepare budgets which are integrated into the national budget documentation and submitted before parliament as part of the budget approval process. They also prepare financial reports consistent with the National Budget and which is consolidated into a financial report within 4 months of the end of the fiscal year. |

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

The fiscal oversight of public enterprises is carried out by the Investments Division of the Ministry of Finance. There are SoEs operating in a broad sector of the economy including Energy, Financial services, Agro based Industry, Transport and Communications as well as Special Purpose Companies that carry out mainly construction works for projects paid for through the Infrastructure Development Fund. The Division assesses the risks to the Government arising from exposure to the Public Enterprises. The Division has established an internal monitoring scheme which assigns indicator measures Public Enterprises according to their respective fiscal risk profiles. The risk analysis incorporates mainly quantitative criteria. The quantitative dimensions for establishing risk level rely upon such key financial ratios as return on equity, cost to income ratio, debt to equity ratio and interest cover as well as financial characteristics like turnover and assets. The rating agencies Standard and Poors and Moody's regularly review the SoEs as part of the government's ratings assessment.

The Investment Division, as shareholder's representative, is responsible for management and operational oversight of a total of 84 State Owned Enterprises (SoEs), 43 of which are wholly owned SoEs, 5 of which are majority owned and with the rest being Special Purpose Companies. The role of the Division is to ensure management efficiency for these firms to meet domestic and international industry operational standards; ensure the continuing capitalization to accommodate sustainable healthy growth as a way to contribute to national economic development in a way that supports government policy.

All Public Enterprises submit audited financial statements to the Investment Division of the Ministry of Finance annually. At this time 82% of SoEs, including all major ones, submit their annual audit reports and submit them to parliament after approval of the accounts in an Annual General Meeting within 12 months. The balance does so within 24 months. All of the SoEs employ private audit firms to prepare annual financial audits. The Public Accounts Enterprises Committee (PAEC), a subcommittee of parliament, reviews all of the submitted financial statements and query company officials on issues raised in Management Letters. The Investment Division serves as advisers to the PAEC. Hence the budget documentation submitted to parliament includes in addition to the dividends paid to government and subsidies paid out to the consolidated financial performance of the major Public Enterprises.

The Investment Division require that all Public Entities submit quarterly performance reports that include in year operational summaries as well as debt status reports. The

SoEs also provide monthly cash flow statements. State Enterprises may not borrow from the financial markets, including overdrafts, without the explicit authority of the Minister of Finance. The Minister of Finance may also issue guarantees or letters of comfort to facilitate SoE borrowings at competitive rates. Further, the Investment Division's Internal Audit Unit (made up of 4 staff at this time) undertakes systems audits and some value for money audits. It should be pointed some civil society entities report that in practice little competition is achieved in procurement carried out by a number of SoEs, especially so the Special Purpose Companies.

The Sub National Governments cannot generate fiscal liabilities for central government. The Government may only borrow money that binds the Consolidated Fund with the authorization of the Minister of Finance. In practice it further requires approval of the Cabinet. The issuance of a guarantee requires the authorization also of the Minister of Finance.

Regional, Borough and City Corporations (sub national government entities) prepare financial reports that are consolidated into budget reports on revenue and expenditure of statutory boards and similar bodies. All local authorities issue audited financial statements.

| No. | Comprehensiveness and transparency | Score | Justification |
|------|--|-------|---|
| PI-9 | Oversight of aggregate fiscal control | A | |
| (i) | Extent of central government monitoring of AGAs/PEs | A | All Public Enterprises submit audited financial statements to the central government. Also quarterly operational and financial statements are reported on. The Research Unit Investment Division consolidates the fiscal risk issues into a report on a monthly basis. This remains an internal document. |
| (ii) | Extent of central government monitoring of SN governments' fiscal position | A | SNGs cannot on their own authority generate fiscal liabilities for the central government. Any loan that binds the Consolidated Fund requires the written approval of the Minister of Finance. |

3.2.6 PI-10 Public access to key fiscal information

Fiscal transparency will depend on whether information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Such transparency requires that the Government makes relevant information widely available in a comprehensive, understandable and timely fashion. Public access to key fiscal information in Trinidad is fairly transparent, generally comprehensive, user-friendly and timely. The manual expenditure management systems may contribute to the dearth of budget implementation reporting accessible to the public. The main source of information is through the Government Printer though the internet also serves as a relevant source of information. Information is also made available through other means such as university libraries and printed media.

Budget documents are made available to the public at the time they are tabled by the Minister of Finance in the Parliament. Parliamentary sessions on budget discussions are open to the public and are broadcasted on national TV and radio. The budget is also broadly discussed in the print media.

In-year execution reports are issued by the CBTT on a quarterly basis as part of its Statistical Bulletins that are made accessible to the public made available to the public. The Office of the Auditor-General provides to the public annual audited financial statements as well as audit reports. The resources available to primary service units are not yet available. The contract awards are not published. The table below summarises the elements of public finance management information available to the public.

| Elements of information for public access | Availability and means |
|--|--|
| Annual budget documentation when submitted to the legislature | Yes - these are made available to the public through and public libraries when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6 |
| In-year budget execution reports within one month of their completion | Yes – in-year budget implementation reports prepared by the CBTT are made accessible to the public. |
| Year-end financial statements within 6 months of completed audit | Yes - these are made available immediately upon completion. It is made available within seven months after the end of the year; consolidated information within 5 months. |
| External audit reports within 6 months of completed audit | Yes - The Consolidated Financial Statement and the Audit Report are made available typically within 7 months after end of fiscal year and within 1 month of completed audit. Other audit reports are made available upon their completion. |
| Contract awards (app. USD 100,000 equivalent) published at least quarterly | No – while the Central Tender Board monitors contracts internally these are not made available to the public at this time |
| Resources available to primary service unit at least annually | No - these are not made available to the public (see PI-23). |

| No. | Comprehensiveness and transparency | Score | Justification |
|-------|-------------------------------------|-------|---|
| PI-10 | Public access to fiscal information | B | Four of the six listed elements of information are made available to the public access via the web and other means. |

3.3 Policy-based budgeting

3.3.1 PI-11 Orderliness and participation in the annual budget process

The budget procedures are guided by a definite budget calendar and budget circulars issued in late February or early March which are clear and serve to inform upon the policy context, the requisite submission formats as well as provide useful preparation guidelines. They are generally adhered to. The calendar allows for the meaningful completion of MDA budgets. The top-down budget process is disciplined by the macro-fiscal framework, as well as a bottom-up process based upon sector strategy priority

considerations. The time allowed for budget preparation from the time of issuance of the budget call circular to the budget hearings is typically eight weeks.

At this time the budget circulars do not include vote ceilings within which budget holders may prioritise their costed budget inputs. This is so even though the Policy Formulation Committee, a subcommittee of cabinet, meets weekly and continuously reviews the fiscal forecasts and determines the fiscal frame within which the budget is to be developed. The Minister of Finance informs Line Ministers of the budget allocations at the close of the budget cycle immediately before the submission of the detailed estimates to parliament and so allowing limited opportunities for the adjustment of departmental budgets. One consequence of this is that the submitted MDA budgets far exceed the ceilings, often by several factors, forcing the Ministry of Finance to cut submitted budgets substantially in order to reconcile them with the resource envelope. This budget process while strongly reflecting top-down discipline, makes the bottom up participation less than meaningful, with almost certain negative ramifications with respect to achieving efficiency in service delivery.

In practice approval of the budget and enactment into law occurs within a month after the start of the fiscal year. For the fiscal years 2004/2005, 2005/2006 and 2006/2007, the Appropriations Act was signed into law in October each of those years. All expenditure must be preceded by an authority to incur expenditure through the issuance of a General Authorisation Warrant upon approval of the appropriations bill. Pending the General Authorisation Warrant a continuation warrant for up to 1/12 of the previous year's budget is issued to facilitate on-going expenditure.

| No. | Policy-based budgeting | Score | Justification |
|-------|--|-------|---|
| PI-11 | Orderliness and participation in the annual budget process | C+ | |
| (i) | Existence of and adherence to a fixed budget calendar | A | A clear annual budget calendar exists that is generally adhered to and the calendar allows eight weeks for Departments to meaningfully complete their detailed estimates of revenue and expenditure. |
| (ii) | Guidance on the Preparation of budget submissions. | D | The Ministry of Finance issues comprehensive and clear budget circulars but without ceilings. The Minister of Finance informs Line Ministers of the budget allocations at the close of the budget cycle immediately before the submission of the detailed estimates to parliament and so allowing limited opportunities for the adjustment of departmental budgets. |
| (iii) | Timely budget approval by the legislature. | C | In the three years reviewed under this assessment, the budget was signed into law within a month after the start of the fiscal year. |

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

Trinidad and Tobago at the present time does not carry out its own aggregate fiscal forecasts. Still it adopts a multi-year perspective to its budget formulation process. The

fiscal forecasts are derived from Article IV discussions with the IMF, with an intentionally and consistently more conservative posture than indicated in Article IV IMF Reports. These forecasts are done on the basis of the economic classifications. The expenditure levels are derived from the Three Year Operational Plans which in turn are derived from Vision 2020. The aggregate budget ceilings are derived directly from these fiscal aggregates.

The implementation of the debt management strategy has led to a number of positive outcomes including declining government debt (as a % of GDP), declining debt service costs and there are ongoing efforts to achieve increased diversification of funding instruments, a smooth redemption profile of domestic bonds and increasing sovereign credit ratings. At this time the Debt Management Unit within the Ministry of Finance does not carry out a Debt Sustainability Analysis (DSA). However the Central Bank of Trinidad and Tobago carries out a DSA annually which covers both foreign and domestic debt. It is reviewed by the IMF as part of the Article IV Consultations. The low debt to GDP ratio currently at 23% should make the calculus of debt sustainability straight forward. The Ministry of Finance is currently setting up a Macroeconomic Unit, whose function shall include undertaking debt sustainability analyses.

All line ministries have developed sector strategies or corporate plans. However, these have not been developed within fiscal frames that are broadly consistent with published macroeconomic forecasts. Neither are the projects and programmes generally fully costed with both investment and forward linked recurrent cost ramifications reflected. One exception is the health sector strategy which is costed. As noted below however the sector strategies guide the inclusion of programmes and projects into the annual budget. This link appears to be qualitative rather than quantitative.

The national vision, mission and development objectives have been articulated within the Government's Vision 2020. It was formally launched in 2006 as the national development strategic framework aiming to raise growth and reduce poverty. This national strategy is operationalised through three year operational plans; the current one spanning the years 2007 to 2010. This national development framework incorporates the sector strategies. Strategies are not developed within a fiscal frame nor are they fully costed with both recurrent cost implications taken into account. There are links between the sector development plans and the budget made through annual public sector investment programmes (PSIPs). Such links occur mainly on a qualitative basis. All projects included in the PSIP are cabinet approved. They are however not developed within fiscal frames

The inclusion of PSIP projects into the development budget process is not guided by ceilings. Some MDAs report that their budget submissions do not specifically include forward linked recurrent costs emanating out of the development projects. However, the Budget Division reports that such costs are estimated and included in the recurrent budgets as part of the reconciliation process. The effectiveness of such an arrangement is brought into question since MDAs report that they are not made aware of such recurrent budget considerations being made and reflected in the approved budgets. It is difficult to see how in budget execution such recurrent factors can be properly addressed. Further, the absence of cabinet approved ceilings guiding the budget preparation process

has resulted in budget bids received from MDAs exceeding final approved ceilings by as high as a factor of four in the last budget cycle. The extremely large budget reconciliation adjustments, coupled with the very late communication of finalised budgetary allocations to the MDAs leaves no time for them to realign their priorities with the final approved ceilings. The emphasis on maintaining top down discipline serves the fiscal discipline objective well. However, the absence of cabinet approved ceilings from the budget process therefore undermines the bottom up elements of the budget process and almost certainly impacts negatively the opportunities to achieve both technical and allocative efficiency.

| No. | Policy-based budgeting | Score | Justification |
|-------|---|-------|--|
| PI-12 | Multi-year perspective in fiscal planning, expenditure Policy and budgeting | C+ | |
| (i) | Multi-year fiscal forecast and functional allocations | C | Forecasts of fiscal aggregates are not independently prepared, but three years forecasts are prepared as part of the IMF Article IV consultations form the basis for derived aggregate fiscal forecasts on the basis of economic classifications. A more conservative posture is adopted for revenues; with expenditures derived from the PSIP. |
| (ii) | Scope and frequency of debt sustainability Analysis | A | The Central Bank of Trinidad and Tobago carries out a DSA annually which is reviewed by the IMF as part of the Article IV Consultations. DSA for external and domestic debt is not yet carried out by the Debt Management Unit within the MoF even though there are plans to have the Macroeconomic Unit currently under development to prepare DSAs. |
| (iii) | Existence of costed sector strategies | D | Sector strategies exist for all Departments. These though are not developed within a broad fiscal frame and even where costed never include forward linked recurrent cost implications. |
| (iv) | Linkages between investment budgets and forward expenditure estimates | B | The selected investments have links to the National strategy framework through the linked sector strategies and the PSIP even though such links are qualitative. The selection of investment is based upon the PSIP and involves careful consideration of recurrent cost implications by the Budget Division, but such considerations may be lost on some MDAs since they are not made aware of such determinations after budget reconciliation which may involve cuts by a factor of three. |

3.4 Predictability and control in budget execution

3.4.1 PI-13 Transparency of taxpayer obligations and liabilities

The Board of Inland Revenue, a division of the Ministry of Finance, is responsible for income tax and VAT administration. The Board of Customs and Excise is responsible for the administration of customs duties. The principal acts governing tax revenues include: Income Tax Act (1938 with amendments up to 1980), the Value Added Tax Act (1989) Customs Act (1938 with amendments up to 1986). Both boards seek to ensure that taxpayers are properly educated about tax liabilities and obligations, supported to register and comply and only where that fails do they take any necessary administrative enforcement measures.

Income Tax and VAT

There are broad discretionary powers provided within the law to the Board of Inland Revenues in the application of penalties. In practice there are no policy documents or guidelines to serve in the guidance of specific application of penalties. While some penalties are applied automatically such as in the case of late filings, others (depending on which law) only identify the maximum penalty rates as 100% or 300% as cases in point. Officials state that years ago clear guidelines on the application of penalties existed but that that is no longer the case. Under current arrangements the auditor's recommendation of penalties to be applied where an assessment reveals that such penalties are due must be reviewed by his supervisors sometimes including to the level of the commissioner.

The complete set of tax legislation is available on the Internet. There are also publications, forms and tools to educate and to assist on filing tax returns that provide practical information on tax liabilities and administrative procedures, including the procedures for objections. The Board of Inland Revenue organises regular tax information campaigns. It also carries out comprehensive consultative processes prior to introducing any new laws and regulations. These campaigns are also aimed at non registered tax payers and demonstrate the rationale, benefits and consequences for not complying. The Taxpayer Relations Unit provides public relations and communications support. A Help Desk and on-line support are available to ensure that taxpayers receive clear guidance and support for filing. The Board also makes use of all available means of communication such as print media, radio, television, text messaging and billboards.

The Income Tax Law (see Article 87) provides for the right of appeal for all tax payers. Any person dissatisfied with the assessment may appeal to the Appeal Board. The Objections Unit, separate and independent of the audit unit, is responsible for the resolution of objections. Such resolutions are based upon transparent administrative procedures. The law requires that objections be resolved within a set period, varying between 6 months and 2 years depending on the tax type, otherwise it is automatically determined in favour of the objecting taxpayer. This has been very effective in ensuring timely resolutions of objections. If not satisfied the objecting taxpayer may appeal through a judiciary process to the Tax Appeals Board, made up of three or four judges and that has the same status as a high court. The judicial rulings inform future administrative resolutions of objections.

Table 3.2 Number of Objections Received and Resolved by the Inland Revenue Division

| | 2004/2005 | 2005/2006 | 2006/2007 |
|---------------------|-----------|-----------|-----------|
| Objections Received | 2869 | 2226 | 2004 |
| Objections resolved | 2645 | 1510 | 1461 |
| Ratio | 92% | 68% | 73% |

Source: Inland Revenue Division

Customs

There is a fairly broad discretion left to the Commissioner in the areas of penalties applied. These are not yet guided by policy documents or guidelines. The complete set of customs legislation is available on the Internet. There are also publications that provide practical information on customs obligations and administrative procedures, including the procedures for objections. The Customs Clerks and Brokers Board licences all customs clerks and brokers in Trinidad and Tobago. This ensures that they are fully knowledgeable about the customs laws and procedures.

Under the current arrangements, the legislation as interpreted by officials does not permit an administrative procedure for addressing complaints pertaining to customs and duties. A tribunal made is set up by the Customs Division to resolve any appeals that might be brought forth. In attendance is the recorder, the investigator, the tribunal officer and the importer or his/her representative. The procedures are still to be laid out in documents.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|---|-------|---|
| PI-13 | Transparency of taxpayers obligations and liabilities | B+ | |
| (i) | Clarity and comprehensiveness of tax liabilities | C | For all major taxes the obligations are well specified in the Acts and in regulations. There is broad discretion in the area of penalties applied. These are not yet guided by policy documents or guidelines even though this was the practice in the past. The auditor's recommendations on penalties require approval by supervising officers. |
| (ii) | Taxpayer access to information on tax liabilities and administrative procedures | A | For all major taxes the Board provides education and support to taxpayers and has made it a priority to provide information that is as accessible and clear as possible. The website contains a set of useful regulations, documentations, guides and tools. A help desk is also in place to respond to public demand for information. The board also makes use of all available mass communication means such as print media, radio and television.. |
| (iii) | Existence and functioning of a tax appeals mechanism | A | The Board applies an administrative appeal mechanism. The Objections unit, separate and independent of the audit unit, is responsible for the timely resolution of objections. Transparent administrative procedures have been developed. |

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. There are substantial discretionary elements to the tax laws and regulations with respect to the application of penalties. It would not be appropriate to compare the scores between the two assessments.

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

Income Tax and VAT

There are three main registry files within the complete tax database system. These are the Income Tax file registry, the VAT file registry and the Customs file registry. Under the newly implemented GENTAX system all three are integrated into a single database that facilitates unique taxpayer identification and the direct linkage of transactions under the different main taxes. As part of the Registrar General's procedures for company registration, the application and assignment of a Board of Inland Revenue number is required. Originally there were direct links with the vehicle registry (when they were housed in the same building) but this is no longer the case. At this time there are no direct links to the financial sector institutions.

In Trinidad and Tobago tax evasion, whether through fraudulent declarations or non-registration is a criminal offence with the associated penalties including fines and prison terms Article 100 of the Income Tax Act specifies a penalty for non payment (including if ensuing out of non registration) or late payment of 5% on the amount owed plus an interest payment of 15%. Interest is charges at 20% and in the case of VAT the late penalty is 8% with an interest payment of 2% per month. In the case of undeclared or unregistered taxpayers the penalties applied are up to 100% in the case of under declaration and 300% in the case of non registration. Currently the prime rate is 13% per annum and suggests that such penalties are effective. They are consistently applied. Officials of Trinidad and Tobago Manufacturing Association (TTMA) report that their membership reports such penalty rates to be effective and consider them consistently administered.

The selection of entities to be audited carried out by the separate Audit Selection Unit the audit of the taxpaying entities carried out by the Tax Audit Unit. The Audit Selection Unit is responsible for risk assessment. The Tax Audit Unit is required to audit all and only the entities selected by the Audit Selection Unit. This ensures separation of duties and a fairly independent selection of auditees. The risk assessment is informed by such factors as volume, history of company, information derived from previous audits, assessment of likely legal loopholes for a given industry, liquidations as well as on the basis of random sampling. A hotline also allows leads from the public to be investigated. The Audit Unit establishes an annual audit work plan based upon the selections made by the Audit Selection Unit. The annual audit plans are reported on quarterly. The government admits to serious capacity constraints. This is a position echoed by the membership of the TTMA who point to actual audits becoming an undue burden to the private sector due to the lack of proper training of the tax auditors.

Customs

As indicated above the customs registry is integrated with the registries of the income tax and VAT into a single database.

Evading customs payments is a crime in Trinidad and Tobago. Penalties are effective and consistently administered. The penalty may be a fine and forfeiture. The penalty for under declaration is 50,000 TT\$ or 3X the value of the goods, whichever is higher.

At this time there are no clear risk assessment criteria applied for the selection of imports to be audited. It is anticipated that with the implementation of ASYCUDA World a rule based audit selection capability will be introduced.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|--|-------|---|
| PI-14 | Effectiveness of measures for taxpayer registration system | B+ | |
| (i) | Controls in taxpayer registration system | B | Taxpayers are registered in databases for income tax, VAT and Customs. There are links to the business registry but not yet to the financial sector. |
| (ii) | (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations | A | Penalties for all major taxes are set high enough to deter against non compliance with registration and filing Penalties are consistently administered. |
| (iii) | (iii) Planning and monitoring of tax audit and fraud investigation programs | B | In the case of income tax and VAT Tax audit and fraud investigation are based upon clear risks assessment criteria undertaken independently by the Audit Selection Unit. Audits are carried by the Audit Unit on the basis of annual audit work plans A rules based selection of tax audits and fraud investigation are not yet fully implemented in the case of customs. |

3.4.3 PI-15 Effectiveness in collection of tax payments

Income Tax and VAT

The level of tax arrears in Trinidad is significant and has been increasing as a percentage of tax revenues. A measure of the current arrears collection rate (defined as the ratio of actual tax arrears collected to the gross increase in tax arrears remains steady and low at about 18%⁶. The table below shows a computation of the gross tax collection to the debt stock at the start of the year. This ratio is very low and remains less than 60% for all the three fiscal years presented.

⁶ Officials note that the arrears by active collection used in this analysis understates the total collections. Even if such understatement is significant, the numbers calculated remain low and would not bring it close to the next rating threshold.

Table 3.3 Current Accumulated Debt Collection Ratio

| | 2004/2005 | 2005/2006 | 2006/2007 |
|-----------------------------|--------------|--------------|--------------|
| Tax | | | |
| Opening Balance | 1,391 | 1,810 | 2738.4 |
| Tax charges | 533 | 1,137 | 683 |
| Tax collections | 113 | 209 | 121.2 |
| Closing Balance | 1,810 | 2,738 | 3299.9 |
| Customs | - | - | - |
| | | | |
| Total Arrears | 1,810 | 2,738 | 3,300 |
| Total Revenues | 20,299 | 19,759 | 23,445 |
| Overall Ratio | 9% | 14% | 14% |
| Tax Collection ratio | 6% | 7% | 4% |

Source: Calculations based on data from Inland Revenue Board and Customs Division

Payments are made on a daily basis to the Consolidated Fund Account held with the Central Bank of Trinidad and Tobago (CBTT). For collections made in locations outside of the capital, private commercial banks are used to facilitate the daily transfer of tax payments to the Consolidated Fund Account.

While there is a regular and timely reconciliation of collections and transfers, there is no reconciliation of the tax assessments and the arrears. The data for tax assessments, collections, arrears and transfers is available on the GENTAX system, but at this time no regular reconciliation of all four terms.

Customs

In the case of customs tax arrears are very low and only arise as a result of internal audit findings of payment discrepancies for which recovery procedures have been initiated and for any fines levied by the Customs Department arising from improper or incomplete customs declarations. Customs arrears are stated to be a very small proportion of custom's revenue collection. No segregated collection data on customs tax arrears collection was available during the field assessment.

The transfer mechanism of revenue collected by Customs is efficient and has effective controls. All customs outposts deposit cash on a same day, daily basis to a commercial bank branch which is then transferred directly to the Consolidated Fund Account held with the CBTT.

The reporting and reconciliation mechanisms are based upon receipting and cash book systems. On a daily basis the cash book entries are submitted electronically to the centralised systems and reconciliations made with cash payments received. This mechanism allows the system reconciling between receipts and deposits recorded by the Banks. Reconciliations are done for collections and transfers on a daily basis with reporting monthly. Assessments at this time are not included in the regular reconciliation.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|--|-------|---|
| PI-15 | Effectiveness in collection of tax payments (M1) | D+ | |
| (i) | Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year | D | The total debt stock stands at 14% of revenue collection in 2006/07 and the collection ratio is less than 10% in the last two years. |
| (ii) | Effectiveness of transfer of tax collections to the Treasury by the revenue administration | A | A very efficient collection system enables an effective transfer of tax collection to the Consolidated Fund Account daily. |
| (iii) | Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury | D | Reconciliations between collections and transfers are made monthly; however no regular reconciliations of assessments and transfers are made. |

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

A fiscal policy based upon budget surpluses, the strict top-down discipline imposed on the budget by the fiscal framework coupled with the strict implementation of Vote Book commitment control across all MDAs has provided the basis for achieving substantial predictability with respect to budget releases and the commitment of expenditures. An annual general authorisation warrant is issued by the Minister of Finance on the authority of and in accordance with the appropriations bill. Budget releases are informed by pro forma cash flows submitted by the MDAs. These are submitted at the beginning of the fiscal year but which may and are updated on a monthly basis to take into account actual expenditure rates.

The pro forma cash flows are used to set expenditure ceilings at the vote level on three monthly basis. Trinidad and Tobago's budget operates under a reasonably broad fiscal space and so has been able to carry out its budget releases without cash constraints. The Comptroller of Accounts is responsible for making payments against the agreed payment schedules.

Adjustments to budgetary allocations should be made by normal ex-ante virement procedures; or possibly by issuing a Supplementary Budget, once or so within the year; or alternatively it may occur by ex-post regularisation of unauthorised spending. In Trinidad and Tobago, virements between budget heads do not require ex-ante approval beyond the MDA Minister. There is an annual supplementary budget process. Given the strong focus on vote book managed commitment controls spending ceilings are not exceeded (without a misallocation of expenditure). Hence virements are always applied ex-ante subject to the authority of budgetary allocations.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|---|-------|--|
| PI-16 | Predictability in the availability of funds for commitment of expenditures (M1) | B+ | |
| (i) | Extent to which cash flows are forecast and monitored | A | Draw down schedules (cash flow forecasts) are prepared annually by the Departments. The Treasury informed by the pro forma cash flows and cash availability projections allocates funds on an annual basis by entering Draw Down Schedules at the vote, and programme level. These are updated monthly based upon updated cash flow projections. It is not clear that across all Departments the pro forma cash flows are prepared on the basis of detailed procurement plans. |
| (ii) | Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment. | B | MDAs are provided with an three monthly forecast of budget releases that reflect the updated annual pro forma cash flows. These allocations are updated on a monthly rolling basis. |
| (iii) | Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries | A | Due to effective budgetary allocation controls, all budget head virements are made subject to the approval of MDA minister. Any re-allocations above this requires the approval of parliament Typically an Adjustment Budget is submitted once a year. |

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

The Debt Management Unit is responsible for monitoring and reporting on debt. It employs DMFAS Version 5.3 and submits on a monthly basis to the Central Bank of Trinidad and Tobago (CBTT) a full updated and reconciled position on both the domestic and external debt records. These reports cover both debt stock and debt services. The CBTT produces and publishes quarterly reports covering debt service, stock and operations.

The consolidated fund is operated as a treasury single account and the Comptroller of Accounts calculates daily balances of the government's cash position. There are a few development partner project accounts that operate outside this arrangement however; the funds they process represent an almost negligible proportion of government operations.

The contracting of loans and the issuing of guarantees are bound by transparent criteria. The Minister of Finance is the sole authority for the contracting of loans and guarantees that bind the Consolidated Fund. In practice cabinet always approves all loans signed by the Minister of Finance. When the Minister of Finance borrows, he does so within the constraints of the stated net borrowings in the budget. Further the specific loan and guarantee acts: the Development Loans Act, the External Loans Act, the Guarantee of Loans (Company Act), and the Guarantee of Loans (Statutory Bodies Act) all stipulate ceilings above which the Minister of Finance cannot exceed. It should be noted that at

this time Treasury Bonds which are used solely as a monetary policy management instrument is not governed by ceilings.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|--|-------|---|
| PI-17 | Recording and management of cash balances, debt and guarantees | A | |
| (i) | Quality of debt recording and reporting | A | Comprehensive records on domestic and external debt are compiled and are updated and reconciled on a monthly basis. Comprehensive statistical reports providing information on debt stocks, debt service and debt management operations are published by CBTT on a quarterly basis. |
| (ii) | Extent of consolidation of the Government's cash balances | A | The consolidated fund is operated as a treasury single account and the Comptroller of Accounts calculates daily balances of the government's cash position. There are a few development partner project accounts that operate outside this arrangement however; the funds they process represent an almost negligible proportion of government operations. |
| (iii) | Systems for contracting loans and issuance of guarantees | A | The contracting of loans and the issuing of guarantees are bound by transparent criteria. The Minister of Finance is the sole authority for the contracting of loans and guarantees that bind the Consolidated Fund. In practice cabinet always approves all loans signed by the Minister of Finance. When the Minister of Finance borrows, he does so within the constraints of the stated net borrowings in the budget. Further the specific loan and guarantee acts. |

3.4.6 PI-18 Effectiveness of payroll controls

The Public Service and Teachers' Service Commission are the regulators for human resources. They develop human resources management policy, regulations, and norms and standards with the objective to improve service delivery. The ministries, departments and agencies are responsible for implementing the policies and enforcing the regulations.

It is a requirement that new posts established receive cabinet approval and must be reflected in the budget. The establishment is the basis for budget formulation and pertaining to wages and salaries. New employee recruitment requires Accounting Officer approval. Promotions can only be effected through the transfer of one post to another, thus introducing a degree of control over arbitrary promotions. An employee has to apply for a new post in order to get a promotion. Allowances are also attached to posts which serve as an effective control on. Terminations, especially vacations of post without notice, are effectively controlled by monthly supervisor signed verification sheets. Strict

links are in place between authorizations and control entries to the payroll management software Integrated Human Resource Information System (IHRIS). Approximately 85,000 people are managed. IHRIS directly links three databases: establishment of posts and personnel database that serve as control files, and the payroll database. All civil servants are registered through IHRIS that include appropriate fields to protect against duplication.

All payments are made directly to bank account excepting a few transactions. Each ministry directly manages posts and personnel changes. Controls and procedures exist for all changes. Audit trails are built-in in the system. The database is encrypted and cannot be accessed directly outside the application. Personnel Officers have secured access to the database by password controls with separate tiers of access recognised; data entry, supervisor and salary. Exception reports are issued each month and used to identify anomalies and any extreme changes from one pay period to the next.

Any changes and updates to the payroll management databases are done monthly, almost always within the next pay period and there is not often the need for retroactive adjustments, and where so do not extend beyond three months. Payroll arrears are managed manually, and always audited prior to payment. For the most part there are very few payroll arrears accrued except when salaries are negotiated and effected retroactively. Supervisors are supposed to reconcile staff levels with IHRIS reports on a monthly basis; however officials report that this is not always carried out in practice. The Internal Audit Unit reviews payroll cards and reconcile payments with pay-sheets. Staff surveys are carried out on a periodic basis.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|---|-------|--|
| PI-18 | Effectiveness of Payroll Controls | C+ | |
| (i) | Degree of integration and reconciliation between personnel records and payroll data | A | The application IHRIS (Peoplesoft), allows for a direct link between the establishment and personal roll and the payroll databases. New post requires cabinet approval. The system limits amendments to the personnel database with new hires requiring accounting officer approval. |
| (ii) | Timeliness of changes to personnel records and the payroll | B | Payrolls are controlled monthly and changes are effected within the next month pay period. Retroactive changes are occasional and typically are addressed within three months. |
| (iii) | Internal controls of changes to personnel records and the payroll | A | The types of changes that can be made are restricted. Only authorised persons are granted access through passwords. All entries create an audit trail. |
| (iv) | Existence of payroll audits to identify control weaknesses and /or ghost workers | C | All payrolls have to be verified monthly by the employee's supervisor. The Internal Audit Unit reviews payroll cards and reconcile payments with pay-sheets. Staff surveys are carried out on a periodic basis. |

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. There was no evidence that payroll audits are carried out on an annual basis to establish the existence of ghosts. It would appear that the rating of A is not supported. It would not be appropriate to compare the scores between the two assessments.

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

The requirements for a procurement framework are prescribed in the Central Tenders Board Ordinance No 22, 1961, regulations and a number of circulars. The Central Tenders Board Ordinance governs procurement across central government and sub national government but does not cover the procurement under the State Owned Enterprises including the Special Purpose Companies that are employed for carrying out projects funded through the Infrastructure Development Fund. Authority to carry out procurement is devolved to the ministries and local authorities based upon thresholds with all procurement above TT\$1,000,000 being carried out by the Central Tenders Board.

Article 20 of the Central tenders Board Ordinance requires the Board to “invite members of the public in general” for carrying out procurement and in so doing establishes open competition as the default procurement method. The justification of more restricted methods is merely subject to the Board’s desire or expediency provided it is approved by the Minister. However, through a number of issued circulars guidelines have been developed for the justification of less competitive procurement methods.

Under the current procurement arrangements, some agencies that are within the purview of the Central Tenders Board (CTB) by-pass the CTB, with Cabinet approval, and enter into contracts with State Owned Enterprises (SoEs) who in turn procure using their own procurement regulations and procedures. This presents some real challenges given that under the current arrangements the Infrastructural Development Fund employs special purpose companies to carry out projects. These special companies employ their own procurement rules and procedures that are not transparent. The Trinidad and Tobago Manufacturers’ Association (TTMA) and the Trinidad and Tobago Transparency International (TTTI) express serious concern about the lack of competition that special purpose companies offer with respect to their procurement practices.

According to the Corruption Perception Index for 2008 published by Transparency International Trinidad and Tobago is ranked 72 out of 180. This ranking puts it below St. Lucia and Ghana but above India and Jamaica

There is no central registry for procurement requirements. Insufficient data exists to assess the procurement method used and so provides no basis to determine the proportion of contracts awarded above the open competition threshold that was awarded on the basis of open competition.

Regulatory requirements establish open competition as the default method for carrying out procurement. There have been regulatory circulars issued by the Central Tender

Board which allow for less competitive methods when properly justified. As confirmed by the Central Tender Board and the (Trinidad and Tobago Manufacturer’s Association (TTMA). At this time no complaints mechanism exists.

There are no clear regulations provided for specialised procurement pertaining to Public Private Partnerships. Nor is there a specific PPP Unit responsible for managing and monitoring the operation of Public Private Partnerships. However, all PPP transactions are recorded and monitored.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|---|-------|---|
| PI-19 | Competition, value for money and controls in procurement (M2) | D+ | |
| (i) | Evidence on the use of open competition for award of contracts that exceed the nationally established threshold for small purchases | D | There is no central registry for procurement requirements. Insufficient data exists to assess the procurement method used and so provides no basis to determine the proportion of contracts awarded above the open competition threshold that was awarded on the basis of open competition. |
| (ii) | Extent of justification for use of less competitive procurement methods | B | Regulatory requirements establish open competition as the default method for carrying out procurement. There have been regulatory circulars issued by the Central Tender Board which allow for less competitive methods when properly justified. |
| (iii) | Existence and operation of a procurement complaints mechanism | D | As confirmed by the Central Tender Board and the TTMA At this time no complaints mechanism exists. |

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

Internal control within a ministry is the responsibility of the Accounting Officer. He or she must ensure that internal procedures and internal control measures are in place to ensure reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

A manual Vote Book, managed by the financial accounts department, is used to implement an effective commitment control against which payments are made. The commitment ceilings are based upon budget release notices based on a three month horizon updated on a monthly basis, informed by cash flow pro formas submitted to the Budget Division and regularly updated. While these controls are implemented comprehensively, officials report that on occasion officers may enter into informal supply arrangements with vendors hoping to regularise payment at a later time. They report however that this is not a rampant practice. However, in contrast the Trinidad and Tobago Manufacturing Association (TTMA) reports substantial delays in payments on supplies made to public entities which may suggest this is to be a more significant problem.

A request memo signed by the Head of Unit authorises procurement initiation. However there is no requirement for procurement plans to serve as a control and link to the budget through the budget release schedules. Other controls on the expenditure chain include: the issuance initial purchase request memos, a purchase order (referred to as an Invoice Order) to serve as a commitment instrument, the requirements for Tax Invoices. While there is no separate goods, works or service received note issued by MDAs, the vendors invoice must be signed by the Head of Unit as approved. The approval of payment vouchers requires the full range of supporting documentation. There is a clear separation of authorities on the approval of control expenditure documentation. There are also officers from the accountant's unit who review expenditure files prior to payment to ensure strict adherence to the expenditure controls. Interviews with officials left an impression that there was familiarity with the rules and procedures. The expenditure procedures have appropriate documented control procedures employing effective separation of authorities. Department Tender Committees supported by technical specification and evaluation committees are responsible for bid announcement and vendor selection.

Officials report that there is general compliance with rules. However there are cases where controls are bypassed by adopting informal arrangements for arranging supplies. This may be contributing to the accrual of expenditure arrears that are not captured in the annual reporting of outstanding commitments that is used as a proxy for monitoring expenditure arrears.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|--|-------|---|
| PI-20 | Effectiveness of internal controls for non-salary expenditure (M1) | C+ | |
| (i) | Effectiveness of expenditure commitment controls | B | A manual Vote Book, managed by the financial accounts department, is used to implement an effective commitment control against which payments are made. The commitment ceilings are based upon budget release notices based on a three month horizon updated on a monthly basis, informed by cash flow pro forma statements submitted to the Budget Division and regularly updated. There are only occasional exceptions in practice. |
| (ii) | Comprehensiveness, relevance and understanding of other internal control rules/ procedures | C | Except for the inclusion of a clear goods, works and services received note that properly ensures that quality, quantity and specification have been met, the control rules and procedures incorporate a comprehensive set of controls that are widely understood. |
| (iii) | Degree of compliance with rules for processing and recording transactions | B | Although compliance to rules is generally considered high there are concerns about the occasional use of informal procurement procedures that bypass among other things the commitment control procedures. |

3.4.9 PI-21 Effectiveness of internal audit

Regulation 13(4) of the Financial Regulations, Chapter 69:01 requires all accounting units to have a check staff as well as an independent audit section. Internal audit is operational in all of the MDAs. However, at this time there is a dearth of professional staff and they do not operate in accordance with international audit standards; nor do they undertake quality assurance programs. For the most part internal audit is limited to compliance checking even though there is some staff time allocated to systems review. Such systems review however is neither extensive nor substantial.

Internal Audit reports are prepared on a regular basis against annual audit work plans for a number of important MDAs. At this time such reports are submitted to the Accounting Officer and the Ministry of Finance but not the Office of the Auditor General. However, as reported in the Auditor General's report some annual audit work plans excluded significant portions of expenditure including the development expenditure and expenditure under the Infrastructure Development Fund.

While in some cases reports are prepared with management response, there are cases reported where no reports were submitted to the Accounting Officer.

| No. | Predictability and control in budget execution | Score | Justification |
|-------|--|-------|---|
| PI-21 | Effectiveness of internal audit | C | |
| (i) | Coverage and quality of the internal audit function | C | Internal audit is operational in all of the MDAs. However, at this time there is a dearth of professional staff and they do not operate in accordance with international audit standards; nor do they undertake quality assurance programs. For the most part internal audit is limited to compliance checking. |
| (ii) | Frequency and distribution of reports | C | Internal Audit reports are prepared on a regular basis against annual audit work plans for a number of important MDAs. At this time such reports are submitted to the Accounting Officer and the Ministry of Finance but not the Office of the Auditor General. |
| (iii) | Extent of management response to internal audit findings | C | While in some cases reports are prepared with management response, there are cases reported where no reports were submitted to the Accounting Officer. |

3.5 Accounting, recording and reporting

3.5.1 PI-22 Timeliness and regularity of accounts reconciliation

The Ministry of Finance operates a Treasury Single Account held with the Central Bank of Trinidad and Tobago that is reconciled to the cash book on a monthly basis and takes place within 8 weeks of the close of the month. Monitoring is very close and cash balances are determined daily, however the manual system requires time for the completion of a full reconciliation and it is that that is primarily responsible for the delayed period for the completion of the full reconciliation process. As previously noted

in PI-17 there are other government accounts related to development partner funded projects that remain outside this arrangement for which no regular bank reconciliations are carried out by the government or reported on by the projects. We note that Monthly Expenditure Returns (see PI-24) are prepared on a monthly basis and submitted within 30 days of the close of the month; however these are not reconciled to bank statements. There is a consolidated reconciliation process that occurs that includes bank reconciliation which ensures the accuracy and integrity of the Monthly Expenditure Returns. These however are completed two months after the close of the month. The Auditor General's Report contains a detailed discussion of the reconciliation process.

Since the introduction of per diem arrangements there no longer have been any advances booked to suspense are un-acquitted advances made to government officials for the purposes of foreign travel and for claims for vehicle accidents. Specific suspense accounts for expenditure are very limited. As part of the year end closing procedures all suspense accounts (expenditure) are force closed at the end of each year to facilitate the issuance of the annual financial statements.

| No. | Accounting, recording and reporting | Score | Justification |
|-------|--|-------|---|
| PI-22 | Timeliness and regularity of accounts reconciliation (M2) | B | |
| (i) | Regularity of Bank reconciliations | C | All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 8 weeks of the close of the month. There are other government accounts specifically development partner funded project accounts which are not reconciled on a regular basis. |
| (ii) | Regularity of reconciliation and clearance of suspense accounts and advances | A | Specific suspense accounts for expenditure are very limited. As part of the year end closing procedures all suspense accounts (expenditure) are force closed at the end of each year to facilitate the issuance of the annual financial statements. |

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

No reporting on the resources (in cash or in kind) disbursed to the front-line service delivery units are carried out on a routine basis. The accounting procedures permit the segregation of wages and salaries by service delivery unit. The district offices are responsible for the procurement of much of the supplies and permit the tracking of the allocation of inventory to service delivery units. It would be possible to derive from these records the value (at cost) of the amounts received by service delivery units. It would also be possible to determine the amounts received by service delivery units by way of development expenditure. Hence in principle, it would be possible to determine the amounts received both in kind and in cash by service delivery units. However, at this time no routine reports are compiled annually, or have been in the past three years. It should be noted that given the manual accounting and reporting systems, it would place a huge administrative burden on staff to compile such a report.

No special surveys have been undertaken within the last three years. There have been neither Public Expenditure Tracking Surveys (PETS), Public Expenditure Reviews to determine efficiency of public spending and the quality and quantity of services delivery, nor any other special surveys carried out. There are no expenditure tracking surveys planned to be carried out in the near future.

| No. | Accounting, recording and reporting | Score | Justification |
|-------|---|-------|---|
| PI-23 | Availability of information on resources received by service delivery units | D | No reporting on the resources (in cash or in kind) disbursed to the front-line service delivery units are carried out on a routine basis. There have been neither Public Expenditure Tracking Surveys (PETS) nor any other special surveys carried out in Trinidad and Tobago nor are there any planned to be carried out in the near future. |

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

In practice Line Ministries submit on a monthly basis within 30 days of the close of the month Monthly Expenditure Returns presented in a format by vote and classified by recurrent expenditure development expenditure. This format permits the direct comparison of revenue and expenditure to the original budget allocations which are included in the tables. The format of the Monthly Expenditure Returns reflects expenditure both at the time of commitment as well as at the time of payment.

The Monthly Expenditure Returns are submitted by the Departments on a monthly basis within 30 days after the close of each month. In practice there have been no delays recorded in the submittal of the reports.

There are no major concerns on data integrity or accuracy. This is assured by a full consolidation and reconciliation process (against bank statements) carried out monthly by the Comptroller of Accounts. This reconciliation process is completed within two months of the close of the month. The fully reconciled Monthly Expenditure Returns are submitted to the Central bank of Trinidad and Tobago, who a quarterly budget implementation report quarterly.

| No. | Accounting, recording and reporting | Score | Justification |
|-------|---|-------|---|
| PI-24 | Quality and Timeliness of in-year budget reports | A | |
| (i) | Scope of reports in terms of coverage and compatibility with budget estimates | A | Comparison to the main budget is available at the vote and main economic classifications reported for both the recurrent period and development budget lines. Information includes all items of expenditure at the payment level and at the commitment level. |
| (ii) | Timeliness of the issue of reports | A | Reports are prepared monthly by MDAs and submitted to the Treasury within 30 days of the close of the month. The Comptroller of Accounts |

| No. | Accounting, recording and reporting | Score | Justification |
|-------|-------------------------------------|-------|--|
| | | | consolidates and reconciles the Monthly Expenditure Returns |
| (iii) | Quality of information | A | There are no major concerns on data integrity or accuracy. This is assured by a full consolidation and reconciliation process (against bank statements) carried out monthly by the Comptroller of Accounts |

3.5.4 PI-25 Quality and timeliness of annual financial statements

The Exchequer and Audit Act along with the Financial Regulations define the legal and regulatory framework for public accounting in Trinidad and Tobago. There is a strong tradition of accounting practice; however these are yet to be encoded into specific accounting regulations or an accounting manual. Financial statements are presented in a consistent format from year to year.

Each Ministry prepares stand alone financial statements that are completed within four months of the close of the fiscal year and submitted to the Auditor-General for audit. Comptroller of Accounts also prepares a consolidated financial statement also submitted within four months of the close of the fiscal year. According to officials these deadlines were adhered to in the three years reviewed under this assessment. These statements are corroborated by the Auditor-General.

Under the cash accounting system the source document for accounting entries is the payment voucher. Entries are dated using the date on the payment instrument. A single paymaster general bank account, within the Treasury Single Account held with the Central bank of Trinidad and Tobago is used for making all Government funded payments out of the Treasury. In practice any open purchase orders (with unsupplied goods, works or services) are de-committed prior to the close of the fiscal year. Suspense accounts are closely monitored and reconciled on a monthly basis. These are closed as part of the end of year closing procedures even though some suspense accounts remain from year to year. Financial statements encompass revenues, expenditures, liabilities but exclusive of expenditure arrears and financial assets including revenue arrears.

| No. | Accounting, recording and reporting | Score | Justification |
|-------|---|-------|---|
| PI-25 | Quality and timeliness of annual financial statements | C+ | |
| (i) | Completeness of the financial statements | B | A consolidated government statement is prepared which includes a full statement of revenues, and expenditure. It includes a statement of financial assets but excludes some liabilities including expenditure arrears; even though appear to be very small. |
| (ii) | Timeliness of submission of the financial statements | A | The financial statements were submitted to the Auditor-General within four months of the close of the fiscal year for each of the three years reviewed |

| No. | Accounting, recording and reporting | Score | Justification |
|-------|-------------------------------------|-------|--|
| | | | during this assessment. |
| (iii) | Accounting standards used | C | Generally accepted accounting principles are applied. Statements are presented in a consistent format over time. There is some disclosure of accounting standards adopted. |

3.6 External scrutiny and audit

3.6.1 PI-26 Scope, nature and follow-up of external audit

The Auditor-General derives its independence, powers and mandate from the Constitution (Article 116) and the Exchequer and Audit Act. The Auditor-General must audit and report on the accounts, financial statements of all central government ministries, and statutory bodies. The Auditor General is empowered to audit state owned enterprises. At the present time the Auditor General audits all central government ministries, but there remain a number of statutory bodies for which there remains a back log of audits. In accordance with the Companies Act, the State owned Enterprises are audited by company appointed external auditors. At this time copies of such audits are not submitted to the Auditor General even though they are submitted to parliament. The Auditor General must submit audit reports to the legislature.

The Auditor General is appointed by the president after consultation with the prime minister and the leader of the opposition. Her tenure in office shall be up to the age of 65. He or she may not be removed from office except where a Tribunal appointed by the president specifically recommends in the instance that she is found unfit to carry out her responsibilities (restricted to reasons of incompetence, poor health or criminal conduct) that he or she be removed from office. The salary of the Auditor General is charged directly to the Consolidated Fund. It grants the Auditor General authority over access to all books, records, returns and documents relating to the accounts. The Auditor General reports are disseminated to parliament and the Minister of Finance. According to the constitution, the Auditor General may not be subjected to the control of any other person.

The staff of the office of the Auditor General is appointed by the Public Services Commission in consultation with the Auditor General. The staff is funded through the budget. The Auditor General reports that in practice this arrangement has not introduced any obstacles to the performance of their audit obligations. A wide range of audits are performed, including some systems audits focusing primarily on controls, financial and compliance audits, as well as value for money audits. At this time no payroll and Information Technology audits are being carried out. There are plans to begin carrying out Information Technology Audits. The standards adopted are guided by the International Organisation of Supreme Audit Institutions (INTOSAI). There is no formal audit manual developed or adopted but a number of international audit manuals are used as references in carrying out audits. At this time there is no quality assurance reviews carried out either through self assessments or on the basis of external reviews. However, there is provision for a Quality Assurance Unit in a document approved by Cabinet with

respect to the re-structuring of the Auditor General's Department, but at the present time this Unit is not staffed.

The audit report along with their audited financial statements is submitted to the legislature within seven months from the end of the fiscal year which is equivalent to three months from submission to the Auditor General. The process for preparing and auditing financial statements begins with individual ministries preparing financial statements that are submitted to Auditor General. The Comptroller of Accounts also prepares a set of consolidated financial statements which beyond providing a consolidated perspective serves as a reconciliation check on the individual line ministry submissions. The Auditor General submits her audit report which includes the certified audited financial statements to parliament. The table below provides a summary highlighting the timing of receipt and submission of financial statements.

| Fiscal Year | 2004/2005 | 2005/2006 | 2006/2007 |
|--|------------------|------------------|------------------|
| Submission of Financial Statements from Line Ministries to OAG | Jan-06 | Jan-07 | Jan-08 |
| Submission of Financial Statements from Treasury to OAG | Jan-06 | Jan-07 | Jan-08 |
| Number of months after fiscal year | 4 | 4 | 4 |
| Submission of Audited Reports to Parliament | Apr-06 | Apr-07 | Apr-08 |
| Number of months after receipt of financial statements | 3 | 3 | 3 |
| Number of months after fiscal year | 7 | 7 | 7 |

The Auditor-General reports that although formal responses are made by Accounting Officers to audit findings usually within three weeks of receipt of a management letter, the corrective measures undertaken are neither carried out in a systematic or timely fashion across all Ministries. Further, at the present time no log is maintained to monitor follow up systematically. However, auditors will follow up on progress as part of their subsequent audits to a given department.

| No. | External scrutiny and audit | Score | Justification |
|------------|---|--------------|---|
| PI-26 | Scope, nature and follow-up of external audit | B | |
| (i) | Scope/nature of audit performed (incl. adherence to auditing standards) | B | The Auditor-General audits all Ministries, Departments and Agencies on an annual basis covering revenue and expenditure with a limited review of assets. She performs a wide range of audits including systems, financial, value for money and compliance, audits. The Auditor-General has adopted INTOSAI Standards. |

| No. | External scrutiny and audit | Score | Justification |
|-------|--|-------|---|
| (ii) | Timeliness of submission of audit reports to the legislature | B | Audit reports are combined with certified audited financial statements. In the three years reviewed were submitted to the legislature 7 months after the close of the fiscal year and 3 months after receipt of financial statements submitted by the MoF. As a result, audited financial statements are submitted to the legislature within three months from the receipt of the financial statements by the Auditor-General. The Auditor-General's Reports are submitted to the legislature within seven months from the fiscal year-end. |
| (iii) | Evidence of follow-up on audit recommendations | B | Although a formal response is made in timely manner to the management letter within three weeks in almost all instances, there is no systematic evidence of follow up on corrective measures taken by the Executive in response to the Auditor General's recommendations. |

3.6.2 PI-27 Legislative scrutiny of the annual budget law

The parliament has clear organisation and set of procedural rules that are enshrined in the Standing Orders. The parliament functions on the basis of a number of committees. The National Assembly rules are comprehensive, detailed and publicly available on their website. The legislative review covers fiscal policies and the details of revenue and expenditure estimates, but only at a stage where for all practical purposes where detailed proposals have been finalized. While comprehensive procedures exist for the legislatures budget review, these have been overtaken by tradition and practice that is not fully consistent with the rules. The rules are only partially respected.

The time allowed for the legislatures review is clearly insufficient. There is a total of approximately 5 days for review by the House of Representatives. The fiscal policy is reviewed within a 4 day window, and while the details of revenue and expenditure are allowed 7 days for review, in practice it is reviewed within a single day. The parliament can only approve or reject the proposed budget. The budget review is vigorous and public and is reported widely in the media.

Rules exist for in-year amendments to the budget without the ex-ante approval of the legislature defined in the EEA. These adjustments are presented once a year as part of the supplementary budget process.

| No. | External scrutiny and audit | Score | Justification |
|-------|---|-------|--|
| PI-27 | Legislative Scrutiny of the Annual Budget Law | D+ | |
| (i) | Scope of the legislature's scrutiny | C | The legislative review covers fiscal policies and the details of revenue and expenditure estimates, but only at a stage where for all practical purposes where detailed proposals have been finalized. |

| No. | External scrutiny and audit | Score | Justification |
|-------|---|-------|---|
| (ii) | Extent to which the legislature's procedures are well-established and respected | C | While comprehensive procedures exist for the legislatures budget review, these have been overtaken by tradition and practice that is not fully consistent with the rules. The rules are only partially respected. |
| (iii) | Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined) | D | The time allowed for the legislatures review is clearly insufficient. There is a total of approximately 5 days for review by the house of representatives. |
| (iv) | Rules for in-year amendments to the budget without ex-ante approval by the legislature. | A | Clear rules exist for in-year amendments without ex-ante approval. Excessive virements and expenditure over budget ceiling require the approval of the parliament of an supplementary budget. |

3.6.3 PI-28 Legislative scrutiny of external audit reports

Ministries submit their financial statements in a timely fashion. The Auditor-General reports serious delays in the submission of the financial statements of statutory bodies. The Public Accounts Committee with 10 members chaired by a member of the opposition meets only about 8 or 9 times a year. Typically this means that no more than 10 or so reports are reviewed (out of about 100 a year), with a rapidly accumulating backlog of audit reports building up. There are often difficulties in forming a quorum. Officials state that the members have to attend to government business (as ministers of government or with private business obligations) and so given the one day a week attendance to parliamentary matters leave little time to attend PAC business.

The examination process is subject to specific rules and procedures which are well documented and segregate the scrutiny process into clearly identifiable steps. The scrutiny process starts with the review of the audit report and a classification of the reports according to the type of the audit opinion (adverse disclaimer qualified and other). This review process is typically done beyond 12 months after the annual report submissions are made in April or May. The PAC summons Accounting Officers as part of the review process. The hearings are open to the public and media. The process is thorough and supported by preparation work sessions and briefs by the Auditor-General.

Given that only a few audit reports are reviewed each year, there is little opportunity for systematic follow up on PAC recommendations for the Executive to carry agreed corrective measures. The Audit Reports though indicate that the same findings repeated suggesting that recommended actions are often not acted upon by the executive.

| No. | External scrutiny and audit | Score | Justification |
|-------|--|-------|--|
| PI-28 | Legislative scrutiny of external audit reports (M1) | D+ | |
| (i) | Timeliness of examination of audit reports by legislature (for | D | A review of only a few ministry's Annual Reports is done each year. Even these are not completed |

| No. | External scrutiny and audit | Score | Justification |
|-------|--|-------|--|
| | reports received with the last three years) | | within 12 months of receipt of the auditor general's submissions due to the rapidly accumulating backlog of audit reports still to be reviewed by the PAC. |
| (ii) | Extent of hearings on key findings undertaken by legislature | C | Public Hearings are conducted for the ministries where serious concerns are identified e.g. adverse or qualified opinion. The hearings are thorough and are publicly accessible. However these cover only a few audited public entities. |
| (iii) | Issuance of recommended actions by the legislature and implementation by the executive | C | Actions emanating out of the PAC hearings are recommended to the Ministries, but these are not systematically implemented and given the few public entities reviewed gives little opportunity for follow up (since a given entity may not be reviewed in the following year) with the consequence that recommendations are often not acted upon. |

3.7 Development Partner practices

3.7.1 D-1 Predictability of Direct Budget Support

In the period considered, the EU was the only development partners providing Budget Support to Trinidad and Tobago. The specific modality adopted is Sector Budget Support (SBS) with support to the education sector. The conditionalities and modalities of the budget support are outlined in a Financing Agreement that spells out the mechanisms for disbursement. The disbursement of the budget support was agreed based upon a yearly plan. However a disbursement forecast was not available prior to the government submitting its budget proposals to the legislature. There is no evidence to unambiguously conclude that the forecast was approved at least six weeks prior to the submittal of government budget. The total amount forecast for EC sector budget support in 2006/07 was 4.5 Million Euro, of which 100 % was disbursed. In the previous years there was no budget support programmes in Trinidad and Tobago (see Table 3.4 below).

Table 3.4 EC Budget Support for the period 2004/05 to 2006/07 (million Euro)

| | 2004/2005 | | | | 2005/2006 | | | | 2006/2007 | | | |
|-----------------------------|-----------|----|----|----|-----------|----|----|----|-----------|----|----|-----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Forecasts | | | | | | | | | | | | |
| EC | | | | | | | | | | | | 4.5 |
| Disbursements | | | | | | | | | | | | |
| EC | | | | | | | | | | | | 4.5 |
| % disbursed | N/A | | | | N/A | | | | 100% | | | |
| Weighted delay ⁷ | N/A | | | | N/A | | | | 0% | | | |

⁷ The weighted disbursement delay is calculated as the percent of funds delayed multiplied by the number of quarters of the delay.

Source: Data provided by the EC Delegation in Trinidad and Tobago

| No. | Donor practices | Score | Justification |
|------|---|-------|--|
| D-1 | Predictability of direct budget support (BS) | <NS> | |
| (i) | Annual deviation of actual BS from the forecasts provided by the development partner agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature | NS | With only one of the three years reviewed having budget support it is not possible to score the indicator. |
| (ii) | In-year timeliness of development partner disbursements (compliance with aggregate quarterly estimates) | NS | With only one of the three years reviewed having budget support it is not possible to score the indicator. |

3.7.2 D-2 Financial information provided by development partners for budgeting and reporting on project and program aid'

There are a variety of banking modalities that are available for the management of development partner funds. However, the Exchequer and Audit Act requires that government bank accounts have prior authorisation by the Minister of Finance.

Aid delivery modalities to Trinidad and Tobago can be classified as follows:

- *on-budget* funds channelled through the consolidated fund (budget support)
- *on-budget* funds agreed directly with departments or government agencies which are held in Treasury authorised bank accounts, either domestically or internationally and are included in the estimates of revenue and whose implementation is reported upon,
- *off-budget* funds, which contravene the Exchequer and Audit Act,
- *in-kind* contributions.

Development partner funds channelled through NGOs for projects not implemented on behalf of departments are not and should not be included in the budget documents.

Development partner funds (both loans and grants) represents only a small fraction (about 0.6 percent) of overall budget expenditure. Although development partner funds represent only a very small fraction of the budget expenditure at the aggregate level, their importance remains high with respect to specific areas of participation. Further, the lack of close coordination with budget estimation, execution and reporting directly affects the management of the budget and the efficiency of budgetary projects/programmes implementation.

Development partners do not provide meaningful budget estimates for disbursement of project aid in a timely fashion at least three months before the start of the fiscal year. Information on development partner funding sources in budget documents is included but actual disbursements or expenditure are excluded. Most of the budget estimates provided

by Development partners do not distinguish between pledges, multi year versus single year commitments, and available funding. In addition, in many cases development partners base their projections on their own fiscal year rather than specifically taking into consideration the Trinidad and Tobago fiscal year. In very few cases do estimates take into account absorptive capacity of the implementing agency and procurement plans. On the other hand, the government provides development partners no clear requirements and guidelines as to budget estimate submissions. The up-shot of this is no budget estimates are provided and financial reporting remains ad-hoc. The Trinidad and Tobago budgetary process follows a strict schedule of preparation (see PI-11) and so there should be an opportunity to align Development partner project and programme budgets with that cycle.

Development partners generally do not provide quarterly reports on the disbursements within two months of the end-of the quarter. Most development partners employ project management units to manage the implementation of their programmes and projects. However, these do not represent total expenditure towards a given project or programme. Some expenditure is carried out directly by the development partner. Most development partner projects however do not provide any financial quarterly reports. In some cases annual financial reports are provided. Reporting on other funds is generally ad-hoc and the compliance to the Ministry of Finance reporting requirements varies across development partners. When provided they do not necessarily reflect the fiscal year nor take into account the national accounting standards.

| No. | Donor practices | Score | Justification |
|------|---|-------|--|
| D-2 | Financial information provided by development partners for budgeting and reporting on project and program aid | D | |
| (i) | Completeness and timeliness of budget estimates by development partners for project support | D | The Government of Trinidad and Tobago does not have comprehensive and reliable information on the value and composition of all development partner assistance provided to the Government. While all major development partners provide data on pledges, commitments or available funding, they do not provide actual budget estimates informed by fully developed procurement plans and absorptive capacities pertaining to realistic schedules of project implementation. These budget estimates are not always aligned to the Trinidad and Tobago budget cycle nor are they consistent with its budget format. |
| (ii) | Frequency and coverage of reporting by development partners on actual development partner flows for project support | D | Most development partners employ project management units to manage the implementation of their programmes and projects. However, these do not represent total expenditure towards a given project or programme. Most development partner projects however do not provide any financial quarterly reports. In some cases annual financial reports are provided. |

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

The IADB and the EC represent the overwhelming majority of cooperating partner funds disbursed during the fiscal years under review. Budget support follows the national procedures. EC is the only country currently providing direct budget support. IADB executed one project in each of the years reviewed which was audited by the Office of the Auditor General. In the case of the EC, none of its projects or programs utilised national PF systems. Table 3.15 presents the proportion of disbursements which were managed using national systems in each year reviewed. Development partner funds amounted to approximately 43 million USD in 2006/2007 the year the highest proportion of national PFM systems were employed. Approximately 18% of the disbursed funds were managed using national systems considerably lower than the 50% required to score a C.

Table 3.5 Development partner Funds and the Use of National Procedures (USD)

| | | National Systems | | | | | Total | % |
|-----------|--------------|-------------------|-------------|---------------------|-------|---------------------|------------------|------------|
| | | Disbursed (USD) | Procurement | Payments/Accounting | Audit | Financial Reporting | | |
| 2004/2005 | IADB | 22,518,109 | 0% | 0% | 2% | 0% | 410,743 | |
| | EC | 240,000 | 0% | 0% | 0% | 0% | - | |
| | Total | 22,758,109 | | | | | 410,743 | 2% |
| 2005/2006 | IADB | 27,784,259 | | | 2% | | 491,185 | |
| | EC | 270,000 | 0% | | 0% | | - | |
| | Total | 28,054,259 | | | | | 491,185 | 2% |
| 2006/2007 | IADB | 36,013,336 | | | 4% | | 1,262,438 | |
| | EC | 600,000 | 0% | | 0% | | - | |
| | EC SBS | 6,660,000 | 25% | | 25% | 25% | 6,660,000 | |
| | Total | 43,273,336 | | | | | 7,922,438 | 18% |

Source: Internal documents provided by IADB and EC. Note EC figures provided in Euros. Conversion rates used 2006/2007 1.50 USD = 1 Euro; 2005/2006 1.35 USD = 1 Euro; 2004/2005 1.20 USD = 1 Euro.

| No. | Donor practices | Score | Justification |
|-----|--|-------|--|
| D-3 | Proportion of aid that is managed by use of national procedures | D | |
| (i) | Overall proportion of aid funds to central government that are managed through national procedures | D | Development partner funds amounted to approximately 43 million USD in 2006/2007 the year the highest proportion of national PFM systems were employed. Approximately 18% of the disbursed funds were managed using national systems. |

3.8 Management of Oil and Gas Revenues

Trinidad and Tobago derives as substantial portion of its revenues from oil and gas. There are two main sources of revenue associated with oil and gas. These are reported on under properties (in the case of royalty payments) and income taxes. Under the Petroleum Taxes Act (1974) the Board of Inland Revenue is responsible for the due administration of the Act and for the collection and recovery of the taxes imposed by the Act. There are no separately collected funds pertaining to Oil and Gas revenue. All such revenues are monitored and administered under the systems and procedures out lined in PI-13, PI-14, and PI-15.

4 Government reform process

4.1 Description of recent and on-going reforms

The Ministry of Public Administration, recently instituted, is responsible for the transformation of the public sector in Trinidad and Tobago. The minister of Public Administration has been an active champion for public sector reform. It has put out a National Public Service Transformation Agenda that defines its focus over an 18 month horizon. It has responsibility for the development of a number of transverse systems aimed at supporting improved efficiency and effectiveness in service delivery. Its focus includes:

- Human Resource Management:
- Leadership development
- Customer service delivery
- Communication
- Legislative reform
- Information and communications technology (ICT), and
- Public service re-branding

There are also a number of ministry specific projects that it is also responsible for coordinating. At this time no other elements outside of the human resource management programme under the public finance management reform fall under the active coordination umbrella of the Ministry of Public Administration. This separate development persists despite a number of synergies including legislative reform, ICT and customer service delivery.

The Government of Trinidad and Tobago has embarked upon a number PFM reforms since 2005. There are five main areas of PFM reform activity planned that involve principally the Ministry of Finance, Inland Revenue Board and the Office of the Auditor-General. These are:

- Amendments to the Legal and Regulatory framework,
- A financial management improvement programme
- Reform of public procurement
- A revenue modernization programme, and
- Improvements in external scrutiny and PFM performance monitoring

Within the Social and Economic Policy Framework 2005-2007 it outlined a PFM reform agenda which focused upon:

- The development of a personnel management system the Integrated Global Payroll (IGP) is integrated into the Human Resource Information System (IHRIS). The system was implemented in May 2006. Over 85,000 employees and pensioners are paid via this system
- The evolution of output based management within a cash based accounting environment;
- The introduction of an integrated financial management information system (IFMIS) with a budget of \$25 Million
- The training of 1,400 managers of the public service on Output Management;
- The strengthening of debt management with the installation of Version 5.3 of the DMFAS in 2004;
- The reform of the legal and regulatory framework including the preparation of a new bill on public procurement; the Public Procurement and Disposal of Public Property Bill and Strengthening the independence and the effectiveness of the office of the Auditor-General through the preparation of the National Audit Office of Trinidad and Tobago Bill; and
- The revenue administration with respect to the improvement of revenue collections and promoting education, service and enforcement including the introduction of a website in 2004, the formation of a Criminal Tax Investigation Unit as well as the Large Case Unit, and the integration of the databases from the different tax types with the introduction of a computerised system, GENTAX in 2006;
- The Customs Division is currently implementing an upgrade of their ASYCUDA++ to ASYCUDA World.

In August 2005, the government issued a white paper on the reform of the public sector procurement regime with the objective to:

- Achieve the quality of governance envisioned by Vision 2020;
- Strengthen and promote confidence in public institutions;
- Guarantee substantial market share to local business, in order to develop and promote domestic industry;
- Take advantage of developments in information and communications technology;
- Ensure that domestic procurement practices are in conformity with international best practice; and
- Meet the requirements of the Caribbean Single Market and Economy.

The Economic Management Division coordinates the reform as one element of the broader Public Sector Reform Programme coordinated by the Ministry of Public Administration. It is currently developing a Macro Fiscal Programming Unit which aims at strengthening multi-year fiscal forecasts and functional allocations, along with making the medium term fiscal framework an important instrument of ensuring fiscal discipline and resource predictability in budgeting. Under its Structural Reform Unit it coordinates the Financial Sector Reform, Pension Reform and Procurement Reform.

4.2 Institutional factors supporting reform planning and implementation

The commitment to continuing improvements in PFM in Trinidad has political championship at the very highest levels through the Prime Minister and the Minister of

Finance. Implementation oversight and monitoring is the responsibility of the Economic Management Division headed by a Deputy PS. Specific improvements are carried out by divisional heads.

By way of development partner participation and support of PFM improvements, this would require a broader dialogue within the budget formulation process of the Economic Management Division, the Inland Revenue Board and the Office of the Auditor-General which serve as the main drivers of PFM improvements at this time. Such dialogue would identify within their strategies and budgets reform improvement programmes and projects that could be flagged for support from development partners.

Annexes

5 Annex 1: Terms of Reference: For a study to review the Public Finance Management (PFM) system in Trinidad and Tobago

Background of the Study

Trinidad and Tobago is a rapidly growing middle income country driven by natural gas and petro-chemical exports. The real rate of economic growth is currently around 5.8% per annum and, as long as world energy markets remain favourable, this rapid rate of growth is likely to be maintained for the foreseeable future. The energy sector dwarfs the rest of the economy, being responsible for 42% of GDP, 50% of government revenue and 80% of exports respectively. In 2006 the Central Government budget posted a surplus of 7% of GDP.

The Trinidad and Tobago - European Commission (EC) Country Strategy Paper (CSP) and the National Indicative Programme (NIP) for 2008 - 2013 was signed in 2008 with a financial envelope of € 25.34 million of which € 16.34 million will go towards the focal area economic diversification, and € 8 million will go to the non-focal area of good governance. Under the Accompanying Measures for Sugar Protocol Countries MIP 2007-2010, allocates €41.643.000 to Trinidad and Tobago. All described programmes in pipeline are being implemented by Sector Budget Support. The first programme to be delivered through budget support is the 9th EDF € 27.3 million Support programme for the Non-University Tertiary Education, which started in 2007.

While the commitment and disbursements have been sluggish under the project mode, the experience with the 9th EDF sector budget support programme is encouraging. The evaluations of the indicators for the release of the 1st year's variable tranche suggest indicators were 100% met. This, combined with T&T's healthy and stable macro-economic fundamentals, strongly suggests that EDF inputs in the form of budgetary support to key sectors will be more appropriate

Regular assessments of the state of the Public Finance Management of the beneficiary countries are a prerequisite for the Budget Support programmes. The last PFM Study was conducted in Trinidad and Tobago in 2006. Therefore, the NAO is now requesting mobilizing expertise to conduct a follow up on this study.

The May 2006 study, done under the PEFA framework, concluded that Public financial management is satisfactory. The systems governing the annual budgetary cycle,

budgetary control, accounting, recording and reporting generally work well and provide trustworthy and credible data. The accounting systems are though largely manual. Audit arrangements are satisfactory in financial and compliance terms and there are plans to introduce performance auditing.

The GORTT is also considering introducing a Medium Term Framework (MTF) of expenditure to link annual budget with sustainability and longer term development goals.

IADB provides grant and loan support for various programmes in the field of Public Administration Reform. The Phase I PRODEV programme, which has been running for 1.5 years, organises trainings to encourage results based management and budgeting, which should become effective earliest for the 2009/2010 budget. Combined with funding for e-government and knowledge as well as a public sector reform programme, USD 33 million loans are available to help public service transformation agenda, which was given refocus by the newly appointed administration after the November 2007 elections. In this context the delayed reform of the Central Statistical Office was scheduled to be complete in 2010.

Taxation reform underway is to introduce one revenue authority according to the Canadian model. Implementation of the Trinidad and Tobago Revenue Authority is scheduled for the first quarter of 2009. The reform will include streamlining and simplification of the taxation policy and should increase the tax collection capacity of the GORTT. A white paper was introduced on procurement but remains under discussion for time being.

In its Article IV consultation of 2007, the IMF confirmed Trinidad and Tobago's solid macroeconomic fundamentals and in most respects strongly endorses the current macroeconomic policies, which have resulted in a large degree of macroeconomic stability. Despite the economy operating near full capacity, the inflation and real currency appreciation have remained moderate.

Objective of the assessment mission

The objective of the assessment mission is to draft of a "Public Financial Management – Performance Report" (PFM-PR) prepared according to the PEFA methodology, so as to provide an analysis of the overall performance of the PFM systems of Trinidad and Tobago and to assist in identifying possible areas of improvement to guide discussions on PFM systems.

Description of the Assignment

The study will assess the PFM system in Trinidad and Tobago using the Performance Measurement Framework of the PEFA (Public Expenditure and Financial Accountability) that has been developed by the World Bank, the IFM, the Commission and other development partners. The mission will provide decision makers in the Government of Trinidad and Tobago and the European Commission with an assessment of the features and quality of the PFM system in Trinidad and Tobago. The expert will analyse the 2006

study and its recommendations and will report the progress made between 2006 and September 2008.

Specific tasks in the preparation of the PFM-Performance report

In order to meet the objective of the assessment mission the following tasks shall be carried out:

- Documentation. Before the mission the expert will collect all basic documentation that is deemed necessary for the mission's work on the spot. He will also request the EC Delegation in Trinidad and Tobago for any additional information needed.
- Workshop. The mission on the spot will include a half a day information workshop gathering all the stakeholders (Government, development partners) to discuss public finance management and the main developments underway in this field in Trinidad and Tobago. The expert is expected to give a brief presentation of the PEFA framework, initial findings in Trinidad and invite observations from the other stakeholders.
- Work-plan: On arrival the expert will present a work-plan describing the main steps of the mission, notably specifying the list of the interlocutors to meet, the tentatively scheduled meetings and the list of required information not yet collected and to be provided on the spot. This work-plan may foresee a mid-term meeting gathering all the stakeholders so as to report on the work's progress and possible obstacles faced. A final debriefing session is planned.

Methodology

- Document of reference: the expert, in close coordination with government services involved, will undertake the required analysis while following the structure, the methodology and the guidelines of the document adopted by the PEFA Steering Committee and entitled "Public Financial Management – Performance Measurement Framework". This document can be found on the website www.pefa.org.
- Differences in Methodology. If the particular situation of the country requires the addition of specific indicators and/or, for some indicators, to diverge from the prescribed methodology, this shall be justified by the expert and require the agreement, during the mission, of the EC. In any case, only a very limited number of additional indicators would be acceptable. In this case, as well as for any possible proposed difference in methodology, the experts will ask for the written opinion of the PEFA Secretariat.
- Interpretation. Any question on the interpretation of the guidelines, which the expert cannot resolve with the available documentation, should be addressed to the PEFA Secretariat and/or to the EC Headquarters.
- Supporting information. In the report the experts will justify the scoring and describe, in an annex, for each indicator, the analytical work which has been carried out mentioning the sources of information and documentation used. Furthermore, for each indicator, the experts will mention the any possible difficulties encountered during the assessment, the approach used to overcome these difficulties, and, as appropriate, the additional investigative work judged necessary to complete the analysis carried out.

Stakeholders: donors and national authorities

- The European Commission: (i) has made the first contacts with the government and officially informed them of the timetable and TOR of the PEFA assessment, which is financed under the 9th EDF Tertiary Education Programme; (ii) is responsible with the government for the organisation and the follow-up of the mission; (iii) checks the quality of the report in consultation with the government; (iv) disseminates the draft and final report. The Commission will indicate the names of its officials who, will be the contact point for the experts.
- The other development partners involved: The Delegation with the government has informed the main development partners in Trinidad and Tobago of the exercise, TORs and planned timetable (e.g. IADP, UNDP) and defined the possible coordination modalities with them.
- The government: (i) will indicate the names of the officials who will be the interlocutors of the experts and of the donors during the assessment; (ii) will indicate whether a service of the administration will accompany the experts during the mission; (iii) will comment the draft and final reports and send its comments to the experts and the Commission through its Delegation in Port of Spain.
- Other State structures: The Delegation with the Government will specify the modalities for the involvement of other state structures with an interest in the PFM assessment before mission start.

Expert's Profile

The assignment will be carried out by one Category I expert

The expert must:

- Be a **public finance expert** with at least 15 years of experience and extensive knowledge of different public accounting systems, financial management and auditing.
- Have a good knowledge of PEFA-PFM methodology
- Have experience of PFM system analysis in a transition economy similar to Trinidad and Tobago
- Be fluent in English

EC procedures and budget support methodology knowledge is an asset

The expert shall dispose of the necessary resources (secretariat, administration, etc) in order to be able to concentrate entirely on the study. He will be responsible for his own logistics (urban transport, accommodation, communication). The IT equipment, fees of transportation, daily allowances needed for the study are covered by the expert fee.

Location and duration

The mission should commence no later than beginning of October in order to be completed before end of the year.

The maximum duration of the assignment is 45 days (of which 24 working days, two weeks for comments and the remainder made up of weekends when in country). The assignment will start with 3 working days at home country, analysing the available documentation collected by the expert beforehand. The EC Delegation in PoS will help collect this information. The first day in Port of Spain, the expert will present a work plan. The Delegation will arrange the first set of meetings, after which the expert is expected to identify additional contacts and information required to complete the assignment. The Delegation will assist in organising any meetings required. The day before the draft report is presented, the expert will send the Government and the Delegation a copy of the report, which will be discussed during the presentation session.

The expert will complete the report in their home country after receiving comments from the Delegation, Government and the PEFA secretariat if needed. The report will contain, in an annex, the observations of the government on the points here the latter disagrees with the findings of the expert. The consultant will work closely with the Programme Officer assigned to the sector, and will operate from the EC Delegation Office.

Proposed schedule

| Step | Indicative schedule | No of working days |
|--|---------------------|--------------------|
| Inception period | 01/ – 05/10/2008 | 3 |
| Briefing in PoS, presentation of work plan | 06/10/2008 | 1 |
| Fieldwork | 07 – 23/10/2008 | 13 |
| Preparation and Presentation of draft final report | 24/10/2008 | 1 |
| Comments from the Stakeholders received by | 07/11/2008 | |
| Final Report | 12/11/2008 | 4 |

Total working days (fees): 3 (home country) + 15 (field) + 4 (home country) + 2 (travel days) = 24 working days (not including weekends).

Reporting

All reports must be submitted in English.

A work plan is to be prepared during the desk study before arriving in Trinidad and is to be presented during the briefing session in the Delegation.

The draft report (6 copies) should be presented to the Delegation day before the debriefing.

The final report (6 copies) must be presented mid November. A copy shall also be provided electronically in MS Word format.

The final report will take into account comments from the NAO and the European Commission.

Annex 2: PFM Performance Measurement Framework Indicators Summary

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|--|--|---------|--|
| A. PFM-OUT-TURNS: Credibility of the budget | | | |
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | B | Actual primary expenditure deviated from expenditure estimates by 10% in one of the three years considered. Deviations were 10%, -6% and 1% respectively. |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | B | Variance in primary expenditure composition exceeded overall expenditure deviation by more than 10% in one of three the years considered. Variance in expenditure composition exceeded overall deviation primary expenditure by 4%, 7% and 7% respectively. |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | A | Domestic revenue collection exceeded 97% in all three of the last three budget years. The ratio of aggregate revenue out-turn to original approved budget were 111%, 108% and 101% respectively. |
| PI-4 | Stock and monitoring of expenditure payment arrears | B+ | |
| (i) | Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock | A | The ratio of expenditure arrears to total expenditure for all three years considered remains very low and was considerably lower than 2%. |
| (ii) | Availability of data for monitoring the stock payment arrears | B | The stock of outstanding commitments is generated annually and reported upon by the Auditor General. However such data is not aged and so it is not possible to determine what proportion is converted into expenditure arrears. Given the low ratio of outstanding commitments, this measure serves as an effective proxy (since outstanding commitments will always exceed expenditure arrears) for monitoring the stock of arrears. |
| B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency | | | |
| PI-5 | Classification of the budget | C | The budget formulation and execution is based on economic and administrative classifications. Using a mapping table these can produce consistent documentation according to GFS/COFOG standards at the functional as well as sub-functional level. |
| PI-6 | Comprehensiveness of information included in budget documentation | B | Budget documentation fulfils 6 benchmarks. The Budget documents are fairly comprehensive. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|-------|--|---------|--|
| PI-7 | Extent of unreported government operations | A | |
| (i) | Level of unreported extra-budgetary expenditure | A | All revenues generated directly by the MDAs are transferred to the Consolidated Fund. Intelligence and security agency budgets are reported on, if not in detail. There is no evidence of off balance sheet debt instruments being used to finance subsidies. The consolidation process of the final accounts includes an aggregate reconciliation process that would reveal any gaps in the sources and uses of funds. The level of unreported extra-budgetary expenditure remains insubstantial. |
| (ii) | Income/expenditure information on donor-funded projects | A | Complete income/expenditure data of donor funded grant projects are not included in budgetary information. However development partner funded expenditure is less than 1% of total expenditure. |
| PI-8 | Transparency of inter-governmental fiscal relations | B+ | |
| (i) | Transparent and objectivity in the horizontal allocation among SN government | A | The transfers to local authorities are transparent and are based upon a budget process that is fully integrated into the central budget process. The successful cash management implemented by the Treasury assures predictable disbursements to the SNG entities. Disbursements to SNG entities are made monthly |
| (ii) | Timeliness of reliable information to SN government on their allocations | C | The SNG entities are not provided budget ceilings as part of the budget call circular at the start of the budget preparation cycle. They are only provided with their allocations shortly before printing of the proposed budget and so too late for significant budget changes to be made. |
| (iii) | Extent of consolidation of fiscal data for government according to sectoral categories | A | The SNG entities prepare budgets which are integrated into the national budget documentation and submitted before parliament as part of the budget approval process. They also prepare financial reports consistent with the National Budget and which is consolidated into a financial report within 4 months of the end of the fiscal year. |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities. | A | |
| (i) | Extent of central government monitoring of AGAs/PEs | A | All Public Enterprises submit audited financial statements to the central government. Also quarterly operational and financial statements are reported on. The Research Unit Investment Division consolidates the fiscal risk issues into a report on a monthly basis. This remains an internal document. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|-------------|---|---------|---|
| (ii) | Extent of central government monitoring of SN governments' fiscal position | A | SNGs cannot on their own authority generate fiscal liabilities for the central government. Any loan that binds the Consolidated Fund requires the written approval of the Minister of Finance. |
| PI-10 | Public access to key fiscal information | B | Four of the six listed elements of information are made available to the public access via the web and other means |
| C. | BUDGET CYCLE | | |
| C(i) | Policy-Based Budgeting | | |
| PI-11 | Orderliness and participation in the annual budget process | B | |
| (i) | Existence of and adherence to a fixed budget calendar | A | A clear annual budget calendar exists that is generally adhered to and the calendar allows eight weeks for Departments to meaningfully complete their detailed estimates of revenue and expenditure. |
| (ii) | Guidance on the Preparation of budget submissions. | D | The Ministry of Finance issues comprehensive and clear budget circulars but without ceilings. The Minister of Finance informs Line Ministers of the budget allocations at the close of the budget cycle immediately before the submission of the detailed estimates to parliament and so allowing limited opportunities for the adjustment of departmental budgets. |
| (iii) | Timely budget approval by the legislature | B | In the three years reviewed under this assessment, the budget was signed into law within a month after the start of the fiscal year. |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | C | |
| (i) | Multi-year fiscal forecast and functional allocations | C | Forecasts of fiscal aggregates are not independently prepared, but three years forecasts are prepared as part of the IMF Article IV consultations form the basis for derived aggregate fiscal forecasts on the basis of economic classifications. A more conservative posture is adopted for revenues; with expenditures derived from the PSIP. |
| (ii) | Scope and frequency of debt sustainability Analysis | A | The Central Bank of Trinidad and Tobago carries out a DSA annually which is reviewed by the IMF as part of the Article IV Consultations. DSA for external and domestic debt is not yet carried out by the Debt Management Unit within the MoF even though there are plans to have the Macroeconomic Unit currently under development to prepare DSAs. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|--------------|---|---------|---|
| (iii) | Existence of costed sector strategies | D | Sector strategies exist for all Departments. These though are not developed within a broad fiscal frame and even where costed never include forward linked recurrent cost implications. |
| (iv) | Linkages between investment budgets and forward expenditure estimates | A | The selected investments have links to the National strategy framework through the linked sector strategies and the PSIP even though such links are qualitative. The selection of investment is based upon the PSIP and involves careful consideration of recurrent cost implications. |
| C(ii) | Predictability and Control in Budget Execution | | |
| PI-13 | Transparency of taxpayer obligations and liabilities | B+ | |
| (i) | Clarity and comprehensiveness of tax liabilities | C | For all major taxes the obligations are well specified in the Acts and in regulations. There is broad discretion in the area of penalties applied. These are not yet guided by policy documents or guidelines even though this was the practice in the past. The auditor's recommendations on penalties require approval by supervising officers. |
| (ii) | Taxpayer access to information on tax liabilities and administrative procedures | A | For all major taxes the Board provides education and support to taxpayers and has made it a priority to provide information that is as accessible and clear as possible. The website contains a set of useful regulations, documentations, guides and tools. A help desk is also in place to respond to public demand for information. The board also makes use of all available mass communication means such as print media, radio and television.. |
| (iii) | Existence and functioning of a tax appeals mechanism | A | The Board applies an administrative appeal mechanism. The Objections unit, separate and independent of the audit unit, is responsible for the timely resolution of objections. Transparent administrative procedures have been developed. |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | B+ | |
| (i) | Controls in taxpayer registration system | A | Taxpayers are registered in databases for income tax, VAT and Customs. There are links to the business registry but not yet to the financial sector. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|-------|--|---------|--|
| (ii) | (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations | A | Penalties for all major taxes are set high enough to deter against non compliance with registration and filing Penalties are consistently administered. |
| (iii) | (iii) Planning and monitoring of tax audit and fraud investigation programs | A | In the case of income tax and VAT Tax audit and fraud investigation are based upon clear risks assessment criteria undertaken independently by the Audit Selection Unit. Audits are carried by the Audit Unit on the basis of annual audit work plans A rules based selection of tax audits and fraud investigation are not yet fully implemented in the case of customs. |
| PI-15 | Effectiveness in collection of tax payments | D+ | |
| (i) | Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year | D | The total debt stock stands at 14% of revenue collection in 2006/07 and the collection ratio is less than 10% in the last two years. |
| (ii) | Effectiveness of transfer of tax collections to the Treasury by the revenue administration | A | An very efficient collection system enables an effective transfer of tax collection to the Consolidated Fund Account daily. |
| (iii) | Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury | D | Reconciliations between collections and transfers are made monthly; however no regular reconciliations of assessments and transfers are made. |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | B+ | |
| (i) | Extent to which cash flows are forecast and monitored | A | Draw down schedules (cash flow forecasts) are prepared annually by the Ministry. The Treasury informed by the pro forma cash flows and cash availability projections allocates funds on an annual basis by entering Draw Down Schedules at the vote, and programme level. These are updated monthly based upon updated cash flow projections. It is not clear that across all ministries the pro forma cash flows are prepared on the basis of detailed procurement plans. |
| (ii) | Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment. | B | MDAs are provided with an three monthly forecast of budget releases that reflect the updated annual pro forma cash flows. These allocations are updated on a monthly rolling basis. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|-------|---|---------|---|
| (iii) | Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries | A | Due to effective budgetary allocation controls, all budget head virements are made subject to the approval of MDA minister. Any re-allocations above this requires the approval of parliament Typically an Adjustment Budget is submitted once a year. |
| PI-17 | Recording and management of cash balances, debt and guarantees | A | |
| (i) | Quality of debt data recording and reporting | A | Comprehensive records on domestic and external debt are compiled and are updated and reconciled on a monthly basis. Comprehensive statistical reports providing information on debt stocks, debt service and debt management operations are published by CBTT on a quarterly basis. |
| (ii) | Extent of consolidation of the Government's cash balances | A | The consolidated fund is operated as a treasury single account and the Comptroller of Accounts calculates daily balances of the government's cash position. There are a few development partner project accounts that operate outside this arrangement however; the funds they process represent an almost negligible proportion of government operations. |
| (iii) | Systems for contracting loans and issuance of guarantees | A | The contracting of loans and the issuing of guarantees are bound by transparent criteria. The Minister of Finance is the sole authority for the contracting of loans and guarantees that bind the Consolidated Fund. In practice cabinet always approves all loans signed by the Minister of Finance. When the Minister of Finance borrows, he does so within the constraints of the stated net borrowings in the budget. Further the specific loan and guarantee acts. |
| PI-18 | Effectiveness of payroll controls | C+ | |
| (i) | Degree of integration and reconciliation between personnel records and payroll data | A | The application IHRIS (Peoplesoft), allows for a direct link between the establishment and personal roll and the payroll databases. New post require cabinet approval. The system limits amendments to the personnel database with new hires requiring accounting officer approval. |
| (ii) | Timeliness of changes to personnel records and the payroll | B | Payrolls are controlled monthly and changes are effected within the next month pay period. Retroactive changes are occasional and typically are addressed within three months. |
| (iii) | Internal controls of changes to personnel records and the payroll | A | The types of changes that can be made are restricted. Only authorised persons are granted access through passwords. All entries create an audit trail. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|-------|---|---------|---|
| (iv) | Existence of payroll audits to identify control weaknesses and /or ghost workers | C | All payrolls have to be verified monthly by the employee's supervisor. The Internal Audit Unit reviews payroll cards and reconcile payments with pay-sheets. Staff surveys are carried out on a periodic basis. |
| PI-19 | Competition, value for money and controls in procurement | D+ | |
| (i) | Evidence of the use of open competition for award of contracts that exceed the nationally established threshold for small purchases | D | There is no central registry for procurement requirements. Insufficient data exists to assess the procurement method used and so provides no basis to determine the proportion of contracts awarded above the open competition threshold that was awarded on the basis of open competition. |
| (ii) | Extent of justification for use of less competitive procurement methods | B | Regulatory requirements establish open competition as the default method for carrying out procurement. There have been regulatory circulars issued by the Central Tender Board which allow for less competitive methods when properly justified. |
| (iii) | Existence and operation of a procurement complaints mechanism | D | As confirmed by the Central Tender Board and the TTMA At this time no complaints mechanism exists. |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | C+ | |
| (i) | Effectiveness of expenditure commitment controls | B | Commitment control is a requirement of the PFMA and specific procedures have to be developed by Departments for all internal controls. The accounting software (BAS) provides a sound basis for ensuring an effective commitment control. |
| (ii) | Comprehensiveness, relevance and understanding of other internal control rules/ procedures | C | Other internal controls are well covered in the PFMA and the Treasury Regulations and manuals. Integration between the accounting and procurement management software support the application of rules. Departments have developed policies and procedures which are widely understood. |
| (iii) | Degree of compliance with rules for processing and recording transactions | B | Although compliance to rules is generally considered high according to the Internal Audit Units there are important concerns about the abuse of procurement rules to circumvent the use of competitive methods during what is referred as the March spike. |
| PI-21 | Effectiveness of internal audit | C | |
| (i) | Coverage and quality of the internal audit function | C | Internal audit is operational in all of the MDAs. However, at this time there is a dearth of professional staff and they do not operate in accordance with international audit standards; nor do they undertake quality assurance programs. For the most part internal audit is limited to compliance checking. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|---------------|---|---------|---|
| (ii) | Frequency and distribution of reports | C | Internal Audit reports are prepared on a regular basis against annual audit work plans for a number of important MDAs. At this time such reports are submitted to the Accounting Officer and the Ministry of Finance but not the Office of the Auditor General. |
| (iii) | Extent of management response to internal audit findings | C | While in some cases reports are prepared with management response, there are cases reported where no reports were submitted to the Accounting Officer. |
| C(iii) | Accounting, Recording and Reporting | | |
| PI-22 | Timeliness and regularity of accounts reconciliation | B | |
| (i) | Regularity of Bank reconciliations | C | All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 8 weeks of the close of the month. There are other government accounts specifically development partner funded project accounts which are not reconciled on a regular basis. |
| (ii) | Regularity of reconciliation and clearance of suspense accounts and advances | A | Specific suspense accounts for expenditure are very limited. As part of the year end closing procedures all suspense accounts (expenditure) are force closed at the end of each year to facilitate the issuance of the annual financial statements. |
| PI-23 | Availability of information on resources received by service delivery units | D | No reporting on the resources (in cash or in kind) disbursed to the front-line service delivery units are carried out on a routine basis. There have been neither Public Expenditure Tracking Surveys (PETS) nor any other special surveys carried out in Trinidad and Tobago nor are there any planned to be carried out in the near future. |
| PI-24 | Quality and timeliness of in-year budget reports | A | |
| (i) | Scope of reports in terms of coverage and compatibility with budget estimates | A | Comparison to the main budget is available at the vote and main economic classifications reported for both the recurrent period and development budget lines. Information includes all items of expenditure at the payment level and at the commitment level. |
| (ii) | Timeliness of the issue of reports | A | Reports are prepared monthly by MDAs and submitted to the Treasury within 30 days of the close of the month. The Comptroller of Accounts consolidates and reconciles the Monthly Expenditure Returns |
| (iii) | Quality of information | A | There are no major concerns on data integrity or accuracy. This is assured by a full consolidation and reconciliation process (against bank statements) carried out monthly by the Comptroller of Accounts |
| PI-25 | Quality and timeliness of annual financial statements | C+ | |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|--------------|---|---------|--|
| (i) | Completeness of the financial statements | B | A consolidated government statement is prepared which includes a full statement of revenues, and expenditure. It includes a statement of financial assets but excludes some liabilities including expenditure arrears; even though appear to be very small. |
| (ii) | Timeliness of submission of the financial statements | A | The financial statements were submitted to the Auditor-General within four months of the close of the fiscal year for each of the three years reviewed during this assessment. |
| (iii) | Accounting standards used | C | Generally accepted accounting principles are applied. Statements are presented in a consistent format over time. There is some disclosure of accounting standards adopted. |
| C(iv) | External Scrutiny and Audit | | |
| PI-26 | Scope, nature and follow-up of external audit | B | |
| (i) | Scope/nature of audit performed (incl. adherence to auditing standards) | B | The Auditor-General audits all Ministries, Departments and Agencies on an annual basis covering revenue and expenditure with a limited review of assets. She performs a wide range of audits including systems, financial, value for money and compliance, audits. The Auditor-General has adopted INTOSAI Standards. |
| (ii) | Timeliness of submission of audit reports to the legislature | B | Audit reports are combined with certified audited financial statements. In the three years reviewed were submitted to the legislature 7 months after the close of the fiscal year and 3 months after receipt of financial statements submitted by the MoF. As a result, audited financial statements are submitted to the legislature within three months from the receipt of the financial statements by the Auditor-General. The Auditor-General's Reports are submitted to the legislature within five months from the fiscal year-end. |
| (iii) | Evidence of follow-up on audit recommendations | B | Although a formal response is made in timely manner to the management letter within three weeks in almost all instances, there is no systematic evidence of follow up on corrective measures taken by the Executive in response to the Auditor General's recommendations. |
| PI-27 | Legislative scrutiny of the annual budget law | D+ | |
| (i) | Scope of the legislature's scrutiny | C | The legislative review covers fiscal policies and the details of revenue and expenditure estimates, but only at a stage where for all practical purposes where detailed proposals have been finalized. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|-----------|---|---------|--|
| (ii) | Extent to which the legislature's procedures are well-established and respected | C | While comprehensive procedures exist for the legislatures budget review, these have been overtaken by tradition and practice that is not fully consistent with the rules. The rules are only partially respected. |
| (iii) | Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined) | D | The time allowed for the legislatures review is clearly insufficient. There is a total of approximately 5 days for review by the house of representatives. |
| (iv) | Rules for in-year amendments to the budget without ex-ante approval by the legislature | A | Clear rules exist for in-year amendments without ex-ante approval. Excessive virements and expenditure over budget ceiling require the approval of the parliament of an supplementary budget. |
| PI-28 | Legislative scrutiny of external audit reports | D+ | |
| (i) | Timeliness of examination of audit reports by legislature (for reports received within the last three years) | D | A review of only a few ministry's Annual Reports is done each year. Even these are not completed within 12 months of receipt of the auditor general's submissions due to the rapidly accumulating backlog of audit reports still to be reviewed by the PAC. |
| (ii) | Extent of hearings on key findings undertaken by legislature | C | Public Hearings are conducted for the ministries where serious concerns are identified e.g. adverse or qualified opinion. The hearings are thorough and are publicly accessible. However these cover only a few audited public entities. |
| (iii) | Issuance of recommended actions by the legislature and implementation by the executive | C | Actions emanating out of the PAC hearings are recommended to the Ministries, but these are not systematically implemented and given the few public entities reviewed gives little opportunity for follow up (since a given entity may not be reviewed in the following year) with the consequence that recommendations are often not acted upon. |
| D. | DONOR PRACTICES | | |
| D-1 | Predictability of Direct Budget Support | <NS> | |
| (i) | Annual deviation of actual BS from the forecasts provided by the development partner agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature | NS | With only one of the three years reviewed having budget support it is not possible to score the indicator. |
| (ii) | In-year timeliness of development partner disbursements (compliance with aggregate quarterly estimates) | NS | With only one of the three years reviewed having budget support it is not possible to score the indicator. |

| No. | Indicator | Scoring | Brief Explanation and Cardinal Data used |
|------|---|---------|--|
| D-2 | Financial information provided by development partners for budgeting and reporting on project and program aid | D | |
| (i) | Completeness and timeliness of budget estimates by donors for project support | D | The Government of Trinidad and Tobago does not have comprehensive and reliable information on the value and composition of all development partner assistance provided to the Government. While all major development partners provide data on pledges, commitments or available funding, they do not provide actual budget estimates informed by fully developed procurement plans and absorptive capacities pertaining to realistic schedules of project implementation. These budget estimates are not always aligned to the Trinidad and Tobago budget cycle nor are they consistent with its budget format. |
| (ii) | Frequency and coverage of reporting by donors on actual donor flows for project support | D | Most development partners employ project management units to manage the implementation of their programmes and projects. However, these do not represent total expenditure towards a given project or programme. Most development partner projects however do not provide any financial quarterly reports. In some cases annual financial reports are provided. |
| D-3 | Overall proportion of aid funds to central government that are managed through national procedures | D | Development partner funds amounted to approximately 43 million USD in 2006/2007 the year the highest proportion of national PFM systems were employed. Approximately 18% of the disbursed funds were managed using national systems. |

Annex 3: List of Stakeholders Interviewed

| Name | Organisation | Position |
|--|---------------------------------------|---------------------------------|
| Ministry of Finance | | |
| Eric James | Budget Office | Director |
| Roland Shepherd | Accountant General | Comptroller of Accounts |
| Joan Weekes | Accountant General (Dep. COA) | Chief Director: Budget Planning |
| Roselyn Ramdin-Ddobras | Treasury Division | Acting Treasury Director |
| Michael Mendez | NT, Budget Office | Deputy Permanent Secretary |
| B. Sylvester | Investments Division | Permanent Secretary |
| Sharon Mohammed | Investments Division | Senior Business Analyst |
| Eunice Walton | Investments Division | Director |
| Fitzroy John | Customs | Comptroller |
| Dave Ramroop | Inland Revenue Division | Actg. Commissioner Collections |
| Deokie Hosein | Inland Revenue Division | Commissioner Reform |
| Merlin Serleant | Inland Revenue Division | Chairman |
| Subert Gilbert | Inland Revenue Division | Assistant Commissioner |
| Neela Ram | Inland Revenue Division | IT Director |
| Jocelyn Mondesir-Bethel | Inland Revenue Division | Accounting Executive I |
| Cemoy Pantin | Inland Revenue Division | Manager Internal Audit |
| Ministry of Planning, Housing and the Environment | | |
| Esme Rawlins-Charles | | Permanent Secretary |
| Marlene Johnson | | |
| Central Tender Board | | |
| Ms. Injani Rampersad | | Central Tender Board |
| Ministry of Education | | |
| Ms. Vidiah Hereeraman | Finance and Accounts | Director |
| Ann Marie Bissessar | Finance and Accounts | Accountant I |
| Ministry of Public Utilities and the Environment | | |
| Ayleen Orvid | Project Management Unit | Senior Project Officer |
| Karyn Reyes | Project Management Unit | Senior Project Officer |
| Ministry of Public Administration and Information | | |
| Claudelle McKenner | Public Sector Transformation Division | Director |
| Office of the Auditor-General | | |
| Sharman Ottley | Office of the Auditor General | Auditor General |
| National Assembly | | |
| Ms. Jackie Sampson | Clerk to the House | Parliament |
| Ms. Jean Sandy | Clerk of Committees | Parliament |
| Civil Society | | |

| Name | Organisation | Position |
|-----------------------------|--|-----------------------------------|
| Margaret Rose | The Caribbean Procurement Institute | Executive Director |
| Dr. Trevor Townsend | Trinidad & Tobago Manufacturer's Association | Director |
| M. Ramesh Ramdeed | Trinidad & Tobago Manufacturer's Association | Trade Development Specialist |
| Vishal Persad | Trinidad & Tobago Manufacturer's Association | Membership Officer - Research |
| Development Partners | | |
| Terhi Karvinen | European Delegation in Trinidad | Programme Officer |
| Monica Paul-Mclean | European Delegation in Trinidad | Programme Officer |
| Kathrin Renner | European Delegation in Trinidad | Programme Officer |
| S. Christopoulos | European Delegation in Trinidad | Charge D'Affaires |
| Denise Salabie | Inter-American Development Bank | Finance & Accounting Specialist |
| Benjamin R. Santa Maria | Inter-American Development Bank | Modernization of State Specialist |
| Sandra Baptiste Caruth | UNDP | Programme Specialist |

Annex 4: List of Documents Consulted

Legislation, Regulations, Agreements

- Constitution of the Republic of Trinidad and Tobago 1976 (Amendments to 2000),
- Exchequer and Audit Act (EAA), 1999
- Customs Act 1938 Amendments to 1990
- Value Added Tax Act, 1989
- Income Tax Act, 1938 Amendments to 1980
- Central Tenders Board Ordinance (No. 22, 1961)

Budget documents

- Public Sector Investment Programme 2009
- Public Sector Investment Programme, Tobago 2009
- Supplementary Public Sector Investment Programme, 2009
- Draft Estimates of Revenue for 2005, 2006, 2007 and 2009
- Details of Estimates of Recurrent Expenditure 2005, 2006, 2007 and 2009
- Estimates of Expenditure for the Financial Year 2005, 2006 and 2007
- Draft Estimates of the Revenue and Expenditure of the Statutory Boards and Similar Bodies
- Vision 2020 Operational Plan 2007-2010 Transformation in Progress 2007 Report

Treasury

Public Accounts of the Republic of Trinidad and Tobago 2007 Vols 1 and 2

Inland Revenue Board

- SARS' Modernisation Strategy, Realisation of Strategy through Execution

Auditor-General Office

- Auditor General's Reports for 2005, 2006 and 2007

Central Bank of Trinidad and Tobago

National Assembly

Standing Orders

Other publications

- Trinidad and Tobago, Country Profile 2008, Economist Intelligence Unit
- Strengthening Macro fiscal Capacity and Introducing a Medium Term Framework, IMF 2008-10-14
- Reform of the Public Sector Procurement Regime, A White Paper, 2005
- Construction Sector Issues and Recommendations, TTMA Position Paper, May 2008

Annex 5 Comparison of PEFA (2008) Ratings with the 2006 PEFA

In 2006 a PEFA assessment, sponsored by the European Commission was carried out for Trinidad and Tobago. The intended purpose was to set a base line against which future progress made in the PFM systems could be measured. However, as highlighted in a Note to the Chargé d’Affaires (AIDCO E1/JL/D92008) 28052 this report deviated from the PEFA methodology in many of the indicators using an impressionistic assessment of several indicators, not justifying scorings on the basis of evidence and in the case of some dimensions not assessing them individually. For this reason, the present PEFA Assessment is to be adopted as the base line assessment for future reference on PFM progress made. In response to the ToR, this annex presents the scorings of the PEFA Assessment for comparison with the present scorings. However, the utility of such comparison is limited for the reasons stated above.

In the following sections each indicator scoring is presented with a brief comment, where possible, on the finding in the 2006 assessment.

5.1 Budget credibility

5.1.1 PI-1 Aggregate expenditure out-turn compared to original approved budget (2008 B)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B. It is not clear that the PEFA methodology was strictly applied in arriving at the scoring. For the fiscal year 2004/2005 the PEFA Report (2006) states the actual outturn to be T\$ 30,633,750,515. This amount is inclusive of the charges on account of the public debt (in the amount of T\$ 4,776,053,882) as well as the debt servicing reported under the MoF budget head and so does not appear to measure primary expenditure outturn defined in the PEFA manual to exclude (a) debt service payments and (b) development partner funded project expenditure. For this reason, a direct comparison with the previous scoring cannot be made.

5.1.2 PI-2 Composition of expenditure out-turn compared to original approved budget (2008 C)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B. No data for primary budget estimates nor primary expenditure outturns are included in the report. Neither are there any results of analysis presented. Therefore it is not possible to ascertain how the consultant arrived at a scoring of B and whether the method employed was equivalent to that prescribed in the PEFA manual. For this reason, a direct comparison with the previous scoring cannot be made.

5.1.3 PI-3 Aggregate revenue out-turn compared to original approved budget (2008 A)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. It would appear that the Consultant justified the score on the basis that “a score lower than A, or a refusal to give a score could have been seen by the TT, to whom the Report had to be submitted – and which has not dissented from the assessments – as a criticism of its policy of caution in revenue budgeting.” No data for revenue estimates or of revenue outturns is provided. Therefore it is not possible to ascertain how the consultant arrived at a scoring of A and whether the method employed was equivalent to that prescribed in the PEFA manual. For this reason it is not possible to determine whether the same score should be interpreted to reflect that the performance on this indicator has been sustained over the period.

5.1.4 PI-4 Stock and monitoring of expenditure payment arrears (2008 B+)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. The Consultant similarly concludes the low ratio of expenditure arrears to total annual expenditure. However, the Consultant does not report upon the availability of complete data on expenditure arrears nor on the aging of expenditure arrears. For this reason it is not possible to ascertain whether there has been a reduction in PFM performance as measured by this indicator over the period.

5.2 Comprehensiveness and transparency

5.2.1 PI-5 Classification of the budget (2008 C)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B. The consultant suggests that the budget is formulated as well as executed on the basis of economic, administrative as well as functional classification. However it should be noted that ministries track and control expenditure only on the basis of administrative and economic classification. This does not meet the requirement for formulation as well as execution to be on a functional, administrative and economic classification basis. Hence it would appear that the score should have been a C and that there has been no slippage in the performance rating of this indicator in the intervening period.

5.2.2 PI-6 Comprehensiveness of information included in budget documentation (2008 B)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B. The previous report found 5 out of 9 benchmarks to be fulfilled.

5.2.3 PI-7 Extent of unreported government operations (2008 A)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A.

5.2.4 PI-8 Transparency of inter-governmental fiscal relations (2008 B+)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. No budget ceilings are provided at the beginning of budget cycle (see PI-11). It would not be appropriate to compare the scores between the two assessments.

5.2.5 PI-9 Oversight of aggregate fiscal risk from other public sector entities (2008 A)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A.

5.2.6 PI-10 Public access to key fiscal information (2008 B)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B. The previous report found 5 out of 6 benchmarks to be fulfilled but there was no evidence of contract awards being published and this was confirmed by the Central Tender Board. It would not be appropriate to compare the scores between the two assessments.

5.3 Policy-based budgeting

5.3.1 PI-11 Orderliness and participation in the annual budget process (2008 C+)

Scoring in PEFA Report (2006): B+

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B+. A central finding of this assessment is the absence of pre-announced budget ceilings in the budget preparation process. Given that, the previous score appears inappropriate on the available evidence. It would not be appropriate to compare the scores between the two assessments.

5.3.2 PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting (2008 C+)

Scoring in PEFA Report (2006): D+

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a D+.

5.4 Predictability and control in budget execution

5.4.1 PI-13 Transparency of taxpayer obligations and liabilities (2008 B+)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. There are substantial discretionary elements to the tax laws and regulations with respect to the application of penalties. It would not be appropriate to compare the scores between the two assessments.

5.4.2 PI-14 Effectiveness of measures for taxpayer registration and tax assessment (2008 B+)

Scoring in PEFA Report (2006): C

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a C. There appears to be real improvements that have come about due to the implementation of the integrated tax registers using GENTAX.

5.4.3 PI-15 Effectiveness in collection of tax payments (2008 D+)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. It is not clear what basis this rating was applied given that no data on tax arrears collections is presented. It does not appear that a direct comparison of the scores can be made.

5.4.4 PI-16 Predictability in the availability of funds for commitment of expenditures (2008 B+)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. The horizon for the forecast of budget releases is 3 months. It appears that a scoring of A cannot be supported.

5.4.5 PI-17 Recording and management of cash balances, debt and guarantees (2008 A)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A.

5.4.6 PI-18 Effectiveness of payroll controls (2008 C+)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. There was no evidence that payroll audits are carried out on an annual basis to establish the existence of ghosts. It would appear that the rating of A is not supported. It would not be appropriate to compare the scores between the two assessments.

5.4.7 PI-19 Competition, value for money and controls in procurement (2008 D+)

Scoring in PEFA Report (2006): C

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a C. The consultant states that the assessment was necessarily impressionistic. It is not clear that a direct comparison can be made between the two scores.

5.4.8 PI-20 Effectiveness of internal controls for non-salary expenditure (2008 C+)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B. There is no detailed assessment of the sub indicators making it impossible to establish whether scorings are directly comparable.

5.4.9 PI-21 Effectiveness of internal audit (2008 C)

Scoring in PEFA Report (2006): C

It would appear that there has been no demonstrated improvement in the measure of this performance indicator since the 2006 PEFA was carried out.

5.5 Accounting, recording and reporting

5.5.1 PI-22 Timeliness and regularity of accounts reconciliation (2008 B)

Scoring in PEFA Report (2006): B+

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B+. While the narrative indicates that reconciliations are done monthly, there is no reference to how long after the end of the period these are carried out. The 8 week delay is what scores the PI-22(i) sub-indicator a C as opposed to the A reported in the 2006 PEFA Assessment. Without any reference to the time period taken after the close of the period, it is not possible to conclude what the progress in PFM performance on this indicator has been.

5.5.2 PI-23 Availability of information on resources received by service delivery units (2008 D)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. The Consultant states that this indicator “relates to a situation in which service delivery units operate semi-independently within an overall resource envelope, and account and report separately”. Further, the score is justified on the basis of there being an absence of any sign that service delivery units receive resources intended. However, the PEFA methodology relies upon evidence rather than the absence of evidence. The indicator refers to the tracking and reporting on resources down to the level of service units. This is absent in Trinidad and Tobago and so should be scored a D. The reduction in scoring does not represent a decline in PFM performance but must be attributed to the initial assessment not strictly adhering to the PEFA methodology.

5.5.3 PI-24 Quality and timeliness of in-year budget reports (2008 A)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A.

5.5.4 PI-25 Quality and timeliness of annual financial statements (2008 C+)

Scoring in PEFA Report (2006): A

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator an A. The consultant states that the consolidated government statement includes full information on revenue, expenditure, liabilities and financial assets. However, as indicated in PI-4 there is no reporting on expenditure arrears. IPSAS or any corresponding national standards, even if applied, are not at this time fully disclosed and so cannot be scored an A according to the PEFA methodology. The reduction in scoring is not indicative of a lowering of performance in this area over the intervening period.

5.6 External scrutiny and audit

5.6.1 PI-26 Scope, nature and follow-up of external audit (2008 B)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a B. The current score of B appears to be consistent with the previous score and suggests that there have not been significant improvements in this indicator since the previous assessment.

5.6.2 PI-27 Legislative scrutiny of the annual budget law (2008 D+)

Scoring in PEFA Report (2006): B

In the PEFA Assessment carried out in 2006, the Consultant rated this indicator a No Score. No conclusions can be drawn as to the progress in this performance indicator over the period..

5.6.3 PI-28 Legislative scrutiny of external audit reports (2008 D+)

Scoring in PEFA Report (2006): Not scored

5.7 Development Partner practices

5.7.1 D-1 Predictability of Direct Budget Support (2008 NS)

Scoring in PEFA Report (2006): Not scored

In the PEFA Assessment carried out in 2006, the Consultant did not score this indicator.

5.7.2 D-2 Financial information provided by development partners for budgeting and reporting on project and program aid' (2008 D)

Scoring in PEFA Report (2006): Not scored

In the PEFA Assessment carried out in 2006, the Consultant did not score this indicator.

5.7.3 D-3 Proportion of aid that is managed by use of national procedures (2008 D)

Scoring in PEFA Report (2006): Not scored

In the PEFA Assessment carried out in 2006, the Consultant did not score this indicator.

Table A5.1 Comparison of PEFA Scorings in 2008 with the 2006 PEFA Assessment

| <u>PFM Performance Indicator</u> | <u>2006</u> | <u>2008</u> |
|---|--------------------|--------------------|
| A. Credibility of the Budget | | |
| 1. Aggregate expenditure out-turn compared to original approved budget | B | B |
| 2. Composition of expenditure out-turn compared to original approved budget | B | C |
| 3. Aggregate revenue out-turn compared to original approved budget | A | A |
| 4. Stock and monitoring of expenditure payment arrears | A | B+ |
| B. Comprehensiveness and Transparency | | |
| 5. Classification of the budget | B | C |
| 6. Comprehensiveness of information included in budget documentation | B | B |
| 7. Extent of unreported government operations | A | A |
| 8. Transparency of Inter-Governmental Fiscal Relations | A | B+ |
| 9. Oversight of aggregate fiscal risk from other public sector entities. | A | A |
| 10. Public Access to key fiscal information | A | B |
| <i>C (i) Policy-Based Budgeting</i> | | |
| 11. Orderliness and participation in the annual budget process | B | C+ |
| 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting | D+ | C+ |
| <i>C (ii) Predictability and Control in Budget Execution</i> | | |
| 13. Transparency of taxpayer obligations and liabilities | A | B+ |
| 14. Effectiveness of measures for taxpayer registration and tax assessment | C | B+ |
| 15. Effectiveness in collection of tax payments | A | D+ |
| 16. Predictability in the availability of funds for commitment of expenditures | A | B+ |
| 17. Recording and management of cash balances, debt and guarantees | A | A |
| 18. Effectiveness of payroll controls | A | C+ |
| 19. Competition, value for money and controls in procurement | B | D+ |
| 20. Effectiveness of internal controls for non-salary expenditure | B | C+ |
| 21. Effectiveness of internal audit | C | C |
| <i>C (iii) Accounting, Recording and Reporting</i> | | |
| 22. Timeliness and regularity of accounts reconciliation | B+ | B |
| 23. Availability of information on resources received by service delivery units | A | D |
| 24. Quality and timeliness of in-year budget reports | A | A |
| 25. Quality and timeliness of annual financial statements | A | C+ |
| <i>C (iv) External Scrutiny and Audit</i> | | |
| 26. Scope, nature and follow-up of external audit | B | B |
| 27. Legislative scrutiny of the annual budget law | N/S | D+ |
| 28. Legislative scrutiny of external audit reports | C | D+ |
| D. Donor Practices | | |
| D-1 Predictability of Direct Budget Support | N/S | NS |
| D-2 Financial information provided by donors for budgeting and reporting on project and program aid | N/S | D |
| D-3 Proportion of aid that is managed by use of national procedures | N/S | D |

Annex 6 Comments and Responses on the Draft Report on the PEFA Assessment

Overall impression

PEFA Secretariat

Comment 1.1

The overall quality of the report is very good. The structure of the Performance Measurement Framework is closely followed. The scoring of the performance indicators under Section 3 is generally well-supported by evidence, the sources of which are generally well-identified. The Summary Assessment is well prepared, though somewhat on the long side.

Response 1.1

The presentation of the Summary Assessment is partially informed by many long discussions held with officials. The assessment addresses many of their questions so as to provide a more helpful report to provide an understanding of the status of PFM in Trinidad in a way that addresses these questions.

Comment 1.2

There is little tracking of progress since the 2006 PEFA assessment (only 8 indicators, based in part to re-scoring: PIs 5, 6, 10, 14, 21, 23, 25, and 26) though tracking was required under the terms of reference. We recognize that this is largely due to the deficiencies of that assessment that precluded tracking of progress under several indicators. We also appreciate that the time allowed for the assignment might have placed limitations on the extent of rescoring possible.

Nevertheless, we consider that it may have been feasible to rescore a number of indicators under the 2006 assessment. In our comments under each indicator in Section 3 below, we note the areas where progress has been tracked, where it hasn't been tracked but rescoring may have been feasible to enable tracking, and where it hasn't been tracked and rescoring may have been problematic. The assessor could utilize the review of the 2006 PEFA report carried out by the PEFA Secretariat.

We also recommend that Table 0.2 on page 22 be supplemented by a third column (between the two existing ones) where the revised rating (if applicable) for 2006 would be indicated. This would allow a quick visualization of progress made between 2006 and 2008

Response 1.2

Although the EC made comments on the 2006 PEFA Assessment these were never incorporated into the final report. This assessment did not strictly adhere to the PEFA Methodology. While the Terms of Reference required the tracking of progress it has not been possible to do so in most cases without first re-scoring the 2006 assessment. This role was not foreseen in the ToR nor was there the time to properly assess what the current status was in 2006. The requirement for evidence based justification precluded an approach based upon a mere a re-interpretation of the scores, but in most instances would require the actual development of evidence (in its status of 2006). For the most part this would be impossible and make the rescoring a matter of conjecture rather than evidence. It would seem that much of the results in 2006 cannot be used to track progress. Indeed the European Commission has stated “we consider that the 2006 Trinidad and Tobago PEA assessment cannot be regarded as a baseline assessment of the public finance management (PFM) system of Trinidad and Tobago”.

Government of Trinidad and Tobago

Comment 1.3

I have scanned the Report and think that it is very comprehensive and captures the situation in Trinidad and Tobago very well.

Response 1.3

The responses from the Government of Trinidad and Tobago were provided by the Auditor General

Summary Assessment

PEFA Secretariat

Comment 2.1

The summary assessment is of generally of good quality, but is on the long side, particularly for the first section “integrated assessment of PFM performance”. A concluding paragraph containing a “story line” that succinctly sums up PFM performance and the key challenges that lie ahead would be useful.

Response 2.1

The integrated assessment summarises the PFM performance in respect of fiscal discipline, the strategic allocation of resources and efficient delivery system highlighting the strengths and weaknesses.

Government of Trinidad and Tobago

Comment 2.2

At page 17 of the Report it is stated: "Public Enterprises are audited by private audit firms. These audit reports are disseminated to the Auditor-General." I am not aware that this is so. The accounts of Public Enterprises are not "disseminated" to the Auditor General. See page 74 paragraph 1 of section 3.6.1 where it states "At this time copies of such audits are not submitted to the Auditor General..."

Response 2.2

The discrepancy on page 17 came out of different interviews, however it has been corrected to reflect what is reported on page 74 which was the information provided by the Auditor General.

Comment 2.3

At page 15, paragraph 4 - states "The Infrastructure Development Fund employs these special purpose companies...". However, the Fund is not a separate entity in itself with power to employ special purpose companies. See page 50, paragraph 1 of section 3.2.5 where it states that projects are funded through the Infrastructure Development Fund. See also page 66 paragraph 4 where the Fund "employing" is also used.

Response 2.3

The sentences have been amended to make the point more clearly.

Comment 2.4

At page 16 it is stated "The annual appropriations accounts are completed and audited within four months after the close of the fiscal year." However, the annual appropriation accounts are completed within four months after the close of the fiscal year and audited within seven months after the end of the fiscal year.

Response 2.3

The amendments to the text have been made

Section 1 – Introduction

PEFA Secretariat

Comment 3.1

The introduction is well-prepared. We welcome the table showing the structure of the public sector. It would be useful to explain what are the statutory bodies indicated in the table and their relationship to the central government.

Response 3.1

The Statutory Bodies are autonomous and semi autonomous government agencies. They receive grants and subsidies from the government and submit independently budgetary and financial information to the parliament.

Section 2 – Country Background Information

PEFA Secretariat

Comment 4.1

This is well-prepared. Some specific points:

- The text could say something about the political status of Tobago (as mentioned in the 2006 report).
- It is not clear what is meant by the non-energy fiscal deficit
- Something is wrong with the expenditure and revenue to GDP ratios in the fiscal performance table. The heading for the economic classification table shows expenditure components relative to total expenditure, but the figures are ratios to GDP

- Information for 2006 is missing from the functional classification table. Expenditure not classified by major group is sizeable (22% total expenditure in 2005); some indication of what this comprises would be useful
- More information could be provided on budget execution processes under section 2.3.3.

Response 4.1

- Tobago is an autonomous region with a separate house of assembly. Its public sector is funded primarily out of block grants.
- The non energy fiscal deficit is included in the standard presentation of the Trinidad and Tobago fiscal frame. It refers to the calculated fiscal deficit when energy revenues are excluded.
- Table 2.1 has been corrected
- No information is specifically provided to explain precisely what is included in the non classified expenditure grouping the tables from which this information was derived.
- 2.3.3 refers to key features of the PFM systems rather than a summary or description of the budget execution. It is not clear that there are significant other key features that characterises the PFM system. However, some additional comments on the parliament have been added.

Government of Trinidad and Tobago

Comment 4.2

At page 32 - The Public Accounts of Enterprises Committee (PAEC) should read The Public Accounts (Enterprises) Committee (PA (E) C)

Response 4.2

The correction has been made

Comment 4.3

Page 37 - At paragraph 2.3.3 it is stated that "The financial year for Trinidad and Tobago is October 1st to September 30th. For local government it is from July 1st to June 30th". As far as I am aware, the financial year of local government is the same as the Central Government. It may be that the tenure of the Council may be from July 1st to June 30th. This fact should be checked

Response 4.3

The text has been appropriately amended

Section 3 – Performance of systems, processes and institutions

PEFA Secretariat

This section closely follows the structure contained in the Framework document and is generally well-prepared.

Comment 5.1

This section closely follows the structure contained in the Framework document and is generally well-prepared. Ongoing and planned PFM reforms are mentioned; it would be useful, as indicated in the Framework document (page 60) to discuss these in a sub-section at the end of the narrative under each performance indicator, in order to distinguish clearly between the existing PFM situation and ongoing and planned reform

activities. We have specific observations on the need for additional evidence to support the scoring as well as on the correspondence between evidence provided and score given for some of the individual indicators, as highlighted in the table below.

Response 5.1

For a number of performance indicators a separate subsection pertaining to ongoing reforms that pertain to that specific PFM activity has been added. The specific observations that have been highlighted are addressed in the following table.

Government of Trinidad and Tobago

Comment 5.2

Page 74 - Paragraph 1 of section 3.6.1 - It is stated "The Auditor General must audit and report on the accounts...of all state owned enterprises". Under the Constitution, the Auditor General is "empowered" to audit state owned enterprises. This is because, state-owned enterprises are registered under the Companies Act and it is the shareholders who appoint the auditor. Thus, it could not be legislated that the Auditor General shall audit state owned enterprises.

Response 5.2

The text has been amended

Comment 5.3

Page 75 -paragraph 2 - With regard to the Quality Assurance Unit, there is provision for such a Unit in a document approved by Cabinet with respect to the re-structuring of the Auditor General's Department but at the present time this Unit is not staffed.

Response 5.3

The text has been further clarified.

European Commission

Comment 5.4

I think the table comparing the scores of the 2006 and the 2008 PEFA on p.22 should be removed from the main text and should be put into a new annex. Together with this comparative table, all the explanations appearing after every indicator in the main text presenting the reasons of the deviations of the scores between the 2006 and 2008 PEFA scores (which is very useful) should be integrated into the new annex mentioned in the previous comment.

Response 5.4

The table and comments on the results of the 2006 PEFA Assessment have been extracted from the main text and placed in a separate annex (Annex 5).

Comment 5.5

As T&T is country rich in mineral resources, therefore this can be a relevant source of revenue for the government and may have special PFM arrangements. In a section after the indicators, this could be presented briefly, in line with the PEFA guide (see PEFA guide: page 62, sub-section 3.8).

Response 5.5

A separate section, Section 3.8 has been added that briefly describes the process by which oil and gas revenues are managed in Trinidad and Tobago.

| | Comments on the rating | Response |
|---|--|--|
| PI-1 | <p>PEFA Secretariat: The B rating appears correct based on the evidence. The argument that the cash accounting system tends to cause actual expenditure to be lower than budgeted is not supported in the table that shows actual expenditure to be greater than budgeted in two out of the three years.</p> <p><i>Tracking of progress:</i> This has not been done on the basis that the 2006 assessment used the wrong methodology for scoring (i.e. did not use primary expenditure as the basis). However, it would have been straightforward to re-score using the correct methodology and therefore to track progress</p> | <p>This is a tendency factor and does not necessarily lead to an overall lowering of expenditure outturns. It is a comment on a weakness in the methodology rather than an explanation of results.</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | | |
| PI-2 | <p>PEFA Secretariat: The B rating appears to be insufficiently evidenced.</p> <p>There is something wrong with the figures for 2004/05 in Table 3.2 (note that the headings should show the years 2004/05-2006/07). The primary expenditure deviation was 10%, according to Table 3.1, and it is not methodologically possible to have total expenditure variance less than the deviation. Also, contrary to the guidance in the Framework, more than 20 MDAs are used for the calculation, instead of the 20 largest MDAs and the remainder being aggregated as the 21st item (the variance is sensitive to the number of MDAs). The variance might be lower, bringing 7% in 2006/07 and 07 to below 5%.</p> <p>In any case, even if the figures are correct, the score is C as variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in two of the last three years.</p> <p>Also note that there is a glitch in the text box. The first sentence should be deleted.</p> <p><i>Tracking of progress:</i> The 2006 report did not provide sufficient evidence to score. But in principle there appears to be sufficient evidence and re-scoring was possible.</p> | <p>The entries into table 3.2 were switched around and have been corrected. The score has been changed from B to C</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions. It would require redoing the analysis for the years 2003 to 2005.</p> |
| <p>Changes made to the narrative and / or scoring: Changes made to Table 3.2. No changes to the narrative. Changes have been made to the score</p> | | |
| PI-3 | <p>PEFA Secretariat: The "A" rating appears correct, based on the evidence. There are inconsistencies between actual revenue figures in Table 3.8 and in Table 2.2.</p> | <p>Table 2.2 has been amended</p> |

| | Comments on the rating | Response |
|------|---|---|
| | <p>The text box contains different figures from those shown in Table 3.8.</p> <p><i>Tracking of progress:</i> Same comments as for PI-2</p> <p>Changes made to the narrative and / or scoring: Changes made to the narrative; no changes made to the scoring.</p> | The text box figures have been amended. |
| PI-4 | <p>PEFA Secretariat: The A and B ratings for (i) and (ii) appear insufficiently evidenced. What about arrears on utility and rent and other non-discretionary items for which commitments are not made in advance? Or do the outstanding commitments referred to include these? The last paragraph under PI-20 indicates informal arrangements for arranging supplies that may be contributing to the accrual of expenditure arrears that are not captured in the annual reporting of outstanding commitments.</p> <p><i>Tracking of progress:</i> The 2006 report did not provide sufficient evidence and also did not use the correct methodology. The indicator is potentially re-scorable, though perhaps with more difficulty than for PIs 1-3.</p> <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | The outstanding commitments are comprehensive and so the scoring interpretation is correct. |
| PI-5 | <p>PEFA Secretariat: The C rating appears correct, based on the evidence.</p> <p><i>Tracking of progress:</i> The consultant recommends re-scoring the 2006 PEFA score to C from B.</p> <p>Changes made to the narrative and / or scoring: No changes made to the score; no changes have been made to the narrative.</p> | No changes made |
| PI-6 | <p>PEFA Secretariat: The B rating appears correct, based on the evidence.</p> <p><i>Tracking of progress:</i> The consultant accepted the 2006 scoring of B, indicating no progress.</p> <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | No changes made |
| PI-7 | <p>PEFA Secretariat: (i) The A rating appears sufficiently evidenced. It would be appropriate to</p> | |

| | Comments on the rating | Response |
|---|---|---|
| | <p>clarify the status of Infrastructure Development Fund is. Are its operations included in the budget, or is it an extra-budgetary operation, and if so, is it reported on?</p> <p>(ii) The A rating appears correct, based on the evidence.</p> <p><i>Tracking progress:</i> The consultant mentions the 2006 scoring of A, but does not indicate whether it is correct.</p> | <p>The operations of the Infrastructure Development Fund are included in the budget.</p> |
| <p><u>Changes made to the narrative and / or scoring:</u> No changes made to the narrative; no changes made to the scoring.</p> | | |
| PI-8 | <p><u>PEFA Secretariat:</u> <i>Note:</i> It is not clear what the definition of local government is. According to the 2006 PEFA assessment, there is only one SNG, which is the island of Tobago, which receives a block grant. The city, borough and regional corporations referred to appear to be central government- owned statutory bodies providing a major component of public services. If correct, these fall outside the scope of PI-8 and only Tobago falls within the scope, as under the 2006 assessment.</p> <p>Thus, in the absence of a clear definition of SNGs, it is difficult to judge whether this indicator has been correctly scored.</p> <p><i>Note:</i> Chapter 2 says that the FY of SNGs is different from that of central government, but PI-8 says that the FYs are the same – some inconsistency.</p> <p><i>Tracking progress:</i> The consultant indicates that tracking progress is not possible, as the 2006 PEFA assessment score does not seem correct. But potentially the 2006 score is re-scorable. However, first, it needs to be clarified in the 2008 assessment what the definition of SNG is.</p> | <p>The government refers to the regional corporations as SNGs and this is the interpretation that has been applied in this assessment.</p> <p>Chapter 2 has been amended.</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| <p><u>Changes made to the narrative and / or scoring:</u> Changes made to the narrative; no changes made to the scoring.</p> | | |
| PI-9 | <p><u>PEFA Secretariat:</u> The A and A ratings appear correct, based on the evidence. But, referring to the comment under PI-8, most of the SNGs referred to under dimension (ii) are in fact statutory bodies (i.e. autonomous government agencies) under dimension (i). But the A scores for both dimensions are still valid.</p> <p><i>Tracking progress:</i> The consultant appears, though without comment, to accept the A score from the 2006 assessment.</p> | <p>No changes made</p> <p>There is not sufficient evidence provided to conclude whether the 2006 scoring is justified or not. No comment is proffered.</p> |
| <p><u>Changes made to the narrative and / or scoring:</u> No changes made to the narrative; no changes made to the scorings.</p> | | |

| | Comments on the rating | Response |
|--|--|---|
| PI-10 | <p><u>PEFA Secretariat:</u> The B score appears correct, based on the evidence.</p> <p><i>Tracking progress:</i> The consultant correctly mentions that the A score in the 2006 assessment is incorrect, implying a B score is appropriate. Thus the 2006 indicator is re-scorable and progress can be tracked (showing no change).</p> | No changes made |
| <p><u>Changes made to the narrative and / or scoring:</u> No changes made to the narrative. No changes have been made to the scoring.</p> | | |
| PI-11 | <p><u>PEFA Secretariat:</u> The A and D ratings for dimensions (i) and (ii) appear correct, based on the evidence.</p> <p>The B rating for dim (iii) appears incorrect as the budget is always approved after the end of the financial year. The score should be C.</p> <p><i>Tracking of progress:</i> The consultant indicates that the 2006 rating is scored too high. Re-scoring therefore was possible and progress can thus be tracked.</p> | <p>The score has been changed to a C for an overall score of C+</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| <p><u>Changes made to the narrative and / or scoring:</u> No changes made to the narrative; changes made to the scoring.</p> | | |
| PI-12 | <p><u>PEFA Secretariat:</u> The C, A, D, B and overall C+ ratings appear correct, based on the evidence. It would be useful to explicitly indicate that the debt sustainability analysis covers both domestic and external debt.</p> <p><i>.Tracking of progress:</i> The consultant does not comment on whether the 2006 score appears correct. The evidence from the 2006 report indicates that it is possible to determine whether the score is correct, and therefore it should be possible to track progress.</p> | <p>No changes made to the score. The text has been amended to show that the DSA covers both domestic and external debt.</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| <p><u>Changes made to the narrative and / or scoring:</u> Changes made to the narrative; no changes made to the scoring.</p> | | |
| PI-13 | <p><u>PEFA Secretariat:</u> The C and A ratings for dimensions (i) and (ii) appear correct, based on the evidence.</p> <p>The A rating for dimension (iii) appears insufficiently evidenced as there is no independent appeal procedure for customs revenue. A weighted average score could be derived, based on the weights of income tax+VAT, and customs revenue to the total of the two. As customs revenue is only 6% of the total (PI-3 text) and the customs component is likely to be C, the rating could be A or B..</p> | <p>No changes made</p> <p>Even with a weighting factor applied, and given customs a B the overall rating remains an A.</p> |

| | Comments on the rating | Response |
|-------|---|--|
| | <p><i>Tracking of progress:</i>The consultant indicates that the 2006 score for dimension (i) is too high. The 2006 score therefore appears re-scorable, enabling progress to be tracked.</p> | The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions |
| | <p>Changes made to the narrative and / or scoring: No changes made in narrative; no changes in scores</p> | |
| PI-14 | <p>PEFA Secretariat: The B, A and B ratings appear correct, based on the evidence. The overall score, though, should be B+, not A.</p> <p>EC: In the summary table of page 21, PI-14 is scored correctly (B+), while in the main text on page 60, its cumulated score is miscalculated (A).</p> <p><i>Tracking of progress:</i> The consultant has tracked progress in this instance (2006 score was C, and the reason for the improvement is provided).</p> | The overall score has been changed to B+ in the box, the summary table is correct and remains a B+ |
| | <p>Changes made to the narrative and / or scoring: No changes made to the narrative; changes made to the overall scoring shown in the box.</p> | |
| PI-15 | <p>PEFA Secretariat: The D, A, D and overall D+ ratings appear correct, based on the evidence. .</p> <p>Elaboration of the reasons for low arrears collection rates should be made. Tax charges (presumably interest levied on unpaid taxes) are larger than arrears collections, so the stock keeps increasing.</p> <p>The calculation of the tax arrears collection ratio is unclear. The arrears collected should be expressed as a % of the stock of arrears at the beginning of the FY, but it seems that they are expressed as a % of the stock of arrears at the end of the FY. This does not affect the score.</p> <p><i>Tracking of progress:</i> The consultant indicates that no evidence was provided in the 2006 assessment to support the A rating. It would appear that the correct rating for 2006 was in fact 'No Score" as no evidence on tax arrears was available. The consultant should indicate whether re-scoring of the 2006 indicator was possible.</p> | <p>No changes made</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| | <p>Changes made to the narrative and / or scoring: No changes made to the narrative; No changes made to the scoring.</p> | |
| PI-16 | <p>PEFA Secretariat: The A, B, A and overall B+ ratings appear correct, based on the evidence. In</p> | No changes made |

| | Comments on the rating | Response |
|---|--|--|
| | <p>the case of dimension (iii), it would be useful to have quantitative information on the actual frequency of supplementary budgets in recent years.</p> <p><i>Tracking of progress:</i> The consultant correctly points out that the 2006 scoring of A is incorrect. The consultant should indicate whether re-scoring of the 2006 indicator was possible (it would appear that it is).</p> | <p>The supplementary budget process occurs one a year.</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | | |
| PI-17 | <p>PEFA Secretariat: The A, A and A ratings appear correct, based on the evidence.</p> <p><i>Tracking of progress:</i> The overall A score is noted for the 2006 assessment. The information provided appears sufficient to exercise a judgement on whether the score is correct.</p> | <p>No changes made</p> |
| <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | | |
| PI-18 | <p>PEFA Secretariat: The A, B, and A scores for dimensions (i) – (iii) appear correct, based on the evidence.</p> <p>The C score for dimension (iv) appears insufficiently evidenced. It would be appropriate to indicate when and with what frequency the Internal Audit Department reviews payroll cards and reconciles payments with pay-sheets and conducts staff survey</p> <p><i>Tracking of progress:</i> The consultant notes the insufficiently supported score of A in the 2006 assessment. It would be appropriate to indicate if it is feasible to reassess the 2006 indicator.</p> | <p>The frequency of staff surveys differs from Ministry to Ministry but has definitely occurred within the past three years and so unambiguously meets the requirement of a C which for partial staff surveys to have been undertaken in the past three years.</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| <p>Changes made to the narrative and / or scoring: The scoring and the text remain unchanged.</p> | | |
| PI-19 | <p>PEFA Secretariat: The D, B, D, and overall D+ ratings appear correct, based on the evidence. It would be appropriate to mention the impact on procurement performance of the new procurement legislation in 2006.</p> <p><i>Tracking of progress:</i> The consultant notes that the 2006 score is derived from less-than-complete evidence and thus it is difficult to track progress. It would be appropriate to mention whether it is possible to rescore for 2006.</p> | <p>No changes made. Without a clear reference from 2006 it is impossible to determine whether there has been an impact and then determine whether that has been due to the procurement legislation. The evidence is not available to address the question.</p> <p>No changes made to the narrative; no changes made to the scoring.</p> |

| | Comments on the rating | Response |
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| | Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring. | |
| PI-20 | <p>PEFA Secretariat: The B, C, B and overall C+ ratings appear correct, based on the evidence. The reason for the B score for dimension (iii) could be elaborated on, as the text indicates the possibility of a C score.</p> <p><i>Tracking of progress:</i> The dimensions were not rated in the 2006 assessment and re-scoring is perhaps not feasible.</p> | No changes made |
| | Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring. | |
| PI-21 | <p>PEFA Secretariat: The C, C, and C ratings appear correct, based on the evidence.</p> <p><i>Tracking of progress:</i> This is done (appears to be no change).</p> | No changes made |
| | Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring. | |
| PI-22 | <p>PEFA Secretariat: The C, A and overall B rating appear correct, based on the evidence.</p> <p><i>Tracking of progress:</i> The 2006 rating is insufficiently supported by evidence, but it seems unlikely that performance could have been better than in 2008. In principle, this indicator could have been re-scored for 2006.</p> | <p>No changes made</p> <p>The methodology is evidence based and previous scorings cannot be redone based upon conjecture – even where such conjecture is reasonable. The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| | Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring. | |
| PI-23 | <p>PEFA Secretariat: The D rating appears correct based on the evidence.</p> <p><i>Tracking of progress:</i> The consultant correctly re-scores the 2006 score of A as a D.</p> | No changes made |
| | Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring. | |

| | Comments on the rating | Response |
|-------|--|--|
| PI-24 | <p>PEFA Secretariat: The A, A, and A ratings appear correct, based on the evidence.</p> <p><i>Tracking of progress:</i> An opinion on whether the A score in the 2006 assessment is correct, and if not, whether it is re-scorable based on knowledge gained from the current assessment, would appear appropriate.</p> <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| PI-25 | <p>PEFA Secretariat: The B, A, C and overall C+ ratings appear correct, based on the evidence.</p> <p><i>Tracking of progress:</i> The consultant demonstrates that the 2006 A rating is incorrect. It would be useful to indicate whether it is possible to re-score.</p> <p>Changes made to the narrative and / or scoring: No change made to the narrative. No change has been made to the score.</p> | <p>No changes made</p> <p>The ToR did not foresee a need to rescore the 2006 report and so no time was provided for to pursue such questions</p> |
| PI-26 | <p>PEFA Secretariat: The B, and B ratings for dimensions (i) and (iii) appear correct, based on the evidence. The table in the introduction indicates that central government is more than 75% of total government expenditure (central government plus statutory bodies). The text could mention this.</p> <p>The B rating for dimension (ii) appears incorrect, based on the evidence. An A rating seems correct, as audited financial statements are submitted to legislature within 4 months of the receipt of financial statements. The audit reports are combined with the AFS. The overall score is still B+.</p> <p><i>Tracking of progress:</i> The consultant indicates that the 2006 score appears correct and that therefore there has been no significant change in performance.</p> <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | <p>A strict reading of the PEFA manual requires that where the audited financial statements are combined with the audit report, the submission to the legislature must be within 4 months. It is done within 7 months. We note that the manual use the word AND rather than OR and so by the both conditions must be met. NO changes made to the score.</p> |
| PI-27 | <p>PEFA Secretariat: The C, C and A ratings for dimensions (i), (ii) and (iv) appear correct, based on the evidence.</p> <p>It is not clear why dim (iii) is rated D, as Parliament receives budget proposal before the end of the fiscal year and approves within one month from the start of the new fiscal year. Some elaboration would help.</p> | <p>No changes made</p> <p>As stated in the narrative, the Standing Orders limit budgetary review to seven days, so irrespective of when the proposed budget is submitted review is always 7 days. It would require a reform of the Standing Orders for the timing of submission of the proposed budget to make a</p> |

| | Comments on the rating | Response |
|-------|--|---|
| | <p><i>Tracking of progress:</i> The paragraph on the comparison of scores seems incorrect, as the 2006 assessment shows a No Score.</p> | <p>difference to the period of budgetary review. The text has been amended to the section on Tracking of Progress</p> |
| | <p>Changes made to the narrative and / or scoring: No changes made in the main narrative. No changes made to the scoring. Tracking of progress amended.</p> | |
| PI-28 | <p>PEFA Secretariat: The D and C ratings for dimensions (i) and (iii) appear correct, based on the evidence.</p> <p>The rating for dimension (ii) could be B. Only 10 out of 100 reports are reviewed a year, but they may cover most of the entities with adverse audit findings and the review is thorough, according to the text.</p> <p><i>Tracking of progress:</i> It would seem possible to determine whether the 2006 score of C is correct (though the dimensions are not explicitly scored) or whether it can be re-scored.</p> | |
| | <p>Changes made to the narrative and / or scoring: The omitted element in the table has been reinserted. This makes the overall score a C+</p> | |
| D-1 | <p>PEFA Secretariat: Not applicable. Budget support only provided in one year.</p> | No changes made |
| | <p>Changes made to the narrative and / or scoring: No changes made to the scoring. No changes made to the narrative.</p> | |
| D-2 | <p>PEFA Secretariat: The C and D ratings appear correct, based on the evidence.</p> | No changes made |
| | <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | |
| D-3 | <p>PEFA Secretariat: The D rating appears correct, based on the evidence.</p> | No changes made |
| | <p>Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.</p> | |

Section 4 – Reform Efforts

PEFA Secretariat

Comment 6.1

This section is well-done.

Response 6.1

No amendments have been made to this section

Cooperating Partners

IADB

Comment 6.2

Chapter 4 Government Reform Process mentions the key areas in which the Social and Economic Policy Framework 2005-2007 outlines a PFM reform agenda. However as the assessment is being conducted in 2008, it would be useful if the document could give a better indication on where the Government is with regard to these reforms so as to provide a better basis for discussion and as a guide on the areas of focus for continuing improvements.

Response 6.2

Chapter 4 described not only the key areas under the Social and Economic Policy Framework 2005-2007 but also the current efforts being undertaken directly by the Ministry of Finance outside of the framework and highlights the danger of not emphasizing stronger coordination between the different PFM reform activities. It represents the reforms currently (as of 2008) being undertaken.

Comment 6.3

As the assessment should serve to provide all donors with a common information pool on the PFM systems, procedures and practices as a way to assist with their decision making with regards to the most effective aid modalities for continuing support to Trinidad and Tobago it would be a good idea if an Action Plan could be formulated based on the results of the PEFA and discussions of the government, donors and other relevant parties. If this Action Plan cannot be included in the PEFA document, it could be done sometime in the near future. In this regard, I wish to highlight the Bank's willingness to participate in such efforts.

Response 6.3

This is a particularly welcome development and points both to efforts at improving development partner harmonization as well as the opportunity provided by the PEFA Assessment to engage with the Government on Trinidad and Tobago on PFM reform.

Comment 6.4

It may be a good idea to interview Mr Mariano Browne, the Minister within the Ministry of Finance, as based on conversations that the Bank has had with him, he has some good insights and recommendations with regard to PFMs in Trinidad and Tobago.

Response 6.4

Such on-going dialogue shall be important with respect to engaging with the government on how to support its PFM reform efforts. The PEFA Assessment intentionally does not include any recommendations with regard to PFM reform.

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