

PUBLIC EXPENDITURE AND  
FINANCIAL ACCOUNTABILITY (PEFA)

Public Financial Management  
Performance Report

**TUVALU**

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Strengthening Governance and Accountability in Pacific Island Countries (Phase 2)

Final Report  
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## Contents

Acronyms and Abbreviations.....	ii
SUMMARY ASSESSMENT .....	1
(i) Integrated assessment of PFM performance .....	1
(ii) Assessment of the impact of PFM weaknesses .....	5
(iii) Prospects for reform planning and implementation .....	6
1. INTRODUCTION .....	8
2. COUNTRY BACKGROUND INFORMATION.....	10
2.1. Description of the country economic situation .....	10
2.2. Description of budgetary outcomes .....	11
2.3. Description of the legal and institutional framework for PFM .....	13
3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS .....	15
3.1. Budget credibility .....	15
3.2. Comprehensiveness and transparency .....	19
3.3. Policy-based budgeting .....	25
3.4. Predictability and control in budget execution.....	27
3.5. Accounting, recording and reporting.....	37
3.6. External scrutiny and audit.....	41
3.7. Donor practices.....	44
3.8. Country specific issues .....	48
4. GOVERNMENT REFORM PROCESS .....	51
4.1. Description of recent and on-going reforms .....	51
4.2. Institutional factors supporting reform planning and implementation .....	52
ANNEX 1: PERFORMANCE INDICATORS SUMMARY .....	53
ANNEX 2: SOURCES OF INFORMATION .....	56

**Financial year**

The financial year of the Government of Tuvalu is the calendar year.

**Currency**

Tuvalu uses the Australian dollar, and the unit of currency in this report is the Australian dollar, unless otherwise specified.

**Acronyms and Abbreviations**

ACCPAC	The accounting software used by Tuvalu
ADB	Asian Development Bank
AGA	Autonomous Government Agency
AusAID	Australian Agency for International Development
CIF	Consolidated Investment Fund
COFOG	Classification of Functions of Government
DCC	Development Coordination Committee
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
FTF	Falekaupule Trust Fund
GDP	Gross Domestic Product
GFS	Government Finance Statistics
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
MDA	Ministries, Departments and Agencies
MTEF	Medium-term Expenditure Framework
MTEF	Medium-term Fiscal Framework
NBT	National Bank of Tuvalu
NZAID	New Zealand Agency for International Development
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PERMU	Public Enterprise Reform and Monitoring Unit
PFM	Public Financial Management
PFM-PR	Public Financial Management – Performance Report
PFTAC	Pacific Financial Technical Assistance Centre
PI	Performance Indicator
PSIP	Public Sector Investment Program
RMS	Revenue Management System
SDE	Special Development Expenditure
TIN	Tax Identification Number
TDF	Tuvalu Development Fund
TTF	Tuvalu Trust Fund
TTFAC	Tuvalu Trust Fund Advisory Committee
XB	External Budgetary

## SUMMARY ASSESSMENT

This summary identifies the main strengths and weaknesses of Tuvalu's PFM system, drawing on the detailed indicator-led analysis provided in section 3 of this report. It then attempts to gauge the extent to which weaknesses in the PFM system impact on the desired outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficiency in service delivery. Finally, an assessment is provided of the extent to which institutional arrangements within the government support a timely and adequate reform planning and implementation process.

### (i) Integrated assessment of PFM performance

The key strengths and weaknesses identified in the assessment, in relation to the core dimensions of PFM performance set out in the performance measurement framework, are described below.

#### **Credibility of the budget**

##### Strengths

- The Government of Tuvalu has developed its budget formulation process progressively, with technical support from donors, and the process now represents good international practice. The budget formulation process (underpinned by a medium-term fiscal framework, engaging Cabinet, utilising a meaningful classification system, and following a clear budget calendar with supporting budget guidelines) is a key strength of the PFM system.
- Domestic revenue estimates have been conservative in the period assessed (2007-2009), and this is considered appropriate given the volatility of some revenue items (evidenced by the deterioration in the 2010 projected revenue out-turn).

##### Weaknesses

- A good budget formulation process needs to be accompanied by a willingness to live within the budget. There is evidence of a lack of expenditure restraint in recent years, and an over use of supplementary appropriations adding to the budget during the year.

#### **Comprehensiveness and transparency**

##### Strengths

- The classification system used in the budget includes administrative, economic and program classifications, largely consistent with GFS. The budget is well put together and provides good information.
- The budget provides a comprehensive coverage of central government activity.
- Implementation of the new public enterprise legislation will add to the strength of the PFM system, bringing all public enterprises under a central performance monitoring and accountability framework for the first time.

### Weaknesses

- Historical data recorded in the budget for both revenue and expenditure have been limited to revised estimates in some years, and should include actuals consistent with the audited accounts where possible.
- Greater dissemination of information to the public on the budget and other aspects of the PFM system, through a dedicated outlet, should be encouraged.
- Oversight by the national government of the finances of sub-national governments could be strengthened by consolidated reporting on their activities, and some monitoring by the Ministry of Finance (complementing that undertaken by the Ministry of Home Affairs).

### **Policy-based budgeting**

#### Strengths

- The budget calendar is comprehensive, well organised, and widely understood within government.
- Cabinet oversees the budget formulation process through approving global and ministry ceilings at an early stage, and later considering a draft budget.
- The Medium-term Fiscal Framework (MTFF) accompanying the budget provides a forward picture of budget aggregates and identifies emerging issues. This is of particular importance in this period of lower than average returns on trust funds, and the running down of the Consolidated Investment Fund.

#### Weaknesses

- While forward projections of ministry and program allocations are prepared as a basis for setting expenditure ceilings, these are not at this stage published in the budget as part of the MTFF. Expansion of the published MTFF to include ministry and program allocations would assist in stimulating debate on resource allocation.

### **Predictability and control in budget execution**

#### Strengths

- The recent reforms to the tax system (including the introduction of a consumption tax, presumptive tax, and a unified business registration process), and the effective public education program associated with the reforms, provide a sound platform.
- Release of funding to spending agencies through quarterly warrant is working well and provides these agencies with a high degree of certainty in relation to budget execution.
- Payroll checks follow a locally developed system involving a high level committee vetting each payroll, and this appears to work well.

#### Weaknesses

- Tax administration requires considerable strengthening in order to realise revenue potential. This applies in particular to the new consumption tax.
- Improvements are needed in the system of reconciling Personnel and Training Department records with budgeted staff, during budget preparation. A formal database for the civil list managed by the Personnel and Training Department is desirable.
- Tuvalu's procurement system is at a very early stage of development, applying only to works and containing little formal guidance. It would be timely to introduce a government wide policy and regulatory framework for procurement.

- There is currently no internal audit function in the government, and this undermines the effectiveness of the internal controls contained in the Financial Instructions. Given capacity constraints the government has concerns about its ability to establish and maintain a stand-alone internal audit function, and is considering other options building on established functions.

## **Accounting, recording and reporting**

### Strengths

- The Treasury Department is characterised by keen and dedicated staff, though there are major weaknesses in some processes.
- Government's ability to track resourcing of key service delivery points such as primary schools and clinics is currently limited, but in the absence of dedicated expenditure tracking exercises will be strengthened by the development of medium-term expenditure frameworks (MTEFs) for the education and health sectors.

### Weaknesses

- Bank reconciliations are currently around four months behind, affecting the ability to accurately monitor the government's financial position.
- Problems are also experienced with the monthly reconciliation of ministry vote ledgers, and with the timeliness and regularity of accounts reconciliation in the ACCPAC accounting system.
- Management of budget execution is handicapped by the lack of regular in-year reporting against the budget. Timely distribution of monthly or quarterly expenditure reports is desirable, recognising that attention to other treasury functions such as reconciliations is needed to ensure that information in reports is sufficiently reliable.
- The annual accounts for 2009 are now long overdue (the statutory deadline for submission of these accounts for audit was 30 June 2010). It is vital that these accounts are completed quickly, to avoid compounding delays in relation to the accounts for future years.
- These important areas of concern in relation to treasury functions suggest that technical assistance is needed in the Treasury Department to guide and build capacity of staff.

## **External scrutiny and audit**

### Strengths

- Audit of the government accounts by the Auditor-General has been completed promptly and thoroughly (though noting again the delay in submitting the accounts for 2009 for audit).
- Parliamentary processes in relation to audit reports have improved in recent years. The Public Accounts Committee (PAC) reports on the audited accounts, and a Government response to the PAC report is also tabled.

### Weaknesses

- While government does respond to the PAC report on the audited accounts, more systematic follow-up of audit recommendations is needed with the Auditor-General noting many recommendations which remain outstanding from year to year.

## Donor practices

### Strengths

- There is a good working relationship between donors and Government in addressing Tuvalu's development needs.

### Weaknesses

- Information flows between donors and the Government (and vice versa) could be improved. These information flows tend to revolve around the aid programming cycles of donors, rather than the budget cycle of the government.
- The use of national procedures in the delivery of aid is rather low, being confined mainly to aid provided as direct budget support or via transfers to the Tuvalu Development Fund.

Table 1 provides a summary of the ratings allocated to the performance indicators during the assessment, with the scoring of individual dimensions of indicators also shown where applicable. Annex 1 to this report provides a summary of explanations for the overall ratings assessed for each indicator, and of cardinal data used.

**Table 1: Summary of PFM performance ratings**

Indicator	Scoring method	Dimensions				Overall rating
		(i)	(ii)	(iii)	(iv)	
<i>A. PFM out-turns: credibility of the budget</i>						
PI-1 Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2 Composition of expenditure out-turn compared to original approved budget	M1	C	A			C+
PI-3 Aggregate revenue out-turn compared to original approved budget	M1	C				C
PI-4 Stock and monitoring of expenditure payment arrears	M1	A	D			D+
<i>B. Key cross-cutting issues: comprehensiveness and transparency</i>						
PI-5 Classification of the budget	M1	A				A
PI-6 Comprehensiveness of information included in budget documentation	M1	C				C
PI-7 Extent of unreported government operations	M1	A	D			D+
PI-8 Transparency of inter-governmental fiscal relations	M2	A	A	D		B
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	M1	C↑	D			D+
PI-10 Public access to key fiscal information	M1	C				C
<i>C. Budget cycle</i>						
<i>C(i) Policy-based budgeting</i>						
PI-11 Orderliness and participation in the annual budget process	M2	B	B	C		B
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	B	A	D	D	C+
<i>C(ii) Predictability and control in budget execution</i>						
PI-13 Transparency of taxpayer obligations and liabilities	M2	B	B	D		C+
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	M2	B	D	D		D+
PI-15 Effectiveness in collection of tax payments	M1	D	B	D		D+
PI-16 Predictability in the availability of funds for commitment of expenditures	M1	C	B	A		C+
PI-17 Recording and management of cash balances, debt and guarantees	M2	C	C	D		D+
PI-18 Effectiveness of payroll controls	M1	D	B	B	C	D+
PI-19 Transparency, competition and complaints mechanisms in procurement	M2	D	D	D	D	D

Indicator	Scoring method	Dimensions				Overall rating
		(i)	(ii)	(iii)	(iv)	
PI-20 Effectiveness of internal controls for non-salary expenditure	M1	D	C	C		D+
PI-21 Effectiveness of internal audit <i>C(iii) Accounting, recording and reporting</i>	M1	D	D	D		D
PI-22 Timeliness and regularity of accounts reconciliation	M2	D	B			C
PI-23 Availability of information on resources received by service delivery units	M1	C				C
PI-24 Quality and timeliness of in-year budget reports	M1	D	D	D		D
PI-25 Quality and timeliness of annual financial statements <i>C(iv) External scrutiny and audit</i>	M1	C	B	D		D+
PI-26 Scope, nature and follow-up of external audit	M1	A	A	B		B+
PI-27 Legislative scrutiny of the annual budget law	M1	C	B	C	C	C+
PI-28 Legislative scrutiny of external audit reports <i>D. Donor Practices</i>	M1	B	B	B		B
D-1 Predictability of Direct Budget Support	M1	A	A			A
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3 Proportion of aid that is managed by use of national procedures	M1	D				D

## (ii) Assessment of the impact of PFM weaknesses

Tuvalu's relatively strong annual budget formulation process and the accompanying medium-term fiscal framework provide a sound platform for the achievement of aggregate fiscal discipline and strategic allocation of resources. However, this sound platform is undermined by the frequent use of supplementary appropriations, which in recent years have added significantly to deficits.

Weaknesses in the conduct of treasury functions impact on the efficiency of budget execution, with potential to undermine the achievement of each of the desired budget outcomes: aggregate fiscal discipline, strategic resource allocation, and efficient service delivery. Key among these weaknesses are delays in completing bank reconciliations and annual accounts, incomplete reconciliation of ministry and treasury data, absence of an effective system of in-year reporting against budget, and lack of internal audit capacity. In this environment, deficits can blow out, and spending agencies lack the timely and accurate financial information they need to manage their activities.

The efficiency of service delivery is also undermined by the lack of a government-wide policy and regulatory framework for procurement. While the local market is very small, opportunities exist for competitive procurement within the region. The current practice of purchasing goods and services through established suppliers provides no guarantees that value for money is being achieved. The tender process for works contracts via the Public Tenders Board Regulations provides insufficient checks and balances to ensure competitive and transparent procurement.

Staff costs are a major item of government expenditure, and weaknesses in the management of these costs can impact on the achievement of the desired budget outcomes. Accurate budgeting and management of staff costs would be assisted by having a formal database for personnel records, and reconciling this periodically with the payroll and establishment register.

A weakness in tax administration is limiting the realization of the growth potential in tax revenues following recent reforms in taxation. The policy and legislative framework for these reforms has been implemented successfully, as has a public education campaign, but systems for assessment, audit and appeals need to be strengthened. Attention to this area can in the medium term reduce the volatility of the revenue side of the budget, contributing to the achievement of the desired budget outcomes.

A more pro-active stance by the government in relation to the release of information to the public would make the PFM system more transparent, assist in making public officers more accountable, and help in building public confidence in the system. Greater opportunity for scrutiny of PFM processes by civil society would contribute to achieving the desired budget outcomes by highlighting excess and inefficiency, and in relation to the procurement process could be a factor in stimulating new economic activity. This is particularly important given the limited media coverage in Tuvalu, and the absence of private media.

### **(iii) Prospects for reform planning and implementation**

The government has worked effectively with donors in recent years to plan reforms in areas such as improving the budget formulation process, reforming the tax system, and bringing public enterprises under a unified performance and accountability framework. The continuing interest in and capacity for planning PFM reforms is evidenced by the activation of a PFM working group within the Ministry of Finance. The system for processing approvals for reforms through the Development Coordination Committee and on to Cabinet has also shown itself to be effective.

Implementation of reforms has been more problematic, and prospects are that this will continue to be the case. Most PFM systems are managed by a very small number of staff, and capacity built up with the support of technical assistance can be lost when one or two key staff move on to further study or new areas of work. Improvements to the budget formulation process have become embedded due to the pivotal nature of the budget process, and the high level of technical support over a long period of time. The pivotal nature of the tax system suggests that reforms introduced over the last couple of years can be embedded, with ongoing technical assistance to improve tax administration. Work undertaken to introduce an asset management system, however, was not able to be sustained. The sustainability of reforms to the operation of public enterprises will depend on the ability to retain capable staff in the Public Enterprise Reform and Monitoring Unit (PERMU) and to provide ongoing technical support to PERMU, as well as the political will to implement the new legislation. Strengthening of treasury operations through the provision of technical support to staff, as suggested elsewhere in this report, would appear to hold good prospects for sustainability due again to the pivotal nature of treasury operations and the larger number of staff involved.

It can be concluded that there is a need for careful targeting and phasing of priority reforms to PFM systems, with appropriately structured technical assistance support, to ensure that absorptive capacity is not overstretched. The target groups for capacity development in relation to PFM reforms should be defined as broadly as possible, to capture as many staff

as possible. And strengthening of capacity to operate existing systems should be pursued alongside efforts to reform PFM systems.

## 1. INTRODUCTION

1. The Government of Tuvalu sought technical assistance from the Asian Development Bank to undertake a Public Expenditure and Financial Accountability (PEFA) assessment for Tuvalu. The objective of the assessment was to take stock of PFM systems and practices in Tuvalu, and to guide the government in planning the development of these PFM systems and practices.

2. The PEFA Program has worked with the World Bank and IMF in developing a strengthened approach to supporting PFM reforms. This strengthened approach has three strands:

- i. a country-led reform program, including a Public Financial Management (PFM) reform strategy and action plan
- ii. a coordinated donor program of support
- iii. a common framework for measuring and monitoring results over time – the PFM Performance Measurement Framework

3. The PEFA assessment for Tuvalu is an application of the third strand of the strengthened approach, and the results of the assessment are reported in this PFM Performance Report. It is noted that an abbreviated PEFA assessment was undertaken for Tuvalu in 2007, while this is the first fully fledged assessment.

4. The assessment team working with the Government of Tuvalu on this exercise comprised David Hamilton (public financial management expert / team leader) and Tuafafa Latasi (consultant). The assessment team wishes to thank the Government of Tuvalu for the support provided to the team, including access to the many senior officials who contributed to the assessment. Thanks are also due to the representatives of civil society and the donor community who contributed to the assessment. Stages of the assessment over the period April to June 2011 were as follows:

7-24 April	Literature review
27 April	Meeting with donor representatives based in Suva, Fiji
29 April	Preparatory workshop in Tuvalu with government officials, representatives of civil society, and donors
28 April – 19 May	Field work in Tuvalu – interviews with “owners” and “users” of PFM systems within government, civil society and the donor community
16 May	Completion workshop in Tuvalu, presenting preliminary findings to government officials, representatives of civil society, and donors
18 May	Preparation of an aide mémoire, formally presenting the preliminary findings to the Government of Tuvalu and donors

23 May	De-brief of donor representatives in Suva, Fiji
2 June	Submission of draft PFM Performance Report
	Period of review by the government and donors
23 June	Submission of final PFM Performance Report

5. Information for the assessment was gathered from published sources (detailed in Annex 2), and from interviews with government officials, representatives of civil society, and the donor community. This assessment used the revised versions of performance indicators 2, 3 and 19, which were released by the PEFA secretariat in early 2011.

6. The assessment covers government at the national level in Tuvalu, which comprises fourteen ministries or heads of expenditure (fifteen with effect from the 2011 budget). There is a sub-national level of government in Tuvalu, the Kaupule (island councils), which is not covered in the assessment and accounts for a small share of public expenditures. Public enterprises are also not covered in the assessment. National government PFM systems relating to interaction with Kaupule and public enterprises are, however, covered in the assessment.

**Table 2: Coverage of the assessment**

<b>Institutions</b>	<b>Number of entities</b>	<b>Share of total public expenditures</b>
Ministries of the national government	14	93%
Kaupule (island councils) <sup>1</sup>	8	7%

<sup>1</sup> Consolidated data on national and sub-national public expenditures are not available and the breakdown of total public expenditures shown in the table is a rough estimate made by the assessment team, prepared utilising a sample of Kaupule annual accounts.

## 2. COUNTRY BACKGROUND INFORMATION

### 2.1. Description of the country economic situation

7. Tuvalu is a small and remote atoll nation in the Pacific Ocean, with an estimated population of just over 11,000. The nine islands making up Tuvalu have a total land area of only 26 square kilometers, spread over an exclusive economic zone of 757,000 square kilometers. Approximately half of the population lives on the atoll of Funafuti, which is home to the main center of administration, commerce, and air and sea transportation.

8. Gross Domestic Product (GDP) was estimated to be US\$27.1 million in 2009, with per capita GDP of US\$2,447. Real GDP is estimated to have grown relatively strongly from 2006 to 2008 reaching an annual growth rate of 7.0 percent in 2008, then declined by just under 2 percent in 2009, and is projected to be flat in 2010 and 2011. Inflation was moderate over the period 2006 to 2008 reaching an annual rate of 10 percent in 2008, while prices declined slightly in 2009 and 2010, and are projected to rise slightly in 2011<sup>2</sup>. Services, including government, account for roughly two thirds of GDP, while agriculture accounts for just under one quarter of GDP.

9. Tuvalu's economy is characterized by substantial offshore incomes, which make national income significantly more than GDP. The major sources of offshore income are fish licence fees paid by foreign fishing fleets, revenue from the marketing of the ".tv" internet domain name, returns from trust funds invested in overseas capital markets (mainly Australia), and income from Tuvaluans working in the international shipping market<sup>3</sup>.

10. The rate of extreme poverty (involving food shortage) was estimated to be just over 3 percent in 2010, while the rate of basic needs poverty was estimated to be 24.8 percent in 2010 (increasing from 17.5 percent in 2004/5)<sup>4</sup>. Other indicators of social and economic development include:

Life expectancy at birth (years)	64.0
Total fertility rate (births per woman)	3.2
Infant mortality rate (per 1,000 live births)	30
Births attended by skilled personnel (percent)	98
Adult literacy (percent)	99

11. Tuvalu is classified as a least developed country (LDC) by the United Nations, and is rated as extremely vulnerable on the region's Environmental Vulnerability Index (EVI), developed by the South Pacific Applied Geoscience Commission (SOPAC) and the United Nations Environment Program (UNEP)<sup>5</sup>. Tuvalu is also among the small island developing states (SIDS), as classified by the United Nations.

12. Tuvalu's national strategy for sustainable development for 2005–2015, *Te Kakeega II*, includes the government's overall reform strategy. Eight strategic areas are identified:

<sup>2</sup> IMF. 2011. *Tuvalu: 2010 Article IV Consultation – Staff Report*, page 17.

<sup>3</sup> ADB. 2006. *Tuvalu Economic Report 2006. From Plan to Action*. Pacific Studies Series, page 6.

<sup>4</sup> *Twenty-fourth Annual Report of the Tuvalu Trust Fund Advisory Committee*, page 31.

<sup>5</sup> *op cit.*, page 1.

- i. Good Governance
  - ii. Macroeconomic Growth and Stability
  - iii. Social Development: Health, Welfare, Youth, Gender, Poverty Alleviation
  - iv. Outer Island and Falekaupule Development
  - v. Employment and Private Sector Development
  - vi. Human Resource Development
  - vii. Natural Resources: Agriculture, Fisheries, Tourism, Environmental Management
  - viii. Infrastructure and Support Services
13. Under the strategic area of economic growth and stability, strategies include:
- National budget deficits not to exceed sustainable levels of 2-3% of GDP
  - Budget expenditure priorities of primary education, primary health care, and employment oriented technical and vocational education
  - Increase private sector share of GDP by 50 percent by 2015
  - External debt not to exceed 60 percent of GDP
  - Subsidies to public enterprises not to exceed 5 percent of GDP.
14. Specific priorities in relation to fiscal management include:
- Set strict compliance to fiscal targets, guidelines, and with Public Finance Act and Financial Instructions.
  - Review Public Finance Act, Financial Instructions, Stores Regulations, and other related legislation.
  - Formulate medium-term fiscal policy framework (including a multi-year budget framework) to guide budgetary performance and to attain balanced budgets.
  - Establish a Macroeconomic Policy Committee to monitor economic performance and recommend policy adjustments.
  - Restructure tax and tariff regimes to comply with regional trade agreements.
  - Improve consultations and public awareness in formulating the budget.
  - Implement the Forum Economic Ministers' Eight Principles of Accountability.
  - Reduce subsidies to public enterprises through improved management, operations and business planning.
15. It can be seen that PFM reforms are accorded high priority in the national sustainable development plan, and that a number of quite specific reforms are identified in the plan.

## 2.2. Description of budgetary outcomes

16. Central government activity is high as a proportion of GDP, as shown in Table 3. Overall balance was negative over the period 2008 to 2010, with the deficit being financed by drawdowns from the Consolidated Investment Fund (CIF). The CIF was established to provide stability to the budget of the government, and receives transfers from the larger Tuvalu Trust Fund when the market value of that fund exceeds a targeted value (which is linked to the Australian consumer price index). There have been no transfers from the TTF to the CIF since 2008 (over which period the market value of the TTF has been below the targeted value), and none are projected in the next couple of years. While there have been some other injections into the CIF from donors, the value of the CIF has been declining and

it will be unable to finance deficits continuing at the level of 2010. In 2010, government revenues declined while expenditures continued to grow, reaching a level equivalent to almost 100 percent of GDP and resulting in a deficit approaching 30 percent of GDP.

**Table 3: Central Government Budget  
(as a proportion of GDP)**

	2008	2009	2010 est.
Revenue and grants	77.4%	89.8%	69.0%
Current revenue	58.2%	59.4%	49.3%
Grants	19.2%	30.4%	19.7%
Expenditure and net lending	82.7%	93.5%	97.7%
Current expenditure	74.7%	78.0%	84.3%
Capital expenditure and net lending	8.0%	15.5%	13.5%
Overall balance	-5.3%	-3.7%	-28.7%

Source: IMF 2011. *Tuvalu: 2010 Article IV Consultation – Staff Report*

**Table 4: Budgetary Outcomes by Ministry  
(share of total expenditures)**

	2008	2009	2010 est.
A Office of the Governor General	0.5%	0.3%	0.3%
B Office of the Prime Minister	11.8%	11.0%	10.5%
C Legal Services	0.9%	0.6%	0.5%
D Parliament	1.2%	1.2%	1.7%
E Office of the Auditor General	0.5%	0.4%	0.4%
F Finance and Economic Planning	5.0%	11.1%	8.2%
G Works, Water and Energy	7.4%	9.6%	8.4%
H Health	16.1%	12.7%	14.0%
I Natural Resources and Environment	7.1%	6.2%	6.6%
J Home Affairs	6.9%	10.5%	11.8%
K Police and Prison Services	3.1%	2.7%	2.9%
L Communication, Transport and Tourism	16.3%	14.2%	16.8%
M Education, Youth and Sports	23.1%	19.2%	17.6%
N Judiciary	0.3%	0.4%	0.3%

Source: 2011 National Budget Estimates, and assessment team calculations

17. Budgetary outcomes by sector are approximated by the breakdown by ministry shown in Table 4. The data are for total core expenditure, including recurrent and special development spending by the government, and excluding donor financed project expenditure. The three largest allocations are to education; communication, transport and tourism; and health, which together account for around half of the budget. Over the period 2008 to 2010, there appears to have been a downward trend in allocations to both health and education (which accounted for around 40 percent of the budget in 2008 and just over 30 percent in 2010). Looking at a longer time series, though, the allocation to health has grown from around 10 percent of the budget in the 2002 to 2004 period to around 14 percent in 2010, while the allocation to education has declined from around 25 percent of the budget in the 2002 to 2004 period to around 18 percent in 2010. Thus, over a longer period, there

appears to have been some growth in health's share of the budget, and some decline in education's share<sup>6</sup>.

18. Table 5 provides a breakdown of the same data by economic classification. Personnel costs account for a high share of expenditure, though it is noted that this cost accounted for 38.5 percent of total core expenditure in 2004, so it has not been the main growth area in the budget in recent years<sup>7</sup>.

**Table 5: Budgetary Outcomes by Economic Classification**  
(share of total expenditures)

	2008	2009	2010 est.
Staff	38.3%	32.0%	29.5%
Unestablished staff	0.0%	1.6%	1.8%
Travel and communication	2.9%	4.3%	4.3%
Maintenance	3.5%	4.2%	4.5%
Goods and services	24.7%	19.5%	22.6%
Other expenses	24.5%	28.7%	26.3%
<i>Total Operating</i>	<i>94.0%</i>	<i>90.3%</i>	<i>89.0%</i>
Capital	4.5%	8.3%	10.0%
Loan repayment	1.5%	1.4%	1.0%
<i>Total Capital</i>	<i>6.0%</i>	<i>9.7%</i>	<i>11.0%</i>

Source: 2011 National Budget Estimates, and assessment team calculations

### 2.3. Description of the legal and institutional framework for PFM

19. Tuvalu is a constitutional monarchy with the British sovereign as Head of State, represented by a Governor-General. The unicameral parliamentary system is based on the Westminster model, with free elections and a cabinet directly responsible to the Parliament. Citizens aged 18 years and above freely and directly elect fifteen Members of Parliament whose normal term is four years. Parliament elects the Prime Minister, who selects a Cabinet from among the other Members of Parliament (the number of ministers, other than the Prime Minister, is not to exceed half of the Members of Parliament). There are no political parties.

20. Part IX of the Constitution of Tuvalu deals with finance. Section 165 requires that the raising and spending of money by the government is subject to the authorization and control of Parliament, and shall be subject to an Act of Parliament. This section also provides for a national budget to be prepared each financial year. Section 167 establishes the Consolidated Fund, into which all public money shall be paid, while other public funds can be established by Act of Parliament. Section 170 establishes the Office of the Auditor-General, section 170 provides for the independence of this office, and section 172 sets out the powers of the office, which extend to the inspection and audit of the accounts, finances and property of each branch, department, agency or instrumentality of the government.

<sup>6</sup> In the 2011 Budget, health accounts for 14.7 percent of core expenditure, and education 19.6 percent.

<sup>7</sup> Personnel costs account for 35.5 percent of the 2011 Budget.

21. The key legislation in relation to the management of public finances in Tuvalu is the Public Finance Act, which commenced on 1 October 1978 and is to be read in conjunction with Part IX of the Constitution. Regulations made under the Public Finance Act include the Financial Instructions and the Public Tenders Board Regulations. There is also an Audit Act, which expands on the provisions of the Constitution relating to the Auditor-General.
22. Other relevant legislation includes that relating to taxation (the Income Tax Act, the Customs Act, the Consumption Tax Act 2008, the Excise Tax Act, etc.), the Government Borrowing and Guarantee Act, the Public Enterprises (Performance and Accountability) Act 2009, and the Falekaupule Act (and supporting financial guidelines) which deals with sub-national government.
23. The Planning and Budget Department of the Ministry of Finance coordinates the preparation of the annual national budget, and the updating of the medium-term fiscal framework. A Macroeconomic Policy Committee, with membership from within government and the finance sector, assists with the analysis of the macroeconomic setting for the budget. Line ministries make submissions in relation to their budgets, which are guided by ceilings approved by Cabinet.
24. The Treasury Department of the Ministry of Finance is responsible for government accounting. It manages the government's financial management information system (ACCPAC), and this system is now accessible on a read-only basis by most ministries. Line ministries maintain their own vote ledgers, which are reconciled monthly with the Treasury records. Treasury is also responsible for producing the annual accounts of the government.
25. The Customs Department and the Inland Revenue Department administer legislation in relation to customs and taxation.
26. A newly established Public Enterprise Reform and Monitoring Unit (PERMU) is responsible for administering the requirements of the Public Enterprises (Performance and Accountability) Act 2009, including the processing of corporate plans, quarterly and annual reports from public enterprises.
27. The Ministry of Home Affairs exercises an oversight function in relation to Kaupule (island councils), though Kaupule have a significant degree of autonomy.
28. The scale of PFM operations in Tuvalu is small, and processes are highly centralized in the Ministry of Finance. The number of posts in the relevant sections of the Ministry of Finance (excluding posts not available for recruitment) is Planning and Budget (eight), Treasury (seventeen), Customs (eleven), Tax (six), and PERMU (two). Lack of staff with formal qualifications is a constraint in a number of areas, but particularly in Treasury.
29. The Office of the Auditor-General is responsible for auditing the accounts of government, Kaupule, and public enterprises. Audit of most public enterprises is contracted out.

## 3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

### 3.1. Budget credibility

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

30. The annual National Budget Estimates as approved by Parliament provide the original approved budget for the Government of Tuvalu. Copies of these estimates for the years 2007, 2008, 2009, 2010 and 2011 were obtained from the Planning and Budget Department of the Ministry of Finance.

31. Primary expenditure is best reflected in the estimates in the summary tables of core expenditure, which capture expenditure from the Consolidated Fund and exclude externally financed project expenditure. Externally financed project expenditure is shown separately (as external budgetary or XB expenditure). Core expenditure is presented using both an economic classification, grouped into operating and capital expenditure, and an administrative classification, grouped into recurrent expenditure and government funded project expenditure (special development expenditure or SDE) by ministry.

32. Core expenditure in the estimates contains a limited amount of debt servicing expenditure (annual service fees and repayment of principal for soft loans from ADB and EIB, interest on bank overdraft, and partial settlement of a long standing overdraft with NBT associated with outer island agency suspense accounts), and this is identifiable within the budget estimates.

33. Actual primary expenditure for previous years, consistent with the audited accounts of the Government of Tuvalu, is not currently shown in the budget estimates<sup>8</sup>. For example, the comparative figures for 2007 and 2008 shown in the budget estimates for 2011 remain the revised estimates for these years used in preparing the 2008 and 2009 budget estimates respectively (with these estimates having been prepared before the end of the respective financial years). The most recent audited accounts are for 2008. The accounts for 2009 are yet to be submitted to the Auditor-General. However, the budget out-turn for 2009 contained in the 2011 budget estimates can be considered to be close to final (with the presentation of these estimates to Parliament being delayed until April 2011). The revised estimates for 2010 contained in the 2011 budget estimates are not considered close to final, as the statutory period for the submission of the 2010 accounts to the Auditor-General has not yet expired.

34. Audited accounts for the Government of Tuvalu provide some comparisons between budgeted and actual expenditure. However, the budget figures take account of virements and supplementary appropriations and thus do not reflect the original approved budget. It is also noted that the budget estimates are prepared on a cash basis, while the annual accounts for 2007 and 2008 were prepared on a modified accrual basis.

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<sup>8</sup> The last year for which actual expenditure is shown in the budget estimates is 2004, reported in the 2008 budget.

35. The three year period used in the calculations associated with indicator PI-1 is 2007, 2008 (for which both original approved budget and audited accounts are available) and 2009 (for which original approved budget and a reliable budget out-turn are available). It was not possible to use the same source to obtain all budgeted and actual expenditure, as explained above.

**Table 6: Primary expenditure – variance between original budget and actual**

Primary expenditure	2007	2008	2009
Original budget (\$m)	23.971	24.949	30.370
Actual (\$m)	24.341	27.469	31.146
Variance	1.5%	10.1%	2.6%

Source: National Budget, and utilizing spreadsheet template prepared by PEFA

Indicator	2011 score	Meaning of the score
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	M1 scoring method used
<i>(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).</i>	A	<i>In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure</i>

36. An explanation of the system of scoring used for performance indicators, and dimensions of indicators, is provided in Annex 1.

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

37. The annual National Budget Estimates do not provide a functional classification of expenditure consistent with IMF Government Finance Statistics (GFS) / Classification of Functions of Government (COFOG). The estimates provide an administrative classification by ministry, with programs and sub-programs within ministries. The administrative classification is reflective of the main functions of government, and the breakdown by the fourteen heads of expenditure<sup>9</sup> is used for the calculations associated with this indicator. The same primary expenditure data are used for this indicator as for PI-1, with consideration given to specific allocations for contingencies.

38. Significant variations in actual expenditure from the original approved budget can be seen for the Ministry of Health and the Ministry of Works, Water and Energy. The allocation in the budget for contingencies is small, as is expenditure against this allocation, with unforeseen expenditures being addressed through a liberal recourse to supplementary appropriations. A larger (though tightly controlled) contingencies allocation to cover unforeseen circumstances might provide better protection to the overall integrity of the budget<sup>10</sup>, as an alternative to this reliance on supplementary appropriations<sup>11</sup>.

<sup>9</sup> An additional head of expenditure has been added in the 2011 budget.

<sup>10</sup> See *Twenty-fourth Annual report of the Tuvalu Trust Fund Advisory Committee*, page 3.

<sup>11</sup> While recourse to supplementary appropriations should generally be viewed as poor financial management, and it seems desirable for existing provisions in relation to supplementary appropriations to be applied more restrictively, another option would be to amend the Public Finance

Table 7: Composition of expenditure

Head of expenditure	2007		2008		2009	
	Budget (\$m)	Actual (\$m)	Budget (\$m)	Actual (\$m)	Budget (\$m)	Out-turn (\$m)
A Office of the Governor General	0.100	0.081	0.111	0.137	0.109	0.100
B Office of the Prime Minister	3.301	2.996	3.530	3.829	3.780	3.638
C Legal Services	0.262	0.285	0.384	0.190	0.240	0.186
D Parliament	0.443	0.491	0.370	0.391	0.355	0.390
E Office of the Auditor General	0.171	0.164	0.153	0.167	0.178	0.135
F Finance and Economic Planning	1.430	1.440	1.611	1.551	2.413	1.924
G Works, Water and Energy	1.016	1.933	1.530	1.650	2.335	3.189
H Health	2.494	3.247	2.739	4.346	3.465	4.216
I Natural Resources and Environment	1.855	1.942	1.982	1.857	1.940	2.054
J Home Affairs	1.617	1.518	1.449	1.503	3.406	3.043
K Police and Prison Services	0.951	1.004	0.956	1.240	0.942	0.894
L Communication, Transport and Tourism	3.746	3.072	4.113	4.176	4.381	4.714
M Education, Youth and Sports	6.490	5.675	5.872	6.321	6.493	6.371
N Judiciary	0.085	0.069	0.140	0.103	0.150	0.132
Contingency	0.010	0.424	0.010	0.008	0.181	0.159
<i>Total</i>	<i>23.971</i>	<i>24.341</i>	<i>24.949</i>	<i>27.469</i>	<i>30.370</i>	<i>31.146</i>
Variance (dimension i)		15.9%		11.2%		11.3%
Contingency share (dimension ii)		1.8%		0.0%		0.5%

Source: National Budget, and calculated using the methodology and spreadsheet template provided on the PEFA website [www.pefa.org](http://www.pefa.org)

Indicator	2011 score	Meaning of the score
PI-2 Composition of expenditure out-turn compared to original approved budget	C+	M1 scoring method used
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	C	Variance in expenditure composition exceeded 15% in no more than one of the last three years
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget

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

39. As in the case of indicators PI-1 and PI-2, the original budget data for this indicator were sourced from the annual budget estimates, actual domestic revenue for 2007 and 2008 were sourced from the annual accounts, and the out-turn for 2009 was sourced from the 2011 budget estimates.

40. It can be seen that over the period 2007 to 2009, actual domestic revenue came in consistently above budget. Higher than expected revenue from the licensing of foreign

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Act and Financial Instructions to allow supplementary appropriations to be financed through reallocation between heads of expenditure (though this has its own potential downside in terms of eroding the certainty of allocations to spending agencies in the budget).

fishing vessels was a major contributing factor. This is a significant revenue item, accounting for 44 percent of the out-turn in domestic revenue for 2009 and 27 percent of the 2011 budget for domestic revenue. Revenue from fishing licenses is difficult to estimate, given that agreements with foreign fishing nations are linked to fisheries catch which can vary substantially with weather patterns, and is also subject to exchange rate fluctuations.

41. The volatility of some major items of domestic revenue justifies a conservative approach to revenue estimation, and it is noted that the projected out-turn of domestic revenues for 2010 suggests a reversal of the trend for actual revenues to be significantly above budget.

**Table 8: Domestic revenue – variance between original budget and actual**

<b>Domestic revenue</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Original budget (\$m)	14.212	16.790	18.775
Actual (\$m)	16.062	19.876	20.763
Variance	113%	118%	111%

Source: National Budget, and utilizing spreadsheet template prepared by PEFA

<b>Indicator</b>	<b>2011 score</b>	<b>Meaning of the score</b>
PI-3 Aggregate revenue out-turn compared to original approved budget	C	M1 scoring method used
<i>(i) Actual domestic revenue compared to domestic revenue in the originally approved budget</i>	C	<i>Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the last three years.</i>

#### **PI-4 Stock and monitoring of expenditure payment arrears**

42. The government accounting system, both in terms of the management of Vote Ledgers at the ministry level and at the central level via the use of the ACCPAC financial management information system, does not capture expenditure arrears and the age structure of arrears in a satisfactory manner.

43. From 2007, some of the payables controls were re-centralized within Treasury, such that invoices are now sent direct to Treasury for entry into ACCPAC before ministries raise general payment vouchers. With this change, Treasury is able to list outstanding invoices at any point in time but is not able to determine which of these invoices are overdue for payment. There is unused capacity in ACCPAC to better manage commitments and arrears, and this could be a target for the future development of the accounting system.

44. Annual financial statements disclose accounts payable (in effect unpaid invoices, which are not necessarily in arrears), and the year-end close-off procedures involve finalizing as many payments as possible before the accounts are closed for the year. The level of accounts payable at the end of the financial year, as reported in the annual financial statements, was \$0.374 million in 2007 and \$0.398 million in 2008. Accounts payable, which should exceed the stock of arrears, are therefore at a level of less than 2 percent of total expenditure. Accounts are yet to be finalized for 2009 and 2010.

45. The Planning and Budget Department of the Ministry of Finance has worked with the Tuvalu Trust Fund Advisory Committee to prepare a database for public debt, including debt servicing obligations. No evidence was found of Tuvalu not meeting debt servicing obligations, though problems did arise at the beginning of 2011 due to restrictions on expenditure as a result of the delay in passing the 2011 budget. These restrictions placed pressure on the ability to make debt servicing payments.

Indicator	2011 score	Meaning of the score
PI-4 Stock and monitoring of expenditure payment arrears	D+	M1 scoring method used
<i>(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock</i>	A	<i>The stock of arrears is low (i.e. is below 2% of total expenditure)</i>
<i>(ii) Availability of data for monitoring the stock of expenditure payment arrears</i>	D	<i>There is no reliable data on the stock of arrears from the last two years</i>

## 3.2. Comprehensiveness and transparency

### PI-5 Classification of the budget

46. Tuvalu's budget documentation provides administrative, economic and functional (program) classifications of expenditure and revenue. The budget uses a common chart of accounts with the accounting system, which is designed to be GFS compatible. This comprehensive budget classification system has been developed by the government, with long-term technical assistance in the Planning and Budget Department.

47. The administrative classification is by head of expenditure, with these heads corresponding to ministries. The economic classification derives from the 1986 GFS manual, as the budget is prepared on a cash basis. Thus expenses are grouped under headings of operating and capital expenditure. Not all categories of expenditure set out in the 1986 GFS classification are disclosed (e.g. interest, grants and subsidies), while some loan amortization is included as expenditure. The program and sub-program classification within ministries is adapted to Tuvalu's needs, but is consistent with the COFOG sub-function level classification. The administrative classification by ministry captures a number of the ten functions in the COFOG function level classification.

48. In-year reporting on the execution of the budget is the subject of PI-24, and while this is a weak area in Tuvalu's PFM system this is not due to the classification system.

Indicator	2011 score	Meaning of the score
PI-5 Classification of the budget	A	M1 scoring method used
(i) <i>The classification system used for formulation, execution and reporting of the central government's budget</i>	A	<i>The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)</i>

### PI-6 Comprehensiveness of information included

49. Budget documentation submitted to Parliament in relation to the 2011 budget included the program estimates and summary sheets (including the medium-term fiscal framework), and a separate volume of program descriptions. The medium-term fiscal framework does address the fiscal deficit and the financing of the deficit, though it tends to stand alone in the budget documentation without detailed explanation and there are differences with the rest of the budget in the way some items are presented.

50. A range of other information is prepared in support of the budget, including a detailed report to the Macroeconomic Policy Committee explaining the medium-term fiscal framework and its macroeconomic context, and the budget speech which among other things includes information on new policy initiatives in the budget.

51. Taken together, this information covers most of the nine areas listed below, though the score allocated to PI-6 reflects only the coverage of the budget documentation submitted to Parliament.

Information included in budget documentation	Yes / No
i. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	No
ii. Fiscal deficit, defined according to GFS or other internationally recognized standard	No
iii. Deficit financing, describing anticipated composition	No
iv. Debt stock, including details at least for the beginning of the current year	No
v. Financial Assets, including details at least for the beginning of the current year	No
vi. Prior year's budget outturn, presented in the same format as the budget proposal	Yes
vii. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes
viii. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year	Yes
ix. Explanation of budget implications of new policy initiatives, with estimates of the	No

budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

Indicator	2011 score	Meaning of the score
PI-6 Comprehensiveness of information included	C	M1 scoring method used
<i>(i) Share of the required information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met)</i>	C	<i>Recent budget documentation fulfills 3 to 4 of the 9 information benchmarks</i>

### PI-7 Extent of unreported government operations

52. No significant extra-budgetary expenditure was identified in the course of the assessment, and the most recent reports of the Auditor-General on the accounts of the government (relating to the 2007 and 2008 financial years) do not identify extra-budgetary expenditure. A possible example is the operation of a shipping register by an agent in Singapore on behalf of government. Revenue is derived from this source and appears in the budget, though this appears to involve netting off of the costs of operation outside the budget. Operation of the register may also involve contingent liabilities for the government.

53. The budget documentation contains details of donor funded projects, including both projects involving cash transfers to the Tuvalu Development Fund and those involving aid in kind (including out-turns for the previous year). However, in-year reporting on budget expenditure and the annual financial statements do not report on the execution of these projects.

Indicator	2011 score	Meaning of the score
PI-7 Extent of unreported government operations	D+	M1 scoring method used
<i>(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports</i>	A	<i>The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure)</i>
<i>(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports</i>	D	<i>Information on donor financed projects included in fiscal reports is seriously deficient</i>

### PI-8 Transparency of inter-governmental fiscal relations

54. The second tier of government in Tuvalu is the island council (Kaupule), established under the Falekaupule Act. The Falekaupule is the traditional assembly in each island, while the Kaupule is the executive arm of the Falekaupule. Eight Falekaupule are established under the act. Part VII of the Falekaupule Act deals with financial provisions and audit, while Part VIII deals with community development tax and other rates. The act provides for a significant level of autonomy from the national government for Falekaupule.

55. There is a range of fiscal transfers from the national government to Kaupule:

- i. Salaries of five key positions in the Kaupule are funded by the national government.

- ii. Tied grants are provided in relation to lease of land for public facilities, topping up amounts allocated by Kaupule (there is some variation in the rate of subsidy paid by the national government, as Kaupule pay varying rates for land leases, though these differences are transparent).
- iii. Block grants are also provided to Kaupule to assist in funding their operations, based on a formula which weights resident population (50 percent) and freight rates (20 percent), with the remaining 30 percent allocated evenly across Kaupule.
- iv. Funding in relation to some outer island projects under the budget of the Ministry of Home Affairs is also transferred to Kaupule, where there is capacity to implement these projects.

56. Funding in the 2011 national budget for the first three types of transfer amounts to \$0.9 million, while some of the \$1.2 million allocated in the national budget to outer islands projects will also be transferred to Kaupule. These transfers are administered transparently, and there is certainty in relation to disbursement of funds. The financial year of Kaupule is staggered by one quarter in relation to the financial year of the national government, to provide them with a sound basis for budget preparation. Kaupule play a role in the delivery of basic services such as basic education and primary health care, though the main responsibility for these services remains with the national government.

57. Reporting by Kaupule is of variable timeliness and quality, and there is no consolidation undertaken of national government and Kaupule accounts. Kaupule accounts tend to be produced manually or with simple accounting software, limiting the capacity to produce information consistent with the system used at the national level. The Falekaupule Act requires annual accounts to be submitted to the Minister for Home Affairs and to the Auditor-General for audit. The audit report is required to be tabled in Parliament<sup>12</sup>. Monitoring of Kaupule by the national government is limited, with a general view held that detailed monitoring and review processes would impinge on the autonomy of Falekaupule. Grants are not withheld by the national government if Kaupule are behind in the preparation of accounts.

58. A Falekaupule Trust Fund has been established to provide Kaupule with the same sort of financial security as provided at the national level by the Tuvalu Trust Fund.

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<sup>12</sup> The Office of the Auditor-General is currently working on a report to Parliament in relation to the annual accounts of Kaupule up to 2008. This will be the first audit report to Parliament on Kaupule accounts since the late 1990's.

Indicator	2011 score	Meaning of the score
PI-8 Transparency of inter-governmental fiscal relations	B	M2 scoring method used
<i>(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)</i>	A	<i>The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems</i>
<i>(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year</i>	A	<i>SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes</i>
<i>(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories</i>	D	<i>Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all</i>

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

59. Central government monitoring of public enterprises has been strengthened significantly through the introduction of the Public Enterprise (Performance and Accountability) Act 2009. This legislation came into effect in December 2010. No other autonomous government agencies (AGAs) were identified.

60. Among other things the new public enterprise legislation provides for the establishment of a Public Enterprise Reform and Monitoring Unit (PERMU) in the Ministry of Finance. It also requires corporate plans, quarterly reports and an annual report and audited accounts to be submitted to the Ministry of Finance. The Auditor-General is appointed auditor for public enterprises, and can be requested to carry out performance audits. The Secretary for Finance is also empowered to undertake performance assessments of public enterprises when deemed necessary.

61. The act applies to the following public enterprises: National Bank of Tuvalu, Development Bank of Tuvalu, Telecommunications Corporation, Vaiaku Lagi Hotel, Electricity Corporation, Fishing Corporation, Philatelic Bureau (deemed Public Trading Enterprises), and the Maritime Training Institute (deemed a Public Beneficial Enterprise).

62. Prior to the introduction of the Public Enterprise (Performance and Accountability) Act, the monitoring of public enterprises was inadequate, and left largely in the hands of individual line ministries<sup>13</sup>. The legislation is comprehensive, and has the potential to vastly improve the Government's management of public enterprises. However, the legislation is new, and the full impact on the operation and monitoring of public enterprises is not yet seen. The first annual reports prepared under the provisions of the new legislation (relating to the 2010 financial year) were due at the end of April 2011, and were still coming in at the

<sup>13</sup> For a summary of the situation prior to the introduction of the new public enterprise legislation, see ADB. 2008. *Proposed Asian Development Fund Grant. Tuvalu: Improved Financial Management Program*. Report and Recommendation of the President to the Board of Directors. Manila. Page 7.

time of the assessment. Quarterly reporting has commenced. PERMU is operating and has a staff of two (consistent with its establishment for 2011 in the Establishment Register). Effective implementation of the new public enterprise legislation is a significant challenge for the government, and ongoing technical support to PERMU is likely to be needed.

63. In relation to sub-national governments, the Falekaupule Act gives a high degree of autonomy to Kaupule (island councils). Kaupule are able to borrow locally in Tuvalu, without seeking approval from the national government. The accounts of Kaupule are subject to audit by the Auditor-General and the audited accounts are tabled in Parliament (and are required to be published at the Kaupule office). Accounts are copied to the responsible minister in the national government (the Minister of Home Affairs), but there is no requirement for budgets to be submitted to the minister<sup>14</sup>. The Minister does have the power to access records of Kaupule upon request. At present there is monitoring of Kaupule budgets and accounts by the national government via the Ministry of Home Affairs. There is little monitoring by the Ministry of Finance, and no consolidated reporting on their activities.

Indicator	2011 score	Meaning of the score
PI-9 Oversight of aggregate fiscal risk from other public sector entities	D+	M1 scoring method used
(i) Extent of central government monitoring of AGAs and PEs	C↑	Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. New legislation in place to bring public enterprises under central monitoring
(ii) Extent of central government monitoring of SN governments' fiscal position	D	No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete

#### PI-10 Public access to key fiscal information

64. Processes for the release of fiscal information to the public are very limited in Tuvalu. Key documents such as the budget, annual financial statements and external audit reports are tabled in Parliament, and therefore become public documents. The budget documents are available for sale to the public in hard copy, and electronic copies are provided free of charge. A dedicated outlet for public information of this kind would provide greater transparency, particularly in an environment where there is no private media.

65. In relation to the other elements of public access to information listed below, in-year budget execution reports and reports on resources available to primary service units are not produced, while there is no established system to publish contract awards.

66. A comprehensive and user friendly website has been established for Tuvalu legislation ([www.tuvalu-legislation.tv](http://www.tuvalu-legislation.tv)), but there is no similar website for fiscal information including budgets, financial statements and audit reports, contract awards and annual reports of the Tuvalu Trust Fund Advisory Committee.

<sup>14</sup> Though the Ministry of Home Affairs advises that in practice Kaupule do provide copies of their budgets to the Ministry for information and monitoring.

Element of public access to information	Yes / No
i. Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature	Yes
ii. In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion	No
iii. Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit	No
iv. External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit	No
v. Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means	No
vi. Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics)	No

Indicator	2011 score	Meaning of the score
PI-10 Public access to key fiscal information	C	M1 scoring method used
<i>(i) Number of the required elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)</i>	C	<i>The government makes available to the public 1-2 of the 6 listed types of information</i>

### 3.3. Policy-based budgeting

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

67. Tuvalu has a well established budget calendar, and a comprehensive circular is issued to provide guidance on budget preparation. Participation by Cabinet in the budget preparation process includes consideration and approval of the MTF and expenditure ceilings at an early stage, and review and approval of the draft budget. Steps involved in budget preparation during 2010 (in relation to the 2011 budget) included:

- Circular initiating the budget preparation process issued on 15 July 2010
- Circular issuing general guidelines and instructions on budget preparation issued on 3 August 2010
- Circular with final call for submissions, and release of budget ceilings approved by Cabinet on 25 August 2010.

68. Preparation of the 2011 budget was disrupted by delays in obtaining Cabinet approval of global and ministerial ceilings (resulting in the ceilings not being released until just after the deadline for ministerial budget submissions), and further disrupted by changes of government due to an election in September and a motion of no confidence soon afterwards.

69. The draft budget calendar for the preparation of the 2012 budget provides for a more orderly process, with key dates in 2011 being:

- MTFF submitted to Cabinet and overall expenditure envelope agreed upon on 15 July, following consideration by the Macroeconomic Policy Committee
- Budget guidelines including global and ministerial ceilings issued to ministries on 22 July
- Budget submissions due from ministries by 19 August, followed by budget rounds with ministries
- Draft budget considered by the Development Coordination Committee at end September
- Cabinet review of Draft budget in early October
- Cabinet approval of Draft budget by 21 October
- Budget session of Parliament commences 9 November.

70. The 2009 and 2010 budgets were approved by Parliament before the end of the preceding financial year, while the 2011 budget was not approved by Parliament until April 2011.

Indicator	2011 score	Meaning of the score
PI-11 Orderliness and participation in the annual budget process	B	M2 scoring method used
<i>(i) Existence of and adherence to a fixed budget calendar</i>	<i>B</i>	<i>A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time</i>
<i>(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)</i>	<i>B</i>	<i>A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission</i>
<i>(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)</i>	<i>C</i>	<i>The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year</i>

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

71. Tuvalu presents a Medium-term Fiscal Framework (MTFF) with the annual budget, and uses the framework to manage fiscal aggregates in the budget. The MTFF provides forecasts of the main taxes and revenues for the coming budget year and the two following years, and forecasts of major types of expenditure using an economic classification. Forward estimates using functional or program classifications are not published, but are produced and used in setting ministerial ceilings. The MTFF is updated each year, following consideration of the macroeconomic context. It is then considered by a Macroeconomic Policy Committee and submitted to Cabinet, together with recommendations in relation to global and ministerial budget ceilings.

72. A Debt Risk Management and Mitigation Policy was approved by Cabinet in 2009, and the internal and external debt position is considered each year in the submission presenting the MTFP to Cabinet. The Planning and Budget Department works with the Tuvalu Trust Fund Advisory Committee to update the debt database on a regular basis. Under the current development plan (Te Kakeega II 2005-2015) a key target in relation to economic growth and stability is for external debt not to exceed 60 percent of GDP. This target has been adopted by government as a performance benchmark (and tightened to cover total debt, both external and internal), and is monitored by the Tuvalu Trust Fund Advisory Committee on an annual basis. These measures provide the Government of Tuvalu with a working process of debt sustainability analysis. A more formal debt sustainability analysis is currently being undertaken by the World Bank, associated with Tuvalu having become a member.

73. Fully costed sector strategies are not generally available, though work is underway to prepare sectoral Medium-term Expenditure Frameworks (MTEFs) for the Education and Health sectors. In the absence of tools such as these sectoral MTEFs, the linkages between investment planning and recurrent budget preparation are currently weak.

Indicator	2011 score	Meaning of the score
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	M2 scoring method used
(i) Preparation of multi-year fiscal forecasts and functional allocations	B	Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained
(ii) Scope and frequency of debt sustainability analysis (DSA)	A	DSA for external and domestic debt is undertaken annually
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	D	Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure. Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure
(iv) Linkages between investment budgets and forward expenditure estimates	D	Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared

### 3.4. Predictability and control in budget execution

#### PI-13 Transparency of taxpayer obligations and liabilities

74. A reform of the taxation system was undertaken in 2008, introducing a consumption tax on taxable supplies and taxable imports, and amending the income tax legislation to apply a presumptive tax to businesses with a turnover of less than \$100,000. The new tax structure became effective on 1 July 2009. Design of the reform was assisted by a 2004 report prepared by the Pacific Financial Technical Assistance Centre (PFTAC).

75. The key legislation governing the tax system comprises the Income Tax Act and the Consumption Tax Act, administered by the Inland Revenue Department of the Ministry of Finance, and the Customs Act and Excise Act, administered by the Customs Department of the Ministry of Finance. Import duties, the largest source of tax revenue, are levied under the Customs Act. The Customs Department is also involved in the collection of that element of the consumption tax levied at the import level. This key legislation is clear and comprehensive, though the Customs Act is considered to be out-dated and in need of review. Both the Income Tax Act and the Customs Act provide discretionary powers to the responsible Minister to exempt or amend tax liabilities, while the new Consumption Tax Act does not include similar discretionary powers.

76. Other taxes collected include an airport departure tax, a room tax applying to hotels and guest houses, and a special import levy which is applied to the subsidization of freight rates to outer islands. These taxes are governed by the Civil Aviation (Departure Tax) Regulations, the Room Tax Act and the Import Levy Fund Act respectively; legislation which is clear and adequate.

77. Associated with the reform of the tax system, the Inland Revenue Department has conducted a public education program involving workshops in Funafuti and in outer islands, radio programs and a newsletter. The work of the Inland Revenue Department in this regard drew favorable comment from both government and non-government people interviewed in the course of the assessment. The Customs Department was also involved in the initial public education program in relation to the reform of the tax system, but is less active in ongoing public education.

78. The Income Tax Act contains an appeals process, with this same process applying to the Consumption Tax Act. The appeals process is not well understood in the Inland Revenue Department, and has not been used. There is no appeals process in the Customs Act.

<b>Indicator</b>	<b>2011 score</b>	<b>Meaning of the score</b>
PI-13 Transparency of taxpayer obligations and liabilities	C+	M2 scoring method used
<i>(i) Clarity and comprehensiveness of tax liabilities</i>	<i>B</i>	<i>Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved</i>
<i>(ii) Taxpayer access to information on tax liabilities and administrative procedures</i>	<i>B</i>	<i>Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns</i>
<i>(iii) Existence and functioning of a tax appeals mechanism</i>	<i>D</i>	<i>No functioning tax appeals system has been established</i>

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

79. Businesses are required to register with the Industries Department of the Ministry of Finance, under the provisions of the Companies and Business Registration Act. Under the

reforms to the taxation system introduced in 2009, taxpayer registration is linked to the business registration process. As part of the registration process, businesses are issued a unique tax identification number (TIN), which is used by the Inland Revenue Department, Customs Department and the Tuvalu National Provident Fund. The Inland Revenue Department undertakes field surveys to verify the registration data. Customs entries are not accepted from businesses unless a TIN is provided.

80. The Companies and Businesses Registration Act provides penalties for non-registration, though these are not enforced. The Income Tax Act provides penalties for failure to file a tax return, and late filing of returns. While the existence of these penalties is thought by the Inland Revenue Department to have some impact on compliance, they have not been enforced. The Customs Act contains penalties for false declarations, but these are considered to be too low to be effective and are rarely enforced.

81. The Income Tax Act makes provision for tax audits and fraud investigations, but none have been completed due to capacity constraints. The Inland Revenue Department is now trying to address these capacity constraints, and four audits have commenced under the guidance of an advisor funded by PFTAC.

Indicator	2011 score	Meaning of the score
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D+	M2 scoring method used
(i) Controls in the taxpayer registration system	B	Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed)
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	Tax audits and fraud investigations are undertaken on an ad hoc basis if at all

### PI-15 Effectiveness in collection of tax payments

82. Experience since the reform of the taxation system in 2008 and 2009 has uncovered weaknesses in tax administration, which are impacting on revenue. Compliance in relation to the new consumption tax has been identified as a particular problem, with many taxpayers not submitting returns because of lack of familiarity with the processes associated with the tax<sup>15</sup>.

83. The Inland Revenue Department currently uses spreadsheet based systems to manage tax information including assessments, collections, and arrears records. In most cases customs duty must be paid before goods can be cleared, so arrears only arise in special cases (such as goods bought in by ship's crew) where clearance is allowed prior to payment. Prior to 1 March 2011 all tax payments were made direct to Treasury, but from this date the Inland Revenue Department has its own cashier, which is shared with the Customs Department. Tax collections are paid to Treasury weekly. This change has made the management of tax payments easier for both the Inland Revenue Department and the

<sup>15</sup> IMF. 2011. *Tuvalu: 2010 Article IV Consultation – Staff Report*, page 7.

Customs Department. Under the current system, full accounts reconciliation covering assessments, collections, and arrears, is not undertaken by either department.

84. The Inland Revenue Department plans to use the Revenue Management System (RMS), a computerized tax administration system used in a number of Pacific island nations, to improve performance. This system has been installed, but is not yet operational due to budgetary constraints relating to annual fees.

85. The Customs Department uses the PC-Trade system as a computerized management tool. This system is oriented more towards trade statistics than customs work. It is also being phased out, and support will no longer be available after a period. The Customs Department is examining options for a replacement system, with assistance from the Oceania Customs Organization.

Indicator	2011 score	Meaning of the score
PI-15 Effectiveness in collection of tax payments	D+	M1 scoring method used
(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 (average of the last two fiscal years)	D	This is the default score. No system for managing tax arrears is in place.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	Revenue collections are transferred to the Treasury at least weekly
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay.

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

86. The Ministry of Finance prepares a monthly cash flow forecast along with the budget, assuming pro-rata spending unless additional information is available to refine the forecast for particular items of expenditure. The cash flow forecast is not updated regularly, though monitoring of the cash position at an aggregate level is undertaken.

87. Funds are released to ministries on a quarterly basis, at a rate of 25 percent per quarter unless ministries have applied to the Ministry of Finance for variation to this general rule due to the nature of their expenditures. The release is generally made in the first month of each quarter.

88. The processes in relation to virements and supplementary appropriations are explained under indicator PI-27. In the discussion of that indicator, the frequent recourse to supplementary appropriations is noted. In recent years, these processes have been instigated by ministries to adjust and/or increase expenditure. They have not been used to cut budgets at the instigation of the Ministry of Finance<sup>16</sup>, as a result of factors such as shortfalls in revenue.

<sup>16</sup> Under Tuvalu's Public Finance Act, supplementary appropriations can only be used to add to the budget, while virements relate to transfers within a head of expenditure.

Indicator	2011 score	Meaning of the score
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	M1 scoring method used
(i) Extent to which cash flows are forecast and monitored	C	A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	MDAs are provided reliable information on commitment ceilings at least quarterly in advance.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	A	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way

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

89. Tuvalu's public debt is high by regional standards at about 44 percent of GDP, though debt servicing is relatively low as most external debt is on concessional terms<sup>17</sup>. This suggests that debt management should be accorded high priority. The annual financial statements of the government include a statement of public debt, covering both domestic and external debt. As reported under indicator PI-12, a Debt Risk Management and Mitigation Policy was approved by Cabinet in 2009, and the internal and external debt position is considered each year in the submission presenting the MTF to Cabinet. The Planning and Budget Department works with the Tuvalu Trust Fund Advisory Committee to update the debt database on a regular basis.

90. Government receipts and payments related to the Consolidated Fund are operated through one bank account with the National Bank of Tuvalu (the "General Account"). A separate account is maintained at the same bank for donor funded project activity under the Tuvalu Development Fund. There are other bank accounts related to operations overseas and special funds, though balances are small.

91. Contracting of loans and issuance of government guarantees is regulated by the Government Borrowing and Guarantee Act. Authority to raise loans rests with the Minister of Finance in Cabinet, and loans and their terms must be approved by Parliament. The Minister of Finance has the authority to guarantee loans, provided that the purpose of loans is approved by Parliament and the Minister is satisfied that the contingent liability associated with the guarantee can be managed. The Auditor-General has questioned the legality of loan guarantees issued to Air Fiji Limited<sup>18</sup>. While not questioning the authority of the Minister of Finance to issue the guarantee, the Auditor-General questioned whether the provision of the Government Borrowing and Guarantee Act requiring Parliament to approve the purpose of loans was met. The Auditor-General also noted that the Development Coordination Committee had agreed to guarantees relating to borrowing by the Tuvalu Electricity Corporation, when this was not within their power.

<sup>17</sup> IMF. 2011. *Tuvalu: 2010 Article IV Consultation – Staff Report*. Washington, D.C. page 4. This reference also notes that the government may have other external debt relating to joint ventures with foreign fishing companies.

<sup>18</sup> *Report of the Auditor-General on the Accounts of the Government of Tuvalu for the year ended 31 December 2007*, page 12.

Indicator	2011 score	Meaning of the score
PI-17 Recording and management of cash balances, debt and guarantees	D+	M2 scoring method used
(i) Quality of debt data recording and reporting	C	<i>Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content</i>
(ii) Extent of consolidation of the government's cash balances	C	<i>Calculation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances</i>
(iii) Systems for contracting loans and issuance of guarantees	D	<i>This is the default score, as the conditions for a C score (central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings) are not fully met</i>

### PI-18 Effectiveness of payroll controls

92. The Treasury Department of the Ministry of Finance runs the government payroll fortnightly. A spreadsheet system is used for the payroll, and the Auditor-General has noted that such systems are subject to human error unless checked thoroughly and reconciled. Consideration is being given to automating the payroll, utilizing capacity in the ACCPAC computerized accounting system.

93. The Personnel and Training Department of the Office of the Prime Minister maintains records relating to individual employees in the form of a civil list (though these records are not held in a formal database). Ministries maintain a nominal roll of their employees. Personnel and Training advise Treasury of changes in the situation of individual employees, requiring changes to the payroll, on a case by case basis. These changes are not always able to be taken up in the upcoming fortnightly payroll, but are almost always captured in the following payroll i.e. the delays are not excessive and normally less than one month. Problems are experienced during budget preparation in reconciling Personnel and Training Department records with budgeted staff costs.

94. A Payroll Task Force, comprising the Permanent Secretary for Finance, and representatives of Treasury and Personnel and Training, reviews the payroll each fortnight before it is processed. Given the small scale of government operations, this system appears to work well in identifying any anomalies in the payroll and as an internal control measure. However, a move towards a more formal database of personnel records in the Personnel and Training Department appears warranted.

95. The Auditor-General looks at the payroll in relation to audits of the annual financial statements, while more specialized and detailed payroll audits are not undertaken.

Indicator	2011 score	Meaning of the score
PI-18 Effectiveness of payroll controls	D+	M1 scoring method used
(i) Degree of integration and reconciliation between personnel records and payroll data	D	Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lack of reconciliation with the payroll
(ii) Timeliness of changes to personnel records and the payroll	B	Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally
(iii) Internal controls of changes to personnel records and the payroll	B	Authority and basis for changes to personnel records and the payroll are clear
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	Partial payroll audits or staff surveys have been undertaken within the last 3 years

### PI-19 Transparency, competition and complaints mechanisms in procurement

96. The Public Tenders Board Regulations, made under section 5 of the Public Finance Act, are the only laws governing procurement in Tuvalu. This legislation is very brief, and does not provide for many of the elements of a rigorous procurement system. The regulations establish a Public Tenders Board comprising five members, whose functions are to put to tender building works<sup>19</sup> not undertaken by the Public Works Department, and to put to tender any major disposal of government property. The regulations do not cover procurement of goods and services. The regulations do not provide for either the public release of information relating to procurement or a complaints review process.

97. In relation to building works the Minister of Finance has the power to direct the Public Tenders Board to enter into direct negotiations with a selected contractor for completion of a particular project. The Public Tenders Board can make recommendations to the Minister in relation to the awarding of a contract, but the Minister is not bound by these recommendations. The Board can also establish a register of contractors, and restrict other contractors from eligibility to bid.

98. The Public Tenders Board does not produce an annual report, but it is understood that it deals with only one or two tenders a year. Some of these relate to aid projects for which provision has been made to utilize national procurement processes.

99. Procurement of goods and services is left to individual ministries to handle, and some ministries establish their own procedures. The Ministry of Home Affairs, for example, has put together a draft procurement policy because it is interested in improving the procurement process for outer island projects. The practice of securing two or more quotes for purchases of goods and services is widespread, but not governed by formal rules. Other ministries indicated that they have "established" suppliers with whom they deal on a regular basis.

100. Tuvalu does not meet most of the criteria considered as good practice in relation to the legal and regulatory framework for procurement. The report of the Auditor-General on

<sup>19</sup> An administrative practice has been established such that works with a value of greater than \$10,000 are put to tender.

the 2008 government accounts noted the need to develop a procurement framework with formal guidelines “from a zero base”, and offered assistance in this regard<sup>20</sup>.

<b>Criteria for legal and regulatory framework for procurement</b>	<b>Yes / No</b>
i. Organized hierarchically and precedence is clearly established	Yes
ii. Freely and easily accessible to the public through appropriate means	No
iii. Applies to all procurement undertaken using government funds	No
iv. Makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified	No
v. Provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No
vi. Provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	No

101. The Public Tenders Board Regulations do not provide for a complaints review body, and therefore do not comply with the following features considered to be good practice in this area.

<b>Features of complaints review body</b>	<b>Yes / No</b>
i.. Is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government	No
ii. Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	No
iii. Does not charge fees that prohibit access by concerned parties	No
iv. Follows processes for submission and resolution of complaints that are clearly defined and publicly available	No
v. Exercises the authority to suspend the procurement process	No
vi. Issues decisions within the timeframe specified in the rules/regulations	No
vii. Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	No

<sup>20</sup> Government of Tuvalu. 2008. *Report of the Auditor-General on the Accounts of the Government of Tuvalu for the year ended 31 December 2008*, page 26.

Indicator	2011 score	Meaning of the score
PI-19 Transparency, competition and complaints mechanisms in procurement	D	M2 scoring method used
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	D	The legal framework meets one or none of the six listed requirements
(ii) Use of competitive procurement methods	D	Reliable data is not available
(iii) Public access to complete, reliable and timely procurement information	D	The government lacks a system to generate substantial and reliable coverage of key procurement information, and does not systematically make key procurement information available to the public
(iv) Existence of an independent administrative procurement complaints system	D	There is no independent procurement complaints review body.

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

102. The Financial Instructions (issued pursuant to the Public Finance Act) make provision for internal controls on non-salary expenditure. Section 217 requires accounting officers to set up Vote Ledgers for each sub-head in their budget, which cover the following:

- the original authorized provisions including any subsequent Virement or Supplementary Estimates authorization
- the total actual expenditure incurred to date
- the total commitments entered into to date; but for which actual expenditure has not yet been incurred
- balance of funds still available after taking into account all commitments to date.

103. Section 219 requires that the value of each purchase order, requisition or other procurement document be entered in the Vote Ledger at the time it is issued. Any commitments not cleared in a financial year should be brought forward to the next year. It is noted that in practice the procurement process is truncated as requisitions are not used and local purchase orders tend not to be accepted by suppliers, so the first step is often the processing of a payment voucher. Section 220 requires that all payment vouchers be entered as expenditure in the Vote Ledger. Any journal voucher adjustments made by Treasury (which are required to be copied to the relevant accounting officers) should also be entered in the Vote Ledger.

104. Section 224 of the Financial Instructions requires accounting officers to check all Vote Ledgers against the Treasury records. This reconciliation is done monthly as soon as the Treasury accounts are balanced, and should be formally certified by the accounting officer once any errors detected have been adjusted (either in the Vote Ledger or in the Treasury records). Treasury releases a schedule to line ministries in relation to the monthly reconciliation of their Vote Ledgers with Treasury records. The reconciliation process can be completed within one month of the end of a month (though it is noted that bank reconciliations won't have been completed at this time). There has been some disruption to this process in 2011, due to the delay in passing the 2010 budget.

105. Invoices for goods received or services rendered are forwarded to Treasury when they are received, and the details entered into ACCPAC. General payment vouchers are then raised by spending agencies. They are signed by the accounting officer, or his

alternate authorized signatory. Copies are sent to Treasury where they are checked, certified and passed for payment by the checking officer, and cheques raised.

106. Reports from the Auditor-General on the accounts of the government have noted a number of weaknesses in the application of these internal controls. In the report on the 2007 accounts the Auditor-General noted that having tested all Vote Books (Ledgers) for all ministries, not one reconciled to the General Ledger fully for all expenditure items. The Auditor-General recommended that to assist the reconciliation process, ministries be provided with read-only access to the ACCPAC system. This recommendation is now being implemented.

107. In reviewing compliance with the Financial Instructions in the report on the 2008 accounts, the Auditor-General noted overspending in many budget heads which indicated a breakdown in internal controls on commitments. The need for improvements in the monthly reconciliation process between ministry Executive Officers and Treasury to make this an effective control was also noted.

Indicator	2011 score	Meaning of the score
PI-20 Effectiveness of internal controls for non-salary expenditure	D+	M1 scoring method used
(i) Effectiveness of expenditure commitment controls	D	<i>Commitment control systems are generally lacking OR they are routinely violated</i>
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	<i>Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Controls may be deficient in areas of minor importance</i>
(iii) Degree of compliance with rules for processing and recording transactions	C	<i>Rules are complied with in a significant majority of transactions, but use of simplified procedures in unjustified situations is an important concern.</i>

## PI-21 Effectiveness of internal audit

108. Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). The Financial Instructions make some reference to an Internal Audit Section of the Ministry of Finance, though the functions of this section are not set out. An Internal Audit Section did operate many years ago, but this function is no longer performed and the Establishment Register for 2011 does not contain any internal audit positions. Accounting skills and qualifications are in short supply in Tuvalu, and it would appear that priority is being given to the more basic Treasury functions of processing transactions and financial reporting.

109. There have been calls to re-establish the internal audit function. For example, the report on a participatory diagnostic analysis of the Ministry of Finance<sup>21</sup> undertaken in 2009

<sup>21</sup> ADB. 2009. *Participatory Diagnostic Analysis of the Ministry of Finance and Economic Planning*. Consultant's report under project number 41180-01 Tuvalu: Capacity Development for Public Financial Management.

included as one of six key interventions identified “establish a Government internal audit function by ideally assigning one officer to perform internal audit functions”.<sup>22</sup>

Indicator	2011 score	Meaning of the score
PI-21 Effectiveness of internal audit	D	M1 scoring method used
(i) Coverage and quality of the internal audit function	D	There is little or no internal audit focused on systems monitoring
(ii) Frequency and distribution of reports	D	Reports are either non-existent or very irregular
(iii) Extent of management response to internal audit findings	D	Default score when there is no internal audit capacity

### 3.5. Accounting, recording and reporting

#### PI-22 Timeliness and regularity of accounts reconciliation

110. Bank reconciliation is undertaken monthly, and should be able to be completed within a month of month end. However, as of early May 2011, reconciliation of Treasury records with statements from the government’s main bank account, the General Account, is still being undertaken for December 2010. This delay is a significant weakness in the public financial management system as it impinges on the finalization of the financial statements for 2010, and affects the reliability of any reporting on progress with the implementation of the 2011 budget.

111. The main factor delaying the completion of bank reconciliations is the large number of discrepancies being picked up between Treasury records and bank statements. A common cause of this is the absence of payment vouchers associated with some payments, with payment having been made on the basis of invoice alone. Each discrepancy identified has to be investigated and corrected. Nevertheless, the number of transactions is small so that such long delays in completing bank reconciliations should be avoidable. In the absence of completed bank reconciliations, the monthly process of reconciling ministry Vote Ledgers with Treasury records can only partially be completed.

112. Clearance and reconciliation of advances and suspense accounts has also been a problem area for Tuvalu. A particular problem area has been the Outer Island Agency Suspense Accounts, which grew to a level of \$4.5 million by the end of 2007 and \$3.5 million by the end of 2008. Island councils had been acting as agents for the National Bank of Tuvalu, but instead of remitting funds to the bank had remitted them to the General Account of the government. The bank recorded the outstanding amount as a government overdraft, which the government declared to be non-interest bearing. This situation severely undermined the profitability of the bank. The National Bank of Tuvalu has now established

<sup>22</sup> While recognising that this is normally an important component of PFM best practice, given capacity constraints the government has concerns about its ability to establish and maintain a stand-alone internal audit function. Other options are being considered to provide some internal audit capacity, including strengthening the Treasury function, and possible employment of a Compliance Officer within Treasury to follow up on vote book reconciliations and audit findings. Another option being considered is to strengthen the capacity of the Public Accounts Committee to follow up on their findings.

branches in outer islands, and the outstanding overdraft is being addressed with the assistance of grant funding from the Asian Development Bank.

113. Policy in relation to the management of other government advances and special imprests has been tightened to comply more fully with the Financial Instructions. These must be cleared before new advances or imprests are granted, standing imprests are retired annually, and overdue personal advances are recovered from salaries. Treasury now makes regular reviews of outstanding advances and imprests to ensure that the policy is applied, but it is understood that there remain a significant number of advances outstanding which are associated with official government missions overseas.

Indicator	2011 score	Meaning of the score
PI-22 Timeliness and regularity of accounts reconciliation	C	M2 scoring method used
<i>(i) Regularity of bank reconciliations</i>	<i>D</i>	<i>Bank reconciliation for all Treasury managed bank accounts takes place with backlogs of several months</i>
<i>(ii) Regularity of reconciliation and clearance of suspense accounts and advances</i>	<i>B</i>	<i>Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward</i>

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

114. The government's program budget structure provides a very good starting point at an aggregate level for capturing information on resources received by service delivery units such as primary schools and primary health clinics. The national government is the major funder of these service delivery units, with contributions from Kaupule (island councils) and communities, particularly in relation to primary schools.

115. Primary education is a program within the budget with sub-programs for effective implementation of primary schools policies and programs, management of school resources (perhaps the key sub-program in this context), and strengthening of primary school standards. Special development expenditure (government funded projects) and external budgetary assistance are also shown for the program.

116. Primary and preventive health services are also a program in the budget, with sub-programs for food and nutrition, midwife service, environmental health and oral health services. Again, special development expenditure and external budgetary assistance are also shown for the program. Many of the activities of clinics on outer islands fall under this program, though pharmaceutical and other supplies fall under the curative health program.

117. To be in a position to confirm that resources are actually flowing as desired to service delivery units, more detailed expenditure tracking exercises need to be undertaken. Government does not have a routine reporting system in place for these service delivery units, though there are a number of processes which produce useful information. The Department of Health maintains records of all deliveries of supplies to outer island medical centers. The Tuvalu Trust Fund Advisory Committee reports from time to time on issues

relating to key service delivery units with, for example, a recent focus on the adequacy of rations for students at the Motufoua Secondary School and reports on visits to schools and clinics on three islands. The annual health report prepared by the Ministry of Health lists the services offered by outer island medical centers<sup>23</sup>.

118. Work is well advanced on the preparation of Medium-term Expenditure Frameworks (MTEFs) for the education and health sectors which, among other things, is examining the resourcing of primary schools and clinics.

Indicator	2011 score	Meaning of the score
PI-23 Availability of information on resources received by service delivery units	C	M1 scoring method used
<i>(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units</i>	C	<i>Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country</i>

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

119. In-year budget reports are important to both the Ministry of Finance and line ministries in monitoring budget implementation. There are currently two main problems in Tuvalu associated with the preparation of comprehensive, timely and accurate in-year budget reports. These are:

- i. Reconciliation of line ministry Vote Ledgers with Treasury records, though required monthly, is often slow and incomplete.
- ii. Reconciliation of Treasury accounts with bank statements, which again should be undertaken monthly, is often slow and incomplete (see PI-22 above).

120. Budget preparation is handled outside the ACCPAC financial management information system (the budget is prepared using spreadsheet software), and the budget needs to be entered into ACCPAC for expenditure controls within the system to operate. Both the budget and accounting systems use the same chart of accounts.

121. In combination, these problems have prevented an effective system of in-year budget reporting being developed. Some progress is being made in giving line ministries read only access to ACCPAC, and this assists in addressing the first problem area identified above.

<sup>23</sup> Ministry of Health. 2009 Annual Health Report, page 54.

Indicator	2011 score	Meaning of the score
PI-24 Quality and timeliness of in-year budget reports	D	M1 scoring method used
(i) Scope of reports in terms of coverage and compatibility with budget estimates	D	<i>This is the default score. Quarterly reports are not prepared, though the budget and accounting systems use the same chart of accounts</i>
(ii) Timeliness of the issue of reports	D	<i>Quarterly reports are not prepared</i>
(iii) Quality of information	D	<i>This is the default score. Quarterly reports are not prepared, and if they were there would be concerns about the accuracy of information</i>

### PI-25 Quality and timeliness of annual financial statements

122. The annual financial statements of the Government of Tuvalu consolidate the activities of all ministries and deconcentrated units. There is no consolidation with island councils, which operate independently. These statements do address transactions, assets and liabilities, but are not presented in a manner making them easy to read. They are also incomplete in some respects with, for example, the statement of contingent liabilities and a number of other statements recording no information in some years.

123. The Public Finance Act requires that the annual financial statements be submitted to the Auditor-General within six months of the end of the financial year. The last annual financial statements submitted were for 2008, and the deadline for submission was missed by just under two months. Similarly in 2007, this deadline was missed by just under two months. Thus for 2007 and 2008, the annual accounts were submitted for audit within eight months of the end of the financial year. As of May 2011, preparation of the annual financial statements for 2009 has not been completed. The 2009 annual financial are therefore already 10 months overdue.

124. The 2007 and 2008 annual financial statements do not disclose the accounting standards applied, though a modified accrual basis of accounting was used<sup>24</sup>. In the preparation of the 2009 annual financial statements, the Treasury Department is attempting to apply the International Federation of Accountants' International Public Sector Accounting Standards (IPSAS) for financial reporting under the cash basis of accounting. The application of these more rigorous standards for the first time provides a partial explanation of the long delay in finalizing the annual financial statements for 2009, while it is recognized that the change will simplify the process of preparing the annual accounts in future years. There are also capacity constraints in the Treasury Department, with the Government Accountant on study leave for two years. In his absence, a local consultant has been contracted to assist with the preparation of the financial statements.

<sup>24</sup> Prior to 2007 the accounts were prepared on a cash basis.

Indicator	2011 score	Meaning of the score
PI-25 Quality and timeliness of annual financial statements	D+	M1 scoring method used
(i) Completeness of the financial statements	C	<i>A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant</i>
(ii) Timeliness of submission of the financial statements	B	<i>The consolidated government statement is usually submitted for external audit within 10 months of the end of the fiscal year</i>
(iii) Accounting standards used	D	<i>Statements are not presented in a consistent format over time or accounting standards are not disclosed</i>

### 3.6. External scrutiny and audit

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

125. Section 170 of the Constitution of Tuvalu provides for the establishment of the office of the Auditor-General, and section 171 provides for the independence of the office. Functions of the Auditor-General are set out in section 172 of the Constitution, including inspecting, auditing and reporting to Parliament at least once a year on the public accounts of Tuvalu.

126. Section 25 of the Public Finance Act sets out the duty of the Auditor-General in relation to the accounts of government. Section 31 deals with the preparation and submission of public accounts to the Auditor-General (which is required to be within 6 months of the end of the financial year), and section 32 deals with the audit report on the accounts (which is required to be submitted to Parliament within 9 months of the end of the financial year).

127. The Auditor-General audits the accounts of the Government of Tuvalu (including the Consolidated Fund, the Tuvalu Development Fund, and any Special Funds) and the island councils (Kaupule)<sup>25</sup>, and is responsible for the audit of public enterprises (which are contracted out to private auditors in Fiji). There is no consolidation of accounts or audit reports for these three groups.

128. Auditing of the accounts of government is undertaken applying international standards (using the methodology of Australian audit standards until 2010, when New Zealand audit standards were adopted). The nature of the audit undertaken is risk-based, with some performance auditing.

129. The most recent audit report on the annual financial statements of the government was for 2008, and was submitted to Parliament on 6 November 2009. This was outside the statutory time limit by just over a month, due to the late submission of the accounts to the Auditor-General. For the 2007 accounts, the audit report was submitted to Parliament on 7

<sup>25</sup> Audit of the accounts of Kaupule is behind schedule, with the Office of the Auditor-General currently working on an audit report covering all Kaupule accounts up to the 2008 financial year.

November 2008, with the delay again explained by the late submission of the accounts to the Auditor-General. Both the 2007 and 2008 audit reports were submitted to Parliament within four months of receipt of the financial statements by the audit office. In relation to the accounts for 2009, there will be a much longer delay in reporting to Parliament, as the accounts have yet to be submitted to the Auditor-General.

130. In relation to the audit of the 2008 accounts, the Auditor-General provided a management report to facilitate follow-up by government on audit findings. It was indicated that management comments would be sought as part of the Public Accounts Committee (PAC) scrutiny of the accounts and audit report. Both the PAC report on the 2008 accounts and audit report, and a government response to the PAC report, were tabled in Parliament in 2010. The strong performance of the external audit function in Tuvalu is now supported by long-term technical assistance, though the consistent performance over a number of years indicates an inherent strength in the function.

Indicator	2011 score	Meaning of the score
PI-26 Scope, nature and follow-up of external audit	B+	M1 scoring method used
(i) <i>Scope/nature of audit performed (incl. adherence to auditing standards)</i>	A	<i>All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues</i>
(ii) <i>Timeliness of submission of audit reports to legislature</i>	A	<i>Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office</i>
(iii) <i>Evidence of follow up on audit recommendations</i>	B	<i>A formal response is made in a timely manner, but there is little evidence of systematic follow up</i>

### PI-27 Legislative scrutiny of the annual budget law

131. A budget session of Parliament is normally held in November each year. This considers the Appropriation Bill, and supporting documentation comprising the Program Estimates, Program Descriptions and Medium-term Fiscal Framework, and provides the only opportunity for legislative scrutiny of the annual budget law. The final draft of the budget is submitted to Parliament two weeks before the budget session commences, and the budget session normally runs for one week.

132. Section 17 of the Public Finance Act empowers the Minister to approve reallocations within expenditure heads, provided that the sum appropriated to the head is not exceeded and the expenditure is within the ambit of the head. Virement warrants so approved are required to be tabled in Parliament at its next sitting. Treasury advised that 150 virements were processed during 2010. This large number of virements in a small jurisdiction reflects the fact that the budget is appropriated at the line item level. It is indicative of a substantial amount of change within the budget during the year, but also of a degree of respect for the rules set up for public financial management.

133. Section 15 of the Public Finance Act provides for advances from the Consolidated Fund to cover urgent and unforeseen needs which cannot be deferred without detriment to the public interest. A Supplementary Appropriation Bill to cover such advances must be submitted to the next sitting of Parliament, and a limit of \$750,000 is imposed on such advances at any one time. Supplementary appropriations have been frequent with, for example, two supplementary appropriations totaling approximately \$2.8 million added to a 2010 budget already substantially in deficit<sup>26</sup>. While recourse to supplementary appropriations should generally be viewed as poor financial management, and it seems desirable for existing provisions in relation to supplementary appropriations to be applied more restrictively, it is noted that some jurisdictions allow supplementary appropriations to be financed through restructuring the budget among heads of expenditure, without adding to the budget bottom line.

Indicator	2011 score	Meaning of the score
PI-27 Legislative scrutiny of the annual budget law	C+	M1 scoring method used
(i) Scope of the legislature's scrutiny	C	<i>The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized</i>
(ii) Extent to which the legislature's procedures are well-established and respected	B	<i>Simple procedures exist for the legislature's budget review and are respected</i>
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	C	<i>The legislature has at least one month to review the budget proposals</i>
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	<i>Clear rules exist, but they allow extensive administrative reallocation as well as expansion of total expenditure</i>

## PI-28 Legislative scrutiny of external audit reports

134. During the last three years two external audit reports on the accounts of the government have been submitted to Parliament. These cover the 2007 and 2008 financial years, and were prepared by the Auditor-General. Both reports were submitted to Parliament within two months of the statutory deadline (which is nine months from the end of the financial year), with the delay being explained by late submission of the accounts to the Auditor-General by the government. Tabling in Parliament can take longer, as there are normally only two sessions of Parliament each year (in April/May and in November).

135. Before being considered by Parliament, external audit reports are reviewed by the Public Accounts Committee of Parliament (which comprises three members of Parliament, with the Auditor-General and another resource person in attendance). The Public Accounts Committee prepares a separate report to Parliament which accompanies the audit report.

136. The Public Accounts Committee also considers audit reports on public enterprises, and the new public enterprise legislation will streamline the process of submitting annual reports to Parliament. Kaupule (island council) annual accounts should follow the same path

<sup>26</sup> See *Twenty-Fourth Annual Report of the Tuvalu Trust Fund Advisory Committee*, page 4.

through the Office of the Auditor-General to the Public Accounts Committee and on to Parliament. However, this is not happening at present<sup>27</sup>.

137. A formal response by government to the Public Accounts Committee report on the 2008 audited accounts was also tabled in Parliament in 2010. The government does not appear to respond formally to the Auditor-General in relation to the audit report, but recommendations are followed-up and adopted on a case by case basis<sup>28</sup>.

138. In relation to the 2008 government accounts, the audit report was received by Parliament in November 2009, and the Public Accounts Committee report was tabled in Parliament in April/May 2010. The Public Accounts Committee report on the 2007 audit report reached Parliament at the same time, with the delay resulting from loss of some computer records. In earlier years, the Public Accounts Committee has generally been able to complete consideration of the audited reports within a six month period.

Indicator	2011 score	Meaning of the score
PI-28 Legislative scrutiny of external audit reports	B	M1 scoring method used
(i) <i>Timeliness of examination of audit reports by the legislature (for reports received within the last three years)</i>	B	<i>Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports</i>
(ii) <i>Extent of hearings on key findings undertaken by the legislature</i>	B	<i>In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion</i>
(iii) <i>Issuance of recommended actions by the legislature and implementation by the executive</i>	B	<i>Actions are recommended to the executive, some of which are implemented, according to existing evidence</i>

### 3.7. Donor practices

#### D-1 Predictability of direct budget support

139. The Republic of China has been providing direct budget support to Tuvalu since 2000. This commenced at a level of US\$0.5 million per year, and is currently US\$5.0 million per year. An agreement is being negotiated to extend this level of budget support to 2014. An additional grant of US\$1.0 million was provided in 2009 to assist Tuvalu deal with the global financial crisis, and a similar additional grant of US\$1.5 million has been agreed for 2011. The Republic of China requires that these additional grants be linked to the implementation of specific project activities within the budget, though the funding is transferred directly to the Consolidated Fund, and is also seeking to have at least US\$1.0

<sup>27</sup> The Office of the Auditor-General is currently working on a report to Parliament in relation to the 2008 accounts of Kaupule. This will be the first such report to Parliament since the late 1990's.

<sup>28</sup> Examples of follow-up action taken by the government in response to reports of the Auditor-General and the PAC include setting up a PFM Working Group to review the PFM legal framework including the Public Finance Act and the Financial Instructions, adoption of IPSAS cash accounting standards in relation to the 2009 annual accounts, adoption of a Debt Risk Management and Mitigation Policy as a response to weaknesses identified in debt management, and providing line ministries with read-only access to the ACCPAC system.

million of the annual budget support grant of US\$5.0 million linked to specific project activities.

140. Over the last three financial years (the period relevant to the assessment of this indicator), the level of budget support from the Republic of China has been known in advance of the finalization of the budget. Disbursement of this direct budget support has been done in equal quarterly installments, subject to reporting on acquittals by the government. These installments have normally been received within the quarter in question, though there have been delays from time to time due to delays in submission of acquittal reports. Actual receipts can vary from budget due to exchange rate fluctuations, and additional one-off grants received. From 2007 to 2009, actual receipts were above budget, while the expected out-turn for 2010 is slightly below the budget due to strengthening of the Australian dollar against the United States dollar.

141. Australia and New Zealand have provided grants from time to time linked to results achieved in relation to an agreed set of performance benchmarks, with monitoring undertaken by the Tuvalu Trust Fund Advisory Committee. These grants are paid into the Consolidated Investment Fund, and can also be considered budget support. They amounted to \$3.70 million in 2008, \$1.06 million in 2009, and \$0.19 million in 2010. Given the dependence on assessment of performance against benchmarks, this support is less predictable and is not forecast ahead in the MTF. Disbursement involves one-off payments.

142. Other grant assistance has also been received by Tuvalu in recent years, though these grants are not considered to fall within the definition of direct budget support (which should be untied, and paid to government to support the budget as a whole, though support for a particular sector also falls within the definition).

143. The European Union provided grants to Tuvalu from 2000 to 2007 under the Outer Islands Development Support Program (under the 9<sup>th</sup> EDF). These grants were linked to specific activities in the education, water and environment sectors, and were conditional on the Government of Tuvalu making matching contributions to the Tuvalu Trust Fund (in later years this contribution was reduced from 100 percent to 50 percent of grants received). The Asian Development Bank has provided grants to Tuvalu, though these have been for specific purposes such as assisting with debt reduction and have included conditionalities relating to financial and public sector reforms. Japan has provided a fuel grant to the government over a period of five years which is taken up in the budget as revenue and as expenditure in support of the Marine Department (fuel for inter-island vessels) and the Tuvalu Electricity Corporation (fuel for electricity generation). In later phases of the grant (phases 3 to 6), all fuel has gone to the Tuvalu Electricity Corporation. This assistance is provided in-kind.

144. Additional direct budget support is expected in the 2011 budget. A financing agreement was signed with the EU in late 2010 under the 10<sup>th</sup> EDF, covering VFlex budget support amounting to EUR 1.5 million. Disbursement of this budget support is linked to harmonization with the ADB economic support program and other policy dialogue including the mid-term review of Te Kakeega II, monitoring of macroeconomic stability via the IMF article IV mission, and monitoring of PFM reforms. Further budget support from the EU may follow in future years as the 11<sup>th</sup> EDF is programmed.

145. The scoring of this indicator is based on the processes for the one regular source of direct budget support to Tuvalu over the relevant period, the annual grant from the Republic of China.

Indicator	2011 score	Meaning of the score
D-1 Predictability of direct budget support	A	M1 scoring method used
<i>(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body)</i>	A	<i>In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%</i>
<i>(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)</i>	A	<i>Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursement delays (weighted) have not exceeded 25% in two of the last three years</i>

## D-2 Financial information provided by donors for budgeting and reporting on project and program aid

146. The Aid Management Section of the Planning and Budget Department of the Ministry of Finance liaises with donors on project and program aid, and puts together the Public Sector Investment Program (PSIP) included in the budget documentation. Information from the PSIP on donor funded projects (XB) is consolidated in the body of the budget document with government funded recurrent and capital expenditure to present a picture of total expenditure.

147. In preparing the PSIP the Aid Management Section relies on information built up through aid programming exercises and other exchanges with individual donors. No specific exercise is undertaken in the course of budget preparation to contact donors in relation to planned expenditure in the upcoming Tuvalu budget year, and similarly any reporting by donors of actual expenditure tends to be reporting against their aid program rather than reporting against the Tuvalu budget. There are exceptions, such as in the case of the EU where a Technical Assistant to the National Authorizing Officer is based in the Ministry of Finance, and does feed information directly into budget preparation and monitoring. No system of quarterly reporting of expenditure (against the aid programs of individual donors) has been established, due to a combination of capacity constraints in the government and difficulties for donors in producing and supplying such information.

Indicator	2011 score	Meaning of the score
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	D	M1 scoring method used
(i) Completeness and timeliness of budget estimates by donors for project support	D	Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D	Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget

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

148. This indicator considers the proportion of aid that is managed by use of national procedures in the four areas of procurement, accounting/payments, audit, and reporting.

149. The budget documentation, cross-checked against information from donors on the value of their aid programs, allows estimates to be made of total aid flows.

150. In the 2011 budget, donor grants (including contributions to the CIF) are estimated at \$11.66 million, while XB expenditure is estimated at \$30.69 million. Adding this together, total aid for 2011 is estimated to be \$42.35 million. The projected out-turn for 2010 comprises \$7.66 million in donor grants including contributions to the CIF and \$9.32 million in XB expenditure, giving a total of \$16.98 million. The out-turn for 2009 comprises \$11.65 million in donor grants including contributions to the CIF and \$9.23 million in XB expenditure, totaling \$20.88 million. In 2008, total aid was estimated on the same basis to be \$23.47 million. A study<sup>29</sup> by the Planning and Budget Department of the Ministry of Finance identified \$139.22 million in aid to Tuvalu over the eight year period 2001-2008, an average of \$17.40 million per annum.

151. The high figure in the 2011 budget is likely to be a considerable over-estimate, as the XB estimate includes many projects for which donors are yet to be identified. An estimate of around \$20.00 million in annual aid to Tuvalu at the present time would not appear unreasonable, and this is consistent with an estimate prepared through aggregation of the estimated value of individual donor programs.

152. Aid provided as direct budget support will be spent utilizing national procedures in the areas of procurement, accounting/payments, audit and reporting. Contributions to the CIF by donors will, when eventually drawn down, be spent utilizing national procedures. Aid paid by donors into the Tuvalu Development Fund associated with the implementation of particular projects will also utilize national procedures in these four areas<sup>30</sup>. Other aid to Tuvalu is managed through donor procedures. One exception to this general rule relates to

<sup>29</sup> Planning and Budget Department. 2009. *International Aid for Tuvalu: Statistical Summary 2001-2008*. Executive Summary, page 2.

<sup>30</sup> In relation to audit, some donors conduct separate audits of projects involving funds transferred to the Tuvalu Development Fund, in addition to the general audit of the Tuvalu Development Fund carried out by the Office of the Auditor-General.

the utilization of the National Tenders Board in relation to two large projects: the upgrading of the Tuvalu Marine Training Institute, and the upcoming Tuvalu Water, Waste and Sanitation Project funded by EU under the 10<sup>th</sup> EDF. Even in these cases, much of the procurement process is managed using donor procedures.

153. The value of direct budget support to Tuvalu in 2010 (i.e. the projected out-turn, including contributions to the CIF) was \$5.61 million, while receipts from donors into the Tuvalu Development Fund totaled \$3.42 million. There was no expenditure in 2010 on the above-mentioned projects involving partial use of national procurement procedures. Thus, it is estimated that \$9.03 million in aid expenditure in 2010 utilized national procedures in the four areas. It can be concluded that less than 50 percent of aid to Tuvalu in 2010 (using the estimate made above of \$20.00 million in total aid to Tuvalu) was managed utilizing national procedures in each of the four areas of procurement, accounting/payments, audit and reporting.

Indicator	2011 score	Meaning of the score
D-3 Proportion of aid that is managed by use of national procedures	D	M1 scoring method used
<i>(i) Overall proportion of aid funds to central government that are managed through national procedures</i>	<i>D</i>	<i>Less than 50% of aid funds to central government are managed through national procedures</i>

### 3.8. Country specific issues

154. Specific issues of note in relation to Tuvalu's public financial management system include:

- the role of trust funds in the economy;
- the volatility of a of key source of revenue; and
- the scale of PFM operations in Tuvalu.

155. The Tuvalu Trust Fund (TTF) was established in 1987 with contributions from the Governments of Australia, New Zealand, United Kingdom (the main contributors), Tuvalu, and Republic of Korea. The core purpose of the TTF is to assist the Government of Tuvalu to achieve greater financial autonomy in the management of its recurrent budget. TTF's Board is composed of representatives of the Governments of Australia, New Zealand, and Tuvalu. The Board is responsible for overseeing and administering the Fund in accordance with the terms of the international agreement that created the trust. The Tuvalu Trust Fund Advisory Committee (TTFAC) was established under the trust deed to provide independent economic and financial advice to the Board and Government of Tuvalu, with members appointed by countries represented on the Board. The market value of the TTF was \$107.3 million as at 30 September 2010<sup>31</sup>.

156. When the market value of the TTF exceeds an agreed value (linked to maintaining the real value of contributions to the fund), transfers are made to the Consolidated Investment Fund (CIF). This fund is wholly owned by the government, and is used to support

<sup>31</sup> *Twenty-fourth Annual Report of the Tuvalu Trust Fund Advisory Committee, page 1.*

the recurrent budget. A target minimum balance is established for the CIF, in an effort to preserve its sustainability. The value of the CIF as at 30 September 2010 was \$7.2 million<sup>32</sup>.

157. The Falekaupule Trust Fund (FTF) was established by Tuvalu in 1999 with contributions from the central government (some via ADB loan funds) and island communities as part of a larger decentralization strategy. Investment and distribution rules are similar to those of TTF. In particular funds are invested offshore, overseen by a Board, and it is an objective that the real value of contributions be maintained. Distributions are to be used for Outer Island development<sup>33</sup>.

158. Trust funds have added stability and strength to fiscal management in Tuvalu, avoiding the fluctuations in allocations to spending agencies that often characterize small island states with volatile revenue bases and allowing higher levels of spending than would otherwise be possible. A challenge facing Tuvalu is to benefit from this stabilising and strengthening influence on fiscal management, without locking in to unsustainable levels of expenditure.

159. A further specific factor in relation to PFM in Tuvalu is the volatility of one of its major sources of revenue, revenue from the licensing of foreign fishing vessels. Revenue from fishing licenses is difficult to estimate, given that agreements with foreign fishing nations are linked to fisheries catch which can vary substantially with weather patterns, and is also subject to exchange rate fluctuations. Volatility in revenues presents challenges in fiscal management. Tuvalu has addressed this by a relatively conservative approach to revenue estimation, supported by the stabilizing effect of applying some trust fund earnings to the budget.

160. Finally, a point worth making is that the scale of PFM operations in Tuvalu is very small. Some systems adapted locally to the scale of operations in Tuvalu may not be feasible or appropriate in a larger administration. However, they may work well for Tuvalu, and this should be borne in mind in deciding which elements of international best practice (conventionally defined) should be pursued.

161. A second aspect of the scale issue concerns the fragile nature of many PFM reforms in Tuvalu, with the sustainability of reforms often reliant on one or two staff who may move on to higher education or changes in career path. As an example, it has proven difficult to sustain the considerable amount of work put into establishing an asset management system for the government. An initial exercise supported by technical assistance introduced a database for assets, and a comprehensive asset management policy administered by an Asset Manager located in the Ministry of Finance. This was sustained for a time, and later simplified to run on more familiar spreadsheet software, before being taken up into the assets module of the ACCPAC accounting system. However, more recently work in this area has stalled, there is no longer a post handling this role in the Ministry of Finance, and the only asset management processes operating are those maintained by some individual ministries in meeting the requirements of the Financial Instructions.

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<sup>32</sup> Ibid, page 2.

<sup>33</sup> ADB. 2006. *Tuvalu Economic Report 2006. From Plan to Action*. Pacific Studies Series, page 35.

162. This suggests a need to work through carefully the key priorities for reform of the PFM system, and to focus on addressing these priority areas.

## 4. GOVERNMENT REFORM PROCESS

### 4.1. Description of recent and on-going reforms

163. The major PFM reforms implemented and under implementation in recent years have been:

- i. Introduction of a program budgeting approach, supported by a medium-term fiscal framework, and GFS compliant chart of accounts.
- ii. Reform of the taxation system, focusing on the introduction of a consumption tax.
- iii. Introduction of new legislation supporting the effective monitoring and reform of public enterprises.
- iv. Ongoing work to prepare MTEFs for the health and education sectors.

164. Tuvalu's program budget and supporting medium-term fiscal framework are a key strength of the PFM system. This system took effect in the 2005 budget, and replaced an output budgeting approach which had proven unsatisfactory. The updating of the medium-term fiscal framework as part of the annual budget calendar allows for the management of budgetary aggregates and provides early warning of emerging issues. Introduction of a GFS compliant chart of accounts was an important component of this reform.

165. Design of reforms to the taxation system evolved over a number of years, supported by analytical work undertaken in conjunction with donors. Legislation supporting these reforms was introduced in 2008, providing among other things for the introduction of a consumption tax and amendment of the Income Tax Act to allow for presumptive tax to be levied. A new taxpayer registration process was introduced, involving a centralized registration process which allocates a unique tax identification number used by the Inland Revenue Department, the Customs Department and the Tuvalu National Provident Fund. The ongoing aspect of the reform of the taxation system is to strengthen tax administration, in order to realize the growth potential in tax revenues.

166. Reforms relating to the monitoring and accountability of public enterprises were introduced in 2009, with the passing of the Public Enterprises (Performance and Accountability) Act. A Public Enterprise Reform and Monitoring Unit (PERMU) has been established in the Ministry of Finance, centralizing the monitoring of all public enterprises and managing accountability processes introduced in the new legislation. Prior to this reform, public enterprises reported to line ministries and there was no guiding framework governing their relationship with the national government.

167. Technical assistance has been fielded to assist the government in the preparation of medium-term expenditure frameworks (MTEFs) for the health and education sectors. This work will allow a more systematic approach to be taken to the resourcing of priority services in these key sectors, including more effective integration of government and donor funding.

## 4.2. Institutional factors supporting reform planning and implementation

168. Forward planning and implementation of reforms to PFM systems has a strong foundation in Tuvalu's national sustainable development plan, *Te Kakeega II*, which establishes government leadership and ownership of reforms. The government's overall reform strategy is described in section 2.1 of this report, with specific priorities in relation to fiscal management including:

- Set strict compliance to fiscal targets, guidelines, and with the Public Finance Act and Financial Instructions.
- Review Public Finance Act, Financial Instructions, Stores Regulations, and other related legislation.
- Formulate medium-term fiscal policy framework (including a multi-year budget framework) to guide budgetary performance and to attain balanced budgets.
- Establish a Macroeconomic Policy Committee to monitor economic performance and recommend policy adjustments.
- Restructure tax and tariff regimes to comply with regional trade agreements.
- Improve consultations and public awareness in formulating the budget.
- Implement the Forum Economic Ministers' Eight Principles of Accountability.
- Reduce subsidies to public enterprises through improved management, operations and business planning.

169. Many of these strategic priorities are already being addressed<sup>34</sup>, and a mid-term review now underway of *Te Kakeega II* provides an opportunity to update priorities.

170. Coordination mechanisms are in place for the planning and implementation of PFM reforms. The Ministry of Finance has set up a PFM working group<sup>35</sup> to review the PFM legal framework (including the Public Finance Act, Financial Instructions, and related legislation), to monitor PFM systems and to plan the development of these systems. This group is newly formed, but has the potential to make an important contribution in planning and implementing changes in PFM systems. At a higher level, the Development Coordination Committee (DCC) provides a forum for input from across government in relation to PFM systems. The Tuvalu Trust Fund Advisory Committee also plays an important role in monitoring the implementation of PFM reforms, and providing analytical input in the development of systems.

171. The sustainability of PFM reforms in Tuvalu is tested by the small scale of PFM operations. Most reforms have a heavy input of technical assistance funded by donors. Staff numbers in areas of the public service managing reforms are low, and government has difficulty retaining qualified staff. There is a high turnover of staff, as opportunities arise for further education and higher paid jobs. In this context, reforms need to be manageable and not too demanding of staff resources and technical support.

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<sup>34</sup> In particular, the Medium-term Fiscal Framework and input by the Macroeconomic Policy Committee are now built in to the budget formulation process, tax and tariff regimes are being restructured, while management of public enterprises has been addressed through new legislation.

<sup>35</sup> The working group is chaired by the Secretary of Finance and Economic Planning, with the Senior Assistant Secretary Finance and Economic Planning as alternate chair, and the Auditor General, Acting Government Accountant, Acting Director of Planning and Budget, and Budget Management Specialist as members.

## ANNEX 1: PERFORMANCE INDICATORS SUMMARY

The indicators address these critical dimensions of PFM system performance:

- Credibility of the budget (indicators 1 to 4)
- Cross-cutting issues: comprehensiveness and transparency (indicators 5 to 10)
- Budget cycle
  - Policy-based budgeting (indicators 11 to 12)
  - Predictability and control in budget execution (indicators 13 to 21)
  - Accounting, recording and reporting (indicators 22 to 25)
  - External scrutiny and audit (indicators 26 to 28)
- Donor practices (indicators D-1 to D-3)

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used.

Method 1 (M1) is used for all single dimensional indicators, and for multi-dimensional indicators where dimensions are inter-dependent and poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator. The score allocated for the indicator reflects the lowest of the scores for all dimensions of the indicator. A plus sign is used where any of the other dimensions score higher.

Method 2 (M2) is based on averaging the scores for individual dimensions of an indicator. It is prescribed for selected multi-dimensional indicators, where dimensions are more independent and a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. The PEFA secretariat provides a conversion table for 2, 3 and 4 dimensional indicators to arrive at the overall score for the indicator.

In both scoring methodologies, the 'D' score is considered the residual score, to be applied if the requirements for any higher score are not met. An upward arrow against an indicator score indicates progress, such as reforms recently introduced which have yet to fully impact on PFM performance.

Indicator	Overall rating	Brief explanation and cardinal data used
<i>Credibility of the budget</i>		
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	Actual expenditure was above budget by 1.5% in 2007, 10.1% in 2008, and 2.6% in 2009
PI-2 Composition of expenditure out-turn compared to original approved budget	C+	Variance in the composition of expenditure was 15.9% in 2007, 11.2% in 2008, and 11.3% in 2009, while expenditure from the contingencies allocation was less than 2% of total expenditure in each year
PI-3 Aggregate revenue out-turn compared to original approved budget	C	Revenue out-turn was 113% of budget in 2007, 118% in 2008, and 111% in 2009
PI-4 Stock and monitoring of expenditure payment arrears	D+	While arrears are low, there is no effective system for monitoring arrears
<i>Cross-cutting issues: comprehensiveness and transparency</i>		

Indicator	Overall rating	Brief explanation and cardinal data used
PI-5 Classification of the budget	A	Budget documentation provides administrative, economic and functional (program) classifications of expenditure and revenue, and uses a common (GFS compatible) chart of accounts with the accounting system
PI-6 Comprehensiveness of information included in budget documentation	C	Budget documentation meets a limited number of information benchmarks, though other elements are available in unpublished form
PI-7 Extent of unreported government operations	D+	There is little extra-budgetary expenditure, and limited information on donor financed projects in the budget documents
PI-8 Transparency of inter-governmental fiscal relations	B	Fiscal transfers are transparent and known in advance of budget preparation, but consolidation of financial information is weak
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	D+	Public enterprises are subject to new legislation, with the prospect of much improved monitoring, but no effective system of monitoring sub-national governments in place
PI-10 Public access to key fiscal information	C	Public have limited access to information, with lack of dedicated outlets
<i>Budget cycle</i>		
<i>Policy-based budgeting</i>		
PI-11 Orderliness and participation in the annual budget process	B	Budget calendar and circular are comprehensive and work well, while there have been some delays in passing the budget
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	MTFF and debt sustainability analysis are effective, while integration with sector strategies remains at an early stage
<i>Predictability and control in budget execution</i>		
PI-13 Transparency of taxpayer obligations and liabilities	C+	Recent reform of tax legislation provides a sound platform and public education has been effective, though tax appeals processes are not operational
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D+	New registration process common to tax, customs and pension fund is effective, though penalties for non-compliance are not imposed and tax audits are not undertaken as yet
PI-15 Effectiveness in collection of tax payments	D+	Tax arrears are not managed, transfers of tax and customs revenue to treasury occurs weekly, and tax reconciliations are not undertaken
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	Cash flow forecasts are prepared but not updated regularly, ministries receive reliable quarterly releases of budget, and ministry allocations are well protected
PI-17 Recording and management of cash balances, debt and guarantees	D+	Recording and reporting of debt data is reasonable, management of cash relates largely to one account, and processes for borrowing and guarantees need further reinforcement
PI-18 Effectiveness of payroll controls	D+	Payroll is overseen by a high level committee, and payroll audits are undertaken from time to time, but the Personnel and Training Department lack a formal personnel database
PI-19 Transparency, competition and complaints mechanisms in procurement	D	Procurement lacks a sound policy and regulatory framework, with only occasional tenders for works going to the Public Tenders Board

Indicator	Overall rating	Brief explanation and cardinal data used
PI-20 Effectiveness of internal controls for non-salary expenditure	D+	Commitment control process is in place through vote ledgers, but lacks consistency in implementation
PI-21 Effectiveness of internal audit	D	Internal audit not currently operational
<i>Accounting, recording and reporting</i>		
PI-22 Timeliness and regularity of accounts reconciliation	C	Bank reconciliations several months behind, while reconciliation of advances and suspense accounts is working reasonably well
PI-23 Availability of information on resources received by service delivery units	C	Program budget provides a sound platform, health ministry monitors delivery of supplies to clinics, detailed expenditure tracking is not undertaken, but sectoral MTEFs are under preparation
PI-24 Quality and timeliness of in-year budget reports	D	In-year budget execution reports are not prepared, and data quality issues exist due to delays in reconciliation processes
PI-25 Quality and timeliness of annual financial statements	D+	Financial statements are reasonably complete, normally timely (2009 is an exception), but not prepared consistently to international standards (IPSAS cash standard adopted for 2009)
<i>External scrutiny and audit</i>		
PI-26 Scope, nature and follow-up of external audit	B+	Audit coverage is comprehensive and reports timely. Government does respond, but follow-up is incomplete
PI-27 Legislative scrutiny of the annual budget law	C+	Legislature reviews the budget in November, at the end of the budget cycle. Adjustments to the budget via supplementary appropriations and virements are frequent and significant
PI-28 Legislative scrutiny of external audit reports	B	PAC report and audit report on the 2008 government accounts thorough and tabled in Parliament, and a government response was also tabled
<i>Donor practices</i>		
D-1 Predictability of Direct Budget Support	A	Budget support provided by the Republic of China is programmed well ahead, and delivered on schedule
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	D	Information exchange with donors focuses on the aid programming cycle rather than the budget cycle
D-3 Proportion of aid that is managed by use of national procedures	D	Aid delivered as budget support and via the TDF utilizes national procedures, but this is less than 50 percent of total aid

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