



The Republic of Palau

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT (2022)

Final Report

(September 2023)



Republic of Palau

Public Expenditure and Financial Accountability (PEFA) Assessment

September 2023

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat
September 28, 2023

Assessment management and quality assurance

Oversight and management

In response to a request from the Republic of Palau the Pacific Financial Technical Assistance Center (PFTAC) undertook an *Agile*PEFA assessment. This had been postponed previously due to the COVID-19 pandemic and the preference for the PEFA assessment to be undertaken in-country and in-person. The assessment is a joint effort between the Oversight Team and the Assessment Team.

The Oversight Team comprised: Honorable Minister for Finance, Kaleb Udui Jr. (chairing); Casmir Remengesau, Director Planning and Budget; **Gail Rengiil, Director Bureau of National Treasury; Elway Ikeda, Director Bureau of Revenue and Taxation;** Darren Fritz, Budget officer, Ministry of Finance; **Delor Yoshiwo, Senior Budget Analyst Bureau of Budget and Planning; Darla Babauta, Chief Bureau of National Treasury; Sharnnel Sumang Chief Bureau of Property and Supply; Masato Ushibata, System Accountant Bureau of National Treasury;** Roleen Ronny, Economist, Ministry of Finance; and **Tabesul Ngirailemsang, Executive Program Coordinator Office of the Minister.**

The assessment team was led by Mr. Paul Seeds (PFM Advisor; PFTAC) and included Mr. Iulai Lavea (PFM Advisor; PFTAC), Mrs. Chita Marzan (IMF FAD expert), Mr. Richard Emery (IMF FAD Expert), and Ms. Esther Lameko-Poutoa, Chief Executive, the Pacific Association of Supreme Audit Institutions (PASAI).

The Peer Reviewers included representatives of the government of the Republic of Palau, the PEFA Secretariat, Mr. Rommel Flores Rabanal, the Asian Development Bank (ADB), and Mr. Stephen Savage, US Department of the Interior (DOI).

Further details on the assessment management and quality assurance arrangements are presented in Annex 1.

Methodology

Type of assessment:

The assessment was conducted in accordance with the PEFA 2016 methodology using the '*Agile*PEFA' approach and the standard *Agile*PEFA Report template.

Number of indicators used:

Under the PEFA 2016 methodology and *Agile*PEFA approach a total of 31 indicators and 94 dimensions were covered.

Scope and coverage:

The assessment focuses on the review of the national budget process and whole of government PFM systems executed by the Ministry of Finance of the Palau central government. It assesses and reports on the strengths and weaknesses of Palau's public financial management (PFM) performance as of 2022. The report includes an overview of the PFM system and evidence-based measurement of 31 performance indicators, further disaggregated into 94 dimensions, and allocated across seven pillars of PFM performance.

The assessment focused on PFM systems for Central Government, including any transfers that are made from central government to State Governments and Component Units (including SOE's), but did not include a detailed review of all aspects of the PFM systems for those entities.

A list of agencies covered by the assessment is presented at Annex 2.

Timelines:

In-country field work:	November 7 th to 18 th , 2022
Country fiscal year:	October 1 to September 30
Last three fiscal years covered:	2019/20; 2020/21; 2021/22
Latest budget submitted to legislature:	Budget 2022/23
Time of assessment (planned cut-off):	31 October 2022

Sources of information:

The assessment team accessed a wide range of documents obtained (where possible) from the Palau Government website as well as directly from MoF officials. The evidence utilized by the team is highlighted in the assessment narrative for each indicator and dimension and referenced as "source" in the footnotes to the tables. Where information is available publicly on government websites the relevant link is also referenced.

A consolidated list of documents used for this assessment, including by indicator, can be found in Annex 3. The names of all persons interviewed are listed in Annex 4.

Exchange rate

The official currency in the Republic of Palau is the United States dollar.

Fiscal Year

The Palau fiscal year is 1st October to 30th September.

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Abbreviations and Acronyms

ADB	Asian Development Bank
ASYCUDA	Automated System for Customs Data
BCBP	Bureau of Customs and Border Protection
BCG	Budgetary Central Government
BHR	Bureau of Human Resources
BNT	Bureau of National Treasury
BoG	Bank of Guam
BOH	Bank of Hawaii
BRT	Bureau of Revenue and Taxation
CG	Central Government
CIP	Capital Improvement Projects
COFOG	Classification of Functions of Government
DOI	US Department of Interior
EFT	Electronic Funds Transfer
FAD	Fiscal Affairs Department (International Monetary Fund)
FFA	(Pacific Islands) Forum Fisheries Agency
FMIS	Financial Management Information System
FRDMA	Fiscal Responsibility and Debt Management Act
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
INTOSAI	International Organisation of Supreme Audit Institutions
MAFE	Ministry of Agriculture Fisheries and Environment
MAP	Management Action Plan
MoF	Ministry of Finance
NDBP	National Development Bank of Palau
NIIP	National Infrastructure Investment Plan
NMDP	National Master Development Plan
OEK	Olbiil Era Kelulau (Congress)
PAN	Protected Areas Network
PASAI	Pacific Association of Supreme Audit Institutions
PCC	Palau Community College
PDM	Public Debt Management
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFTAC	Public Financial Technical Assistance Center
PGST	Palau Goods and Services Tax
PHA	Palau Housing Authority
PICRC	Palau International Coral Reef Center
PNA	Parties to the Nauru Agreement
PNC	Palau National Code
PPP	Public Private Partnership

PPUC	Palau Public Utilities Corporation
PVA	Palau Visitors Authority
RPPL	Republic of Palau Public Law
RPPM	Republic of Palau Property Management
SAI	Supreme Audit Institution
SNG	Sub-National Government
SOE	State Owned Enterprise
SOP	Standard Operating Procedures
VDS	Vessel day Scheme

1. INTRODUCTION

The Republic of Palau requested the IMF's Public Financial Technical Assistance Center (PFTAC) to undertake a PEFA assessment using the *AgilePEFA* approach. This had been postponed previously due to the COVID-19 pandemic and the preference for the assessment to be undertaken in-country and in-person. The purpose of the PEFA assessment is to determine the performance of PFM systems and practices and their effectiveness in supporting aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The results of the PEFA assessment will inform dialog on PFM reform interventions.

Palau undertook a PEFA self-assessment in 2013 but this did not undergo the "PEFA check" process nor has it been published. Currently, no completed PEFA assessment is available publicly, e.g., on the PEFA official website. The 2013 assessment was undertaken using the earlier 2011 PEFA methodology—this has subsequently been replaced by the 2016 methodology. The 2013 assessment highlighted Public Financial management (PFM) areas working well and those areas requiring attention. Overall, approximately half of the performance indicators (PIs) reflected assessment grades of As and Bs, whereas the other half scored Cs and Ds. The PEFA Check provides assurance to readers and users of the assessment that the ratings have been conducted with due rigor and empirical substantiation and subjected to informed external scrutiny and refinement.

The Government is cognizant that much has happened in the intervening (almost) decade since the earlier assessment. Reforms and improvements have been undertaken in many PFM areas, including enhancements to the Financial Management Information System (FMIS). The new FMIS based on the Tyler Munis (vendor) package was implemented in 2020 (April for financials and July for Human Resource Management). Modules implemented include Accounts Payable; Budget; Employee Expense; Capital Assets; General Ledger; Purchase Orders; Project Accounting; Requisitions; Accounts Receivable; General Billing; and HR Management and Payroll. The system covers all financial transactions and has been rolled out to all ministries, departments, and agencies (MDAs). Payments are made electronically and by check depending on vendor preference, although the plan is to move fully to electronic payments in the near future.

Economic context

Palau's economic outlook remains challenging. The impact of COVID was felt severely with significant downturn in the tourism sector, as Palau sought to contain community spread—these measures were highly successful in this regard, but at an economic cost to the economy. The economy is now slowly recovering thanks to a high vaccination rate which has enabled the opening of borders and relaxation of quarantine requirements, allowing greater mobility of movement in and out of the country. As well as impacting tourism, the lack of free inward and outward movement has also negatively impacted the implementation of capital infrastructure with delays experienced in securing required materials and technical expertise.

The Economic and Fiscal Update forecasts a less severe contraction in GDP in FY2022 and a return to solid economic growth in FY2023 of 12.9%. However, high inflation forecast for FY2022 (and likely to continue into FY2023 due to the ongoing global destabilization as a result of the Russia-Ukraine war) will continue to place stress on the Palau economy. Palau is committed to targeted fiscal measures until recovery is entrenched, including strengthening healthcare and mitigating economic and social impact of the pandemic.

Palau has attained high-income status, which has started to impact access to grant funding—despite being vulnerable and fragile to shocks and other events. Palau's remoteness and reliance on highly volatile tourism sector exacerbates fiscal risks.

This situation coupled with the impact of COVID has resulted in an escalation of fiscal risk, with public

debt increasing from 39% of GDP in FY2019 to a projected peak of 90% of GDP in FY2022, and a projected decline thereafter.¹ Recognizing, the challenging fiscal situation, the government has instigated tax and customs reform initiatives, to increase domestic revenue collection in an attempt to help address this problem. The implementation of the Palau Goods and Services Tax (PGST) is projected to provide revenue gains of 1% of GDP and generally support economic growth. Palau recognizes the need for fiscal consolidation in the near term.

Table 1: Selected key economic indicators

	FY2021 (Act)	FY2022 (Proj)	FY2023 (Proj)
GDP (\$ million)	218.0	219.3	254.6
GDP per capita (currency units)	12,790	12,714	14,597
Real GDP growth (%)	-13.2%	-3.6%	12.9%
CPI (annual average change) (%)	0.5%	13.7%	1.6%
Gross government debt (% of GDP)	78.1%	91.8%	81.4%

Source: Republic of Palau Economic and Fiscal Update FY2022. FY2022 and FY2023 are projected figures

Fiscal trends

Element	FY2020/21 (\$ millions)	FY 2021/22 (\$ millions)
Total revenue	73.7	74.5
• Own revenue	50.0	51.2
• Grants	23.7	23.3
Total expenditure	90.7	85.3
• Noninterest expenditure	90.0	84.0
• Interest expenditure	0.7	1.3
Aggregate deficit (incl. grants)	17.0	10.8
Primary deficit	(22.8)	(8.2)
Net financing	39.8	19.0

Source: Quarter 4 Budget Execution Reports

PFM legal framework

The overarching supreme legislation is the Constitution 1979 (with consolidated revisions through to 1992). Underneath this sits the Palau National Code (PNC), Title 40. The PNC is extensive and highly prescriptive. In this regard many of the Sections are repeated verbatim in the Republic of Palau Property Management and issued under an Executive Order.² The PNC is structured as follows (excludes repealed):

Chapter 1: Treasury (including its establishment).

Chapter 2: Public Auditor (creating the Office of the Public Auditor).

Chapter 3: Annual National Budget (highlighting budget processes and authorities).

Chapter 4: Government Funding (including the funding of government operations and the management of funds including Compact Trust Fund and other funds).

Chapter 5: National Government Private Borrowing (authority to borrow).

Chapter 6: Government Procurement (including relevant procedures).

¹ Source: IMF Article IV Report December 2021.

² For example, the Procurement Provisions are promulgated through Executive Order No. 418

Chapter 7: Government Property (management and use of boats and vehicles).

Chapter 8: Petroleum Revenue Act (rights for collecting taxes and excises on petroleum products).

Chapters 10-16: Unified Tax Act (General Provisions; Wages & Salary Tax; Gross Revenue and Net Income Tax; Import Tax; Other Taxes; Business Licenses; Collections and Appeals).

Chapter 17: Penalties and Interest.

Chapter 18: Administration.

Chapter 19: Transition.

Chapter 20: Exemptions.

Chapter 21: State Taxation.

Chapter 22: State Block Grants

Chapter 23: Tax Incentives.

Chapter 24: National Capitol Complex Tax Free Zone.

Chapter 26: Tobacco Excise Tax.

Chapter 27: Pristine Paradise Environmental Fee.

To address perceived gaps in the PNC, regarding fiscal rules and debt management, the Fiscal Responsibility and Debt Management Act (FRDMA) 2021 was enacted. Implementation of the PFM legislation is supported by Executive Orders and the Internal Control and Procedures Manual.

The Act provides the Fiscal Responsibility Framework based on international good practice amended to meet the Palau country context. It presents the rationale and discussion of the seven fiscal responsibility principles:

1. Manage operating expenditures over the medium-term within operating revenues and in relation to the rate of growth of the economy.
2. Manage net capital and financial assets, including the COFA Trust Fund, to achieve rising real national net worth over time.
3. Manage debt prudently.
4. Manage the revenue regime to best fit the structure of the economy, to provide for an equitable allocation of tax burdens, and to allow for predictability over time.
5. Manage reserves and insurance coverage to offset cyclical volatility, the costs of natural disasters, and the impact of climate change.
6. Manage the non-primary government public sector prudently including ensuring State Owned Enterprises and Public Financial Institutions are managed to deliver services on an effective and financially sustainable basis.
7. Manage fiscal risks and contingent liabilities prudently.

The Act Establishes the requirement for providing the Guiding Fiscal Strategy; Medium-Term Economic and Fiscal Model; Annual Economic and Fiscal Update; State of the Republic Address; Annual Budget Call; Annual Budget Statement; and the Half-Year Economic and Fiscal. It goes on to establish the Cyclical Reserve Fund and Climate Resilience Reserve Fund, prescribe powers of the Minister, define accounting standards, vis-à-vis Generally Accepted Accounting Principles (GAAP), and sets out the borrowing purposes and principles (including authorities and responsibilities of the minister to borrow, and reporting and audit provisions).

Laws, including annual appropriation and supplementary appropriation laws, are enacted under Republic

of Palau Public Laws (RPPLs). Some but not all of these are available on the Palau Government main website page - others are searchable on the internet, but it requires knowledge of the specific RPPL to locate.

RPPL No. 6-11, the Budget Reform Act 2001 was enacted to provide greater transparency of the budget process and clearer designation of roles and responsibilities of all branches of the government.

2.SUMMARY OF FINDINGS

2.1 PFM strengths and weaknesses

The assessment recognized sound performance in a number of areas, specifically: (i) Pillar 2 - Transparency of Public Finances; (ii) Pillar 3 - Management of Assets and Liabilities; and (iii) Pillar 4 - Policy Based Fiscal Strategy and Budgeting.

Palau has a robust budget classification (PI-4) supporting effective budget formulation, execution, and reporting, including program, administrative, and economic classifications largely aligned with international standards. Budget documentation (PI-5) provides extensive information such as macro-fiscal forecasts, allocation by function, by ministry/agency/bureau and by program, and a comparison with the previous year outturn. It also includes information on stock of debt and financial assets, as well as financial implications of new policy initiatives. Documents provide good coverage of revenues and expenditures although reporting from extrabudgetary units is somewhat delayed. Performance reports (PI-8) are produced and submitted to the OEK (Congress). On PI-11 public investment, economic analysis and project selection practices perform well – however project costing and monitoring drag overall performance under this indicator down. Public asset and debt management (PI-12 and PI-13) performed reasonably well - procedures are well defined and robust, although the rating for transparency of asset disposals was dragged down by the lateness of the consolidated annual financial reports.³ Performance under public access to public finances (PI-9) had some good elements with the publication of the enacted budget, in-year budget execution reports, and year-end budget execution reports. However, the executive budget proposal is not published, and the annual audited financial statements are significantly in arrears (See PI-29) impacting the overall rating for this indicator. PIs 15 to 18, Fiscal Strategy, Medium-Term Expenditure Budgeting, the budget Preparation Process all reflected sound levels of performance. Legislative scrutiny of budgets (PI-18) also had positive elements, although the procedures for the Ways and Means Committee were not provided.

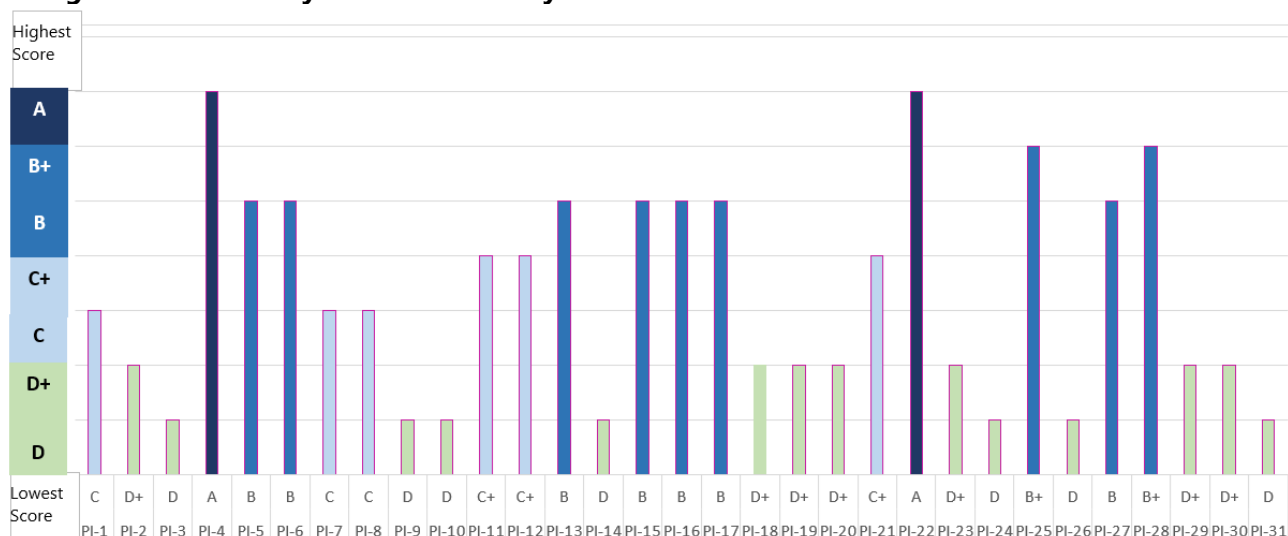
Pillar 5 was somewhat of a mixed bag with good performance in some areas such as management of payables and the non-existence of expenditure arrears (PI-22), robust payroll controls (PI-23) (although undermined by a lack of payroll audits), and solid internal controls with robust segregation of duties (PIs 24 and 25). System based controls enforced through the new Financial Management Information System (FMIS) contribute to the overall internal control environment. (Also see Annex 5 for observations on internal control). Administration and Accounting for Revenue has some good elements and some elements lacking. However, it is recognized that the revenue reforms which are intended to strengthen these areas commenced after the assessment is made and further improvements can be expected in the near future.

The absence of an internal audit function combined with a lack of a payroll audit, and weaknesses in procurement impacted negatively on the overall performance of this Pillar.

Budget reliability scored relatively low, apart from the dimension relating to allocations for contingency reserve. Financial reporting reflects good practices in data integrity with timely reconciliations of bank accounts and advances, and quarterly in-year budget executions reports provide good coverage and are published on the MoF on a timely basis. However, the preparation and audit of annual financial statements are several years in arrears starting in Fiscal Year 2020. Furthermore, although the Palau Office of the Public Auditor (OPA) scored high on its independence, other areas of external audit and scrutiny scored D.

³ The most recent consolidated statements at the time of the assessment were those for FY2019. This one issue permeated through to the rating on several dimensions.

Figure 2.1: Summary of PEFA scores by indicators – PEFA 2016 framework



2.2 Impact of PFM performance on three main fiscal and budgetary outcomes

1. Aggregate fiscal discipline

Palau has maintained sound fiscal discipline over the years. Despite being significantly impacted by the COVID pandemic, in terms of reduced revenues during lock down as well as the necessity for spending to minimize the human impact of the pandemic, Palau has managed to constrain spending within available funding. This is evidenced by the prompt settlement of all payables and the total absence of any arrears. However, dealing with COVID has resulted in an increase in borrowing and the total debt to GDP ratio has risen to almost 92%, although as Palau emerges from the pandemic this ratio is expected to reduce.

A new FMIS was implemented in 2020 centrally within MoF, which processes transactions on behalf of the MDAs. The FMIS has assisted the strengthening of budgetary commitment controls, which has contributed to fiscal discipline, ensuring no MDA overspends its budget. Under current plans, the MoF will be rolled out to all MDAs in the medium term. This will provide full functionality to MDAs such that they will process their own transactions directly at source.

The MoF produced and published (on its website) the Economic and Fiscal Update FY2022. This sets out the economic framework of Palau over the medium-term. The Fiscal Responsibility and Debt Management Act (FRDMA) sets out the requirement to publish an Economic and Fiscal Update annually – The FY2022 Update was the first to be produced.

Palau’s principles of Fiscal Responsibility are defined in the FRDMA §105. This is based on strengthening 7 core principles – summarized in brief below:

- (i) Managing operating expenses within operating revenues.
- (ii) Managing net capital and financial assets to achieve rising net worth.
- (iii) Managing debt prudently.
- (iv) Managing the revenue regime, to provide equitable tax-burdens, greater predictability, and increased collections.
- (v) Managing reserves to mitigate cyclical volatility and other risks, including climate and the environment.

- (vi) Managing the broader public sector, including SOEs and Public Financial Institutions.
- (vii) Managing fiscal risks including contingent liabilities.

The passing of the FRDMA demonstrates the government's commitment to fiscal discipline. Specifically, in regard to item (i) above, government has responded quickly (especially during COVID) to instigate prudent measures such as spending cuts in order to maintain fiscal balance.

2. Strategic allocation of resources

Palau has a well-defined budget process, as evidenced in Public Law-17, and has a reasonable medium-term orientation, as evidenced in P Public Law-16. The budget call stipulates clearly that budget proposals must be aligned to national priorities in the National Master Development Plan (NMDP) as well as the Management Action Plan (MAP) including sector strategic plans. Budget proposals need to be clearly costed to determine the level of resources required. Appendix 1 of the FY22 Fiscal Update provides the Economic and Fiscal Forecasts as required under the Fiscal Responsibility Law. The fiscal forecasts for FY23-FY25 are clearly presented in the GFS format.

In preparing the FY22 budget estimates, a review of the impact of the pandemic on the FY20 and FY21 budgets was carried out in terms of tax revenues and expenditures. This exercise is built into the formulation of the FY22 estimates. However, the budget documents provide an explanation to a limited number of the changes to expenditure estimates.

Budget documents include performance information but at output rather than outcome level. All public investment projects are subjected to appropriate analysis, including need and targeted impact, which is undertaken by an inter-agency task force. A summary of this analysis is incorporated into the National Infrastructure Investment Plan (NIIP). The NIIP is also aligned to the NMDP.

3. Efficient use of resources for service delivery

The Budget Act of 2001, section 371, establishes the requirements for ministries to provide performance reports. Most Ministries comply and do send their reports to the MoF. The reports do provide actual performance data but at output rather than outcome level.

Performance reports provide information on performance indicators for the budget year and on performance results for the prior year for most ministries. Performance reports include information on activities performed and evidence of measurable progress on performance targets disaggregated by program.

Information is available on the level of resources received by service delivery units within the largest Ministries, e.g., Education, Health, and Justice. Funding and performance measurement is focused on service delivery. For education there are 14 elementary schools and one high school. Funding, performance targets and performance measures are focused on the schools and the students attending those schools. Similarly, for Health, eight community health centers and several specialty clinics provide health services. Funding, performance objectives and performance reporting are focused on clinics and patients. Performance objectives and measurement of results are targeted on the service providers and the intended beneficiaries.

However, no performance audits are performed, and there is scope for improvement in costing, monitoring, and evaluation of major investment projects.

2.3 Performance change since previous assessment

No comparison is made with the previous 2013 PEFA assessment as the ratings were not firm and some of the dimensions were not assessed in strict accordance with the 2011 methodology—for example tax and customs revenue administration were assessed individually.

2.4 Progress in Government PFM reform program

The enactment of the FRDMA has contributed to PFM progress (See the 7 core principles of the Act above). Probably the single largest reform is the intervention to implement the PGST. It is envisaged that the PGST will achieve revenue gains of 1% of GDP, as well as promoting a more transparent and equitable tax regime. This reform went live 1st January 2023.

Whilst no direct comparison is made with the 2013 self-assessment, it is evident that there have been improvements in PFM performance in many areas. These have been achieved in part through continual attention to capacity development, as well as strengthening systems support through the implementation of the FMIS. However, rollout of the full FMIS functionality and on-site access to the MDAs is still ongoing.

The Bureau of Customs and Border Protection (BCBP) is piloting the implementation of the Automated System for Customs Data (ASYCUDA), and once this is rolled out it will facilitate and streamline the processes for importers.

2.5 Summary of performance indicators

Table 2.1: Summary of performance indicators

FM PERFORMANCE INDICATOR		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
Pillar One: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	C				C
PI-2	Expenditure composition outturn	M1	B	D	A		D+
PI-3	Revenue outturn	M2	D	D			D
Pillar Two: Transparency of public finances							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	A	A	D		B
PI-7	Transfers to subnational governments	M2	D	B			C
PI-8	Performance information for service delivery	M2	C	C	B	D	C
PI-9	Public access to fiscal information	M1	D				D
Pillar Three: Management of Assets and Liabilities							
PI-10	Fiscal risk reporting	M2	D	D	D		D
PI-11	Public investment management	M2	A	A	D	D*	C+
PI-12	Public asset management	M2	A	C	D		C+
PI-13	Debt management	M2	B	A	D		B
Pillar Four: Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	D	D	D		D
PI-15	Fiscal strategy	M2	A	B	C		B
PI-16	Medium-term perspective in expenditure budgeting	M2	A	A	C	C	B
PI-17	Budget preparation process	M2	B	A	C		B
PI-18	Parliamentary scrutiny of budgets	M1	A	D*	C	A	D+
Pillar Five: Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	D	D	D*	D+
PI-20	Accounting for revenue	M1	A	A	D*		D+
PI-21	Predictability of in-year resource allocation	M2	A	D	B	C	C+
PI-22	Expenditure arrears	M1	A	A			A
PI-23	Payroll controls	M1	C	A	A	D	D+
PI-24	Procurement management	M2	D	D*	D	D	D
PI-25	Internal controls on non-salary expenditure	M2	A	C	A		B+
PI-26	Internal audit	M1	D	N/A	N/A	N/A	D
Pillar Six: Accounting and reporting							
PI-27	Financial data integrity	M2	C	N/A	B	A	B
PI-28	In-year budget reports	M1	A	B	A		B+
PI-29	Annual financial reports	M1	D*	D	D		D
Pillar Seven: External scrutiny and audit							
PI-30	External audit	M1	D	D	D	A	D+
PI-31	Parliamentary scrutiny of audit reports	M2	D	D	D	D	D

3. ANALYSIS OF PFM PERFORMANCE – Pillars, indicators, and dimensions

This section provides an assessment of each of the 31 indicators and 94 dimensions that make up the PEFA framework. Each dimension score is calibrated to reflect a level of PFM practice as set out in the table below. Dimension scores are aggregated using PEFA Framework guidance to arrive at indicator-level scores.

SCORE	LEVEL OF PFM PRACTICE
A	High level of performance that meets good international practices.
B	Sound performance in line with many elements of good international practices.
C	Basic level of performance.
D	Either less than the basic level of performance or insufficient information to score (D*).

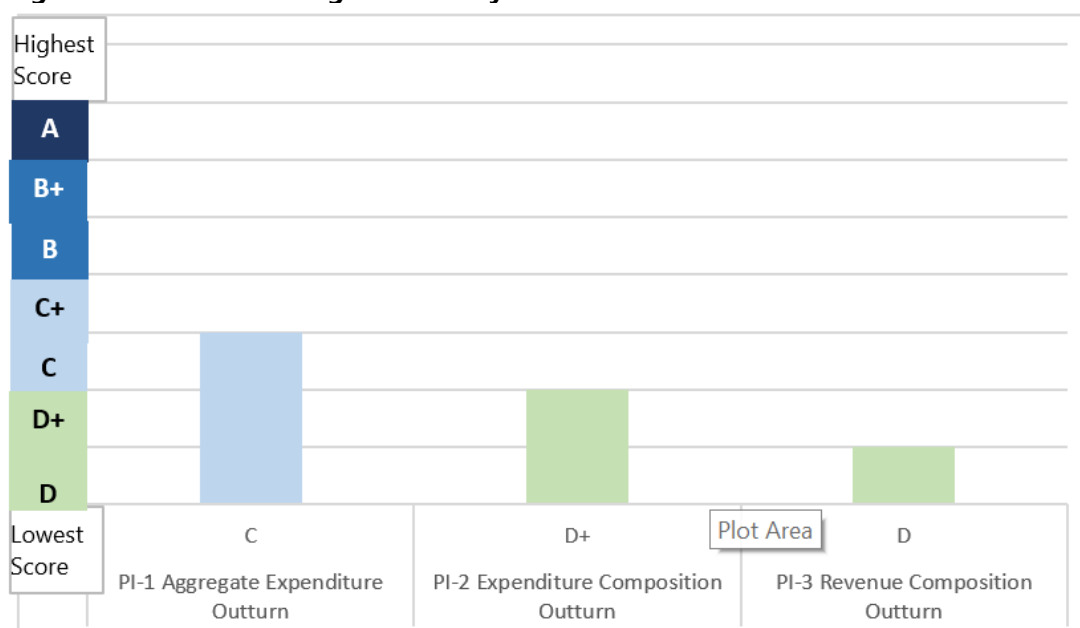
PILLAR ONE: Budget Reliability

Pillar one measures whether the government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance

The Ministry of Finance has set a performance goal for itself of producing a budget that is within 2 percent of the executed spending, a demonstration of very good budget reliability. Because of the pandemic and resulting unanticipated changes, expenditure outturn did not meet the minimum necessary for a positive score on budget reliability in the aggregate, or for the composition of the budget by economic type. The expenditure outturn by administrative structure and program was less than 15% for two of the past three years, resulting in a score of C for aggregate expenditure outturn, whilst expenditure composition outturn was assessed as D+. Aggregate revenue outturn and composition compared to the budget also resulted in scores of D.

Figure PILLAR ONE: Budget reliability



Possible underlying causes of performance

Budget reliability was affected substantially by the Covid pandemic and the resulting economic impact of Covid. Both expenditures and revenues saw significant shifts as a result of pandemic related changes. Over the three years of the past three budgets there were major changes in the economy, as the borders were closed, tourism virtually stopped and there were changes in employment and the numbers of immigrant workers. As local revenues were decreased by changes in the economy, grant funded programs expanded due to support from Palau's international partners. In 2020, most of the changes were unexpected. In 2021, some revenues and expenditures changed more or less than expected. By 2022, facing a shortfall in local revenues, the government reduced spending in the budget and then had to make adjustments in mid-year. The uncertainty for spending and revenues resulted in missed budget targets more than would be expected under more ordinary conditions.

Recent and ongoing reform activity

The most significant reform in this area is the implementation of the Palau Goods and Services Tax (PGST), approved as part of a wide-ranging tax reform package in September 2021. The government could raise an additional annual revenue of 1 percent of GDP from implementation of these tax changes. Changes are also taking place in the automation of the customs collections. Reform of taxes and improved tax collection efforts should make the tax system more effective and more predictable.

PI-1 Aggregate expenditure outturn⁴

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-1: Aggregate expenditure outturn (M1)		C
PI 1.1 Aggregate expenditure outturn	Aggregate expenditure outturn for FY21 and FY22 lies between 85% and 115% of the approved aggregate budgeted expenditure. This means it satisfies the requirement for a C rating.	C

Evidence for score

It is worth noting that appropriations declined over the past three fiscal years. This demonstrates the government's commitment to fiscal responsibility to ensure the objective of achieving a balanced budget is not compromised. During the course of the year, the Ministry of Finance monitors the budget closely to ensure spending stays within budget. This again highlights the government's approach to manage expenditures and staying prudent especially in light of the uncertainty as a result of the pandemic.

Table 1-1: Aggregate expenditure outturn

Aggregate expenditure (\$m)	FY20	FY21	FY22
Approved budget	122,117,633	103,835,998	92,013,000
Outturn	101,114,853	90,736,265	85,337,905
Outturn as a percentage of budget	82.8%	87.4%	92.7%

Data source: Quarter Financial Report for the Republic of Palau, for 2020, 2021, and 2022 Attachment A1. Note that allocated budgets and outturns in this table exclude debt service and contingencies.

⁴ The calculations for PI-1, PI-2 and PI-3 include development partners' contributions to budget resources (i.e., general budget support and development funds) and expenditures of these funds. However, it excludes 'in-kind' resources paid for by development partners which is included in the budget estimates document but not the annual financial statements or unaudited budget execution reports provided to the assessment team.

PI-2. Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-2. Expenditure composition outturn (M1)		D+
PI 2.1 Expenditure composition outturn by function	Variance in expenditure composition among budget categories between the budget approval and execution was less than 10% in two of the last three years.	B
2.2 Expenditure composition outturn by economic type	Variance in expenditure composition among economic categories was higher than 15% in each of the last three years.	D
2.3 Expenditure from contingency reserves	Contingency appropriations and spending were approximately 1% of the budget each of the past three years, well less than the standard of 3% required for a score of an A for this dimension.	A

Evidence for score

The budget for Palau is organized by administrative structure: ministry and bureau. Reports on budget actuals also are organized by the budget structure. The budget information system classifies the budget by administrative structure, budget function and by economic object of expenditure. The expenditure composition for 2020 would have been within five percent of the budget if the private sector relief measures had not been initiated in response to the COVID pandemic. The budget authorized \$20 million for private sector relief, yet only \$5.2 million was ultimately expended. The only information on budget spending by budget function and economic object was in the most recent Consolidated Financial Statement of the government, the 2019 report. More recent Consolidated Statements are pending.

Major Differences in Budget Composition by Administrative structure			
(% Change from Budget)			
Administrative structure	2020	2021	2022
Ministry of Human Resources, Culture, Tourism & Development	8.7%	17.2%	23.2%
Ministry of Education	18.4%	9.7%	4.1%
Ministry of Health & Human Services	15.5%	1.4%	7.0%
OEK/Legislative Branch	16.2%	9.1%	5.5%
State Block Grants	21.2%	9.4%	3.6%
Other appropriations	17.9%	18.5%	17.1%
Private Sector Relief Measures	68.7%	--	--
Total composition change	24.8%	9.7%	6.1%

The distribution of the budget by economic object is not a published table in the budget but was extracted from the FMIS system by the MoF staff. The focus of the budget is the General Fund accounts financed by local revenues. This excludes grant funded spending and spending from special revenue funds. In developing the analysis of composition by economic type, the repayment of debt which was included in the Ministry's data was excluded, since that is a financing transaction. Focusing on the GF does provide comparable data to the budget by administrative structure. *Salaries and expenses* is the largest economic

object and a major focus of budget attention. Composition changes in this economic object are very small in 2020 and 2021 but are significant in 2022. Other economic categories appear to receive much less attention in the budget review resulting in substantial under or overestimates in the budget. Food stuffs is an example of an economic object where the budget was not reliable. The average budget request over the past three years for food stuffs was \$9,412. The average actual spending for food stuff was over \$1.1 million. The size of the composition changes suggests that the lack of budget review attention to spending by economic object reduces budget reliability.

Major Differences in Budget Composition by Economic Object			
(% Change from Budget)			
Economic Type	2020	2021	2022
Salaries and wages	0.3%	0.7%	17.3%
Professional and contractual services	54.9%	0.6%	14.9%
Utilities	5.7%	5.7%	28.6%
Payments of allotments / benefits	0.2%	24.8%	1.7%
Supplies and materials	39.3%	33.1%	45.8%
Food stuffs	11133.0%	1471.2%	16439.0%
Other expenses	-146.7%	96.2%	96.4%
Board compensation	77.7%	335.8%	201.3%
Donations	NB	NB	NB
Student loans	12.4%	51.0%	62.7%
Interest charges	86.4%	50.9%	39.8%
Total composition change	19.1%	27.2%	32.0%

NB = No budget estimate, composition change is infinite.

In November of 2021, Palau passed the Fiscal Responsibility and Debt Management Act. That act authorized the establishment of a Cyclical Reserve Fund to offset shortfalls in local revenue and to serve as a reserve for declared national emergencies. The act provides that not less than 2 percent of unrestricted local revenues be appropriated annually to the fund. Appropriations and spending for the past three years have appropriated approximately 1 percent of the general fund expenditure for the emergency reserve. The Ministry confirmed that this appropriation met the 2 percent of domestic revenue target in each year.

Table 2-1: Aggregate expenditure outturn variance compared to approved budget

Variance	FY2020	FY2021	FY2022
Administrative classification	24.8%	9.7%	6.1%
Economic classification	19.1%	27.2%	32.0%
Contingency appropriation	1.1%	0.7%	0.9%

Data source: Data for Admin Classification and Contingency Appropriation taken from Attachment B of the 4th Quarter Financial Report for the Republic of Palau, for 2020, 2021, and 2022. Data for Economic Classification taken from FMIS system by MOF staff.

PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn.

Indicator and dimension scores and analysis

Indicators/ Dimensions	Assessment of performance	Score
PI-3. Revenue outturn (M2)		D
3.1 Aggregate revenue outturn	Actual revenues were not within the ranges required for a score of A – C, 84% and 118% of budgeted revenue for two of the past three years. Actual revenues were within 102% of the budget in 2022, but outside the target range in 2020 and 2021.	D
3.2 Revenue composition outturn	Revenue composition varied by more than the ranges required for a score of A – C, (less than 5% to 15%). Actual composition changes were over 20% each year.	D

Evidence for score

Estimating issues relating to the pandemic and its impact on the economy of Palau were a major contributor to both the over-estimates of revenues in 2020 and to underestimates in revenues in 2021, and 2022. In 2020, taxes on business gross revenues, hotel occupancy, and general imports were all significantly below budget estimates, as were port use fees. In both 2021 and 2022, revenue estimates rebounded faster than expected. Licenses and permit fees for fishing days were substantially higher than expected in both 2021 and 2022. In 2021, \$275,836 in unbudgeted fees were collected. About half of this amount was from digital residency fees; the other half was not explained. Revenue estimates were more affected by the pandemic than were spending estimates.

Composition changes also were partially a result of the pandemic and its unpredicted impact on revenues. For 2020 less revenue was generated by business taxes, and port fees, and more from hospital fees than expected. In 2021 more revenue was generated by taxes on salaries, taxes on alcohol and tobacco, licenses for fishing days, and fees for port use than expected. Hospital fees also exceed budget forecasts substantially, as they had in 2020. For 2022, the largest change was licenses for fishing days. Revenue forecasts do not anticipate economic changes effectively.

Table 3-1: Aggregate revenue outturn

Total revenue (\$m)	FY2020	FY2021	FY2022
Approved budget	97,313,633	55,373,398	67,323,000
Outturn	81,330,601	65,081,129	68,803,154
Variance (as a % of original budget)	84%	118%	102%
Composition Variance	21%	41%	24%

Data source: Data were taken from Attachment C of the 4th Quarter Financial Report for the Republic of Palau for 2020, 2021 and 2022. These revenue figures include Compact Trust Fund and Blue Prosperity Fund.

PILLAR TWO: Transparency of Public Finances

Pillar two assesses whether information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

Overall performance

The budget document contains basic information such as macro-fiscal forecasts, allocation by function, by ministry/agency/bureau and by program, and a comparison with the previous year outturn. It also includes information on stock of debt and financial assets, as well as financial implications of new policy initiatives.

Information that is not yet available in the budget document includes the aggregate revenue and expenditure data for the budget year with comparison with the current and previous year; the key assumptions for the macro-fiscal forecasts, fiscal risks, and tax expenditures.

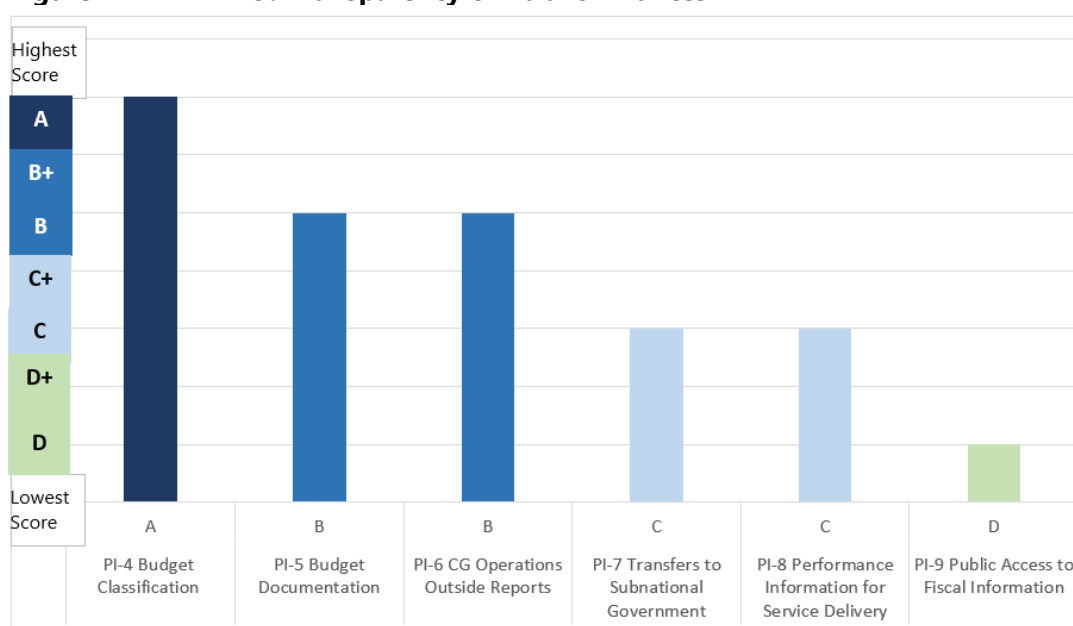
The financial reports of the Palau Government as consolidated and disseminated by the Ministry of Finance contain useful information which is primarily enabled by the existing budget classification in terms of administrative, program, and economic categories.

Even non-financial information such as performance indicators of all agencies including their service delivery units such as schools and hospitals are required to be reported. This performance information is used for budget proposal evaluation. The Office of the Public Auditor has initiated some performance audits, but not focused on performance of service delivery units.

There was no unreported government operation as reports were able to capture both the budgetary and extra-budgetary transactions of all public entities. Preliminary budget information are provided to state governments as input in their budget planning purposes prior to the start of the fiscal year. The criteria for allocating among state governments need to be formalized in a written policy.

Public access to these reports is provided by publishing them in the government website or through a link to the MoF or the Office of the Public Auditor websites. However, the delayed release of the audited financial statements and audit reports have undermined the transparency of the financial reports.

Figure PILLAR TWO: Transparency of Public Finances



Possible underlying causes of performance

The integration of available but unpublished information in the budget document would make the latter more transparent. For example, there is an existing economic classification but used only during budget execution and for accounting and reporting.

Information on fiscal risks is discussed in the Economic and Fiscal Update. Further work may be explored in the future to quantify these risks and included in the budget documentation.

Recent and ongoing reform activity

The issuance of the 2021 Fiscal Responsibility Act and the 2021-2024 Medium-Term Fiscal Strategy are the latest initiatives of the government to achieve greater transparency of public finance. The Fiscal Responsibility Act documents the key processes in the budget cycle, including the oversight of state-owned enterprises and public financial institutions. One of the policy actions adopted in the medium-term fiscal strategy is to develop a rules-based approach for the transfer of block grants to state governments.

The reporting of government finance statistics (GFS) and its alignment to international standards would assist in improving Palau's classifications/chart of accounts.

PI-4. Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
		A
4.1 Budget classification	Budget classification requires a function and sub-function classification for budget formulation, execution, and reporting, but allows program classification as an alternative. Palau uses an administrative and program classification to manage finances. The program classification is at a level of detail that corresponds to a subfunction classification. GFS compliant budget data, which include administrative and economic item classifications, are used for budget formulation, execution and reporting.	A

Evidence for score

The budget classification as shown on the chart of accounts is comprehensive and is GFS compliant. The budget is presented on an administrative structure based on five branches of government, eight ministries and twelve other major organizations, approximately two hundred bureaus, and many programs. The administrative structure with the program breakdown is used in the budget, the appropriation, for accounting, and in the spending reports on budget execution. GFS compliant budget data are used to formulate and execute the budget.

All spending and revenue accounts are coded in the financial information system for administrative organization, economic object and budget function. The accounts are managed and reported through the FMIS. The system does track the accounts at the coded level. The consolidated annual financial statements include tables by function and economic object. The 2019 Audited Financial Statement report (the most recent audited report) presented a table on spending by function (page 18) and by economic object (pages 98-99). There were ten budget functions, six of which are similar to Classification of Functions of Government (COFOG), four functions are important to the Republic of Palau, such as the block grants to State governments (approximately ten percent of the budget) and culture and recreation. The budget is not allocated by sub-function. Functional allocations do not appear to be a focus of budget decision making or financial reporting. The Budget Manual requires economic classification at the 4-digit

GFS standard (see pages 32-34 of the Budget Manual). GFS data is produced by the Statistics Office in the Ministry of Finance for international reporting.

Table 4-1. Budget classification and chart of accounts

Element	Classification structure						
	Administrative (Y/N)	Economic: No. of digits and GFS compliance (Y/N)			Function (Y/N)	Subfunction/ Program (S/P/N)*	COFOG Compliant (Y/N)
		Revenue	Recurrent	Capital			
Chart of accounts	Y	4/Y	4-5/Y	3/Y	Y	N	Y
Budget formulation	Y	Y	Y	Y	Y	N	Y
Budget execution and reporting	Y	Y	Y	Y	Y	N	Y

* **Note:** S = Subfunction; P = Program; Y=Yes and N = No

Data source: Chart of Accounts for FY 2023 and GFS Mapping. Budget Manual 2018,

PI-5. Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of four basic and eight additional elements.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-5. Budget documentation		B
5.1 Budget documentation	Palau includes 8 of the 12 elements including 3 of the 4 basic elements in its budget and supporting documents. Palau's budget presentation is less effective because it does not present a unified budget but presents locally funded activity separately from grant funded activity.	B

Evidence for score

Table 5-1 Budget documentation

Item	Included (Y/N)	Source of evidence and comments
Basic elements		
1	Y	Forecast of the fiscal deficit or surplus or accrual operating result. The budget submission includes a Funds Availability Analysis that summarizes spending, revenue and financing each year. That table shows the deficit or surplus.
2	Y	Previous year's budget outturn, presented in the same format as the budget proposal. Prior year's actuals are presented in the Budget Summary Tables for T and T-1 and in the 4th Quarter Financial Statement for the budget structure – Attachment B – 6 pages.
3	Y	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn. Revised budget for the current year, presented with prior year, budget year, and budget year plus one and budget year plus two, in the budget submission – 8 pages in 2023.

4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	N	The budget submission provides the information for revenues and spending at the aggregate level and the detailed level for the two prior years, the current fiscal year and the budget year, but in three separate tables. The 4th Quarter Financial Statement provides the aggregate information on revenue and expenditure on a single page on Attachment A-1 for the current fiscal year.
Additional elements			
5	Deficit financing, describing its anticipated composition.	Y	Funds availability analysis included in the budget submission identifies sources of financing. Part B1ii(d) of the Economic and Fiscal Update for 2022 provides a narrative explanation of the financing needs and sources for the Republic of Palau.
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	N	The Economic and Fiscal Update includes assumptions of the projections (Part B1i) and an explanation of the outlook of the economy (Part B1ii(a)). Appendix 1 of the Economic and Fiscal Update includes forward projections up to FY2025 of national accounts (including per capita measures), prices, employment, tourism, GFS, debt, and monetary statistics? https://www.palau.gov.pw/wp-content/uploads/2022/06/Republic-of-Palau-Economic-and-Fiscal-Update-FY-2022.pdf
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Y	Quarter 2 2022 financial report provides comprehensive tabulations of debt, payments and balances: schedule of debts and receivables, accounts payable, notes, subsidiary loans with component units, general fund receivables from component units in Attachment I. Long term debt beginning balances, payments and ending balances are reported in Attachment K. This Quarterly Report was available to the legislature at the time the budget was reviewed and provided the balances at the start of the current financial year FY2022.
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Y	Financial assets are presented in the Consolidated Financial statement in the Balance sheet which appeared on page 19 of the 2019 Statement. Assets of the Compact and the Infrastructure Maintenance Fund are shown on page 109 and Special revenue funds are shown on p112. Quarter 4 2022 financial report (Attachments F and H) provides full data of financial assets.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	N	The Economic and Fiscal Update for 2022 Provides a narrative discussion of fiscal risk. It does not provide a quantification of those risks or a range of potential contingencies.
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	Y	Once each presidential term, the President submits a Medium-Term Fiscal Strategy document for the coming four years of government that provides a policy framework for financial policies. The annual State of the Republic provides a narrative by the President that describes the implications of new policy. (18 pages in 2021 and 15 pages in 2022). The budget submission provides a brief narrative highlighting changes between the current budget

			and the proposed budget.
11	Documentation on the medium-term fiscal forecasts.	Y	The budget act is an annual appropriation, but the budget submission includes tables showing outyear estimates for the budget year plus one, and the budget year plus two. The table showing details of expenditure appears on pages 25-33 of the 2022 Budget. The Funds Availability Table shows outyears for revenues on pages 37 and 38 of the 2022 Budget.
12	Quantification of tax expenditures.	N	Tax expenditures have not been recognized or quantified in Palau. The laws authorizing taxes and fees provide preferences for classes of borrowers with a cost to the government in lost revenue that is not recognized.

PI-6. Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-6. Central government operations outside financial reports (M2)		B
6.1 Expenditure outside financial reports	All primary government transactions from all funds, whether part of or outside the budget, have been recorded in the FMIS, and these together with all non-SOE component units have been included in the consolidated central government financial reports. There was no indication of any expenditure which has not been reported.	A
6.2 Revenue outside financial reports	All primary government transactions from all funds, whether part of or outside the budget, have been recorded in the FMIS, and these together with all non-SOE component units have been included in the consolidated central government financial reports. There was no indication of any revenue which has not been reported.	A
6.3 Financial Reports of Extrabudgetary Units	Detailed financial reports of all extrabudgetary units are submitted to government annually within 12-22 months of the end of the fiscal year.	D

Overview

For this indicator, the term central government would cover the following entities - primary government, and the extra-budgetary units, or non-SOE component units. In the annual financial reports for the whole government of Palau, the revenues and expenditures of all central government entities, including transfers to state-owned enterprises (SOEs) and sub-national governments, are reported. The primary government refers to the ministries and bureaus and all units of the national government that are fully or significantly dependent on the national budget. The component units refer to the seven statutory authorities (extrabudgetary units) and four SOEs. The sub-national governments refer to the 16 state governments.

For primary government entities, transactions are recorded in the FMIS which is administered by the Bureau of the National Treasury under the Ministry of Finance. Transfers/payments from the central government to the extra-budgetary units are also recorded in the FMIS. The extra-budgetary units maintain their own accounting system and prepare their individual reports that are aligned with the central government and submit them to the Treasury. From these data/reports, the Treasury prepares the consolidated government-wide reports.

For this indicator PI 6, the performance was measured on the basis of the available financial reports

as of the last completed fiscal year. These are the 2021-22 quarterly budget execution reports and data on the 2019-20 annual financial operations of extra-budgetary entities/projects as provided by the Treasury of the Ministry of Finance.

Evidence for score

Dimension 6.1

The Bureau of National Treasury (BNT) prepared quarterly reports in the last fiscal year 2021-22 (refer to PI 28) and published them in the MoF website (refer to PI 28). The quarterly reports include among others the actual expenditures versus the budget indicating the variance. The reports cover all primary government entities, and transfers to component units and state governments.

As of the last completed fiscal year (2021-22), BNT has also prepared and submitted the annual financial statements for 2019-20 (refer to PI 29). One of the financial statements is the Statement of Activities which shows the expenses incurred by all central government entities (primary government and the extra-budgetary units or non-SOE component units). The BNT also recorded and reported the expenditures of central government entities projects that were funded from donors. These funds were not reflected in the budget.

There was no indication of an expenditure that has not been reported, hence a performance rating of A is given.

Dimension 6.2

Quarterly reports for 2022 include among others actual revenues collected by all central government entities. The 2020 financial statements include revenues earned by all central government entities, like taxes, charges and fees, foreign grants, and other sources.

Similarly, a rating of A was assigned to this dimension.

Dimension 6.3

For fiscal year 2019-2020, the 5 (5) extra-budgetary units (all component units except SOEs) and two extra-budgetary funds submitted audited annual financial statements to the Ministry of Finance. All reports were submitted to Treasury within 12-22 months after the reference period for inclusion in the consolidated financial report. The financial statements of all these extra-budgetary units include revenues and expenses, assets and liabilities, including contingent liabilities.

Transactions of projects funded from foreign grants were recorded in the FMIS by the BNT, hence included in the central government reports.

Due to the timeliness issue, performance was rated at D.

Table 6-1: Identification of Extrabudgetary Operations

Existence of Extrabudgetary Operations	Under control of Government	Budget	Within Whole of Government Annual Financial Statement	Financial Reporting to Government	Any additional off-budget elements
Budgetary Entities (primary government entities)	Yes	Fully provided in the budget	Yes. Recorded in the FMIS and included in the consolidated financial statements	Yes	none
Extra-budgetary Entities	Yes	The budget includes only the transfers to extra-budgetary	Yes. BNT include them in the consolidated government financial	Yes	See tables 6.3

		entities, not their whole operations	statements.		
Funds from Development Partners and Donors:	Yes	These are outside the budget	Yes. Recorded in the FMIS and included in the consolidated financial statements	Yes	See table 6.3

Data source: 4th quarter/Annual Budget Execution Report, 2021-22; Treasury confirmation on the content of the 2019-20 Financial Statements, Ministry of Finance, Palau.

Table 6-2: Expenditure and revenue outside financial reports

Entity	Type of revenue outside government financial reports	Estimated amount of revenue reported outside government financial reports	Type of expenditure reported outside government financial reports	Estimated amount of expenditure reported outside government financial reports	Evidence and reporting
Budgetary units					
1. Budgetary Entities	none	none	none	none	Quarterly reports 2021-22
Extrabudgetary units					
1.1 Development Projects (development partner contributions)	none	none	none	none	2019-20 Data from Treasury
2. Extra-budgetary Entities	none	none	none	none	2019-20 Annual data as provided by Treasury

Data source: Quarterly reports 2021-22; 2019-20 data on extra-budgetary operations, from Treasury, Ministry of Finance

Table 6-3: Financial reports of extrabudgetary operations of development funds

Name of extrabudgetary unit	Date annual report received by CG	Content of annual financial report (Y/N):			Expenditure as a percentage of total extrabudgetary unit expenditure (estimated)
		Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
Projects with foreign grants	Recorded directly in the FMIS by the Treasury	Y	Y	NA	(11%) 7,327,709
Component Units					
Palau Community College (PCC)	1/18/2022	Y	Y	Y	(13%) 8,707,112
Palau Housing Authority (PHA)	8/2/2022	Y	Y	Y	(1%) 375,719
Palau International Coral Reef Center (PICRC)	8/2/2022	Y	Y	Y	(3%) 1,937,842
Palau Visitors Authority (PVA)	10/15/2021	Y	Y	Y	(2%) 1,491,673
Protected Areas Network Fund (PAN)	10/15/2021	Y	Y	Y	(3%) 1,898,288
Civil Service Pension Plan (CSPP)	8/2/2022	Y	Y	Y	(16%) 10,712,450
Social Security	8/2/2022	Y	Y	Y	(49%) 32,858,856

Retirement Fund					
Total Reported					65,309,649
Percent reported					100%
Total Extrabudgetary Operations/Units					65,309,649

Data source: 2019-20 financial reports of extra-budgetary units as provided by the Treasury, Ministry of Finance

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from the assessed government and whether subnational governments receive information on their allocations in time to facilitate budget planning.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-7. Transfers to subnational governments (M2)		C
7.1 System for allocating transfers	All transfers to the state governments are in accordance with standard allocation criteria/formula. However, this formula was not formalized in the form of a written rule or policy.	D
7.2. Timeliness of information on transfers	Budget ceiling for state governments is released by May 25, and deadline of submission of proposal to MoF was June 23 (last completed fiscal year), giving state governments 4 weeks to complete their budget proposal.	B

Overview

Palau has sixteen (16) state governments. Under Article XI of the Palau Constitution, the states are given the power to impose taxes and borrow money for their programs, subject to the approval of Congress. Every year, the national budget includes a separate appropriation item for the operational expenses and capital improvement projects of state governments called State Block Grants

In May 25, 2022, the MoF issued the 2022/23 Budget Call, requiring state governments and all entities or activities receiving grants or subsidy to submit proposals for continuation or increase in the budget allocation. The Budget Call contained the approved budget ceilings for each of the budget entities including state governments. Based on this budget ceiling, the state governments prepare their budget plans/proposals and submit to the MoF not later than June 23, 2022, and finally to their respective state legislative bodies for approval.

Once the appropriations Act is passed by Congress which is usually before the start of the fiscal year, state governments are informed of the approved allocations. All this information is disseminated to the state governments through the Ministry of State Domestic Affairs.

Based on past years' experience, the Ministry of Finance staff indicated that it was very rare that the final budget allocation for state governments is different from the budget ceilings. The fiscal year of most SNGs coincides with the national government.

The share of each state government is released at the start of each quarter following the quarterly spending plan ratios. The MoF also reports to the Congress the total amounts transferred to the state governments.

Evidence for score

Dimension 7.1

In the past, state block grants were divided equally among the states. In the Palau National Code, there was no provision regarding how funding for state governments shall be allocated. The regulations merely

indicated the type of expenses that may be incurred out of these grants such as operating expenses and capital improvement projects.

In recent years up to the last completed fiscal year, the state block grants distribution has followed an allocation criteria- 70% based on population,⁵ and 30% equally. However, it has not been formalized into a written rule or policy. The transparency of the system is therefore undermined. For this reason, a rating of **D** was given.

For the next fiscal year, the government aims as one of its priority fiscal strategies⁶ to adopt a rule-based approach.

Dimension 7.2

The annual budget ceiling for state governments was released in May 2022 (refer to Budget Calendar on the 2022/23 budget process), thus giving them enough time (7 to 8 weeks) to complete their budget plan and submit their budget proposal to their respective legislative local bodies, i.e., before the end of July 2022, which is within the two-months before the start of the fiscal year.. For this, the performance was rated **A**.

Table 7-1: System for allocating transfers

Name of SNG	Percentage of transfers that are based transparent, rulebased system	Source of rules (eg legislation, regulation etc)	Date of advice on transfers	Source of date of transfers	Date of budget submission to SNG legislature
State Governments (16 of them)	None; Rules were not formalized/ documented, hence not transparent.	MoF unwritten policy	Budget ceiling - end of May; Approved budget - Start of the year; actual release - start of each quarter	Treasury	Prior to October 1 for most state governments

Data source: Budget Call for 2021-22; 2021-24 Fiscal Strategy Framework; Pala National Code; confirmation from the Budget Division, Ministry of Finance, Palau.

PI-8. Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation and in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-8. Performance information for service delivery (M2)		C
8.1. Performance plans for service delivery	The Ministry of Finance reported that performance indicators were published for all ministries and agencies of government. A majority of ministries were confirmed to have submitted required reports. Reports are presented to the OEK by Ministries making the information public, but are, not consolidated or disaggregated by program or function	C

⁵ This allocation was in response to clamor mainly from Koror state government.

⁶The Palau Government has approved a Medium-Term Fiscal Strategy and among them is the development of a rule-based approach in distributing the state block grants.

8.2. Performance achieved for service delivery	Performance reports provide information on performance indicators for the budget year and on performance results for the prior year for a majority of ministries. Performance reports include information on activities performed and evidence of measurable progress on performance targets disaggregated by program. Reports are presented to the OEK by Ministries making the information public but are not consolidated or disaggregated by program or function.	C
8.3. Resources received by service delivery units	Information is available on level of resources received by service delivery units in the Education, Health and Justice ministries. Most of the funding is used for service delivery is managed by the ministries. Funding and performance measurement is focused on service delivery. For education there are 14 elementary schools and one high school. Funding, performance targets and performance measures are focused on the schools and the students attending those schools. Similarly, for Health, eight community health centers and several specialty clinics provide health services. Funding, performance objectives and performance reporting are focused on clinics and patients. Performance objectives and measurement of results are targeted on the service providers and the intended beneficiaries. Funding allocations to service delivery units is reported quarterly and annually in the Quarterly financial reports. This is evidenced in the QTR4 financial reports for each of the last three completed fiscal years for FY2020, FY2021 and FY2022.	B
8.4. Performance evaluation for service delivery	No evaluations of performance by an independent body have been performed. No systematic evaluations of service delivery were reported.	D

Evidence for score

Section 371 of the Budget Act of 2001 established requirements for performance reports. Agencies were required to report to the President, the OEK and the Public Auditor by April 1 each year on the agency's functions, performance measures, service population, proposals for collecting new performance information, and staffing lists and salaries, by each service or program and provide an analysis of past and projected performance. The MoF provided performance reports for the major service providers identified in table 8-1 and 8-2. Given the small size of the Palau government, most administrative functions are centralized. Service performance measurement and related resources are targeted on service delivery.

The reports combine output measures, measures of administrative actions and some outcome measures. Education reported on schools achieving accreditation and teachers' perceptions of improvement in curriculum. They identified improving students' performance as an objective, but the results did not demonstrate progress. In Health, clinic hours were modified to better serve clients and the vaccination campaign for COVID resulted in 96% of the clients being vaccinated. Justice reported improvements in case closures, narcotics taken off the streets, and maritime safety. All also referred to hiring goals, training of staff, and customers satisfaction. Reports did not identify specific schools, health clinics, or other service units.

The seven agencies identified in tables 8-1 and 8-2 are primarily service delivery agencies. These agencies were allocated 47 percent of the 2022 Budget. Other agencies like the Ministries of Finance and State were responsible for central administrative functions. Performance reports were provided for Education, Health and Justice, 63 percent of the service delivery ministries. Annual reports were made available for these three ministries for 2021 and 2022. No consolidated reports were published.

The Ministry of Finance reported that all agencies submitted performance reports that included performance plans and results. The authorizing law, Budget Act of 2001, required the President to maintain automated performance system that consolidates the performance reports. That system has not been established to date. The ministries of Health, Education, and Infrastructure did submit the reports, but where the Congress would normally have held hearings on those reports, the hearings had been stopped due to the pandemic. The Public Auditor has done limited performance audits over the past few

years, but there has otherwise been no evaluation of performance results.

Table 8-1 and 8-2: Performance information for the largest service delivery agencies

Name of service delivery agency	Percentage of service delivery ministries	Program objectives specified (Y/N)	Key performance indicators (Y/N)	PI-8.1 Planned performance		PI-8.2 Actual performance		
				Planned outputs (Y/N)	Planned outcomes (Y/N)	Data on actual outputs produced (Y/N)	Data on actual outcomes achieved (Y/N)	Information on activities undertaken (if no outputs or outcomes) (Y/N)
Education	23%	Y	Y	Y	N	Y	N	Y
Health	26%	Y	Y	Y	N	Y	N	Y
Justice	14%	Y	Y	Y	N	Y	N	Y
Infrastructure	16%							
Human Resources	4%							
Agriculture, Fisheries	3%							
Education assistance	14%							
Total	100%							

Data source: Performance reports for the Ministries of Education, Health, and Justice for 2020-2021, and FY 2022 budget data from 4th Quarter Report on budget execution for 2022. Performance reports were not made available for Infrastructure, Human Resources, Agriculture and Fisheries or Education Assistance.

Table 8-4: Information on program evaluation

Ministry	Percentage of service delivery ministries	Program or service evaluated	Date of evaluation	Type of evaluation	Report author	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
		None identified.					
Total							

Data source: N/A.

PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on nine specified elements (five basic and four additional elements) of information to which public access is considered critical.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-9. Public access to fiscal information		D
9.1 Public access to fiscal information	From the Table below only 3 Basic Elements and two Additional Elements are met. To get a C rating four basic elements must be satisfied, therefore this indicator is rated D.	D

Evidence for score

Table 9-1 Budget documentation

Item	Criteria met within timeframe (Y/N)	Explanation	Source of evidence
Basic elements			
1	N	These documents are not packaged or presented in a way that is easily accessible by the public	
2	Y	The budget is available to the public immediately on the government page www.Palau.gov.pw after Congress has approved it.	FY20, FY21 and FY22 Appropriations
3	Y	The reports for quarter ended September 30, 2022 were tabled on October 31, 2022 and were made available online within four weeks. https://www.palau.gov.pw/wp-content/uploads/2022-4th-Quarter.pdf	i. Summary Statement of Appropriations & Expenditures ii. Schedule of Revenues and other fund sources iii. Schedule of Actual Expenditures by Fund and by Account iv. v. Schedule of Financial assets
4	Y	The budget execution reports are prepared quarterly and published within four weeks from the reference period.	FY20, FY21 Fourth Quarterly Execution Reports.
5	N	The FY21 financial statements has not been submitted for audit yet which is now well over 12 months	
Additional elements			
6	N	The State of the Republic Address delivered on April 21, 2022 - flagged the broad FY22 economic environment and how expenditures and revenues will be impacted. This was delivered 5 months before the budget was approved.	Whilst many years' State of the Republic Address are published the one for FY22 is not currently on the website – a hard copy was received and reviewed under this assessment.

7	<p>Other external audit reports. All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.</p>	N	External audit reports are over 12 months overdue for audit.	
8	<p>Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.</p>	N	A summary of the budget that can be easily understood by the public is not made available.	
9	<p>Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.</p>	Y	The forecast are available to the public immediately once Congress has approved them.	State of the Republic Address

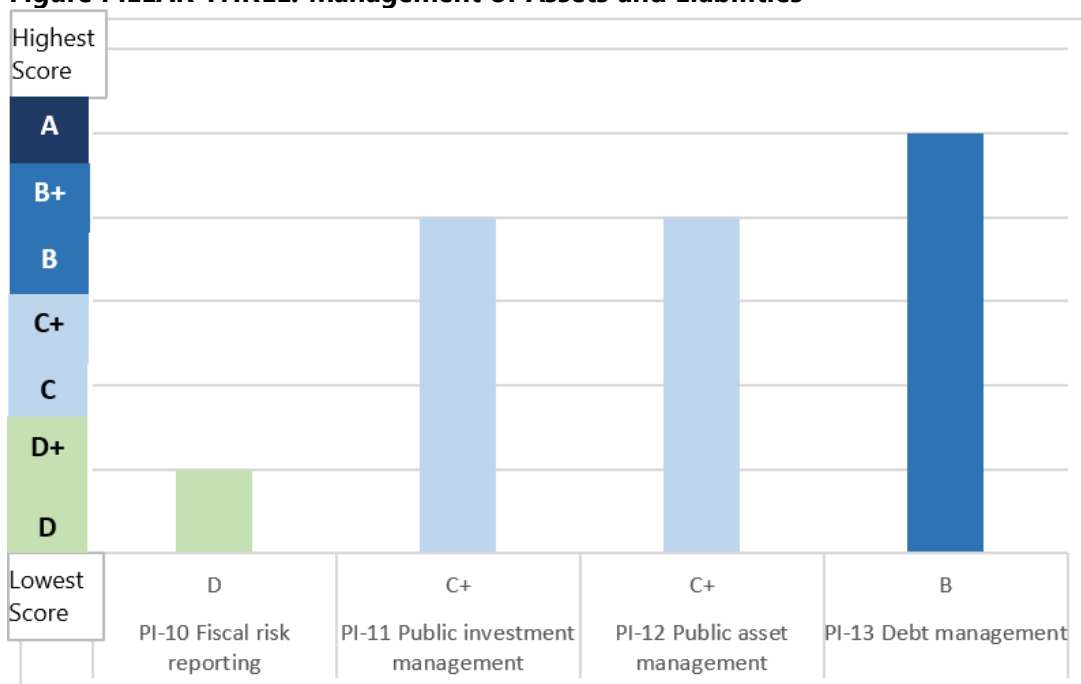
PILLAR THREE: Management of Assets and Liabilities

Pillar three measures the effectiveness of the government’s management of assets and liabilities and the extent to which this ensures that public investments provide value for money, assets are recorded, and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

Overall performance

Three of the indicators in this pillar are relatively strong: Public Investment Management scored a C+, Public Asset Management scored a B+ and Debt Management scored an A. Fiscal Risk Reporting in contrast scored as a D. Fiscal risk reporting was negatively affected by the pandemic. In contrast Public Investment, Asset and Debt management were all being implemented by the government and were not dependent on outside support. The Ministry of Finance and the Ministry of Infrastructure were responsible for higher scores in these indicators.

Figure PILLAR THREE: Management of Assets and Liabilities



Possible underlying causes of performance

The criteria for two of the three indicators in Fiscal Risk Reporting are tied to timing of financial statements. The pandemic has had a major impact on the timing of audited financial statements. The completion of annual financial statements for the government and for SOEs was delayed by additional challenges in cleansing data in the new FMIS and exacerbated by COVID related travel restrictions on private firms assisting the MoF in compiling and finalizing the statements. MoF provided narrative discussions of fiscal risks and of debt policy in the Fiscal Strategy and Economic and Fiscal Update and in the President’s State of the Republic Address. There is clearly an awareness on the part of the government on the importance of these issues, but fiscal risks were not quantified in any of the documents.

Recent and ongoing reform activity

In 2021 the government enacted the Fiscal Responsibility and Debt Management Act. This law established requirements for strengthening governments fiscal management. The Minister of Finance issued a Public Debt Management Policy in April 2022. The Act requires MoF to establish a Debt Management Unit. The policy provides further detail on the actions to be taken. In addition to supporting the Minister in managing debt, the Debt Management Unit is charged with developing policies for this area: a Medium-

term Debt Strategy providing debt targets for a 3 – 5-year period, a Debt Sustainability Analysis and a Risk Management Framework. The Ministry has established a working group that is intended to become the Debt Management Unit. Implementing these policies will likely strengthen the government financial management.

PI-10: Fiscal risk reporting

This indicator measures the extent to which fiscal risks to central government are reported

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-10: Fiscal risk reporting (M2)		D
10.1. Monitoring of public corporations	Financial statements of public corporations were not published within 6 months of the end of the fiscal year. The financial year for public corporations follows the calendar year.	D
10.2. Monitoring of subnational governments	None of the State financial statements have been submitted within nine months of the end of the fiscal year. The financial year for government, including subnational governments runs from 1 October to 30 September.	D
10.3. Contingent liabilities and other fiscal risks	Contingent liabilities and other fiscal risks are being recognized in the Economic and Fiscal Update report but are not yet being quantified. The government has recognized the need to do so.	D

Evidence for score

Financial statements for public corporations were included in the consolidated financial statement for 2019. MoF identified the schedule for the completion of the financial statements and for the submission of the audited statements to the MoF for three of the public corporations for FY 2020, as follows:

Public corporation	Fiscal Year 2020 Financial Statement Completed	Audited Statement Submitted to MoF
BSCC	2/19/2021	5/13/2021
PNCC	7/30/2021	10/15/2021
PPUC	10/26/2021	1/18/2022

The delays in submission of annual financial statements were attributed to extra workload in MoF, reconciling MDA data in the new FMIS. Additionally, private firms who usually assist the completion of annual statements were unable to travel due to COVID related travel restrictions.

The Consolidated Financial Statement for 2019 includes the financial statements for four wholly owned public corporations, two of which have surpluses for the fiscal year: the National Development Bank of Palau, and the Belau Submarine Cable Corporation. Two public corporations received appropriations from the Government: PPUC and PCC. The government guarantees the debt of three of the public corporations: NDB, PNCC, and PPUC. The report describes the existence of the guarantees but does not quantify them. The government of Palau distinguishes between state owned enterprises which are public corporations established to fulfill commercial purposes and component units which are public corporations carrying out public functions.

Table 10-1: Monitoring of public corporations

Five largest public corporations	Financial turnover (\$m)	Percentage of five largest public corporations	Date of publication of audited financial statement	Date financial statement submitted to govt.	Are contingent liabilities disclosed in financial statement	Consolidated Report Prepared (Y/N)
1. Palau Public	8.4	72%	2/15/2021	1/18/2022	Y	Y

Utilities Corporation						
2. Palau National Communications Corp	2.6	8%	2/15/2021	10/15/2021	Y	
3. National Development Bank of Palau	1.2	10%	2/15/2021	10/15/2021	Y	
4. Belau Submarine Cable Company	0.7	6%	2/19/2021	5/13/2021	Y	

Data source: Consolidated Financial Statement for 2019, (published 02/2021). Statements for 2020 and 2021 are being prepared. Dates of submission of public corporation financial statements for 2019 not provided. Publication dates not provided for NDBP. PPUC finances on calendar basis. All other fiscal years end on September 30.

The Office of Public Audit issued State Audit Regulations in December of 2018 pursuant to the Public Auditing Act of 1985. Under these regulations States are required to submit financial reports for audit within 90 days of the end of the fiscal year. These financial statements are required to be audited by the Office of Public Audit or by a private company designated by OPA. Should issues arise in the audit, States must resolve the issues within 30 days or be subject to suspension of future State block grants.

MoF provided information on the status of the audit of State financial statements, as follows:

- 2016 and 2017
 - Ngardmau – pervasive cash receipt discrepancies, appears to be fraud
 - Peleliu – documentation not ready
- 2018 and 2019
 - Melekeok – field work complete needs to draft report
 - Ngarchelong – field work complete needs to draft report
 - Ngardmau – field work complete needs to draft report
 - Ngeremlengui – field work complete needs to draft report
 - Ngiwal - field work complete needs to draft report
 - Sonsorol - field work complete needs to draft report

The Fiscal Responsibility and Debt Management Act established principles of fiscal responsibility for Palau. The 7th principle is to “manage fiscal risks and contingent liabilities prudently”. Section 9 of the Medium-Term Fiscal Strategy for 2021 – 2024 elaborates on this principle by identifying 11 categories of fiscal risk as follow:

1. Macro-economic volatility
2. Financial sector crisis
3. Change in debt interest rates
4. Demographic changes
5. Natural disasters
6. Government guarantees
7. Government litigation and lawsuits
8. Public Private Partnerships
9. Environmental degradation
10. Local government or devolved administrations
11. State Owned enterprise.

The Fiscal Strategy document established a policy action: “Capacity to monitor, assess, and mitigate fiscal risks will be developed in the MoF and included in the Annual Economic and Fiscal Update.” The Economic and Fiscal Update for 2022 provided a narrative description of contingent liabilities and fiscal risks (see

pages 42-44). None of these documents quantify fiscal risks. The issue has been recognized by Palau's government and is being addressed.

Table 10-3: Contingent liabilities and fiscal risk

Coverage	Data quantified (Y/N)			Included in financial statement (Y/N)	Date published	Consolidated report (Y/N)
	Loan guarantees (Central Government)	State insurance scheme	PPPs			
Budgetary Units	Not identified					
Extrabudgetary Units	Not identified					

Data source: Palau's budget documents do not quantify contingent liabilities and fiscal risks

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government. It also assesses the extent to which the government publishes information on the progress of the project, with an emphasis on the largest and most significant projects.

This indicator looks at key processes in public investment management, an important aspect of Pillar 2- Management of Assets. It also assesses the transparency of the project information on cost and implementation progress.

The focus of this indicator is on the capital improvement projects that were approved in the last completed fiscal year- 2021-22.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-11 Public investment management (M2)		C+
11.1 Economic analysis of investment proposals	The analysis of the need and the expected impact of each project to the economy and other national development objectives was done for all identified project proposals. A summary of the analysis is published as part of the National Infrastructure Investment Plan (NIIP) document. The analysis was done by an inter-agency task force.	A
11.2 Investment project selection	Prior to their inclusion in the NIIP, the projects were prioritized by an inter-agency task force, based on a set of prioritization criteria, which is published as part of the NIIP.	A
11.3 Investment project costing	Only the costing guidelines is part of the published NIIP, but not the total project cost by year for both capital and recurrent costs.	D
11.4 Investment project monitoring	Only the M&E framework is part of the published NIIP. Monitoring is done, but no copy of actual project monitoring reports was provided.	D*

Evidence for score

Overview

In 2021, the Palau government with technical assistance from the Pacific Regional Infrastructure Facility (PRIF⁷) and funding support from key development partners⁸, has developed a National Infrastructure Investment Plan (NIIP). The main content of the NIIP are as follows:

⁷ PRIF is a multi-partner coordination and technical assistance facility for improved infrastructure in the Pacific.

⁸ The PRIF development partners are the Asian Development Bank (ADB), Australian Department of Foreign Affairs

- Assessment of National and Sectoral Strategy and Demands
- Assessment of Existing Assets Condition, Costing, and Maintenance
- Project Readiness
- Prioritization and Funding Strategy
- Implementation including Monitoring and Evaluation

The government established a senior Steering Committee by Presidential Directive, chaired by the Ministry of Finance. Under the Committee was an inter-agency taskforce chaired by the Director of the Bureau of Budgeting and Planning who led the NIIP formulation in consultation with key stakeholders. The Task Force reviewed options for prioritizing investments in infrastructure and tailored and adopted a process for this NIIP that will be refined and further developed over time.

Table 9 of the NIIP document shows the top 20 projects. The top 10 are as follows:

Table 11-0

Name of Project	Rank	Estimated Capital Cost	Estimated Maintenance Cost
Koror Babeldaob Island - Resilient Urban Development - Municipal services for housing subdivision	1	\$ 35,000,000	\$ 175,000
Babeldaob Commercial Seaport	2	\$ 120,000,000	\$ 600,000
Capital Complex Annex Building	3	\$ 12,000,000	\$ 60,000
Pedestrian Walkway in Koror	4	\$ 1,000,000	\$ 10,000
Three New School Building in Babeldaob 200 students	5	\$ 11,000,000	\$ 55,000
Ngeremlengui Waterfall	6	\$ 900,000	\$ 4,500
Ngchesar Waterfall	7	\$ 900,000	\$ 4,500
Palau National Convention Center	8	\$ 8,000,000	\$ 40,000
New buildings to improve small farm production and productivity - Fruit fly lab and Post harvest processing facility	9	\$ 300,000	\$ 4,500
Capital Repairs to existing State Government owned Buildings	10	\$ 5,000,000	\$ 375,000

Data source: National Infrastructure Investment Plan of Palau

Dimension 11.1

The analysis of the need and expected impact of each project to the economy and other national development objectives was standardized following the NIIP Guidelines and done for all identified project proposals. A summary of the readiness assessment and economic analysis is published as part of the NIIP document (Table 5 Project Long List).

There are at least eight (8) impact areas of the analyses, as follows:

1. Economic growth, post-COVID economic recovery.
2. Employment recovery post-COVID-19 (direct and indirect job creation).
3. Increasing government revenues (including SOEs).
4. Improved distribution of growth benefits to Palauans (re. GESI considerations).
5. Improved geographical distribution of growth benefits with expanded settlement and government and economic activity on Babeldaob and, or other outer islands.
6. Promoting Palauan culture and promoting national consciousness.
7. Enhancing the natural environment.

and Trade (DFAT), European Investment Bank (EIB), European Union (EU), the Japan International Cooperation Agency (JICA), New Zealand Ministry of Foreign Affairs and Trade (NZMFAT), United States Department of State (US) and the World Bank Group (Palau NIIP, 2021).

8. Improving social welfare and social infrastructure (health, education and training, gender, the poor and vulnerable).

Initial project readiness was initially determined, using 14 criteria, such as in terms of legality, proven technology, capacity of the implementing agency, meeting government environment regulations, gender and climate change responsiveness, is the land available, etc. The current operating conditions of existing assets were then evaluated whether poor, fair, or in good condition.

Dimension 11.2

The NIIP project prioritization process first considered the particular issues and infrastructure demands/needs of Palau, using the analysis of the potential impact to the national development objective at the country level, then at sector level. Based on the first iteration, a total of 68 projects were selected and included in the long list.

Then once the priority areas were identified, the priority projects were evaluated through a two stage, participatory filtering of project readiness and project prioritization by Multi-Criteria Analysis (Table 7 of the NIIP).

The NIIP Task Force reviewed and endorsed the two-step process on 11 December 2020. From this, the 68 projects (Table 8 of the NIIP) were ranked, and the top 20 projects (Table 9 of the NIIP) have been selected, out of which 13 were considered urgent or critical.

The list of criteria is part of the NIIP document that is published in the Palau government website.

Dimension 11.3

The unit costs employed for preparing cost estimates for the investment plan were arrived at during the investment planning. For electricity, water and wastewater assets, Palau Public Utilities Corporation (PPUC) has established unit costs for estimating construction projects. The costing guidelines include the calculation and provision of maintenance costs. For example, for office building, an estimated 1% of the replacement cost should be required for annual maintenance.

Further details of the costing guidelines are indicated to be contained in Appendix 4 of the NIIP. This appendix was not however attached to the document.

However, the summary of the projects selected (Table 8 and Table 9 of the NIIP) showed only the total estimated capital cost and does not have a full life cycle cost with an annual breakdown. Moreover, the budget document does not include projections in the forthcoming budget year. **For this, performance was rated as D.**

Dimension 11.4

The NIIP includes a Monitoring and Evaluation (M&E) Framework (Part 7 of the NIIP) which focuses on (a) impact; (b) outcome; (c) outputs; and (d) inputs (funding) and activities. The Chief of the Capital Improvements Project Unit indicated in a meeting that there are monitoring reports submitted. However, no copy of the report sample was provided to this mission, hence a **D*** rating which means no sufficient evidence.

Table 11-1 and 11-2: Economic analysis and project selection of five largest major investment projects approved in last completed fiscal year

Five largest major investment projects (> 1% of BCG expenditure)	Total investment cost of project \$	As a % of 5 approved major projects	Data for PI-11.1 Economic analyses				Data for PI-11.2 Project selection	
			Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity	Prioritized by central entity (Y/N)	Consistent with standard selection criteria (Y/N)
Babeldaob Commercial	120,000,000	18%	Y	Y	Y	NIIP Inter-agency Task	Y	Y

Seaport						Force		
Koror Babeldaob Island – Resilient Urban Development – Municipal services for housing subdivision	35,000,000	63%	Y	Y	Y	NIIP Inter-agency Task Force	Y	Y
Capital Complex Annex Building	12,000,000	6%	Y	Y	Y	NIIP Inter-agency Task Force	Y	Y
Three New School Building in Babeldaob 200 students	11,000,000	6%	Y	Y	Y	NIIP Inter-agency Task Force	Y	Y
Peleliu Airstrip development	13,250,000	7%	Y	Y	Y	NIIP Inter-agency Task Force	Y	Y
Total for the 5 largest projects	191,250,000	100%						
Total Coverage (all projects)	243,250,000	79%						

Data source: 2021 National Infrastructure Investment Plan, Palau. Many of the Projects are small, i.e., under \$1 million. The list here represents 100% of all major projects, (i.e., over \$10 million) and 97% of projects over \$1 million.

Table 11-3 and 11-4: Investment project costing and monitoring of five largest major investment projects in last completed fiscal year

Name of capital project	Data for PI-11.3 Investment project costing included in budget documents				Data for PI-11.4 Investment project monitoring				
	Life cycle cost documents (Y/N)	Capital cost breakdown		Recurrent costs included in budget documents Budget year only/ Medium term (Three-years) (Y/N)	Monitoring				
		- Budget year only (Y/N)	Medium term (budget + two years) (Y/N)		Total cost (Y/N)	Physical progress (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Babeldaob Commercial Seaport	N	N	N	Y – annual average	Y	No evidence	Y	No evidence	No evidence
Koror Babeldaob Island – Resilient Urban Development – Municipal services for housing subdivision	N	N	N	Y – annual average	Y	No evidence	Y	No evidence	No evidence
Capital Complex Annex Building	N	N	N	Y – annual average	Y	No evidence	Y	No evidence	No evidence
Three New School Building in Babeldaob 200 students	N	N	N	Y – annual average	Y	No evidence	Y	No evidence	No evidence
Peleliu Airstrip development	N	N	N	Y – annual average	Y	No evidence	Y	No evidence	No evidence

Data source: 2021 National Infrastructure Investment Plan, Palau

PI-12. Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-12. Public asset management (M2)		C+
12.1. Financial asset monitoring	Government maintains a record of "all" categories of financial assets, which are recognized at fair market values in line with GAAP standards. All quarterly reports provide updates on this information. The 2022 QTR 4 financial report presents an updated position of all financial assets in schedules F and H.	A
12.2. Nonfinancial asset monitoring	Government maintains a register of its holdings of fixed assets, including information on usage and age which are complete and current. The registry covers buildings and other improvements, machinery, vehicles and infrastructure. A register of land is also maintained. The government did not recognize the existence of any sub-soil assets as they are not material. Evidence included the MS Excel sheet "Public Lands- PPLA Government CT Listing" and the "FY22 Semi-Annual Reconciliation MoF BNT". The registers are not published. Reports are provided to the legislature on pending asset disposal. Fixed assets and land registers were provided to the team, as of the end of fiscal year 2022, the most recent fiscal year. As the registers are not published – this was rated C.	C
12.3. Transparency of asset disposal	Procedures and rules for the transfer and disposal of financial and nonfinancial assets are established. Information on transfers or disposal is included in the consolidated financial report. However, the most recent consolidated financial statements are for FY2019, and the statements had not been completed for FY20 and FY21. This has therefore been scored D.	D

Evidence for score

Financial holdings of government are updated quarterly in the financial reports of the government and annually in the consolidated financial statements of government. The major financial asset of Palau is the Compact of Free Association (COFA) Trust Fund. Attachment F of the quarterly reports provides an update on the appropriations, drawdowns, and balance of this trust fund. The most recent audited financial report is the Consolidated Financial Report for 2019. The notes on the financial statements record financial assets for all government funds: the General Fund, the Permanent Fund, and other funds including the component units. Financial holdings of Social Security and the public retirement fund are also documented. All financial assets are recorded at fair value using quoted market prices. The financial report for 2020 and 2021 are being prepared and are expected to be finalized soon. Financial assets reports will be updated as of that process, through the final date of the period covered.

Table 12-1: Financial asset monitoring – check list of record of holdings

Asset Type	Holdings of financial assets maintained (Y/N)	Acquisition cost recorded (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually. (Y/N)	Source of information
Fixed income	68.8	Y	Y	Y	Y	Quarter 4 2022 Financial Report
Equities	178.7	Y	Y	Y	Y	
Real estate and tangibles	17.5	Y	Y	Y	Y	
Mutual Fuds	1.2	Y	Y	Y	Y	

Money Market Funds	7.4	Y	Y	Y	Y
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Data source: Quarter 4 2022 Financial Report. <https://www.palau.gov.pw/executive-branch/ministries/finance/bureau-of-national-treasury/>

Policies and procedures for managing real property are defined in the Internal Control and Procedures Manual, Chapter 8 on Asset Management and Chapter III on Property Control and Chapter IV on Fixed Asset Procedures of the Property Management Policies and Procedures. The Ministry of Finance oversees these policies. The ministry develops a biannual real property inventory. During the first year of the two-year period, the inventory is developed including property inspection of all property by the staff of the Treasury Division of Property and Supplies. In the second year, the ministry works with the agencies to reconcile issues identified in comparing the new inventory with the most recent published inventory. The inventory documents the type of asset, the acquisition date, estimated useful life and its condition. The inventory is used to document real property reported in the financial statements and to support the management of the assets.

The government also maintains an inventory of land by State. That inventory includes information on the location of the property, which government body has title to the land, the size of the parcel, and the date of acquisition. There is no register of subsoil assets.

Table 12-2: Non-financial asset monitoring – check list of record of holdings

Register of fixed assets (Y/N)	Information on usage and age (Y/N)	Register of land assets (Y/N)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on performance published annually. (Y/N)
Y	Y	Y	NA	Y

Data source: MoF provided extracts of the biannual inventory of real property, and a comprehensive inventory of public land by State.

Asset disposal is regulated under Property Management Policies and Procedures. The Ministry of Finance oversees the process. The guidance establishes the principles for transfer and disposal of property. The Treasury produces a periodic report that identified assets available for disposal (mainly vehicles). The Consolidated Financial Report provides notes on real property and includes a table that shows assets by category at the beginning of the period, acquisitions, deletions and transfers, and an adjusted total at the end of the period (see page 66 of the 2019 Statement <http://www.palauopa.org/pdf/single-audits/FY%202019/ROP-fs19-FINAL-02-16-21.pdf>). The report is comprehensive of additions and disposal by category but does not itemize by asset.

Table 12-3: Transparency of asset disposal

Procedures for non-financial asset transfer or disposal established (Y/N)	Procedures for financial asset transfer or disposal established (Y/N)	Information included in budget documents, financial reports or other reports (Full/Partial)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on asset transfer and disposal submitted to legislature (Y/N)
Y	Y	Full/ financial statements	NA	Y

Data source: Internal Control & Procedures Manual, Chapter 8 on asset management and Property Management Policies and Procedures Chapter III on Property Control and Chapter IV on Fixed Asset Procedures.

PI-13. Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-13. Debt management (M2)		B
13.1. Recording and reporting of debt and guarantees	Domestic and foreign debt records are complete, accurate, updated and reconciled quarterly not monthly – hence a rating of B. Comprehensive management and statistical reports covering debt service, stock and operations are produced quarterly and published in the quarterly reports on budget execution.	B
13.2. Approval of debt and guarantees	The Fiscal Responsibility and Debt Management Act of 2021 grants authorization to borrow, issue new debt, and issue loan guarantees to a single responsible debt management entity. Annual borrowing must be approved by the government or legislature.	A
13.3. Debt management strategy	The Public Debt Management Policy was issued by the Minister of Finance in April 2022 covering medium-term horizon of 3-5 years. The External Debt reported in the Economic and Fiscal Update for 2022 is consistent with that strategy. A schedule provided by the ministry shows Debt and Debt Service for 2020 - 2024 consistent with the policy or strategy. Section VI of the Debt Management Policy provides the debt management strategy but lacks preferred targets for debt parameters such as interest rates, refinancing, currency risks and other risk indicators. - For that reason, this is rated D.	D

Evidence for score

Quarterly reports provide information on debts and receivables (Attachment I) and on long-term debt (Attachment K). The Consolidated Financial Statement for 2019, provided long-term obligations, summary on page 71, details on obligations of all funds on pages 71 – 81. It is not clear whether guaranteed debt is also recorded and updated on an on-going basis.

Table 13-1: Recording and reporting of debt and guarantees

Domestic and foreign debt and guarantee records maintained (Y/N)	Frequency of update of records (M/Q/A)	Records are complete and accurate (Y/N)	Frequency of reconciliation M=Monthly Q=Quarterly A=Annually N=Not done (Add whether All; Most; Some; Few)	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) Y/N	Data source
Y	Q	Y	Q	Q		Quarterly reports

Data source: Attachments K and I of the Quarterly Reports on debts and receivables and long-term debt respectively.

The Constitution of the Republic of Palau gives the Olbiil Era Kelulau (OEK) the authority to borrow money on Palau’s credit. The Fiscal Responsibility and Debt Management Act (FRDMA) that was enacted in 2021 expressly delegates the authority to execute debt on behalf of the Republic of Palau to the President, subject to guidance from the OEK and approval, after the fact, by joint resolution. The authority to borrow is shifted by this law from the Congress to the President. The FRDMA designates the Ministry of Finance to be responsible for carrying out the execution of debt management of the government. The legislation establishes a Debt Management Unit in the Ministry to carry out these functions.

Table 13-2: Approval of debt and guarantees

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)	Data source
	Guidance to single debt management entity	Guidance to multiple entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity		
Y; Constitution of Republic of Palau	Fiscal Responsibility and Debt Management Act of 2021	Public Debt Management Policy April 2022	The President of the Republic by the FRDMA	The Treasury in the Ministry of Finance	Y	Multiple

Data source: *The Constitution of the Republic of Palau, the Fiscal Responsibility and Debt Management Act of 2021 and the Public Debt Management Policy*

Public Debt Management (PDM) policy was issued by the Minister of Finance in April 2022. The policy established more detailed guidance to implement the Fiscal Responsibility and Debt Management Act of 2021. The Policy provides guidance on debt management objectives, transparency and accountability including reporting and auditing, institutional framework, charter for the newly established Debt Management Unit, public debt limits and requirements for development of debt sustainability analysis and fiscal risk framework. The public debt objectives restrict external debt to 30% of GDP and debt service to 15% of domestic revenue. The outyear estimates for debt transactions are within these limits.

Debt management is a reform that is in the process of being implemented. The pandemic resulted in substantial requirements for additional borrowing to finance the government. That expanded debt made it essential for the government to strengthen its debt management policy and procedures. The 2021 Fiscal Responsibility and Debt Management Act was the government's response to that need. The Economic and Fiscal Update for 2022 provided an overview of these policies. The PDM policy released by the Minister provides more detail. The Ministry has established a debt management working group which is intended to be converted into the Debt Management Unit shortly. Additional work is needed to develop the medium-term debt management strategy, the debt sustainability analysis, and the risk management framework. Quarterly and annual reports provide comprehensive information on debt transactions but need to be expanded to cover guarantees. Currently, the debt management strategy lacks targets for debt parameters such as interest rates, refinancing, currency risks and other risk indicators.

Table 13-3: Debt management strategy

Debt management strategy has been prepared (Y/N)	Date of most recent update	Time horizon (No. of years)	Targets included in debt strategy				Annual report on debt strategy submitted to legislature (Y/N, Date)	Data source
			Interest rates (Y/N)	Refinancing (Y/N)	Foreign currency risk (Y/N)	Evolution of risk indicators only (Y/N)		
Y	April 2022	5 years	N	N	N		Y	Public Debt Management Strategy

Data source: *Public Debt Management Strategy, April 2022 and Debt and Debt Service Schedule FY 2020-2024.*

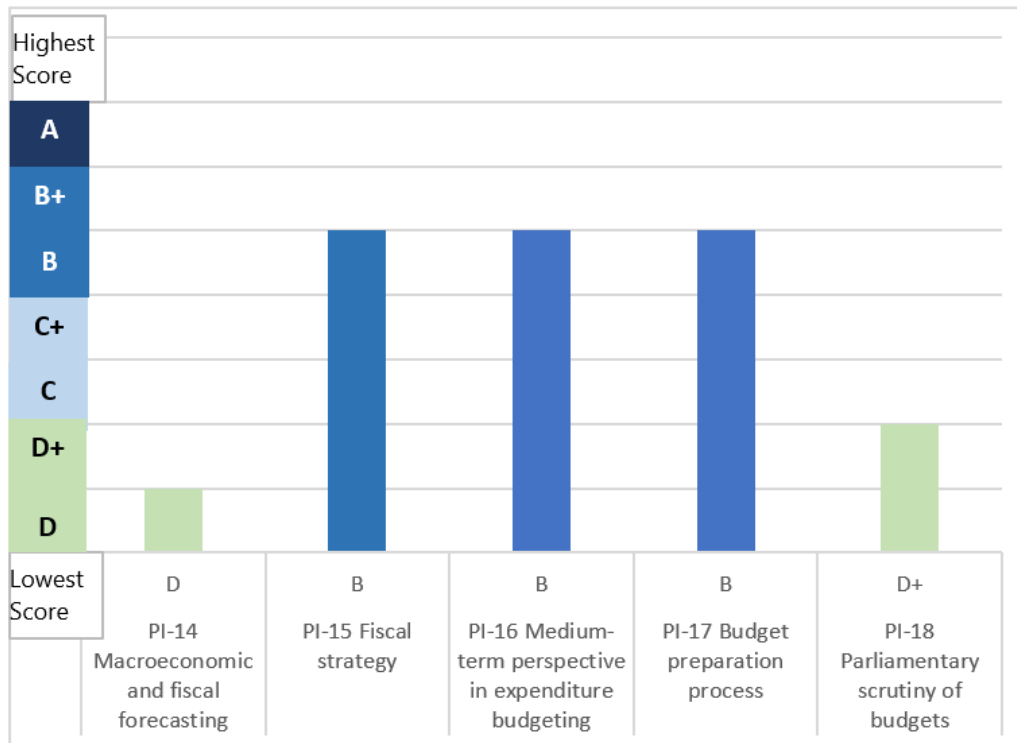
PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

This pillar assesses whether the government’s fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Overall performance

The Fiscal Responsibility and External Debt Management Act provides a solid platform to design a robust fiscal framework. The developments in the last three years with appropriate reforms being introduced and enacted has shown positive results as demonstrated by the scores under this pillar.

Figure PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting



Possible underlying causes of performance

Over a decade ago, the Government of Palau recognized the need to introduce key reforms to its public financial management systems in line with best practice. It introduced legislative changes to provide legal teeth to support the set of reforms that were to be implemented.

In 2021 the Fiscal Responsibility Framework was formulated aimed at resetting its fiscal policies to support fiscal sustainability. The Framework was enacted into law as the “Fiscal Responsibility and External Debt Management Act”. Under the Act, seven principles of responsible fiscal management were identified. The principles include containing operating expenditures; effective management of net capital and financial assets; prudent debt management; introducing revenue measures that is equitable, predictable and that best fit the structure of the economy; effective management of reserves; raising the efficiency of State Owned Enterprises and Public Financial Institutions; and prudent management of fiscal risks and contingent liabilities.

The Framework set the platform to formulate the 2021-24 Medium Term Fiscal Strategy supplemented by the annual Economic and Fiscal Updates. For FY20, FY21 and FY22 budgets, an analysis of Palau’s economic and fiscal performance is provided to set the scene for the new budget. A discussion of revenue policies including non-tax revenues focused on the key drivers and the impact of proposed tax policies.

Holding real level of government expenditures constant over the medium term was considered the appropriate policy to maintain fiscal sustainability. On financing, the government looked to new revenue sources to supplement the traditional means of finance, capital grants and concessional loans.

These developments have significantly improved Palau’s fiscal landscape over the last three fiscal years as reflected in the ratings.

PI-14. Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government’s capacity to estimate the fiscal impact of potential changes in economic circumstances.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-14. Macroeconomic and fiscal forecasting (M2)		D
14.1. Macroeconomic forecasts	The Medium-Term Economic and Fiscal Model (MTEF Model) was approved in 2021 and FY22 was the first fiscal year where forecasts of the two outer years were provided. The FY22 fiscal strategy provides analysis of future GDP growth, debt situation, inflation and implications of proposed tax measures to form the basis of the budget appropriations. Macroeconomic forecasts for the two following years were provided for FY22 only. Because estimates for the outer years were not done for FY20 and FY21, and the requirement covers the last three completed fiscal years this dimension is rated D.	D
14.2. Fiscal forecasts	Fiscal forecasts for the two years ahead were only provided in the FY22 Economic and Fiscal Update where forecasts for fiscal years FY23-FY25 are provided. Hence this is rated D.	D
14.3. Macro-fiscal sensitivity analysis	The FY22 Economic and Fiscal Update included a sensitivity analysis of the impact of the increase in the minimum wage on inflation, household incomes, and the fiscal balance, including on taxes, and the wage bill. Given that there are no forecasts for FY20 and FY21, this is rated D.	D

Evidence for score

The issuance of the Fiscal Strategy is mandated in the Fiscal Responsibility and Debt Management Act that was signed into law on November 18, 2021. In compliance with the law, the current Administration formulated its fiscal strategy for fiscal years 2021-24 when it came into power in 2021. The strategy underscored responsible fiscal management guided by the following principles:

- i. manage operating expenditures in line with operating revenues
- ii. manage net capital and financial assets;
- iii. manage debt prudently;
- iv. manage revenues to promote equity and allow for predictability over time;
- v. prudently manage reserves;
- vi. manage SOEs to ensure they are financially stable; and
- vii. manage fiscal risks and contingent liabilities prudently.

Analysis of economic performance, growth areas, debt situation, inflation and tax implications form the basis for the budget appropriations. The multi-year fiscal strategy is supplemented by annual Economic and Fiscal Updates which review past economic performance to set the scene for the next years’ budget

The review covers areas such as growth, tourism, inflation and credit growth, population and employment, debt and external stability, fiscal position, outlook and potential risks. Fiscal forecasts were provided in FY2022 Economic and Fiscal Update where forecasts for fiscal years FY23-FY25 were provided. This represents good performance for that year and bodes well for the future. However, the coverage requirement under this dimension is for the last three completed years, whereas this reform was only recently introduced.

Table 14-1. Macroeconomic and fiscal forecasting

Indicator	Budget document year	Years covered by forecasts			Underlying assumptions provided (Y/N)	Frequency of update 1= once a year 2=more than once a year N=Not updated	Submitted to legislature 1=budget year only 3= budget year plus two following fiscal years N= Not published	Alternative fiscal scenarios prepared (Y/N)	Alternative scenarios published (specify relevant document)
		Budget	Forward year 1	Forward year 2					
Key macroeconomic indicators									
GDP growth	FY-20	-9.7%			Y	N	1	N	
	FY-21	-25%			Y	N	1	N	
	FY-22	-3.6%	12.9%	12.9%	Y	N	1	N	
Inflation	FY-20	0.7%							
	FY-21	1.2%							
	FY-22	13.7%	1.6%	0.0%					
Interest rates	FY-20								
	FY-21								
	FY-22								
Exchange rate	FY-20								
	FY-21								
	FY-22								
Fiscal forecasts									
Aggregate expenditure (\$m)	FY-20								
	FY-21								
	FY-22	116.8	106.8						
Fiscal balance (\$m)	FY-20								
	FY-21								
	FY-22	-21.3	-13.1						
Aggregate revenue (\$m)	FY-20								
	FY-21								
	FY-22	108.4	107.1						
Revenue by type	FY-20								
	FY-21								
	FY-22								

Data source: FY22 Economic and Fiscal Update. Note that this document was published in June 2022 and provides forward projections of the Budget Year (2023) plus some forward year projections as contained above

PI-15. Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-15. Fiscal strategy (M2)		B
15.1. Fiscal impact of policy proposals	Analysis of impact of all revenue and expenditure policy proposals were provided for FY20, FY21 and FY22 and these were submitted to Congress as part of the budget submission. FY22 fiscal policy stance was tight given the	A

	<p>collapse of Palau’s tourism industry. The 10% reduction in total appropriations remained in FY22 and continued in FY23. Departmental budgets were not allowed to increase in FY23 but in FY24 the 10% reduction was expected to be restored.</p> <p>Tax reform was planned to be implemented in 2023. These included:</p> <ol style="list-style-type: none"> The introduction of Palau Goods and Services Tax (PGST): 10%. The introduction of Business Profits Tax (BPT): 12%. Revisions to the wages tax reducing the rate for incomes falling between \$8,000 - \$40,000 to 10%, and the provisions of a tax refund to Palauans with incomes below \$15,000 at the end of the calendar year. Conversion of specific import taxes into excises applicable to both imports and domestic products. Abolition of general import duty rate and Business Gross Receipts Tax of PGST registered taxpayers. <p>The tax measures would raise revenue by 13.5% in FY2024 over FY2023. Impact of fiscal strategy is summarized further in Appendix 1 of the FY22 Economic and Fiscal Update.</p>	
15.2. Fiscal strategy adoption	For FY20, FY21, and FY22 fiscal strategies were developed and submitted to Congress as part of the State of Republic Address. These were approved by Congress. Appendix 1 to the FY22 fiscal strategy provides a summary of the revenues and expenditures for FY21-FY25 in addition to data on GDP, inflation, employment and tourism. This is therefore rated B.	B
15.3. Reporting on fiscal outcomes	In preparing the FY22 Fiscal Update, the impact of the pandemic was discussed. The impact on tax revenues saw a 21% drop in FY21 compared to FY19. On the other hand, expenses grew by 25 percent in FY21 during the same period in response to the pandemic. Payroll expenses was well contained and outlays on goods and services fell by 1.8% in FY21 compared to FY19. Given the uncertainty as a result of the pandemic, maintaining the principles of fiscal responsibility proved difficult. In response fiscal policy remained conservative through reducing non-essential expenditures to allow fiscal space for debt servicing. A Compliance and Performance Matrix is provided as part of the Fiscal Update.	C

Evidence for score

Table 15-1 Fiscal impact of policy proposals

Estimates of fiscal impact of ALL proposed changes prepared			Data source
Budget year	Two following fiscal years	Submitted to legislature	
Yes	Yes	Yes	FY21, FY22, & FY23 Budget Submission

Data source: *FY22 Economic & Fiscal Update.*

Table 15-2 Fiscal strategy adoption

Fiscal prepared (Y/N)	Submitted to legislature (Y/N, Date)	Published (Y/N, Date)	Internal use only (Y/N)	Includes quantitative information			Includes qualitative objectives (Y/N)
				Time based goals and targets	Or objectives only		
					Budget	Forward Years	
Y	Y July 2022	Y July 2022	N	N	Y	Y	Y

Data source: *FY22 Economic & Fiscal Update.*

Table 15-3 Reporting on fiscal outcomes

Progress report completed (Y/N)	Last fiscal year covered	Submitted to legislature (Y/N, Date)	Published with budget (Y/N, Date)	Includes explanation of deviation from target (Y/N)	Includes actions planned to address deviations
Y	FY22	Y November 2022	Y November 2022	N	N

Data source: FY22 Economic & Fiscal Update. QTR 4 Financial Report 2022.

PI-16. Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-16. Medium-term perspective in expenditure budgeting (M2)		B
16.1. Medium-term expenditure estimates	Appendix 1 of FY22 Economic and Fiscal Update provides the economic and fiscal forecasts as required under the Fiscal Responsibility Law. The fiscal forecasts for FY22/23-FY24/25 are clearly presented in the GFS format. This meets the requirement for an A.	A
16.2. Medium-term expenditure ceilings	The fiscal risks that emerged as a result of the pandemic led the government to rein in expenditures. Ministries and agencies were directed to keep as a ceiling the previous year's budget levels. Non-priority spending were asked to be delayed or deferred. The estimates were submitted as part of the State of Republic Address which were endorsed by Congress before the FY22/23 Budget Call was issued. This meets the requirement for an A.	A
16.3. Alignment of strategic plans and medium-term budgets	The budget call stipulates clearly that budget proposals must be aligned to national priorities in the National Master Development Plan (NMDP) as well as the Management Action Plan (MAP) including sector strategic plans. Some ministries submitted costed budget proposals which helps determine the resources required in FY23. This satisfies a C rating.	C
16.4. Consistency of budgets with previous year's estimates	In preparing the FY22 budget estimates, a review of the impact of the pandemic on the FY20 and FY21 budgets was carried out in terms of tax revenues and expenditures. This exercise is built into the formulation of the FY23 estimates. The FY22 Economic & Fiscal Update; and the Budget Summary for FY22 provide the rationale for variation in the budget estimates for some of the ministries for FY23, therefore this satisfies a C rating.	C

Evidence for score

Table 16-1: Medium-term expenditure estimates

Classification	Budget year (Y/N)	Two following fiscal years (Y/N)	Data source
Administrative	Y	Y	FY22 Economic & Fiscal Update
Economic	Y	Y	
Program/Function	Y	Y	

Table 16-2: Medium term expenditure ceilings

Level	Budget year	Two following fiscal years	Date of advice	Data source
Aggregate ceiling	Y	Y	June 7, 2022	FY22 Economic & Fiscal Update; and Budget Summary Fiscal Year 2023
Ministry Ceiling	Y	Y		

Note: The FY22 Economic and Fiscal Update was published June 2022 and provides an update on current year implementation as well as forward projections for FY23

Table 16-3. Alignment of strategic plans and medium-term budgets (five largest ministries)

Ministry	Budget Allocation \$m	Medium term strategic plan prepared	MTSP Costed	Expenditure proposals consistent with MTSP (Most, majority, some, none)	Data source
1. Ministry of Health and Human Services	\$10,176,000	Y	Y	Most	Republic of Palau Budget Summary Fiscal Year 2023
2. Ministry of Education	\$8,674,000	Y	Y	Most	Republic of Palau Budget Summary Fiscal Year 2023
3. Ministry of Public Infrastructure & Industries	\$6,633,000	Y	Y	Most	Republic of Palau Budget Summary Fiscal Year 2023
4. Ministry of Justice	\$5,699,000	Y	Y	Most	Republic of Palau Budget Summary Fiscal Year 2023
5. Ministry of Finance	\$4,563,000	Y	Y	Most	Republic of Palau Budget Summary Fiscal Year 2023
Total/Coverage	\$35,745,000				

Table 16-4. Consistency of budgets with previous year's estimates

Ministry	Explanation of change to previous year's estimates prepared included in budget documents (Y/N)	Reconciled with medium term budget estimates (Y/N)	Reconciled with first year of new budget estimates (Y/N)	Source of evidence
1. Ministry of Health and Human Services	Y	Y	Y	Republic of Palau Budget Summary Fiscal Year 2023
2. Ministry of Education	Y	Y	Y	Republic of Palau Budget Summary Fiscal Year 2023
3. Ministry of Public Infrastructure & Industries	Y	Y	Y	Republic of Palau Budget Summary Fiscal Year 2023
4. Ministry of Justice	Y	Y	Y	Republic of Palau Budget Summary Fiscal Year 2023
5. Ministry of Finance	Y	Y	Y	Republic of Palau Budget Summary Fiscal Year 2023
Coverage %		43%		

PI-17. Budget preparation process

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

Indicator and dimension scores and analysis

Indicators/ Dimensions	Assessment of performance	Score
PI-17. Budget preparation process (M2)		B
17.1 Budget calendar	There is a clear budget calendar that outlines the scheduling of each step of the budget process. The budget call determines the duration allowed for ministries and agencies to prepare and submit their budget proposals. For FY23 budget preparation, 4 weeks were allowed for budget activities to complete and submit their proposals. Most budgetary units are able to complete the preparation of their budget submissions within 4 weeks enabling the presentation of the budget more than 2 months before the start of the financial year.	B
17.2 Guidance on budget preparation	For FY23, the budget call signed by the President, clearly presented the broad setting on which the budget strategy was formulated. The need for fiscal discipline by improving cash flow, containing expenditures and build reserves underpins the fiscal strategy for FY23. Service delivery in response to the needs of the public is emphasized in particular aligning budget proposals to the national priorities. The FY23 budget call, dated May 25, 2022, gave clear instructions to all budget activities to restrict their budget proposals to FY22 budget levels and this was endorsed by Cabinet.	A
17.3 Budget submission to the legislature	The FY21 budget was submitted to Congress on 2 March 2021 which was five months overdue. The FY22 and FY23 budgets were submitted on 13 July 2021 and 9 July 2022 respectively giving more than two months before the new fiscal year takes effect. This satisfies a rating of C.	C

Evidence for score

The PNC clearly stipulates for the President to issue a budget call inviting all budget activities to prepare and submit their budget proposals. The budget call provides a broad setting on which the national budget is premised. It also provides guidance on how budget proposals are prepared. The link of budget proposals to national objectives and sector priorities is clearly emphasized in the call.

The budget call is supplemented by the budget calendar which provides the scheduled timing of key budget related activities beginning with the issuance of the budget calendar in January in the prior year. The calendar lists all the steps up to the finalization of the Authorization and Appropriation Bill around the end of September.

In FY20, ministries and agencies were given two weeks to prepare and submit their proposals while FY21, three weeks provided.

Table 17-1: Budget calendar and budget circular

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)	Data source
Y	May 25, 2022	June 23, 2022	100%	90	May 25, 2022	Y	Budget Calendar FY23

Table 17-3: Budget submission to legislature

Budget year	Date of submission of budget proposal	Data source
FY21	March 2, 2021	Budget Submission to Congress
FY22	July 13, 2021	
FY23	July 9, 2022	

PI-18. Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-18. Legislative scrutiny of budgets (M1)		D+
18.1. Scope of budget scrutiny	The Ways and Means Committee has the authority to scrutinize across all aspects of the budget, including fiscal strategy targets and forecasts, level of funding, tax and expenditure policies underpinning the budget, HR needs and Ministry performance in the previous year. The Committee has the authority to call on any official to appear before the committee to clarify any budget issue.	A
18.2. Legislative procedures for budget scrutiny	The Ways and Means Committee is responsible for reviewing and scrutinizing the budget. The procedures that guide the work of the Ways and Means Committee were not provided as part of the evidence. Hence this is scored D*.	D*
18.3. Timing of budget approval	According to the budget calendar, the national appropriations must be approved prior to October 1, every year. For the three fiscal years FY21-FY23 the budget was approved prior to 1 October in FY22 and FY23 but not FY21. The delay in FY21 was five months This supports a C rating.	C
18.4. Rules for budget adjustments by the executive	There are legislative controls in place to restrict reallocations of funds during the budget year. It is mandated by law that the President may reprogram appropriated funds up to ten percent (10%) of appropriated funds. Moreover, no budget activity appropriations may be increased by reprogramming by more than fifteen percent (15%) of the original appropriations. The President of the Senate and the Speaker of the House of Delegates may also reprogram up to ten percent (10%). This was adhered to in FY23.	A

Evidence for score

When the budget is submitted to the Congress, the Ways & Means Committee meet to scrutinize the budget. The Committee has the authority to have hearings with ministries and agencies, SOEs, and even Ministers if there are issues to be clarified. Ministries are expected to engage with the Committee to justify their appropriations. The Committee has the authority to increase budget allocations although this can be vetoed by the President.

Table 18-1. Scope of budget scrutiny

Legislature reviews budget (Y/N)	Coverage (specify)				
	Fiscal policies	Medium-term fiscal forecasts	Medium term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue
Y	Y	Y	Y	Y	Y

Data source: Discussions with the Chairperson of the Ways and Means Committee.

Table 18-2: Legislative procedures for budget scrutiny

Legislative procedures exist (Y/N)	Approved in advance of budget hearings (Y/N)	Procedures are adhered to (Y/N)	Procedures include organizational arrangements (Y/N)
Y	Y	Y	Y

Data source: Discussions with the Chairperson of the Ways and Means Committee.

Table 18-3: Timing of budget approval

Budget for fiscal year	Date of budget approval
FY21	March 29, 2021
FY22	September 29, 2021
FY23	September 22, 2022

Data source: <https://www.mbjguam.com/2021/10/04/palaus>

Table 18.4: Rules for budget adjustments

Clear rules exist (Y/N)	Rule include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG budget)	Extent of adherence to rules (All, most, some)
Y	Y	10%	All

Data source: Revenue and Taxation Act.

PILLAR FIVE: Predictability and Control in Budget Execution

This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

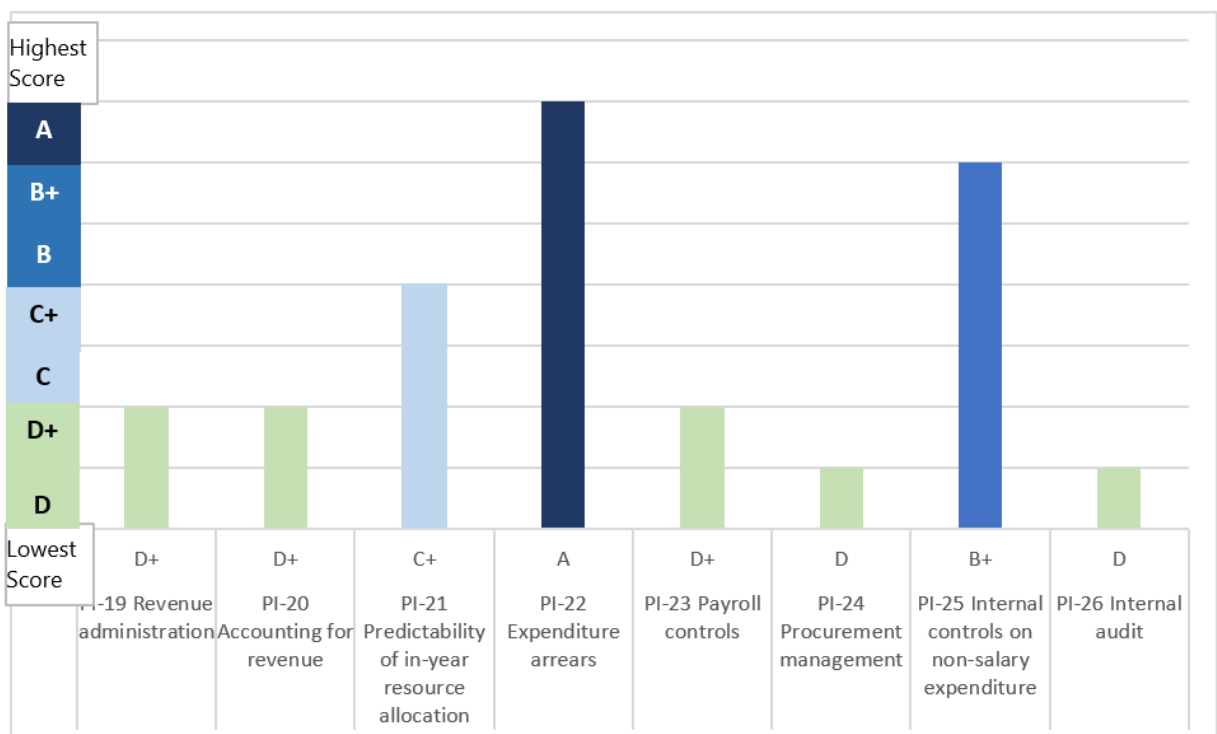
Overall performance

Budget execution and control functions reasonably well in Palau. Revenue collections are well managed and accounted for, with all monies being deposited directly into BNT-held bank. The number of bank accounts are few and checking accounts are *de facto* zero balancing being funded on a just-in-time basis, thereby operating on a treasury single account style structure. Control procedures are well documented in the Republic of Palau Property Management (RPPM) and in the laws—internal controls for salary and non-salary expenditures perform well. Accounts payable are well managed and creditors are paid in a timely manner, with minimal expenditure arrears.

Revenue reforms in BRT and BCBP are in the process of implementation and should help strengthen areas such as compliance, revenue risk management, investigation and audit, and reconciliation of assessment, collection, and arrears (debtors). However, at the time of this assessment these reforms are yet to deliver those benefits—currently there is no documented approach for assessing and prioritizing compliance, including focus on medium and large revenue payers.

Internal audit is a key component of strengthening control within an organization, especially when a risk-based approach is adopted. However, there is no Internal Audit function in Government—although this is an area under consideration. Compliance audits are undertaken by the Office of the Public Auditor (OPA), and it is purported that these audits also cover checks on the payroll. However, no dedicated payroll audits have been undertaken in the past few years and the compliance audits do not highlight specific payroll findings. Compliance audits are undertaken in parallel with the financial audit (although separate reports are produced) and the most recent compliance audit report is for FY2019. Procurement is also an area which performs less well against the assessment requirements. Currently, BNT does not undertake any forward-looking cash flow forecasting, providing projected inflows and outflows throughout the year.

Figure PILLAR FIVE: Predictability and Control in Budget Execution



Possible underlying causes of performance

Clear guidance in the RPPM and the support of the new FMIS has assisted in good performance in a number of areas of budget execution and control. Expenditure commitment controls are automated, and system enforced. The FMIS supports the Government in operating its accounting on an accrual basis. This facilitates the management of payables (and arrears) through the FMIS rather than via manual spreadsheet processes on a day-to-day basis. Creditors are paid on time as evidenced by the low level of payables older than 60 days—this helps to maintain a good relationship between the Government and its vendors. The integration of HR and Payroll with clear segregation of duties in the FMIS adds to the strengthening of payroll controls. However, whilst there is a staffing headcount and cost for each agency for budgeting purposes, this does not provide or indicate the numbers of positions at each grade/level.

Despite the administration being relatively small, the BNT team is dedicated and plays a pivotal role in the areas of good performance. BNT oversees the collection of all BCG revenues but does not receive information on own-source collections by extrabudgetary (component) units. Neither does it receive any in-year expenditure information from component units so there is no in-year consolidation of CG operations.

Banking arrangements whereby all BCG bank accounts are managed by BNT consolidate cash resources effectively enabling predictability for the agency budget managers to implement their planned activities and budgets. Agencies are able to plan their expenditures throughout the year with known patterns of release of commitment ceilings. There were six budget adjustments during FY22. This could be a product of the uncertainty during COVID and responses during the emergence from the pandemic.

Procurement performs less well due to the lack of available (and published) procurement information. Whilst tenders are advertised in the press and on the Government website, procurement is not undertaken against an annual plan. There is no data on the totality of procurement and the methods used.

Being a small administration, no Internal Audit function has been established, although this is something that is being considered for the future.

Recent and ongoing reform activity

An FMIS based on the Tyler Munis package was implemented in 2020. The new system has played an instrumental role in some of the well performing functions throughout the PFM cycle, especially in the area of budget execution. Currently, line ministries and agencies have viewing access to the FMIS with the MoF effecting the transactions within the system based on manual documents provided by the agencies. Moving forward the aim is to bring the agencies fully onto the system so that they can capture the transactions at source (including budget preparation through the FMIS). The FMIS provides system-based controls to ensure funds are not over committed and agencies can see their funds availability in real time. It has also helped to strengthen human resources and payroll controls through better integration and segregation of duties

BRT went live with its Palau Goods and Services Tax (PGST) implementation on January 1st, 2023. This will simplify processes for taxpayers and provide a more equitable tax regime. The reforms are wide ranging and (in time) will likely include strengthening revenue risk and compliance management.

BCBP is about to prototype the implementation of the Automated System for Customs Data (ASYCUDA). As part of this reform BCBP will be revamping its standard operating procedures and seeking to strengthen compliance improvement and risk management.

P-19. Rights and obligations for revenue measures

This indicator relates to the entities that administer central government revenues, which may include tax

administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. The indicator assesses the procedures used to collect and monitor central government revenues.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-19. Revenue administration (M2)		D+
19.1. Rights and obligations for revenue measures	<p>The websites for Bureau of Revenue and Tax (BRT) and Bureau of Customs & Border Protection (BCBP) provide extensive materials and guidance for assisting payers. Access is provided for downloading the relevant legislations, including the PNC Title 40 (relevant Chapters 10-19), and RPLL 11-11 of 2021, as well as taxpayer calendars, and guides including up-to-date requirements, tax rates and excise tariff schedules. The processes and procedures for redress are included in Sections §1603 - §1608. The Customs website provides access to customs regulations. Regulations for BRT are still under development and only in draft format at this stage. There is widespread public access to the internet with many locations offering free Wi-Fi connections.</p> <p>The Ministry of Agriculture, Fisheries and Environment (MAFE) manages fisheries revenues from the vessel day scheme (VDS). The rights and obligations of the VDS are prescribed under the protocols, terms and conditions, and standard contract templates of the PNA/FAA. BRT, BCBP and MAFE account for 81% of total revenues before grants, i.e., "most".</p> <p>Own source revenues of extrabudgetary units (component units) account for only 3% of total central government revenues. (See tables 19.3 and 20.1 below). BNT does not receive any data from the component units on revenues (or expenditures) except when consolidating the annual financial statements for Government.</p>	A
19.2. Revenue risk management	<p>BRT is in the processing of comprehensive reform with the implementation of the PGST. This will encompass strengthening a number of areas, including compliance risk management. However, these are not yet in place.</p> <p>The BCBP is in the process of implementing reforms which aim to provide a structured approach to managing compliance risks. The impending implementation of the Automated System for Customs Data (ASYCUDA) will be accompanied by a strengthening of standard operating procedures (SOPs).</p> <p>Fisheries revenues are managed in accordance with FFA and PNA rules which are well documented. Risks are mitigated through the vessel monitoring scheme and the obligation for vessels to submit "in/out" reports for entering/leaving fishing zones.</p> <p>Currently, there is no documented risk management strategy</p>	D
19.3. Revenue audit and investigation	<p>Neither the BRT nor BCBP currently have compliance improvement plans or audit plans. Whilst BCBP undertakes investigations, these are based on high-risk items such as alcohol imports and high value items. There is no comprehensive report on the investigations undertaken. However, a summary of customs violations is contained in BCBP's Annual Performance Report 2022. The Report also sets out strategic actions for improving performance along with target indicators.</p>	D
19.4. Revenue arrears monitoring	<p>Both BCBP and MAFE make collections in advance, and hence have no revenue arrears except for an amount of \$21,000 owed by one importer, where special dispensation was allowed to one importer. The original amount of \$85,000 is being paid back over a period.</p> <p>BRT manages its debtors on an ongoing basis, but no data was available on the arrears.</p>	D*

Evidence for score

The three (3) largest individual collecting agencies responsible for revenue collections are the Bureau of Revenue and Tax (BRT), Bureau of Customs & Border Protection (BCBP) and the Ministry of Agriculture, Fisheries and Environment (MAFE) – These 3 agencies account for 81% of total General Fund revenue - see table 19.3 below. The BCBP website and the BRT Reform webpage provide access to a plethora of documents, guides and forms for taxpayers. The overarching legislation is also available on the website (PNC Title 40 (relevant Chapters 10-19), and RPLL 11-11 of 2021). Sections §1603 - §1608 of the PNC set out the redress procedures, vis-à-vis:

- §1603 Informal Hearing: provides taxpayer’s rights to request an informal hearing and decision within 15 days.
- §1604 Adjustment: Director may make corrective adjustment and refund.
- §1605 Review: taxpayer’s rights to institute an action with the Trial Division of the Supreme Court.
- §1608 Suit for Refund: Taxpayer’s right to file an action for refund with the Trial Division of the Supreme Court, within one year of the end of the tax year.

BRT is undertaking a major tax reform implementing the Palau Goods and Services Tax (PGST), which will go live January 2023. This is envisaged to improve revenue collections on a fairer and more equitable basis. The website provides detailed background on this reform. A number of reform actions are still in process, and supporting documents in draft form, including Regulations, Strategic Plan, Taxpayers Charter and Internal Audit plan.

BCP is in the process of prototyping the implementation of the ASYCUDA – training will be rolled out using sample data in January 2023 and a Go-Live date of June 2023 is planned. Complementing reforms include the strengthening of the standard operating procedures (SOPs), planning and reporting of audits/investigations. However, at the time of this assessment, these aspects are not yet in place.

The obligations and rights of fisheries vessels are defined under the protocols of the Parties to the Nauru Agreement (PNA), the Pacific Islands Forum Fisheries Agency (FFA), and the Western & Central Pacific Fisheries Commission. The terms and conditions and prices for licensing fishing vessels, including the Vessel Days Scheme (VDS) are published on the respective websites. Standard contract templates are used, and the majority of payments are made up-front. In terms of risk management, there is a vessel monitoring system observing where all the vessels are fishing, and the vessels must submit “in/out” reports notifying when they are entering and leaving different zones.

Table 19-1 Revenue administration (i) rights, obligations and risk management

Entity	Information available to taxpayers’ rights and obligations				Risk management	
	Revenue obligations (Y/N)	Redress (Y/N)	Source of information (Specify)	Is up-to-date (Y/N)	Approach	Coverage
BRT	Y	Y	Gov Website	Y	N/A	N/A
BCBP	Y	Y	Gov Website	Y	N/A	N/A
MAFE	Y	Y	PNA/FFA Website	Y	N/A	N/A

Data source: <https://www.palau.gov.pw/taxreform/>, <http://www.palaucustoms.org/download.aspx?page=1>
<https://www.palau.gov.pw/wp-content/uploads/2022/04/RPLL-11-11.pdf>
http://palaucustoms.org/files/common_unit_id/d1f9f60d-572e-4dde-9bef-e89aad48e2e3/Customs%20Regulations%20.pdf

Table 19-2 Revenue administration (ii) audit, fraud investigation and arrears

Entity	Revenues*		Audit and fraud investigations undertaken (Y/N)	In accordance with compliance improvement plan (Y/N)	Compliance improvement plan documented (Y/N)	Stock of arrears	
	\$ (million)	% of all revenue				\$'000	% of annual collection

BRT	21.8	41%	No data	N	N	N/A	N/A
BCBP	11.8	22%	No Data	N	N	21	0%
MAFE	9.2	18%	Not applicable	N/A	N/A	-	0%

Data source: QTR 4 Financial Report. BCBP Performance Report 2022.

Table 19-3: Size of revenue collecting agencies

Entity	Receipts (\$m)	%
Tax	21.8	41%
Customs	11.8	22%
MAFE (VDS, etc.)	9.2	18%
Hospital Trust Fund	2.1	4%
Ship Registration	1.0	2%
Various Licenses, Fees, etc.	5.3	10%
Component Units	1.5	3%
Total	52.7	100%

Data source: QTR 4 Financial Report. Various includes multiple items all below \$1 million (these are collected by various multiple agencies, including MoF; Postal Services; Ministry of Health; Ministry of Public Infrastructure and other. Many items such as [generic] "Fees and Charges", "Other", "Other Funds", and "other licenses and permits" may be collected through multiple MDAs, which are not specified separately in the reports. The largest three are: Road Maintenance \$798,000 Foreign Labor \$663,000, and NCD to MoH \$589,000). Component units include PCC, PICRC and PHA. Also see Table 20.1 for their individual own source revenues. These revenues exclude the Compact Trust Fund and Blue Prosperity Fund.

Table 19-4: Execution of Compliance/Audit Plan

	Plan	Actual	%
Audits of tax returns	N/A	N/A	N/A
Complex audits	N/A	N/A	N/A

Data source: No plans or summary of audits/investigations.

PI-20. Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-20. Accounting for revenue (M1)		D+
20.1. Information on revenue collections	All BCG revenue collections are deposited to BNT operated bank accounts and recorded into the FMIS daily, using the chart of accounts, which provides an analysis by revenue type. Management reports are produced monthly from the FMIS. Revenues for PCC, PICRC, PHA, PVA, and PAN operate as extrabudgetary units (referred to as component units). The BNT does not receive any data on these entities, although their own source revenue collections are small (3% of total CG Revenue). The BNT oversees collections of BCG revenues and produces a report for management from the FMIS monthly. BCG revenues account for 97% of total CG revenues which represents "all" for this assessment.	A
20.2. Transfer of revenue collections	All revenue collections are banked directly into bank accounts managed by the BNT. Regular collections are deposited to the Bank of Guam (BoG) Savings Account. Credit card receipts are deposited to the BoG ACH account, also held by BNT. These monies are retained in the account for operationally funding EFT and wire transfer payments.	A
20.3. Revenue accounts reconciliation	BCBP makes collections at the time of import, so there is no lag between assessment and collection. Similarly, MAFE agrees VDS requirements of the fishing companies and collects their payments prior to permitting	D*

	<p>fishing within Palau waters. The revenues and collections are managed within the FMIS, and no credit is extended (notwithstanding the small arrear discussed in 19.4 above).</p> <p>BRT produces a list of outstanding balances at the end of each month ("Delinquents File") and a Quarterly Reconciliation Report, but these were not available for the assessment.</p>	
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Evidence for score

The Bureau of National Treasury (BNT) oversees all BCG revenue collections from all sources. All revenues are banked directly into the BoG Savings Account, except for credit card receipts which are deposited to the BoG ACH account for electronic banking operational reasons. A fully comprehensive report of revenue is included in the Quarterly Financial Report, which is published on the Government website. Reporting is managed through the FMIS from which data is available in real-time—BNT produces monthly management reports of revenue (by revenue type) for the Minister. Revenues collected by extrabudgetary units (referred to as component units) are small, amounting to just 3% of CG total collections.

BCBP and MAFE receive payment at the time of invoicing/assessment—there is no time-lag and routinely there are no debtors (or arrears) for these revenue sources. However, BRT does maintain records of its debtors on a monthly basis and reconciles on a quarterly basis. However, this was data was not available.

Table 20.1 – Accounting for revenue

Entity	Revenue and % of Total CG Revenue	Data collected by Ministry of Finance			Revenue collections deposited:		Reconciliation	
		At least monthly (Y/N) -	Revenue type (Y/N)	Consolidated report (Y/N) -	Frequency	To Treasury of MoF Account	Frequency	Within
Revenue collected by budgetary units								
BRT	21.8	Y	Y	Y	Daily	Daily	N/A	N/A
BCBP	11.8	Y	Y	Y	Daily	Daily	Real Time	Daily
MAFE	9.2	Y	Y	Y	Daily	Daily	Real Time	Daily
Other	8.4	Y	Y	Y	Daily	Daily	-	-
Sub-total	51.2							
Revenues collected by Extrabudgetary Units								
PCC	0.6	N	N/A	N	N/A	N/A	N/A	N/A
PICRC	0.8	N	N/A	N	N/A	N/A	N/A	N/A
PHA	0.1	N	N/A	N	N/A	N/A	N/A	N/A
Sub-total	1.5							
TOTAL	52.7							

Data source: Trial Balances from FMIS. Quarterly Reports. *Customs Rect Report (collections and deposits). Monthly Consolidated Reports: Local Rev 07.31.22; Local Rev 08.31.22; Local Rev 09.30.22; Rev Approp 07.31.22; Rev Approp 08.31.22; Rev Approp 09.30.22.* These revenues exclude the Compact Trust Fund and Blue Prosperity Fund.

PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the central Ministry of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-21. Predictability of in-year resource allocation (M2)		C+
21.1. Consolidation of cash balances	All revenue collections are deposited into the BoG Savings Account, except for credit card receipts which are deposited to BoG ACH Account for operational reasons (electronic banking) and subsequently used for	A

	making EFT and wire payments. Other savings accounts are maintained to maximize returns and providing short term liquidity access. The BoG checking account has now been discontinued in favor of BoH checking accounts, which can take advantage of the bank's support for electronic banking. The BoH checking accounts are funded on a just-in-time basis to meet the immediate outgoings for payroll and vendor payments—effectively they operate as zero balance accounts, and the BoG Savings Account operates as the treasury single account structure.	
21.2. Cash forecasting and monitoring	BNT monitors the budget during implementation and provides updated projections of expected outturns, but it does not currently produce any cash flow forecasts.	D
21.3. Information on commitment ceilings	As a matter of course, spending agencies are permitted to commit expenditure according to a 30:20:20:20:10 basis, whereby commitment ceilings are set at 30% of appropriation for the first quarter, and 20% in subsequent quarters, with 10% being released towards the end of the year once certainty of funds availability is assured. The spending agencies provide a detailed breakdown in Excel, which is captured by BNT into the FMIS. For non-routine spending items, spending agencies may request release of amounts above the standard ceilings, e.g., for education textbooks where the full appropriation is released at the beginning of the year to facilitate bulk purchase.	B
21.4. Significance of in-year budget adjustments	There were 6 budget adjustments during the year FY22 with an overall increase to the budget of 21.5%. Two adjustments were very small, three were in the 2-3% range and the major supplementary of 12.6% was made under RPPL 11-23. All adjustments are undertaken through the passing of a Republic of Palau Public Law (RPPL). The original budget was enacted under RPPL 11-12 with adjustments being authorized under RPPLs 13, 14, 18, 19, 22, 23. The 4 th Quarter's financial report consolidates all these adjustments. The process is transparent but there more than 2 adjustments during the year so is scored C.	C

Evidence for score

BNT maintained thirteen (13) accounts at the Bank of Guam (BoG) and ten (10) at the Bank of Hawaii (BoH)—as of 30 September 2022. BNT effects all transactions against these bank accounts on behalf of line ministries and agencies. Seven (7) of the accounts were unrestricted and sixteen (16) were restricted accounts, for earmarked funds for specific donor funded projects. As at 30 September 2022, 70% (\$31.4 million) of total cash funds (\$44.7 million) were classified as unrestricted (fungible) accounts. BNT produces a summary of all account balances at the end of the month. There are seven (7) unrestricted bank accounts:

- (i) BoG Savings Account: (All non-credit card receipts are deposited into this account).
- (ii) BoG ACH Account: (For credit card receipts and EFT/Wire transfer payments).
- (iii) BoG Checking Account: (Checking now moved to BoH – small balance for clearing checks).
- (iv) BoG FICA Savings: (High interest short call deposit savings).
- (v) BoH General Checking (Moved to BoH as they support BAI electronic banking).
- (vi) BoH Payroll Checking (Also using BAI electronic banking).
- (vii) BoH COFA Savings (Compact funds kept in savings until drawn down for specific purpose).

Funds are kept on deposit until required for disbursements. Funds are transferred to the checking accounts (general and payroll) on a just-in-time basis, so they operate as zero balance accounts in a treasury single account styled structure.

No cash flow forecasting is currently undertaken. Agencies receive commitment ceilings for routine

expenditures quarterly on a 30:20:20:20 basis, with 10% retained until the last quarter. The agencies may also request higher commitment ceilings where the expenditure is non-routine, i.e., for larger capital items and one-off bulk purchases. During the year there were 6 budget adjustments which were all transparent and enacted under RPPLs.

Table 21-1: Consolidation of bank and cash balances

Extent of consolidation (All, Most, < Most)	Frequency of consolidation (D, W, M)	Data Source
All	D	Deposit Slips, Bank A/C Listing

Note: D= Daily, W=Weekly, M= Monthly

Data source: Summary listing of bank account balances, 30/09/2022. Deposit slips various collection sources.

Table 21-2: Cash flow forecasts, commitment controls and budget adjustments

Cash flow forecast (Y/N)	Frequency of update (M/Q/A)	Update based on cash inflows (Y/N)	Frequency of release of commitment Ceilings (M/Q/A)	Budget adjustments		
				Frequency	% of BCG expenditure	Transparent
N	N/A	N	Q	6	21.5%	Y

Note: M= Monthly, Q= Quarterly; A=Annually

Data source: FMIS Report of budget allocations. RPPLS: 11-12 (original budget appropriation); 11-13; 11-14; 11-18; 11-19; 11-22; 11-23.

PI-22. Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-22. Expenditure arrears (M1)		A
22.1. Stock of expenditure arrears	Data is not maintained separately on expenditure arrears. However, AP balances are maintained in the FMIS. The management of AP is orderly, and payables are usually paid on a timely basis. For FY20 payables older than 60 days totaled \$1.48 million (90 days \$0.77 million) against total expenditure of \$101.1 million; for FY21 payables older than 60 days totaled \$0.57 million (90 days \$0.47 million) against total expenditure of \$90.7 million; and for FY22 payables older than 60 days totaled \$0.25 million (90 days \$0.15 million) against total expenditure of \$85.3 million. This equates to 1.5%, 0.6%, and 0.3% (at 60 days) for FY20, FY21, and FY22 respectively. This meets the threshold for a score of A.	A
22.2. Expenditure arrears monitoring	Arrears are monitored and reported as a subset of payables which are recorded and monitored on a day-to-day basis. MoF usually clears all payables in a timely manner. Management is undertaken against payables rather than against arrears <i>per-se</i> and this is undertaken through the FMIS. During the year data is available in the FMIS in terms of composition of the payables. At the end of the year analysis of payables is undertaken, which includes aging, invoice details, vendor, and fund. The low level of arrears signifies well managed monitoring and settlement of payables before they become arrears, which merits an A score.	A

Evidence for score

Expenditure arrears are monitored and reported as a subset of Accounts Payable (AP). AP are managed through the procure to pay process and payables module within the FMIS—this is undertaken on a daily basis within the system. Palau operates accrual-based accounting, and all payables are recorded in the system as they are incurred. The system produces analysis of payables in MS Excel spreadsheet format. An aged analysis of AP balances is undertaken at the end of the financial year. Items older than 60 days accounted for 1.5% of expenditures in FY20, 0.6% in FY21, and 0.3% in FY22.

Table 22-1. Stock and monitoring of expenditure arrears

Stock of arrears		Arrears monitoring		Data source
Year	As % of expenditure	Stock age and composition Y/N/NA	Frequency of reports (M/Q/A)	
2020	1.5%	Y	A	Excel AP Aging Analysis
2021	0.6%	Y	A	Excel AP Aging Analysis
2022	0.3%	Y	A	Excel AP Aging Analysis

Data source: Actuals taken from Quarterly reports 4th QTR: <https://www.palau.gov.pw/executive-branch/ministries/finance/bureau-of-national-treasury/#1555995701686-31a2818b-2c81>

Arrears figures taken from Excel Sheets: AP Aging FY20.xlsx; AP Aging FY21.xlsx; Aging FY22.xlsx.

Table 22-1a

Stock of arrears			
Year	Total Expenditure \$m	Total Arrears (payables > 60d) \$m	%
2019/20	101.1	1.48	1.5%
2020/21	90.7	0.6	0.6%
2021/22	85.3	0.25	0.3%

PI-23. Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-23. Payroll controls (M1)		D+
23.1. Integration of payroll and personnel records	There is no approved staff list—a Personnel Schedule is prepared when preparing the budget, which includes headcount and costs by Ministry but does not present a breakdown by position/grade. Although the personnel and payroll databases are integrated in the FMIS (Tyler Munis HR and Payroll Modules). Staff hiring and promotion is checked against the budget before approval is given. The Budget Office is required to approve these new additions, promotions, etc. The Agency Manager is required to sign employee payroll listing every 4 weeks.	C
23.2. Management of payroll changes	The payroll is updated fortnightly and retroactive adjustments are rare. Retroactive payments were less than one quarter of one percent, as highlighted in the PR-22 RETROACT report.	A
23.3. Internal control of payroll	The Munis system maintains separate user responsibilities for HR and Payroll roles. Changes to HR data are undertaken by BHR officials and timesheets and voluntary deductions are processed by BNT officials. The system enforces access controls based on the user-responsibilities defined in the system. The system provides detailed audit trails on all activity within the system, with details of the edits made, including employee, date, action type, category, and system user.	A

23.4. Payroll audit	There have been no dedicated payroll audits over the past three years. Although payroll forms part of the financial and compliance audits, there were no observations on payroll in the FY2019 audit, and no audit plans were available to demonstrate evidence of auditing of weaknesses and ghost workers.	D
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Evidence for score

The FMIS has modules for HR and payroll which are fully integrated. The payroll is run on a fortnightly basis. However, the Bureau of Human Resources (BHR) does not maintain an approved staffing list (although it is a requirement to include this in the annual budget and in performance reports per §323 and §371 of the PNC). The current staffing complement is maintained in the HR system and any new additions are validated against available budget rather than the approved staffing establishment list. The Bureau of Budget and Planning is required to approve the addition to staffing levels, ensuring adequacy of budget. A Personnel Action Form is required to be signed by the Bureau Head and approved by the Director BHR, Director Budget, Minister for Administration and President (or delegates). BHR is responsible for updating personnel records and BNT for processing payroll timesheets in the Munis system. The respective roles and responsibilities are embedded into the system as part of the user privileges and controls, which enforce segregation of duties. Compulsory salary deductions (social security/tax) are processed by BHR and other voluntary deductions (loan repayments, etc.) are processed by BNT.

Separate user responsibilities have been setup within the Munis system covering the different roles within HR and payroll management. The system provides full audit trails on all activity within the system, which highlight the system users. No dedicated payroll audits have been undertaken, and the most recent (broader) compliance audit was undertaken in 2019, and there were no observations made on payroll, and there were no audit plans showing audit investigations undertaken on different aspects of payroll. There is no internal audit function in government.

Table 23-1. Payroll controls

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list	N	N/A	N/A
Reconciliation of payroll and personnel database	Y	System based – one common database for payroll and HR	Permanent consistency - automated
Documentation maintained for payroll changes	Y	New personnel: BHR Payroll timesheets: BNT	Fortnightly
Payroll checked and reviewed for variances from last payroll	Y	System check with audit trails of amendments to staff records and time sheets	Fortnightly
Updates to personnel records and payroll.	Y	Personnel: BHR Payroll: BNT	Fortnightly
Updates includes validation with approved staff list.	N	N/A No approved staff list, just the existing actual staffing	N/A
Audit trail of internal controls	Y	System audit trails of all amendments to personnel and payroll records	Fortnightly
Payroll audits in last three years. Define coverage.	N	N/A	N/A

Data source: Internal control procedures Manual. System Manuals: Munis Payroll Processing 2018; Munis Personnel Actions 2018. Munis payroll/personnel audit trails, list of user responsibilities. PR19-22 RETROACT. FY22 4th QTR Retro Summary. Payroll User Attributes. FY23 Personnel Schedule (head count and cost). Munis: Payroll Audit Options.pdf; Time sheet supporting docs.pdf; Timesheet.pdf; Vol Deduction Form.pdf; Payroll Audit Inquiry.xlsx/jpegs (audit trails). MOF MINISTER, DF&A, BBP TIMESHEET#23-22.

PI-24. Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-24. Procurement (M2)		D
24.1. Procurement monitoring	There is no overall database of procurement summarizing all procurement undertaken. Documents are maintained individually with no overall statistics or analysis.	D
24.2. Procurement methods	There is no annual procurement plan showing the totality of planned procurement. Some limited data is maintained but there is no comprehensive record of all procurement undertaken, the value of awarded contracts, successful bidders and procurement method used.	D*
24.3. Public access to procurement information	(1) Title 40 of the PNC is available on the Palau Government website. (2) No annual procurement plans are currently prepared. (3) Bidding opportunities are advertised and posted on the website. (4) After contracts are awarded, the webmaster may take down the tender opportunity. No data is publicly available on awarded tenders. (5) No data is published on resolution of procurement complaints (6) No procurement statistics are published. The available data satisfies information element (1) and (3) only.	D
24.4. Procurement complaints management	Section §649 of the PNC highlights the procurement complaints process. (1) The section provides that the Procurement Office shall seek to resolve by mutual agreement but failing such agreement, the Procurement Officer shall issue a decision in writing. The only redress then is through the Supreme court. There is no independent review body for complaints. (2) Bidders are not charged for submitting a complaint. (3) §649 sets out the processes involved for lodging a complaint, including requirement to be in writing and the timeframes for submission, acknowledgement and rendering of decision. (4) The authority to suspend a procurement process rests solely with the Procurement Officer. (5) No record is maintained of complaints although it is purported that the market is small, and no real complaints have been lodged. Therefore, there is no data on this criterion. (6) The Procurement Officer's decision is final subject to ultimate appeal to the Supreme Court. This dimension requires as a minimum that the review body is independent of the process. This is not the case in the provisions in the Palau legal framework	D

Evidence for score

The legislative and regulatory requirements of procurement are covered in Chapter 6, Title 40 in the PNC and in Attachment Volume 1 to the RPPM (issued under Executive Order No. 418). §603 of the PNC prescribes the application of the Act, which excludes PNCC and PPUC, which are public corporations and have their own comparable laws. Responsibility for procurement is split between (i) Property and Supply for goods and services; (ii) CIP for construction and contracts; and (iii) BHR for professional services, etc. Opportunities are advertised in the press and posted on the government website. Tenders are advertised in the press as well as on the government website (URL reference below). Once the procurement is complete, the webmaster may then take down the tender. There is no database containing all

procurement activity. Property and Supply Division maintains a record of all Invitations for Bids (IFBs) but this does not show the procurement method. BHR maintains a record of the number of proposals received for each tender but no other data. No procurement statistics are made publicly available and there appears to have been no complaints requiring appeals and redress.

Table 24-1 Procurement

Database of records maintained A=All; M=Most; Ma=Majority	Percentage of procurement awards through competitive methods (%)	Public access to procurement information (Y/N)				
		Legal/regulatory framework	Procurement plans	Bidding opportunities	Data on complaints	Statistics
N	N	Y	N	Y	N	N

Data source: <https://palauosp.org/wp-content/uploads/2019/05/Revenue-and-Taxation-40-PNCA.pdf>
<https://www.palau.gov.pw/rfp-bids/> Republic Policies and Procedures Manual. Sample Procurement Advertisements. Formal Bidding checklist. FY22 Bid Summary (Property and Supply). Procurement FY22 (BHR Excel sheet).

Table 24-2 Procurement complaints mechanism

Characteristics of procurements complaints body (Y/N):					
Not involved in procurement	Fees charged for lodging complaint	Clearly defined and publicly available complaints process	Has authority to suspend procurement process	Decisions made within timeframe specified in rules/regulations	Issues are binding
Involved	N	Y	N	No data	N

Data source: No data.

PI-25. Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-25. Internal controls on non-salary expenditure (M2)		B+
25.1. Segregation of duties	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down throughout the expenditure process. There was no audit issue on segregation of duties.	A
25.2. Effectiveness of expenditure commitment controls	Comprehensive expenditure commitment controls are in place and effectively limit commitments to the annual appropriation and quarterly budget allocation. Commitment control is automated through the FMIS controls. All expenditures pass through these controls. However, the control against projected cash availability is missing.	C
25.3. Compliance with payment rules and procedures	Based on the latest audited financial statements (2018-19) as of the time of assessment, all payments were compliant with regular payment procedures, and there were no reported exceptions. There were some audit qualifications on procurement processes amounting to less than 2% of total expenditures from the general fund.	A

Evidence for score

Dimension 25.1

Segregation of duties is prescribed, and responsibilities are clearly laid down throughout the expenditure process. There was no audit issue on segregation of duties. **On this basis, performance was rated A.**

Internal control policies on non-salary expenditures are primarily contained in the 2018 Executive Order 418 or the RPPM, which deals with Procurement and Property Control. The line ministries and the MoF are following standard practices. Examples of control procedures are:

Segregation of duties- Examples of the internal control procedures require segregation of duties from vendor registration, from purchasing to payment processing.

Authorization- The approving authority from requisition to purchase orders/contracts is clearly delineated. For example, the requesting agency must submit authorized requisition; Budget Section must confirm availability of funds; Chief Procurement Officer along with the Director or Minister (depending on the threshold) must approve all Purchase Orders; and vouchers are to be reviewed and approved by the Chief Accountant.

Reconciliation- A monthly report of the status of travel advances is submitted to management; Conducting an overall bi-annual Fixed Assets inventory of all properties for the audit report; bank account reconciliations to be performed monthly for all bank accounts, and to be reviewed by the supervisor.

There is a draft Internal Control Manual, which is being used by MoF as a reference for control procedures to include check payment, travel advances, access to bank accounts, grant administration. With the installation of the FMIS, the Treasury plans to update the Internal Control Manual and to incorporate the FMIS-based procedures.

Table 25-1: Segregation of duties and commitment controls

Segregation of duties		Commitment controls		
Prescribed throughout the process (Y/N)	Responsibilities C= Clearly laid down M= Clearly laid down for most key steps N= More precise definition needed	In place (Y/N)	Limited to cash availability A= All expenditure M= Most expenditure P= Partial coverage	Limited to approved budget allocations A= All expenditure M= Most expenditure P= Partial coverage
Yes	M- clearly laid down for all steps. The audit did not find any issue on segregation of duties.	Yes	M= most expenditures	M= most expenditures.

Data source: Executive Order 418 on Procurement and Property Control; 2019 latest audit report; Consultations with MoF and selected ministries during this mission. Internal Control Manual; Screenshots of the FMIS appropriation and allotment control; sample Purchase Order generated from the FMIS together with the approved requisition, and other supporting documents. Consultative meeting with selected ministries.

Dimension 25.2

The RPPM details the procedures for procurement tenders until supplier selection, contracting, delivery, and payment. Requisitions and purchase orders (POs) are approved only upon certification of availability of funds by the Budget Office. There is a Treasury-prescribed spending plan or allotment control which sets the commitment limit on a quarterly basis (30-20-20-20-10). In some cases where a large amount procurement is upcoming, ministries can request to advance a portion from the following quarter/s.

With the installation of the FMIS,⁹ commitments pass through an appropriations control and an allotment control. Through the FMIS, agencies can view the original appropriation; transfer in, transfer out, actual charges, and outstanding encumbrances. POs can only be recorded if the amount is within the available or unencumbered appropriation (net of payments and encumbrances) and the quarterly allotment. Every PO is generated from the system. A sample copy shows that it is pre-numbered and linked with the requisition number, as well as the budget ledger code.

⁹ Installed only last 2020. Ministries are given viewing access, but data entry is done by Treasury of MoF.

However, the commitment control may be partially effective because the allotment control is not anchored on a monthly cash forecast which is updated regularly.

Likewise, in a consultative meeting of the PEFA assessment team with selected line ministries held on November 11, 2022, it was learned that some transactions may not be recorded immediately such that available balances are not updated in real time. Thus, the ministries maintain their manual transaction registers and do a periodic reconciliation with MoF.

Dimension 25.3

During consultations with the MoF team and selected line ministries, payment procedures appeared to be clear and consistent. In the absence of an internal audit, and more recent external audit, the only related evidence was the 2019 audit report. In this report, the auditor has identified deficiencies or non-compliance. Examples are non-submission of detailed description of bids and basis for selection; no evidence of solicitation of quotes from other vendors; unjustified emergency procurement. The total amount of these transactions was **\$1.18million, around 1.6% of the total expenditures from general fund of \$74.4million in 2019. There were no reported exceptions to payment procedures. With this, the performance was rated A.**

PI-26. Internal audit

This indicator assesses the standards and procedures applied in internal audit.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-26. Internal audit (M1)		D
26.1. Coverage of internal audit	There is no Internal Audit function within government.	D
26.2. Nature of audits and standards applied	Not applicable	N/A
26.3. Implementation of internal audits and reporting	Not applicable	N/A
26.4. Response to internal audits	Not applicable	N/A

Evidence for score

Currently, there is no internal audit function in the Government of Palau. The existing legal frameworks such as the Palau National Code and the Fiscal Responsibility Act, do not provide for such function in government.

Table 26.1: Coverage, nature and standards of internal audit:

Internal Audit units	Internal Audit Coverage	Internal audit report prepared (Y/N)	Nature of Audits:	Quality assurance/ standards/ high risk focus (Y/N)	Management Response (Complete response, implementation, and review by auditors)
Expenditure					
N/A					
Revenue					
N/A					

Data source: Pala National Code; Fiscal Responsibility Act; Confirmation from Ministry of Finance that there is No Internal Audit function.

Table 26-2: Audits planned

Audit Plan – Audits Planned	Reports issued related to subject area	Comprehensive report prepared consistent with audit plan (Y/N)
N/A		

Data source: Pala National Code; Fiscal Responsibility Act; Confirmation from Ministry of Finance that there is No Internal Audit function.

PILLAR SIX: Accounting and Reporting

This pillar measures whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Overall performance

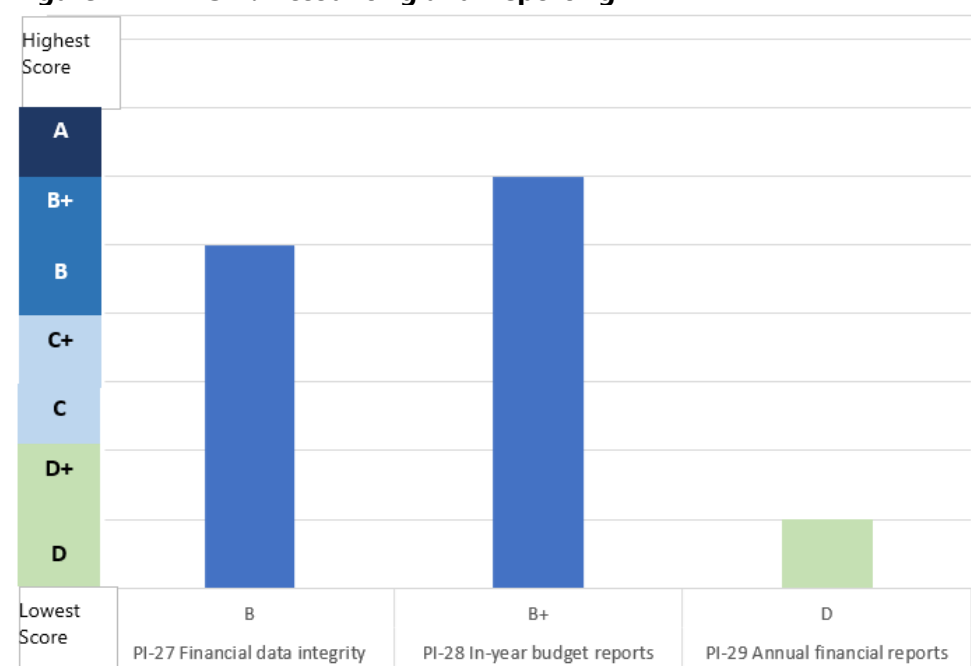
Timeliness in producing the whole of government financial statements is the main issue, and this affected the usefulness of the comprehensive information.

Financial reports provide information on the financial operation and financial position on the whole of Palau Government. The central government accounting system has captured the transactions of all government entities from different sources of funding including from extra-budgetary funds. Except for a Statement of Cash Flows, the content of the financial statements is comparable to international public sector accounting standards. Information on revenues, expenses, assets, liabilities, including a comparison of the actuals with the original and revised budgets was made available from the reports.

However, the usefulness of the consolidated financial statements has been undermined due to the delay in its dissemination. The consolidated government budget execution reports have been released and published within a month after every quarter. As of this assessment, the latest published financial statements were for 2018-19. There are advance accounts, but reconciliation is done on a regular basis, although there are some transactions left uncleared.

The results of the assessment under this pillar are summarized below:

Figure PILLAR SIX: Accounting and Reporting



Possible underlying causes of performance

Timeliness in producing the whole of government financial statements is the main issue. Since 2020, the reconciliations, consolidation, and preparation of central budgetary government financial reports has been facilitated through the Financial Management Information System (FMIS). Its impact particularly on the timeliness may not be seen immediately, as staff have to be trained, and new and revised procedures have to be developed. Likewise, with limited capacity in line ministries, the Bureau of National Treasury performs all the recording, hence reconciliations take time.

With only a small number of staff, it also takes time for the National Treasury to consolidate a whole government report that covers both budgetary and extra-budgetary units. Lateness of completion and submission of reports has impacted the scoring specifically of PI-29. The timeliness issue is attributed to challenges in reconciling MDA data in the new FMIS, coupled with unavailability of assistance (due to COVID restrictions) in compiling the consolidated annual financial statements.

Recent and ongoing reform activity

The continuing adoption of a modified accrual accounting following the US Generally Accepted Accounting Principles (US GAAP) that are issued by the US Government Accounting Standards Board would enable the provision of comprehensive information. The 2021 Fiscal Responsibility Act has confirmed its sustained adoption.

With the continuing enhancement of skills in using the FMIS, key processes could be made more systematic and efficient in the near future. The process of bank reconciliation for example has become more frequent with the use of the FMIS bank reconciliation module. The gradual roll-out of the FMIS recording module to line ministries is also being planned. Once this is done, the preparation of budget execution reports could progress from quarterly to monthly. Meantime, the ministries were given viewing access to the status of their appropriations and quarterly allotments.

The enthusiasm of the government led by the MoF to formulate a PFM Reform Roadmap could result to a more manageable and sustainable implementation of the accounting and reporting standards that have been adopted. For instance, consolidated financial statements could start with the central budgetary government, progressing to the whole of public sector.

PI-27. Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-27. Financial data integrity (M2)		B
27.1. Bank account reconciliation	Complete bank reconciliation for all active central government bank accounts maintained by the BNT takes place at least quarterly and bank statements are prepared usually within one month. Four EBUs, bank reconciliations are done monthly.	C
27.2. Suspense accounts	There is no suspense account maintained by the central government.	N/A
27.3. Advance accounts	Monitoring of travel advance accounts is done at least monthly, but during 2020-21, there was an uncleared balance of 19%.	B
27.4. Financial data integrity processes	Access and changes to the FMIS database is registered and restricted. There is an organizational unit within MoF in charge of verifying financial data integrity.	A

Evidence for score

Dimension 27.1

During 2021-2022, the MoF maintained 22 bank accounts which is composed of the main treasury accounts, including a payroll account, and several project accounts.

With the installation of the FMIS bank reconciliation module, updates in reconciliation of bank account transactions became more and more frequent. During 2022, except for two old accounts, reconciliation for all of the bank accounts have been updated within a month after the first run, with some being done within a week.

However, the timeliness of complete bank reconciliation statements to reconcile both the aggregate cash

balances and all detailed transactions was dependent on the frequency and timeliness of the bank statements. For example, point of reconciliations for 10 of these accounts was for a quarter and the rest were for one month. Bank reconciliation statements were usually completed within a month after the reference period.

For extrabudgetary units, and based on the report of the MoF, four of the seven EBUs prepare their bank reconciliations monthly, and bank reconciliation statements are made available within one to two weeks.

Considering the evidence presented, the performance for this dimension was rated at C. If all the banks can issue a monthly bank statement, performance can be improved in future.

Table 27-1 Bank account reconciliation

All active accounts (Y/N)	Frequency (W/M/Q)	Within (1/4/8 weeks)	Aggregate and detailed level (Y/N)
Yes. For the accounts of primary government maintained by the BNT, and for four EBUs- Palau Community College, Palau International Coral Reef Center, Protected Areas Network Fund, and the Social Security Retirement Fund	At least quarterly for all the active bank accounts maintained by the BNT. Monthly for the four EBUs referred in this Indicator	4 weeks for the accounts maintained by the BNT; One to two weeks for the EBUs referred in this Indicator	Yes. For the primary government accounts and for the four EBUs referred in this Indicator

Data source: List of Government Bank Accounts Maintained by Treasury, MOF. Showing Period Covered; Date of First Run; and Date of Latest Update

Dimension 27.2

The Treasury is not using a suspense account¹⁰. However, there is a travel advance account. Palau's travel regulation requires employees to report within 15 days after their travel, after which the advance shall be deducted from the payroll, if not liquidated. The Treasury monitors this account on a monthly basis by preparing an Employees Expense Claim Report.

As of the preceding fiscal year ending September 2021, the travel advance account has a credit balance of \$47,747 or about **19% of the travel expenditures** which means an over settlement of the advances made. This credit balance was mainly due to the delay in report submission and liquidation by the responsible employees. **For this reason, performance was rated B.**

Table 27-2 Suspense and advance accounts

Suspense accounts reconciliation			Advance accounts reconciliation		
Frequency (M/Q/A)	Within 1 month; 2 months; N = > 2	Timeliness of clearance Y= no later than end of fiscal year (unless justified)/N	Frequency (M/Q/A)	Within: 1 month; 2 months; N = > 2	Accounts cleared timely A= All without delay M= Most without delay F= Frequent with delay N= <F
NA	NA	NA	M	Within one month	M= Most without delay

Data source: Summary Table provided by Treasury, MOF, showing the Balance of Travel Advance and the Total Travels Authorized during 2020-21. Copy of Chart of Accounts in Government showing that there is no suspense account

Dimension 27.3

The MoF is maintaining the FMIS and the Payroll system. The main users are the Treasury units as well as the ministries. According to the Treasury, each authorized user is given a user ID. Defined access right is controlled by **the Information System Support Services** under the Office of the Minister of Finance. For

¹⁰ Suspense account is used to record temporary classification of revenue or expenditure at the time of disbursement pending submission of liquidation documents.

example, line ministries have viewing access only. Access into the system is registered through an audit trail. The ISSS Unit serves as the administrator of these systems and as such maintains a regular verification of the systems integrity. **With these considerations, this dimension was given a performance rating of A.**

Table 27-3 Financial data integrity

Access and changes to records		
Restricted and recorded (Y/N)	Results in audit trail (Y/N)	Financial integrity verified by operational team (Y/N)
Y	Y	Y

Data source: Statements from National Treasury as validated from selected line ministries during consultative meetings as part of this assessment; Function of the Information System Support Services, a unit under MOF, as published in the MOF website

PI-28. In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-28. In-year budget reports (M1)		B+
28.1. Coverage and comparability of reports	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures representing actual transfers to de-concentrated (component) units are reflected in the reports.	A
28.2. Timing of in-year budget reports	Budget execution reports are prepared quarterly, and published within four weeks from reference period	B
28.3. Accuracy of in-year budget reports	There are no material concerns regarding data accuracy. An analysis of the budget execution report is provided on a cumulative basis every quarter. Actual expenditures include both payments and outstanding encumbrances or commitments.	A

Evidence for score

Dimension 28.1

The MoF prepares a consolidated report for the whole government on a quarterly basis. Just like in the annual reports of the national government, the quarterly reports produced by the MoF have been consolidated out of the FMIS data, where all budgetary transactions are posted. The quarterly report includes the results of budget execution, as well as stock of key assets and liabilities such as:

- i) Summary Statement of Appropriations and Expenditures by Functional/Organizational/Administrative Classification
- ii) Schedule of Revenues by type, Budget vs Actual
- iii) Schedule of Actual Expenditures by Economic Classification, and by Funding Source
- iv) Schedule of Various Grants
- v) Schedule of Debt, Payables and Receivables
- vi) Schedule of Financial Investments
- vii) Schedule of Non-Lapsing Funds

The data on appropriations already incorporate the adjustments or transfers made within each ministry,

or from one ministry to another¹¹. Actual transfers to component units and state governments are also included. On the other hand, the actual expenditures include both the payments made and outstanding encumbrances or commitments. The expenditures were matched according to funding source, such that those charged to the budget (general fund) are presented separately.

With these considerations, this dimension's performance was rated A.

Dimension 28.2

The consolidated quarterly financial reports are published within one month after the reference quarter. As of this mission, all the 2022 reports have been published in the MoF website (<https://www.palau.gov.pw/wp-content/uploads/2022-4th-Quarter.pdf>). **Given the reporting frequency and timeliness, performance was rated B.**

Dimension 28.3

The MoF provides a monthly Year to-date Budget Report¹² to each of the ministries/agencies and reconcile the transactions and balances, so that differences are resolved before the report consolidation. The monthly report presents the original appropriation, transfers/adjustments, revised budget, year to-date actual, encumbrances, and available budget. The published quarterly report includes a calculation of the rate of utilization as of end of each quarter, by administrative and functional classification. It also presents a percentage distribution of the actual revenues by source (local revenues, Compact Trust Fund, and other financing).

With the details and reconciliations done, a rating of A was provided.

Table 28-1 In-year budget reports

Coverage and classification			Timeliness		Accuracy		
Allows direct Comparison to original budget (Y/N)	Level of detail	Includes transfers to de-concentrated units (Y/N)	Frequency W/M/Q N= >Q	Within: 2/4/8 Weeks N= >8weeks	Material concerns (Y/N)	H/Y Analysis Prepared (Y/N)	Payment info E= Expenditure C= Commitment
Y	A=All budget items P= Partial aggregation M= Main administrative headings E=Main economic headings	Y	Q	4 weeks	N	Y	E/C

Note: W=Weekly; M=Monthly; Q=Quarterly

Data source: 2021-22 Budget Execution Reports published in the MOF website.

PI-29. Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-29. Annual financial reports (M1)		D
29.1. Completeness of annual financial reports	The last completed fiscal year (2020-21) financial statements which should have been submitted in 2022 are not yet available and preparation is still in progress as of this mission.	D*

¹¹ Requires approval from the President of Palau.

¹² A sample report was provided to this mission by the MoF.

29.2. Submission of reports for external audit	The latest financial statements that were submitted for audit were for 2019-20, but no copy was provided to the assessment team. The National Treasury and the Office of the Public Auditor confirmed that these were submitted on November 22, 2021, which was more than 12 months after the reference fiscal year. The preparation of the 2020-21 financial statements is still in progress.	D
29.3. Accounting standards	The National Treasury has confirmed that the central government (primary government and the component units) have adopted and consistently applied the US Generally Accepted Accounting Principles. The standards used and compliance thereto were disclosed in the notes to the financial statements). In the 2018 and 2019 audit reports, there were no audit issues on compliance to these standards. However, application of these standards could not be determined in the last two years (2019-20 and 2020-21 annual financial statements as these were not provided or yet completed respectively, as of the time of assessment.	D

Evidence for score

Dimension 29.1

Following the PEFA framework in measuring the performance in this dimension, this mission used the last completed fiscal year when the annual financial statements are due and should have been submitted to audit, which is 2020-2021. As of this assessment, the 2020-21 financial statements are yet to be completed, hence the score of **D***.

It was noted however that the 2018-19 (audited) and 2019-20 (submitted, but not yet audited) financial statements include information on revenues, expenses, assets, and liabilities (current and long-term), and net financial position, both for the governmental fund and the fiduciary funds. There was also a supplementary information on the comparison of the actual expenditures with the original and final budget. However, a reconciled cash flow statement was not included in these financial statements.

Dimension 29.2

The submission of the 2019-20 financial statements for external audit was used as the basis of measuring PEFA performance in Dimension 29.2. The 2020 financial statements were submitted on November 22, 2021, more than 12 months after end of the fiscal year (September 30, 2020), hence a rating of **D**. According to the National Treasury, the 2020-2021 financial statements are still being completed.

Dimension 29.3

Following the PEFA framework, the last three years financial reports were used as basis for assessment:

- 2018-19- audited and published
- 2019-20- submitted for audit but no copy was provided by the Treasury
- 2020-21 – not yet completed

Although the 2020-21 financial statements were not available as of this assessment, the Director of the National Treasury confirmed during one of the meetings with this mission that these standards have been consistently applied in the recording and reporting of financial transactions. It was also noted that the Fiscal Responsibility Act signed in November 2021 reiterated the use of the US GAAP in preparing the financial statements. Since there is only one report available in the last three years, there is no evidence as to the consistent application of the standards, hence a rating of **D** was provided.

Table 29-1 Annual financial reports

Completeness					Date of submission for external audit	
Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Information F=Full P=Partial B=Basic	Cash flow statement (Y/N)	Balance Sheet C=Cash only FO=Financials only F=Full	Date of submission	Within: (3/6/9 months)

2021-22 reports not yet completed	Not known	Not known	Not known	Not known	not yet completed	More than 12 months

Data source: Statement from the National Treasury that the 2021 financial statements are not yet completed as of this assessment.

Table 29-2 Accounting standards

Accounting standards applied to all financial reports				
Type of standard I= International C= Country	Consistency M=Most IS applied Mj= Majority IS applied C=Consistent over time only	Disclosure on standards (Y/N)	Disclosure on variations (Y/N)	Gaps explained (Y/N)
I= US GAAP	Consistency could not be proven as only one of the last three years' financial reports is available	Y only for 2018-19	NA	NA

Noted: IS = International standards

Data source: Last submitted and audited financial statements (2018-19); as published in the Office of the Public Auditor website

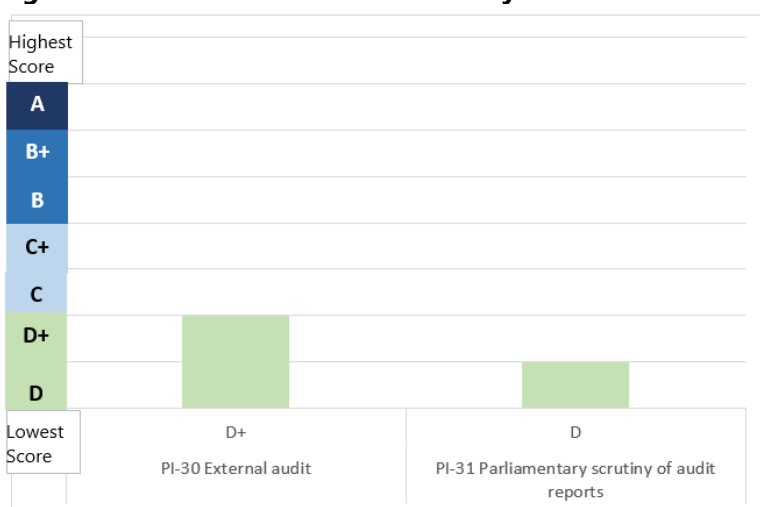
PILLAR SEVEN: External Scrutiny and Audit

This pillar assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Overall performance

External scrutiny and audit are currently performed by the Office of the Public Auditor which reports the results of his inspections and audits to the Legislature, *Olbüil Era Kelulau*, at least once a year, and shall have such additional functions and duties as may be prescribed by law.

Figure PILLAR SEVEN: External Scrutiny and Audit



Possible underlying causes of performance

For external audit, the main cause for a reduction in rating is due to the delay in the preparation and audit of financial statements of government for the last two financial years. This is a direct impact of COVID in the last two years or so. Prior to COVID, the audit of the financial statements of government were fairly timely. The audit of the financial statements of government is outsourced to the accounting firm of Deloitte & Touche LLP. The audits are conducted in accordance with auditing standards generally accepted in the United States of America (GAGAS).

There was also the delay in the submission of audit reports to Parliament of three years. For the financial statements of government for the year 2018/2019, the audit report was submitted to Parliament in March 2021 whereas the audit reports for 2019/2020 and 2020/2021 financial statements have yet to be submitted to Parliament. There was documented external follow up of recommendations made with the Executive during the audit of the 2018/2019 financial statements but none for the last two years 2019/2020 and 2020/2021.

The Supreme Audit Institution (SAI) is independent of the executive government as the appointment of the Public Auditor is made by the President subject to the endorsement of Legislature. The removal of the Public Auditor requires a two thirds majority of Parliament.

Recent and ongoing reform activity

The Public Auditor is retiring and will work until the new Public Auditor is appointed. The process of selecting the next Public Auditor is progressing.

The office of the Public Auditor has autonomy in the delivery of its audit mandate. It is working with the accounting firm Deloitte & Touche LLP to ensure that the audit of the financial statements of government are updated and completed within the legislative framework of nine months after the fiscal year ends.

The office of the Public Auditor is also committed to update and submit reports to Parliament for single audits, performance audits and other work.

The office will be supported with technical assistance in the development of its Strategic Plan for the next five years, as well as operational plans and monitoring systems to ensure all the gaps identified in the SAI Performance Measurement Report 2022 will be addressed. This will also address issues with audit coverage and timely submission of audit reports on the financial statements of government to the Legislature which has been identified in this assessment.

The office is also supported by the Pacific Association of Supreme Audit Institutions (PASAI) in the development of its Communication Strategy to promote more effective communications and dialogue with the Legislature. It is important that the Legislature perceives the SAI as a relevant partner in the oversight of the Executive to enhance accountability. The aim of capacity development in communications with Legislature and other stakeholders is for the SAI to provide support to improve their understanding of audit reports and working together in exercising the oversight function.

PI-30. External audit

PI 30 examines the characteristics and measures the scope, nature and follow up of the external audit function of government. External audit is a function outside of government performed by the Auditor General, to audit all the public funds or accounts of government including all ministries, offices of executive government, public, statutory, and local authorities and shall report at least once annually to Parliament on the government accounts. It has four dimensions and uses M1 (WL) method for aggregating dimension scores:

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-30. External audit (M1)		D+
30.1. Audit coverage and standards	The audit of the consolidated financial statements of government for 2018/2019 has been completed with issues raised and responded to by the executive. An unmodified audit opinion was issued. The audit of the consolidated financial statements of government for the last two financial years (2019/2020 and 2020/2021) which have yet to be completed indicate that the majority of total expenditure and revenues for the last three financial years have not been audited. On this basis, audit coverage and standards is assessed at D.	D
30.2. Submission of audit reports to the legislature	The audit report for the financial statements of government for 2018/2019 was submitted to Parliament in March 2021. The audit report for the 2019/2020 has yet to be issued as the audit is in progress. The dates these financial statements of government were submitted for audit are not available. The financial statements of government for 2020/2021 have yet to be submitted for audit. The audit reports for 2018/2019 and 2019/2020 were not issued within the statutory timelines of nine months after each financial year. On this basis, the performance is rated at D.	D
30.3. External audit follow-up	All audit issues for the financial statements of government for the 2017/2018 financial year have been raised and followed up with management of the Ministry of Finance and a corrective action plan is included in the auditor's report on internal control and compliance. There was no follow up for the financial statements of government for the last three financial years. Therefore, the performance is rated at D.	D
30.4. Supreme Audit Institution (SAI) independence	The independence of the appointment of the Public Auditor General is confirmed under Article 12, Section 2(a) of Palau's Constitution. The SAI operates independently from the executive government in the appointment	A

	and removal of the SAI head, the planning of audits, publicizing reports, the approval and execution of the budget. The SAI has unrestricted and timely access to information. On this basis, the performance is rated at A.	
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Evidence for score

The overall rating for this indicator is measured at D+. The delay in the audit of financial statements with the majority of government expenditure and revenues in the last two financial years of the assessment period indicate a performance of less than C in dimensions 1, 2 and 3. SAI independence for the office is confirmed under the Constitution hence a score of A.

Dimension 1 - Audit coverage and standards

The audit of the government financial statements for the year 2018/2019 was finalised with the audit opinion issued on the 15th February 2021. It was submitted to Parliament on the 3rd of March 2021. The Public Auditor is required to submit a report to Parliament on the financial audit of the National Treasury by 30th June, or nine months after the financial year ends. For the 2018/2019 FY, the audit was completed 17 months after the end of the financial year, outside of the statutory timeline of 30th June 2020. The impact of COVID was the cause of the delay. In the two financial years before COVID, the audited financial statements were reasonably on time. For the 2016/2017 FY, the audit was completed on the 31st of July 2018, a month delayed after the statutory timeline of 30 June 2018. For the 2017/2018 FY, the audit opinion was issued on 30th June 2019 thus meeting the statutory timeline. The audit of the government financial statements for the year 2019/2020 is in progress and the financial statements for the year 2020/2021 has yet to be submitted for audit.

The audit opinions indicate that the audits were conducted in accordance with auditing standards generally accepted in the United States of America, GAGAS¹³ issued by the Comptroller General of the United States. The audits of the consolidated accounts of the Republic of Palau are outsourced to the accounting firm of Deloitte & Touche LLP. The Office of the Public auditor conducted other audits for the financial year 2018/2019 which included 13 single audits, 1 performance audit and 5 compliance audits. Some of these audits for the 2018/2019 FY were completed in 2020 to 2022. For the financial year 2019/2020, 9 single audits were completed and 1 single audit for the financial year 2020/2021 was completed.

The impact of COVID is a factor causing the delay of the audits of the consolidated financial statements of government for the last three years. The audit of the consolidated financial statements of government for the last two financial years (2019/2020 and 2020/2021) which have yet to be completed indicate that the majority of total expenditure and revenues for the last three financial years have not been audited. On this basis, audit coverage and standards is assessed at D.

Table 30-1: Audit coverage, standards and submission to legislature

Fiscal Year	Date submitted to external audit	Date submitted to legislature	Standards applied: ISSAI/ National (consistent)/ National (other)	Issues highlighted: M = Material/ Systemic/ Control OR S = Significant	Data source
2016/2017	<i>Not available</i>	<i>Not available</i>	GAGAS	<i>Control</i>	<i>Office of the Public Auditor</i>
2017/2018	<i>Not available</i>	<i>Not available</i>	GAGAS	<i>Control</i>	<i>Office of the Public Auditor</i>
2018/2019	<i>Not available</i>	<i>3rd March 2021</i>	GAGAS	<i>Highlighted that the Palau Civil Service Pension Trust Fund's actuarial valuation showed a pension liability of 251 million which may</i>	<i>Office of the Public Auditor</i>

¹³ GAGAS – Generally Accepted Government Auditing Standards

				cause the Fund's fiduciary position to be negative in 2023. It also identified supplementary information relative to analysis of revenues, expenditures and changes in Fund Balance which must be disclosed as required by the Government Accounting Standards Board.	
2019/2020	Not available	Audit is in progress, incomplete. Audit timeline is extended to December 2021, then to April 2022 but it remains incomplete by November 2022.			Office of the Public Auditor
2020/2021	Financial Statements of Government have yet to be submitted for audit				Office of the Public Auditor

Other Audits

Fiscal Year	Types of Audits	% of audits completed	Type of Audits	Number of audits completed	Types of Audits	Number of audits completed	Standards applied: ISSAI/ National	Data source
2018/2019	Single audits	100% (13)	Performance Audits	1	Performance/ Compliance Audits	5	GAGAS	OPA
2019/2020	Single audits	69% (9)	Performance Audits	0	Performance/ Compliance Audits	0	GAGAS	OPA
2020/2021	Single audits	8% (1)	Performance Audits	0	Performance/ Compliance Audits	0	GAGAS	OPA

Dimension 2 - Submission of audit reports to the legislature

The timing of the submission of audit reports has been affected by the delay in the preparation of the financial statements of government and subsequently the audits. The audit of the financial statements of government for the year 2018/2019 was completed in February 2021. It was submitted to Parliament in March 2021. The audit of the financial statements of government for 2019/2020 is in progress. The dates these financial statements of government were submitted for audit are not available. The financial statements of government for 2020/2021 have yet to be submitted for audit. The audit reports for 2018/2019 and 2019/2020 were not issued within the statutory timelines of nine months after each financial year. On this basis, the rating is D.

Dimension 3 - External audit follow-up

The effectiveness of following up of the audit recommendations is largely influenced by the delay in the preparation and audit of the financial statements of government. The normal process for follow up is that all issues raised in the previous year is followed up in the next audit. All audit issues for the financial statements of government for the 2017/2018 financial year have been raised and followed up with management of the Ministry of Finance. A formal response was made by the Ministry of Finance on every audit issue raised and a corrective action plan is included in the auditor's report on internal control and compliance. Given that the audit has yet to be done for the two remaining financial years 2019/2020 and 2020/2021, likewise there is no evidence of follow up for the three financial years 2018/2019, 2019/2020 and 2020/2021. On this basis, the rating is D.

Dimension 4 - Supreme Audit Institution (SAI) independence

The independence of the appointment of the Public Auditor General is confirmed under Article 12, Section 2(a) of Palau's Constitution. The Public Auditor is appointed by the President subject to confirmation by

the Legislature, *Olbiil Era Kelulau*. Having the legislature to confirm the Public Auditor's appointment shows independence in the process from the executive government. The Office of the Public Auditor is free to plan its audits and publicize the results of audits conducted. For the budget, the Public Auditor submits his budget to a Parliament through a subcommittee, the 'Coordinating Group' created specifically under Section 230 of the Palau National Code to perform the functions related to the 'Public Auditing Act of 1985'. The Constitution confirms that the Public Auditor cannot be influenced or controlled by person or organisation, and this should cover how the Public Auditor executes his budget. The Constitution of Palau confirms unrestricted and timely access to records of any entity receiving public funds from the national government. Overall, the Public Auditor and the office of the Public Auditor has SAI independence confirmed and guaranteed in the Republic of Palau's Constitution and Chapter Two – Public Auditing Act of 1985 of Palau's National Code. On this basis, the rating is A.

Table 30-4: SAI Independence – requirements

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of head of SAI	<i>Article 12, Section 2(a) of the Republic of Palau Constitution provides that a Public Auditor shall be appointed for a term of six (6) years by the President subject to confirmation by the Olbiil Era Kelulau. The Public Auditor may be removed by a vote of not less than two-thirds (2/3) of the members of each house of the Olbiil Era Kelulau. In such event, the Chief Justice of the Supreme Court shall appoint an acting Public Auditor to serve until a new Public Auditor is appointed and confirmed (S222 Title 40 Chapter 2 Public Auditing Act of 1985 - Palau National Code Annotated). The Public Auditor shall be free from any control or influence by any person or organization.</i>
Planning audit engagements	<i>The Office of the Public Auditor does not have a strategic plan nor a documented operational plan. They however have the legal authority and have been doing this in practice to plan their audits every year without any influence from the executive government.</i>
Arrangements for publicizing reports	<i>The office of the Public Auditor does not have a communications Strategy. They however publish the audit reports on the website and via circulation to stakeholders once they are submitted to Parliament. How the office publicizes their audit reports are not influenced by the executive government.</i>
Approval of budget	<i>Title 40 Chapter 2 Public Auditing Act of 1985 - Palau National Code Annotated S251 provides The Public Auditor shall advise the Coordinating Group of his annual budget at least thirty (30) days before the date specified by the President for transmittal of the budget to the Olbiil Era Kelulau. Under this section, the public auditor prepares and discusses his budget with Parliament's Coordinating Group before submitting to be included in the President's budget. The 'Coordinating Group' is an interagency audit coordinating advisory group consisting of the Presiding Officers of each House of the Olbiil Era Kelulau, the Director of the National Treasury and the Attorney General. The Coordinating Group scrutinizes the budget before it is included in the national budget, eventually approved by Parliament.</i>
Execution of budget	<i>S251 Public Auditing Act of 1985. This provision allows Parliament to directly scrutinize their budget. But there is no provision to limit how the Public Auditor, or his office uses the budget approved. Article 12, Section 2(a) of the Republic of Palau Constitution however confirms that 'the Public Auditor shall be free from any control or influence by any person or organization' which includes budget execution.</i>
Legal basis for independence	<i>Article 12, Section 2(a) of the Republic of Palau Constitution provides that the 'The Public Auditor shall be free from any control or influence by any person or organization'.</i>
Unrestricted/timely access to records	<i>Article 12, Section 2(b) of the Republic of Palau Constitution provides that 'The Public Auditor shall inspect and audit accounts in every branch, department, agency, or statutory authority of the national government and in all other public legal entities or nonprofit organizations receiving public funds from the national</i>

	government. The Public Auditor shall report the results of his inspections and audits to the Olbiil Era Kelulau, at least once a year, and shall have such additional functions and duties as may be prescribed by law.
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Data source: Office of the Public Auditor

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-31. Legislative scrutiny of audit reports (M2)		D
31.1. Timing of audit report scrutiny	The audit report of the 2018-19 Government Financial Statements has been issued and submitted to Parliament. Parliament has not scrutinized the reports from the Office of the Public Auditor yet twelve months have passed. The audit reports for 2019/2022 and 2021/2022 have yet to be issued. Scrutiny of audit reports on annual financial statements of government has not been done for the last three years. On his basis, the performance is rated as D.	D
31.2. Hearings on audit findings	Since there is no scrutiny of audit reports, there are no hearings relative to the audit reports hence the performance is rated at D.	D
31.3. Recommendations on audit by the legislature	As there has been no scrutiny of audit reports by the Legislature in the last three fiscal years, the legislature has also not issued any recommendations on actions to be implemented by the executive relative to any of the audit reports submitted to them. The performance is rated as D.	D
31.4. Transparency of legislative scrutiny of audit reports	There is no scrutiny of audit reports by the Legislature, hence there is no transparency of the process, and the performance is rated as D.	D

The absence or lack of legislative scrutiny of audit reports poses significant risks relative to the effectiveness and credibility of the external audit function promoting proper accountability and transparency. On this basis, the overall rating is D.

Evidence for score

Table 31-1: Timing of legislative scrutiny of audit reports

Audited annual financial statements for fiscal year	Date of receipt of audited financial reports	Date of finalization of legislative scrutiny
2020/21	Financial reports not yet prepared or submitted for audit	Not applicable
2019/20	The audit of the financial reports is in progress, incomplete	Not applicable
2018/19	3 March 2021	No scrutiny done

Data source: Office of the Public Auditor

Table 31-2 and 31-3: Hearings on audit findings and issuance of recommendations

Audited annual financial statements for fiscal year	Hearings on audits reports that received a qualified or adverse opinion or disclaimer (Y/N)	Hearings conducted – entities with qualified audit A = All M = Most F = Few N = None	Legislature issues recommendations (Y/N)	Recommendations followed-up S = Follow-up systematically F = Follow-up
2020/21	NA	NA	N/A	N/A

2019/20	NA	NA	N/A	N/A
2018/19	N	N	N	N
2017/18	N	N	N	N
2016/17	N	N	N	N

Data source: Office of the Public Auditor

Table 31-4: Transparency of legislative scrutiny of audit reports

Audited annual financial statements for fiscal year	Committee reports			Public hearings conducted A= All except limited circumstances F= Yes, with a few exceptions
	Published (Y/N – Method)	Provided to the full chamber of legislature (Y/N)	Debated in the full chamber of legislature (Y/N)	
2020/21	NA	NA	N/A	N/A
2019/20	NA	NA	N/A	N/A
2018/19	N	N	N	N
2017/18	N	N	N	N
2016/17	N	N	N	N

Data source: Office of the Public Auditor

Annex 1: Assessment management and quality assurance arrangements

Oversight Team		
Name	Position/Organization	Role
Kaleb Udui Jr.	Minister for Finance	Chairperson
Casmir Remengesau	Director Planning and Budget	Oversight team member
Gail Rengiil	Director; Bureau of National Treasury	Oversight team member
Elway Ikeda	Director; Bureau of Revenue and Taxation	Oversight team member
Darren Fritz	Budget officer, Ministry of Finance	Team member
Delor Yoshiwo	Senior Budget Analyst; Bureau of Budget and Planning	Team member
Darla Babauta	Chief; Bureau of National Treasury	Team member
Sharnnel Sumang	Chief; Bureau of Property and Supply	Team member
Masato Ushibata	System Accountant; Bureau of National Treasury	Team member
Roleen Ronny	Economist, Ministry of Finance	Team member
Tabesul Ngirailmsang	Executive Program Coordinator; Office of the Minister	Team member
Assessment Team		
Name	Position/Organization	Role
Paul Seeds	PFTAC, PFM Advisor	Team leader
Iulai Lavea	PFTAC, PFM Advisor	Assessment Team Member
Chita Marzan	FAD/PFTAC Expert	Assessment Team Member
Richard Emery	FAD/PFTAC Expert	Assessment Team Member
Esther Lameko-Poutoa	Chief Executive PASAI	Assessment Team Member
Quality Assurance		
Reviewers:		
Government of the Republic of Palau		
PEFA Secretariat		
ADB (Rommel Flores Rabanal)		
US Department of Interior (Stephen Savage)		
Concept Note		
Date submitted for review:	18/08/2022	
Date of final CN:	20/09/2022	
PEFA Report		
Date submitted for review:		
Date submitted for follow-up:		
Date of final draft:		
Proposed date of publication:		

Annex 2: Public sector agencies covered by the assessment

Table 2: Structure of the public sector (list)			
Budgetary units (All)	Extrabudgetary units (five largest) *	Public corporations (five largest)	Social Security Funds (part of public sector)
Executive Branch:	Independent Agencies:	SOE:	
Office of the President	Office of the Public Auditor	Palau National Communications Corporation	
Office of the Vice President	Office of the Special Prosecutor	Palau Public Utilities Corporation	
Ministry of State	Palau Envi. Quality Protection Board (EQPB)	National Development Bank of Palau	
Ministry of Justice	National Postal Service	Belau Submarine Cable Company	
Ministry of Public Infrastructure and Industries	Palau Visitors Authority		
Ministry of Finance	National Aviation Administration	PPP:	
Ministry of Health and Human Services	Social Security Administration	Palau International Airport	
Ministry of Education	Palau Civil Service Pension Plan		
Ministry of Human Resources, Culture, Tourism & Development			
Ministry of Agriculture, Fisheries and the Environment			
	Other Agencies:		
Legislative Branch:	Palau National Museum		
The Senate	Micronesia Legal Services		
House of Delegates	Palau Community Action Agency		
	Head Start Program		
Judiciary:	Palau Red Cross		
Supreme Court	Civic Action Team		
Court of Common Pleas	Palau National Olympic Committee (PNOC)		
Land Court	Palau International Coral Reef Center		
State Government:			
Aimeliik			
Airai			
Angaur			
Hatohobei			
Kayangel			

Koror			
Melekeok			
Ngaraard			
Ngarchelong			
Ngardmau			
Ngatpang			
Ngiwal			
Ngchesar			
Ngeremlengui			
Peleliu			
Sonsorol			

Annex 3: Evidence for scoring indicators

Indicators (PEFA 2016 framework)	Evidence
1. Aggregate expenditure out-turn	Attachments B & C of 4 th Quarter Reports for 2020, 2021 and 2022.
2. Expenditure composition out-turn	Attachment B of the 4 th Quarter Reports for the Republic of Palau, for 2020, 2021, and 2022 for spending by Admin and Program and for contingency appropriations and spreadsheet generated from FMIS for spending by economic object.
3. Revenue out-turn	4 th . Quarter Reports for 2020, 2021 and 2022 – Attachments C & D.
4. Budget classification	Chart of Accounts for FY 2023 and GFS Mapping.
5. Budget documentation	Budget submissions for 2020, 2021, 2022, and 2023; 4 th Qtr Financial reports for 2020,2021, and 2022; and the Audited Consolidated Financial Statement for 2019.
6. Central government operations outside financial reports	4 th quarter/Annual Budget Execution Report, 2021-22; Treasury confirmation on the content of the 2019-20 Financial Statements, Ministry of Finance, Palau. 2019-20 data on extra-budgetary operations, from the Treasury, Ministry of Finance
7. Transfers to sub-national governments	Budget Call for 2021-22; 2021-24 Fiscal Strategy Framework; Pala National Code; confirmation from the Budget Division, Ministry of Finance, Palau
8. Performance information for service delivery	Performance reports for the Ministries of Education, Health, and Justice for 2020-2021. QTR 4 financial reports for FY 2020, 2021, 2022.
9. Public access to fiscal information	Annual Financial Statements. Quarterly Budget Execution Reports. Budget Appropriations FY20, FY21, FY22. State of the Republic Address FY20, FY21, FY22.
10. Fiscal risk reporting	Consolidated Financial Statement for 2019, 2/2021. Statements for 2020 and 2021 are being prepared. Dates of submission of public corporation financial statements for 2019 not provided.
11. Public investment management	2021 National Infrastructure Investment Plan;
12. Public asset management	Notes on Consolidated Financial Statement (p.35 and pp42-52. Extracts of biannual inventory of real property provided by MOF. Internal Control and Procedures Manual, Chapter 8 on asset management and Property Management Policies & Procedures Chapter III on Property Control and Chapter IV on Fixed Asset Procedures.
13. Debt management	Quarterly Reports for 2020, 2021, and 2022 and the Consolidated Financial Statement for 2019.
14. Macroeconomic and fiscal forecasting	FY22 Economic and Fiscal Update
15. Fiscal strategy	FY22 Economic and Fiscal Update
16. Medium term perspective in expenditure budgeting	FY22 Economic and Fiscal Update; Republic of Palau BUDGET SUMMARY Fiscal Year 2022.
17. Budget preparation process	Budget Calendar FY20, FY21 & FY22. Budget Submission to Congress.
18. Legislative scrutiny of budgets	Discussions with the Chairperson of the Ways and Means Committee.
19. Revenue administration	https://www.palau.gov.pw/taxreform/ http://www.palaucustoms.org/download.aspx?page=1 https://www.palau.gov.pw/wp-content/uploads/2022/04/RPPL-11-11.pdf http://palaucustoms.org/files/common_unit_id/d1f9f60d-572e-4dde-9bef-e89aad48e2e3/Customs%20Regulations%20.pdf QTR 4 Financial Report. BCBP Performance Report 2022.
20. Accounting for revenue	Trial Balances from FMIS. Quarterly Reports. Customs Rect Report (collections and deposits). Monthly Consolidated Reports: Local Rev 07.31.22; Local Rev 08.31.22; Local Rev 09.30.22; Rev Approp 07.31.22; Rev Approp 08.31.22; Rev Approp 09.30.22.
21. Predictability of in-year resource allocation	Summary listing of bank account balances, 30/09/2022. Deposit slips various collection sources. FMIS Report of budget allocations, RPPLS: 11-12 (original budget appropriation); 11-13; 11-14; 11-18; 11-19; 11-22; 11-23.
22. Expenditure arrears	Actuals taken from Quarterly reports 4 th QTR: https://www.palau.gov.pw/executive-

	branch/ministries/finance/bureau-of-national-treasury/#1555995701686-31a2818b-2c81 Arrears figures taken from Excel Sheets: AP Aging FY20.xlsx; AP Aging FY21.xlsx; Aging FY22.xlsx.
23. Payroll controls	<i>Internal control procedures Manual. System Manuals: Munis Payroll Processing 2018; Munis Personnel Actions 2018. Munis payroll/personnel audit trails, list of user responsibilities. PR19-22 RETROACT. FY22 4th QTR Retro Summary. Payroll User Attributes. FY23 Personnel Schedule (head count and cost). Munis: Payroll Audit Options.pdf; Time sheet supporting docs.pdf; Timesheet.pdf; Vol Deduction Form.pdf; Payroll Audit Inquiry.xlsx/pegs (audit trails). MOF MINISTER, DF&A, BBP TIMESHEET#23-22.</i>
24. Procurement management	https://palauosp.org/wp-content/uploads/2019/05/Revenue-and-Taxation-40-PNCA.pdf https://www.palau.gov.pw/rfp-bids/ Republic Policies and Procedures Manual. Sample Procurement Advertisements. Formal Bidding checklist. FY22 Bid Summary (Property and Supply). Procurement FY22 (BHR Excel sheet).
25. Internal controls on non-salary expenditure	<i>Executive Order 418 on Procurement and Property Control; 2019 latest audit report; Consultations with MOF and selected ministries during this mission. Draft Internal Control Manual; Screenshots of the FMIS appropriation and allotment control; sample Purchase Order generated from the FMIS together with the approved requisition, and other supporting documents. Consultative meeting with selected ministries.</i>
26. Internal audit	<i>Pala National Code; Fiscal Responsibility Act; Confirmation from Ministry of Finance that there is No Internal Audit function.</i>
27. Financial data integrity	<i>List of Government Bank Accounts Maintained by Treasury, MOF. Showing Period Covered; Date of First Run; and Date of Latest Update. Summary Table provided by Treasury, MOF., Showing the Balance of Travel Advance and the Total Travels Authorized during 2020-21; Copy of Chart of Accounts in Government showing that there is no suspense account Statements from National Treasury as validated from selected line ministries during consultative meetings as part of this assessment; Function of the Information System Support Services, a unit under MOF, as published in the MOF website</i>
28. In-year budget reports	<i>2021-22 quarterly budget execution reports published in the MOF website</i>
29. Annual financial reports	<i>Statement from the National Treasury that the 2020-21 financial statements are not yet completed as of this assessment. Last audited financial statements; 2018-19; as published in the Office of the Public Auditor website</i>
30. External audit	<i>2018/2019 Report of the Audit of Financial Statements in Accordance with the Uniform Guide, 2018/2019 Independent Auditor's Report on Internal Control and Compliance, 2017/2018 Report of the Audit of Financial Statements in Accordance with the Uniform Guide, 2017/2018 Independent Auditor's Report on Internal Control and Compliance, Palau Supreme Audit Institution Performance Measurement Framework Report 2022, State Audit Regulations, Republic of Palau Constitution, Palau National Code (Chapter 2 Public Auditing Act), Budget Reform Act 2011. Office of the Public Auditor</i>
31. Legislative scrutiny of audit reports	<i>2018/2019 Report of the Audit of Financial Statements in Accordance with the Uniform Guide, 2018/2019 Independent Auditor's Report on Internal Control and Compliance, 2017/2018 Report of the Audit of Financial Statements in Accordance with the Uniform Guide, 2017/2018 Independent Auditor's Report on Internal Control and Compliance, Palau Supreme Audit Institution Performance Measurement Framework Report 2022, Meeting with the Public Auditor of Palau, Office of the Public Auditor of Palau website http://www.palauopa.org/</i>

Annex 4: Sources of data – persons interviewed

Name	Position
Ministry of Finance	
Hon Minister. Kaleb Udui Jr.	Minister for Finance
Mr. Casmir E. Remengesau	Director, Bureau of Budget and Planning
Ms. Gail Rengiil	Director, Bureau of National Treasury
Mr. Daren Fritz	Budget Analyst, Bureau of Budget and Planning
Ms. Darla J. Babauta	Chief, Department of Finance and Accounts, Bureau of National Treasury
Ms. Sharnnel D. Sumang	Chief, Department of Property & Supply, Bureau of National Treasury
Ms. Deserei Imeong	HRIS Admin, Human Resources
Ms. Terralyn R. Nabeyama	Director, HR Procurement
Ms. Delor Yoshiko	Budget Analyst, Bureau of Budget and Planning
Bureaus of Revenue & Taxation and Customs	
Mr. John Tarkong Jr	Director, Bureau of Customs
Ms. Joline Spesungel	IT/Statistics, Bureau of Customs
Mr. Poland Masahanu	Revenue Officer, Bureau of Customs
Mr. Elway Ikeda	Director, Bureau of Revenue and Taxation
Mr. Freeling Rubasch	Chief, Bureau of Revenue and Taxation
Mr. Bunka Ruluked	Chief, processing Bureau of Revenue and Taxation
Mr. Ian Pittard	Tax Reform Advisor
Office of the Public Auditor	
Mr. Satrunino Tewid	Public Auditor
Line ministries	
Mr. Brian Melapei	Director, Bureau of Public Works
Mr. Raynold Mechol	Director, Ministry of Education
Ms. Joanne Mikel	Budget Analyst, Ministry of Education
Ms. Rois Y Arurang	Admin Officer, MPIO
Ms. Amormia Harus	Admin Spec, MPIO, BOMT
Mr. Peter Polloi	Director, MPIO, Airport
Ms. Melan Jane Pedro	Admin Officer, MPIO, BPW
Ms. Doreen Yoshiloo	Admin Officer, MPIO, BPW
Ms. Deelynn Debluud	Admin Officer, MPIO, BPW
Ms. Froline Bultedaob	AO II, MPIO, BLS
Ms. Quintina Nestor	Budget Manager, MHHS
Ms. Clarette Matlab	Acting Director Finance, MHHS
The Senate Congress, Olbiil Era Kelulau (OEK)	
Ms. Rukebai Kikuo Inabo	Senator and Chair of Ways and Means Committee

Annex 5: Observations on internal control

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	
1.2 Commitment to competence	
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	
1.4 Organisational structure	
1.5 Human resource policies and practices	
2. Risk assessment	
2.1 Risk identification	This is an area of weakness: PI-10 is rated D
2.2 Risk assessment (significance and likelihood)	Performance in this area is somewhat mixed. Economic Analysis of Investment Proposals in 11.1 is rated A. Debt Management Strategy in 13.3 is rated A. Macroeconomic sensitivity analysis in 14.3 is rated A. Revenue Risk Management in 19.2 is rated D. Cash Flow Forecasting and Monitoring in 21.2 is rated D.
2.3 Risk evaluation	
2.4 Risk appetite assessment	
2.5 Responses to risk (transfer, tolerance, treatment or termination)	
3. Control activities	
3.1 Authorization and approval procedure	
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is rated A in Dimension 25.1 and 23.3. The FMIS provides robust audit trails based on defined user roles and segregation of duties.
3.3 Controls over access to resources and records	Compliance with payment rules and procedures is rated A in Dimension 25.3. Financial data integrity processes are rated A in Dimension 27.4. Controls are reasonably robust and well documented in the RPPM.
3.4 Verifications	Accuracy of in-year budget reports is rated A Dimension 28.3. Effectiveness of controls over data used to verify payroll calculation in Dimension 23.3 is rated A.
3.5 Reconciliations	Revenue accounts are regularly reconciled but no data was available to the assessment leading to score D* in Dimension 20.3. Bank account reconciliations in Dimension 27.1 are rated C.
3.6 Reviews of operating performance	
3.7 Reviews of operations, processes and activities	
3.8 Supervision (assigning, reviewing and approving, guidance and training)	
4. Information and communication	

	<p>Integrity of financial data scored A in Dimension 27.4.</p> <p>The volume of performance information assessed in Dimension 8.2 scored A.</p>
5. Monitoring	
5.1 Ongoing monitoring	<p>Resources received by service delivery units in Dimension 8.3 is rated A.</p> <p>Monitoring of public corporations in Dimension 10.1 is rated D.</p> <p>Monitoring of SNGs in Dimension 10.2 is rated D.</p> <p>Contingent liabilities and other fiscal risks in Dimension 10.3 is rated D.</p> <p>Investment project monitoring in Dimension 11.4 is rated D*.</p> <p>Quality of central government financial asset monitoring in Dimension 12.1 is rated A.</p> <p>Quality of central government non-financial asset monitoring in Dimension 12.2 is rated B.</p> <p>Revenue arrears monitoring in Dimension 19.4 is rated D*.</p> <p>Expenditure arrears monitoring in Dimension 22.2 is rated A.</p> <p>Procurement monitoring in Dimension 24.1 is rated D.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery in Dimension 8.4 is rated D.</p> <p>Evaluation practices by implementing agencies for Investment project selection in Dimension 11.2 are rated A.</p>
5.3 Management responses	<p>Response to IA recommendations in Dimension 26.4 is rated N/A as there is no Internal Audit function in government.</p> <p>External audit follow-up in Dimension 30.3 is rated D.</p>

Annex 6: Blank

No comparison was undertaken due to the lack of comparability in the 2013 PEFA assessment ratings.

Annex 7: Calculation of budget outturns for PI- 1, PI-2 and PI-3

PEFA 2016 METHODOLOGY

Calculation Sheet for Dimensions PI-1.1, PI-2.1 and PI-2.3						
General Fund by Administrative Structure						
Step 1: Enter the three fiscal years used for assessment in table 1.						
Step 2: Enter the administrative OR functional head for up to 20 heads.						
The 21st line will be the sum of figures for all remaining heads (if any).						
Step 3: Enter budget and actual expenditure data for each of the three years in tables 2, 3, and 4 respectively.						
Step 4: Enter contingency data for each of the three years in tables 2, 3, and 4 respectively.						
Step 5: Read the results for each of the three years for each indicator in table 5.						
Step 6: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.						
Table 1 - Fiscal years for assessment						
Year 1 =	2020					
Year 2 =	2021					
Year 3 =	2022					
Table 2						
Data for year =	2020					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Office of the President	1,314,000	1,268,237	1,083,981	184,256	184,256	17.0%
Office of the Vice President	639,000	592,634	1,526,316	-66,188	66,188	12.6%
Ministry of Finance	4,324,000	4,133,233	3,567,072	566,161	566,161	15.9%
Ministry of State	4,417,000	4,105,942	3,643,792	462,150	462,150	12.7%
Ministry of Human Resources, Culture, Tourism & Information	1,566,000	1,404,732	1,291,867	112,865	112,865	8.7%
Ministry of Education	9,066,000	8,553,943	7,478,972	1,374,971	1,374,971	18.4%
Ministry of Infrastructure & Industries	7,448,000	6,481,002	6,144,207	336,795	336,795	5.5%
Ministry of Justice	6,788,000	6,587,372	5,599,742	987,630	987,630	17.6%
Ministry of Health & Human Services	10,846,000	10,329,911	8,947,378	1,382,533	1,382,533	15.5%
Ministry of Agriculture, Fisheries, & Environment	1,611,000	1,566,828	1,370,237	196,591	196,591	14.3%
Boards/Commissions/Authorities	1,485,000	1,100,553	1,225,047	-124,494	124,494	10.2%
Judiciary Branch	3,192,000	3,189,879	2,633,232	556,647	556,647	21.1%
OEK/Legislative Branch	6,028,000	5,778,720	4,972,782	805,938	805,938	16.2%
State Block Grants	8,456,000	8,456,000	6,976,754	1,480,246	1,480,246	21.2%
Independent agencies	3,480,000	3,278,387	2,870,816	407,571	407,571	14.2%
Other agencies & Activities	1,886,000	1,785,882	1,555,851	230,031	230,031	14.8%
Education Assistance	5,496,000	5,464,019	4,533,910	930,109	930,109	20.5%
Other appropriations	13,477,633	13,104,426	11,118,336	1,986,090	1,986,090	17.9%
Private Sector Relief Measures	20,000,000	5,170,031	16,498,945	-11,328,914	11,328,914	68.7%
Special Revenue Funds	6,287,500	4,573,493	5,186,856	-613,363	613,363	11.8%
allocated expenditure	117,856,133	97,225,094	97,225,094	0	24,133,542	
Interest	2,966,500	2,594,759				
Contingency	1,295,000	1,295,000				
total expenditure	122,117,633	101,114,853				
aggregate outturn (PI-1)						82.8%
composition (PI-2) variance						24.8%
contingency share of budget						1.06%
Table 3						
Data for year =	2021					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Office of the President	1,182,000	1,114,854	1,031,565	83,289	83,289	8.1%
Office of the Vice President	638,000	607,737	556,801	50,936	50,936	9.1%
Ministry of Finance	4,318,000	4,098,858	3,768,441	320,417	320,417	8.5%
Ministry of State	4,243,000	3,782,462	3,702,986	79,476	79,476	2.1%
Ministry of Human Resources, Culture, Tourism & Information	659,000	476,045	575,128	-99,083	99,083	17.2%
Ministry of Education	9,066,000	8,677,418	7,912,154	765,264	765,264	9.7%
Ministry of Infrastructure & Industries	7,296,000	6,158,125	6,367,425	-209,300	209,300	3.3%
Ministry of Justice	7,188,000	6,587,505	6,273,171	314,334	314,334	5.0%
Ministry of Health & Human Services	11,861,600	10,501,641	10,351,954	149,687	149,687	1.4%
Ministry of Agriculture, Fisheries, & Environment	1,661,000	1,423,946	1,449,602	-25,656	25,656	1.8%
Boards/Commissions/Authorities	1,318,000	1,098,858	1,268,729	-211,858	211,858	17.5%
Judiciary Branch	3,192,000	3,133,147	2,786,749	347,398	347,398	12.5%
OEK/Legislative Branch	6,028,000	5,738,785	5,260,806	477,979	477,979	9.1%
State Block Grants	8,456,000	8,073,026	7,379,790	693,236	693,236	9.4%
Independent agencies	3,430,000	3,135,106	2,993,458	141,648	141,648	4.7%
Other agencies & Activities	1,806,000	1,684,432	1,576,147	108,286	108,286	6.9%
Education Assistance	5,571,000	5,566,264	4,861,969	704,295	704,295	14.5%
Other appropriations	19,113,950	13,602,110	16,681,285	-3,079,175	3,079,175	18.5%
Special Revenue Funds	3,068,000	2,066,357	2,677,530	-611,173	611,173	22.8%
allocated expenditure	100,162,550	87,414,689	87,414,689	0	8,472,489	
Interest	2,949,448	2,597,576				
Contingency	724,000	724,000				
total expenditure	103,835,998	90,736,265				
aggregate outturn (PI-1)						87.4%
composition (PI-2) variance						9.7%
contingency share of budget						0.70%
Table 4						
Data for year =	2,022					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Office of the President	1,330,000	1,290,078	1,232,535	57,543	57,543	4.7%
Office of the Vice President	624,000	501,399	485,600	15,799	15,799	3.3%
Ministry of Finance	4,743,000	4,494,625	4,395,422	99,203	99,203	2.3%
Ministry of State	3,732,000	3,498,022	3,458,511	39,511	39,511	1.1%
Ministry of Human Resources, Culture, Tourism & Information	1,758,000	1,250,609	1,629,170	-378,561	378,561	23.2%
Ministry of Education	9,274,000	8,946,874	8,594,380	352,494	352,494	4.1%
Ministry of Infrastructure & Industries	6,733,000	5,846,522	6,239,591	-393,069	393,069	6.3%
Ministry of Justice	5,891,000	5,474,499	5,459,294	15,205	15,205	0.3%
Ministry of Health & Human Services	10,676,000	10,589,477	9,893,639	695,838	695,838	7.0%
Ministry of Agriculture, Fisheries, & Environment	1,065,000	1,040,653	986,959	53,699	53,699	5.4%
Boards/Commissions/Authorities	1,129,000	973,843	1,046,264	-72,421	72,421	6.9%
Judiciary Branch	2,973,000	2,848,567	2,755,132	93,435	93,435	3.4%
OEK/Legislative Branch	5,634,000	5,509,988	5,221,128	288,860	288,860	5.5%
State Block Grants	8,456,000	8,123,433	7,836,325	284,108	284,108	3.6%
Independent agencies	2,999,000	2,700,106	2,779,227	-79,121	79,121	2.8%
Other agencies & Activities	1,602,000	1,581,114	1,484,602	96,512	96,512	6.5%
Education Assistance	5,571,000	5,563,613	5,162,745	400,868	400,868	7.8%
Other appropriations	8,613,000	6,615,324	7,981,820	-1,366,506	1,366,506	17.1%
Special Revenue Funds	4,991,000	4,421,850	4,625,248	-203,398	203,398	4.4%
allocated expenditure	87,694,000	81,267,586	81,267,586	0	4,986,151	
Interest	3,471,000	3,222,319				
Contingency	848,000	848,000				
total expenditure	92,013,000	85,337,905				
aggregate outturn (PI-1)						92.7%
composition (PI-2) variance						6.1%
contingency share of budget						0.92%
<i>Budget and actual data were taken from the 4th Quarter Report on budget execution for 2020, 2021, and 2022, see Attachment A-1 in each report.</i>						
Table 5 - Results Matrix						
		for PI-1.1	for PI-2.1	for PI-2.3		
year	total exp.	composition	variance	contingency share		
2020	82.8%		24.8%	1.1%		
2021	87.4%		9.7%	0.7%		
2022	92.7%		6.1%	0.9%		

Calculation Sheet for Dimensions PI-2.2

General fund by Economic Object

Step 1: Enter the three fiscal years used for assessment in table 1.
 Step 2: Enter the administrative OR functional head for up to 20 heads.
 The 21st line will be the sum of figures for all remaining heads (if any).
 Step 3: Enter budget and actual expenditure data for each of the three years in tables 2, 3, and 4 respectively.
 Step 5: Read the results for each of the three years for each indicator in table 5.
 Step 6: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

Table 1 - Fiscal years for assessment

Year 1 =	2020
Year 2 =	2021
Year 3 =	2022

Table 2 - Data for year = 2020

expenditure by object	budget	actual	adjusted budget	deviation	absolute deviation	percent
Salaries and wages	46,917,450	41,411,498	41,530,060	-118,561	118,561	0.3%
Professional and contractual services	1,606,398	638,427	1,416,373	-34,945	777,945	54.9%
Repairs and maintenance	602,884	534,164	533,657	507	507	0.1%
Rentals	661,212	1,129,318	585,287	544,031	544,031	93.0%
Construction	195,274	667,643	172,851	494,791	494,791	286.3%
Utilities	3,573,159	3,342,854	3,162,864	179,990	179,990	5.7%
Payments of allotments / benefits	41,802,490	36,937,305	37,002,435	-65,130	65,130	0.2%
Communications and postage	1,210,226	1,289,024	1,071,259	217,765	217,765	20.3%
Travel	642,858	916,906	586,744	330,162	197,462	33.7%
Supplies and materials	4,053,318	2,176,504	3,587,887	-1,411,383	1,411,383	39.3%
Medical supplies	752,756	578,333	666,320	-87,987	87,987	13.2%
Petroleum products	979,339	916,906	867,416	49,490	49,490	5.7%
Food stuffs	11,500	1,143,506	10,179	1,133,327	1,133,327	11133.4%
Vehicles	281,676	298,646	249,332	49,314	49,314	19.8%
Other expenses	(709,815)	293,389	-628,309	921,698	921,698	-146.7%
Board compensation	5,132,370	1,012,129	4,543,035	-3,530,906	3,530,906	77.7%
Dues, fees, and registration	150	434,992	133	434,860	434,860	#####
Grants and contributions	-	591,237	0	1,706,360	1,706,360	#DIV/0!
Donations	-	1,706,360	-	-420,714	420,714	12.4%
Student loans	3,830,094	2,969,581	3,390,296	-420,714	-420,714	12.4%
Interest charges	4,979,179	600,903	4,407,435	-3,806,532	3,806,532	86.4%
Principle retirement	817,000	4,421,512	723,186	3,698,326	3,698,326	511.4%
allocated expenditure	117,353,828	103,878,440	103,878,440	-591,237	19,847,080	
Contingency	1,295,000	1,295,000				
total expenditure	118,648,828	105,173,440				88.6%
aggregate outturn (PI-1)						19.1%
composition (PI-2) variance						
contingency share of budget						1.1%

Table 3 - Data for year = 2021

expenditure by object	budget	actual	adjusted budget	deviation	absolute deviation	percent
Salaries and wages	47,772,661	40,973,913	40,696,109	267,804	267,804	0.7%
Professional and contractual services	885,128	758,622	754,014	4,608	4,608	0.6%
Repairs and maintenance	756,151	570,765	644,143	-73,378	73,378	11.4%
Rentals	624,388	873,408	531,897	341,511	341,511	64.2%
Construction	245,800	466,845	209,389	257,456	257,456	123.0%
Utilities	3,279,789	2,635,430	2,793,954	-158,523	158,523	5.7%
Payments of allotments / benefits	32,588,776	34,653,208	27,761,398	6,891,810	6,891,810	24.8%
Communications and postage	1,037,112	876,971	926,078	-49,107	49,107	5.3%
Travel	282,942	194,925	241,030	-46,105	46,105	19.1%
Supplies and materials	3,909,895	2,229,276	3,330,722	-1,101,447	1,101,447	33.1%
Medical supplies	826,248	669,572	704,452	-34,940	34,940	904.9%
Petroleum products	1,279,601	961,265	1,090,053	-128,788	128,788	11.8%
Food stuffs	89,486	1,197,737	76,231	1,121,506	1,121,506	1471.2%
Vehicles	20,790	177,972	17,710	160,261	160,261	904.9%
Other expenses	5,015,633	163,664	4,272,582	-4,109,018	4,109,018	96.2%
Board compensation	179,017	664,614	152,499	512,115	512,115	335.8%
Dues, fees, and registration	8,674	533,737	7,389	526,348	526,348	7123.4%
Grants and contributions	-	524,367	0	524,367	524,367	#DIV/0!
Donations	-	1,486,984	0	1,486,984	1,486,984	#DIV/0!
Student loans	15,152,017	6,319,989	12,907,547	-6,587,558	6,587,558	51.0%
Interest charges	2,971,879	1,242,746	2,531,653	-1,288,908	1,288,908	50.9%
Principle retirement	413,609	1,835,343	362,341	1,483,001	1,483,001	420.9%
allocated expenditure	117,390,215	100,001,192	100,001,192	0	27,155,544	
Contingency	724,000	724,000				
total expenditure	118,114,215	100,725,192				85.3%
aggregate outturn (PI-1)						2.7%
composition (PI-2) variance						
contingency share of budget						0.6%

Table 4 - Data for year = 2022

expenditure by object	budget	actual	adjusted budget	deviation	absolute deviation	percent
Salaries and wages	45,368,862	43,673,102	37,221,769	6,451,333	6,451,333	17.3%
Professional and contractual services	1,074,848	750,469	881,832	-131,364	131,364	14.9%
Repairs and maintenance	367,822	601,106	301,770	299,336	299,336	99.2%
Rentals	526,273	671,194	431,768	239,426	239,426	55.5%
Construction	349,130	131,720	286,435	-154,715	154,715	54.0%
Utilities	4,500,784	4,747,683	3,692,558	1,055,125	1,055,125	28.6%
Payments of allotments / benefits	28,279,067	22,809,446	23,200,866	-391,420	391,420	1.7%
Communications and postage	1,054,483	939,343	865,125	74,218	74,218	8.6%
Travel	482,139	325,269	395,559	-70,291	70,291	17.8%
Supplies and materials	3,154,589	1,403,859	2,588,105	-1,184,246	1,184,246	45.8%
Medical supplies	764,082	361,282	626,872	-265,590	265,590	42.4%
Petroleum products	1,254,039	978,057	1,028,846	-50,788	50,788	4.9%
Food stuffs	8,162	1,107,544	6,697	1,100,848	1,100,848	16439.0%
Vehicles	208,590	182,318	171,132	11,185	11,185	6.5%
Other expenses	5,088,215	149,069	4,174,501	-4,025,432	4,025,432	96.4%
Board compensation	352,520	871,546	289,216	582,329	582,329	201.3%
Dues, fees, and registration	12,785	480,362	10,489	469,873	469,873	4479.6%
Grants and contributions	-	1,265	1,038	448,665	448,665	43217.1%
Donations	-	1,425,999	0	1,425,999	1,425,999	#DIV/0!
Student loans	13,736,815	4,202,279	11,270,033	-7,067,753	7,067,753	62.7%
Interest charges	3,442,550	1,701,374	2,824,356	-1,122,981	1,122,981	39.8%
Principle retirement	-	2,306,243	0	2,306,243	2,306,243	#DIV/0!
allocated expenditure	110,027,020	90,268,968	90,268,968	0	28,929,162	
Contingency	848,000	848,000				
total expenditure	110,875,020	91,116,968				82.2%
aggregate outturn (PI-1)						32.0%
composition (PI-2) variance						0.8%
contingency share of budget						

Table 5 - Results Matrix

year	for PI-1.1 total exp. Outturn	for PI-2.1 composition variance	for PI-2.3 contingency share
2020	88.6%	19.1%	1.1%
2021	85.3%	27.2%	0.6%
2022	82.2%	32.0%	0.8%

Calculation Sheet for Revenue outturn (Oct 2018)

Step 1: Enter the three fiscal years used for assessment in table 1.
 Step 2: Enter **budget** and **actual** revenue data for each of the three years in tables 2, 3, and 4 respectively.
 Step 3: Read the results for each of the three years for each dimension in table 5.

Year 1 =	2020
Year 2 =	2021
Year 3 =	2022

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on salaries and wages	12,813,886	11,998,703	10,708,861	1,289,842	1,289,842	12%
Taxes on business gross revenue	18,161,156	13,015,820	15,177,699	-2,161,879	2,161,879	14%
Taxes on alcohol and tobacco	10,463,267	8,968,471	8,744,395	224,076	224,076	3%
Taxes on hotel occupancy	5,513,267	2,288,975	4,607,565	-2,318,590	2,318,590	50%
Taxes on general import	3,550,855	2,628,508	2,967,532	-339,024	339,024	11%
Other taxes	5,129,215	2,944,083	4,286,604	-1,342,521	1,342,521	31%
Licenses & Permits						
Fishing days	7,661,860	7,842,875	6,403,194	1,439,681	1,439,681	22%
Foreign Labor	1,115,943	918,261	932,619	-14,358	14,358	2%
Other licenses & permits	1,724,849	2,067,399	1,441,496	625,903	625,903	43%
Postal Revenue						
Postal Sales & Services	326,594	288,094	272,942.2	15,151.8	15,151.8	6%
Phaiatellc Sales	44,296	41,474	37,587.5	3,886.5	3,886.5	10%
Fees & Charges						
Port use	1,877,677	394,806	1,569,218	-1,174,412	1,174,412	75%
Court fines & fees	265,495	149,136	221,880	-72,744	72,744	33%
Other fees and charges	16,721	3,051	13,974	-10,923	10,923	78%
Sum of rest	438,064	438,314	363,593	72,721	72,721	20%
Restricted Revenue (Local Trust Funds)						
Hospital Trust Fund	1,095,000	2,155,630	915,117	1,240,513	1,240,513	136%
Green Fees	1,190,000	1,183,470	994,511	188,959	188,959	19%
Road maintenance	874,000	810,550	730,422	80,128	80,128	11%
NCD/NHI to MOF	1,878,808	1,109,657	1,570,163	-460,506	460,506	29%
PPF Airport	1,351,000	540,224	1,129,062	-588,838	588,838	52%
Other funds	1,548,000	1,265,100	1,293,699	-28,599	28,599	2%
Grants						
COFA (CRA)	5,280,000	5,280,000	4,412,618	867,382	867,382	20%
Compact Trust Fund	15,000,000	15,000,000	12,535,848	2,464,152	2,464,152	20%
Total revenue	97,317,633	81,330,601	81,330,601	0	17,024,791	84%
overall variance						
composition variance	323,000					21%

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on salaries and wages	7,234,046	10,162,705	6,045,660	4,117,045	4,117,045	68%
Taxes on business gross revenue	10,221,062	9,932,700	8,541,978	1,390,722	1,390,722	16%
Taxes on alcohol and tobacco	6,162,865	8,956,529	5,150,449	3,806,080	3,806,080	74%
Taxes on hotel occupancy	195,644	421,183	163,504	257,679	257,679	158%
Taxes on general import	2,713,246	2,357,576	2,267,523	90,053	90,053	4%
Other taxes	1,266,088	2,222,323	1,058,099	1,164,224	1,164,224	110%
Licenses & Permits						
Fishing days	5,798,487	8,077,457	4,845,930	3,231,527	3,231,527	67%
Foreign Labor	615,210	538,915	514,145	24,770	24,770	5%
Other licenses & permits	1,097,655	1,537,725				
Postal Revenue						
Postal Sales & Services	317,390	351,978	265,250	86,728	86,728	33%
Phaiatellc Sales	24,454	13,611	20,437	-6,826	6,826	33%
Fees & Charges						
Port use	379,603	117,191	317,243	-200,052	200,052	63%
Court fines & fees	145,168	145,771	121,320	24,451	24,451	20%
Other fees and charges	3,051	1,945	2,550	-605	605	24%
Sum of rest	124,429	58,629	103,988	-45,359	45,359	44%
Restricted Revenue (Local Trust Funds)						
Hospital Trust Fund	1,095,000	2,011,105	915,117	1,095,988	1,095,988	120%
Green Fees	107,000	84,810	89,422	-4,612	4,612	5%
Road maintenance	598,000	777,041	499,762	277,279	277,279	55%
NCD/NHI to MOF	962,000	1,117,749	803,966	313,783	313,783	39%
PPF Airport	45,000	35,338	37,608	-2,270	2,270	6%
Other funds	1,268,000	1,158,848	1,059,697	99,151	99,151	9%
Grants						
Compact Trust Fund	15,000,000	15,000,000	12,535,848	2,464,152	2,464,152	20%
Total revenue	55,373,398	65,081,129	45,359,496	18,183,908	18,703,355	118%
overall variance						
composition variance						41%

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on salaries and wages	10,523,928	9,588,349	8,795,090	793,259	793,259	9%
Taxes on business gross revenue	11,296,503	10,069,749	9,440,749	629,000	629,000	7%
Taxes on alcohol and tobacco	8,500,260	8,605,121	7,103,864	1,501,257	1,501,257	21%
Taxes on hotel occupancy	715,139	1,208,450	597,658	610,792	610,792	102%
Taxes on general import	2,159,349	2,768,800	1,804,618	964,182	964,182	53%
Other taxes	1,611,454	1,311,439	1,346,729	-35,290	35,290	3%
Licenses & Permits						
Fishing days	6,700,000	9,181,283	5,599,345	3,581,938	3,581,938	64%
Foreign Labor	691,862	663,603	578,205	85,398	85,398	15%
Other licenses & permits	1,601,448	1,716,503				
Postal Revenue						
Postal Sales & Services	323,420	264,129	270,289.6	-6,160.6	6,160.6	2%
Phaiatellc Sales	36,337	21,139	30,367.7	-9,228.7	9,228.7	30%
Fees & Charges						
Port use	225,706	165,535	188,627.7	-23,092.7	23,092.7	12%
Court fines & fees	130,866	129,065	109,367.7	19,697.3	19,697.3	18%
Other fees and charges	1,224	276,859	1,022.9	275,836.1	275,836.1	26965%
Sum of rest	53,504	512,345	44,714.5	467,630.5	467,630.5	1046%
Restricted Revenue (Local Trust Funds)						
Hospital Trust Fund	1,900,000	2,052,317	1,587,874	464,443	464,443	29%
Green Fees	313,000	307,620	261,581	46,039	46,039	19%
Road maintenance	610,000	798,235	509,791	288,444	288,444	57%
NCD/NHI to MOF	800,000	589,385	668,579	-79,194	79,194	12%
PPF Airport	261,000	128,663	218,124	-89,461	89,461	41%
Other funds	1,268,000	844,565	1,059,697	-215,132	215,132	20%
Grants						
Compact Trust Fund	15,000,000	15,000,000	12,535,848	2,464,152	2,464,152	20%
Blue Prosperity	2,600,000	2,600,000	2,172,880	427,120	427,120	20%
Total revenue	67,323,000	68,803,154	54,925,024	12,161,627	13,076,744	102%
overall variance						
composition variance						24%

year	total revenue	deviation	composition variance
2020		84%	21%
2021		118%	41%
2022		102%	24%