

Niue

Public Financial
Management - Performance
Report

FINAL REPORT

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Abbreviations and Acronyms

AusAID	Australian Agency for International Development
BCN	Broadcasting Corporation of Niue
COFOG	Classification of Functions of Government
FMIS	Financial Management Information System
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GoN	Government of Niue
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
NNSP	Niue National Strategic Plan
NCT	Niue Consumption Tax
NDB	Niue Development Bank
NZAID	New Zealand Agency for International Development
PEFA	Public Expenditure and Financial Accountability
PFTAC	Pacific Financial and Technical Assistance Centre
PFM PMF	Public Finance Management Performance Measurement Framework
PI	Performance Indicator
TIN	Tax Identification Number

Financial Year in Niue = 1st July to 30th June

Currency = New Zealand Dollar

Summary Assessment

Assessment of performance

This assessment of Public Financial Management (PFM) in Niue is based on the PFM Performance Measurement Framework (PMF), and was carried out by a team of government officials assisted by an external consultant at the request of the Government of Niue (GoN). The framework was developed by the Public Expenditure and Financial Accountability (PEFA) partners¹ as a tool that can provide reliable information on the performance of PFM systems, processes and institutions over time. It does not assess government policies or capacity and no audit has been conducted.

The analysis was carried out in June 2011 and covers the period 2007/8 to 2010/11. Calculation of differences between original appropriated budget and actual expenditure is based on the financial years 2007/8 – 2009/10. The findings are based on a review of a wide range of internal and external documentation, two presentations, and meetings with a large number of stakeholders. Although recognising the ongoing reforms, the scores reflect the existing situation and therefore act as a basis against which ongoing and planned reforms can be monitored. The overall results of the analysis are set out in table 1 below, with more detailed justification and information sources provided in Annex A.

Table 1 Summary of overall results							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C	A			C+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				B
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	A			A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				C
PI-6	Comprehensiveness of information included in budget documentation	M1	C				C
PI-7	Extent of unreported government operations	M1	A	D			D+
PI-8	Transparency of inter-governmental fiscal relations	M2	N/A	N/A	N/A		N/A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A	N/A			A
PI-10	Public access to key fiscal information	M1	D				D
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	D	C		D+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	N/A	D	D	D

¹ PEFA partners are the World Bank, EC, IMF, French Ministry of Foreign Affairs, DFID, the Royal Norwegian Ministry of Foreign Affairs and the Swiss State Secretariat for Economic Affairs.

Table 1 Summary of overall results							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	C	N/R		C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		C
PI-15	Effectiveness in collection of tax payments	M1	N/R	B	A		N/R
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	A	B		B+
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	C	D		C+
PI-18	Effectiveness of payroll controls	M1	B	A	B	D	D+
PI-19	Competition, value for money and controls in procurement	M2	D	D	D	D	D
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	B	C	B		C+
PI-21	Effectiveness of internal audit	M1	D	C	D		D+
C (iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	D			D+
PI-23	Availability of information on resources received by service delivery units	M1	B				B
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	B		C+
PI-25	Quality and timeliness of annual financial statements	M1	A	D	C		D+
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	B	D	D		D+
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	C	C	C+
PI-28	Legislative scrutiny of external audit reports	M1	B	D	D		D+
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	A	A			A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

Overall assessment

Summary

A key pillar in Niue's national strategic plan is financial stability and at an aggregate level the credibility of the budget appears good, composition variance has been slightly more variable but generally less than 10% and expenditure payment arrears are not material. Revenue receipts have been slightly greater than anticipated. However, delays in the preparation of financial statements for audit mean that these initial results must be treated with caution. Plans are in place to complete the financial statements for 2008/9 and 2009/10 but realistically this will not be achieved before June 2012.

In the current financial year, detailed monthly management reports are produced regularly, the importance of good cash management is well understood, bank reconciliations are up to date and suspense accounts are being reviewed. Treasury regulations, which set out internal controls and procedures, are reasonably comprehensive, although they would benefit from updating and wider dissemination. Payroll controls would appear to be weak (PI 18 D+), but given the small size of the public service (430) the absence of regular payroll audits is probably of limited concern.

Recognising that Niue currently has no real debt history (with the exception of the advance provided by New Zealand in 2006), the absence of procedures for contracting of debt and issuance of guarantees is a potential weakness. A well functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programs and services by the government. Improvements in current procurement procedures would address both issues of transparency and value for money. The private sector's ability to respond to procurement opportunities, and the public's ability to hold the government to account, is affected by the limited public access to financial information. Although active in reviewing the annual estimates, the Public Expenditure Committee (PEC) has not carried out the watchdog function of scrutinising audit reports.

Recent changes to the budgeting process for the 2011/12 estimates are moving the Government towards a more policy-based system with a medium- term focus, but these are not yet reflected in the scores. A major change in the 2011/12 estimates is the inclusion of donor funding. Budgets from earlier years were therefore not comprehensive and fiscal reports did not accurately reflect the resources provided to Niue. Given the significance of donor funding (approx 50%), notification of planned funding ahead of the start of the fiscal year and predictability of disbursements is of major importance for the government's planning, budgeting and cash flow forecasting. Current scores (A², D, D) suggest that there is scope for donor and government improvement in this area

Credibility of the budget

At an aggregate level, the budget appears to have been a reasonably credible indicator of actual expenditure with variances of 3% or less for non-trading departmental expenditure and less than 4.5% for total expenditure (trading and non-trading departments). Composition variance is slightly higher but this does not exceed 10% for non- trading departments and only marginally exceeds 10% for total expenditure. Actual revenue received exceeded forecasts by up to 10%, but can be explained by both the introduction of a new tax, the Niue Consumption Tax (NCT) and the more aggressive tax collection regime, which was part of the tax reforms. As noted above caution is required in assessing these results as only 2007/8 figures are audited. GoN adopts a policy of paying the majority of invoices within seven days of receipt and arrears are not material.

² This score also does not reflect the fact that final agreement on budget support does not take place until after the start of the FY.

Comprehensiveness and transparency

Until the introduction of the new budget format for FY 2011/12, GoN's estimates only reflected its own recurrent and development expenditures and domestic revenues, the recurrent budget support from New Zealand and the occasional special project e.g. Cyclone Heta assistance. This provided rather a limited view of the resources and expenditure of the country. Recognising that there has been limited demand for information, the supply of financial information for the public is also very limited. Although legally able to borrow funds and required to manage their own funds, in fact the village councils carry out only a few activities and all receive the same funds from the government irrespective of their size.

Policy-based budgeting

The Government has developed a Niue National Strategic Plan (NNSP), which is intended to guide the development of the country. Due partly to severe cash constraints, the links between the government policy, the plan and the budget has been weak. Although departments have corporate plans, the costed sector plans envisaged in the NNSP have not been developed. Detailed forward year estimates have also only been introduced in the FY 2011/12. Many departments start their budget process ahead of the official calendar and guidelines, but technically the time allowed is relatively short. Cabinet approval is at detailed estimate stage and has not involved the settings of individual ceilings or allocations to administrative units.

Predictability and control in budget execution

Tax reforms between 2008 and 2009 led to the introduction of the Niue Consumption Tax (NCT) and some improvements in tax administration, although the proposed customs reforms did not take place. Once the estimates are approved by the Assembly and certified by the Speaker, departments are able to access a full year's allocation. As there are no cash reserves, sound cash management is seen as critical and quarterly cash flow forecasts are updated weekly and cash balances for treasury managed bank accounts calculated daily. In the last twelve months, there has been a concerted effort to reduce the number of bank accounts and only a few remain outside treasury control. A new payroll module is currently being introduced. However personnel records will continue to be maintained manually. Given the small size of both the fortnightly employees' payroll (approximately 430 employees) and four weekly pensioners' payroll (approximately 90 pensioners), changes are few and controls fairly good, although manual inputting of payroll data by the government's onshore bankers, the Bank of the South Pacific has resulted in a number of errors. Procurement procedures are scattered through the legislation and regulations and do not adopt open competitive tendering as the preferred method or provide an appeals mechanism. Availability of information on procurement opportunities is also limited. Other rules and regulations, which set out the internal controls and procedures are quite comprehensive but are out dated and not clearly understood by non-treasury personnel. Although part of the Treasury's organisational structure, internal audit is not a well established function.

Accounting, recording and reporting

The majority of bank reconciliations are now up to date, despite difficulties with the information received from the Bank³. Outstanding balances on suspense accounts are being addressed with the focus being placed on the current year. The recent instalment (1st August 2010) of a new financial management system⁴ has improved the timeliness and completeness of monthly reporting, although currently the reports do not show commitments and therefore remaining budget allocation may be

³ Information from the Bank of the South Pacific is reported to be subject to errors.

⁴ The Government has purchased Greentree accounting software

overstated. A backlog of consolidated financial statements has been reduced in recent years but the latest audited statement relates to the FY 2007/2008. The consolidation includes all trading operations and state owned enterprises and although consistently presented does not yet follow international financial reporting standards.

External scrutiny and audit

The Government of Niue does not have its own external audit body. In accordance with the Niue Constitution, the Audit Office of New Zealand is mandated to carry out the audit of all public entities in Niue and present its audit report annually to the Niue Assembly. The last audit report on the financial statements for the FY 2006/2007 and 2007/2008 was tabled with the Assembly on 16th June 2011. Scrutiny of the budget by the legislature is at a relatively late stage when the estimates have been completed in detail. However, the Public Expenditure Committee (PEC) has reviewed the estimates through discussions with heads of departments and presented its report with recommendations to the Assembly. A mechanism to inform the Assembly of action taken or responses is not currently in place. There is also a provision in the Constitution which allows the Cabinet to expand total expenditure (up to 1.5%) without prior approval by the legislature. However in order to ensure some transparency, there is a requirement that such unauthorised expenditures are routinely reported as part of the financial statements.

In addition to its ex ante scrutiny of the budget, a key role of the legislature is to review the Controller and Auditor General's reports. Delays in the preparation of the financial statements and the narrow focus of current audit reports means that their relevance is not always understood. In the period under review, the PEC has only received one audit report and this related to the financial years ending 30th June 2004, 2005 and 2006. A report summarising the audit findings was prepared, but no hearings were held and no recommendations issued

Donor practices

NZAID is the most significant donor. Providing general budget support, targeted sector support and specific support to individual projects and programmes, the predictability of New Zealand's support is critical for both Niue's budgeting and cash management processes. Although general budget support has been disbursed regularly and on time, late notification of planned budget support has impacted negatively on Niue's budgeting processes. Late approval of its other support programmes also introduces an element of uncertainty into Niue's budgeting process, particularly with the inclusion from 2011/12 of donor funding into the estimates presented to the Assembly. Other donors such as Global Funds, UNDP and Secretariat of the Pacific Community (SPC) provide a comparatively small amount of funds and use a combination of their own and government procedures, whilst the EU is currently managing their funds outside the government system.

Impact of strengths and weaknesses on budgetary outcomes

Strengths and weaknesses in PFM have a direct impact on the budgetary outcomes of *aggregate fiscal discipline, strategic allocation of resources* and *efficient service delivery*. In Niue, the focus in recent years has been on *aggregate fiscal discipline*; new controls by the Treasury (PI-20), monthly management reporting (PI-24) and regular monitoring of state owned enterprises (PI-9) are all intended to ensure that aggregate fiscal discipline is achieved. Other system weaknesses still exist and are to be addressed including outdated regulations and instructions (PI-20). If any borrowing should take place in the future, the lack of procedures for contracting of loans and issuance of guarantees (PI-17) could seriously undermine any fiscal targets.

The recent introduction of a medium-term perspective by GoN is aimed at improving the government's *strategic allocation of resources*, but this is not yet reflected in the scores. The ability to allocate resources strategically depends on comprehensive information. As indicated by PI-7 and

D1 and D2, timely and comprehensive information on all resources has not been available. Links between policies, plans and the budget is a work in progress (PI-12). The fact that legislative scrutiny is not fully effective (PI-26) and public access to information (PI-10) is limited means that pressure on government to allocate and execute the budget in accordance with its stated policies is also reduced.

Service delivery is enhanced by the fact that the allocations to departments are predictable (PI- 16), and payroll (PI-18) is well managed. The lack of a regular and well resourced internal audit perspective (PI -21) means that the effectiveness and efficiency of systems are not routinely reviewed, thus enabling management to improve their services. Improvements in the link between capital investments and recurrent costs (PI-12) are ongoing. Recognising the supply constraints in Niue, outdated procurement procedures (PI-19) may result in poor value for money, which impacts negatively on service delivery through increased costs or poor quality goods and services.

Prospects for reform planning and implementation

Clearly the need to eliminate the backlog of financial statements is fundamental in improving government accountability. At the same time, the Government's inclusion of donor funding in the latest budget provides a more comprehensive overview of the resources received and for which it is ultimately accountable to its citizens.

In the last two to three years, a number of changes have been made including improvements to tax administration, a new financial management system and a new budgeting framework. There are also demands for greater public access to financial information and improved legislative scrutiny. Niue is a very small community with a population of approximately 1,300. Its pool of skilled human resources is therefore limited. In order for ongoing and planned reforms to be sustainable, it will be important that plans are realistic and buy-in obtained from all key stakeholders. Ideally, the roadmap will set out the agreed destination (the vision), which can be followed consistently even when there are management or political changes.

1 Introduction

1.1 Objective of the Public Financial Management (PFM)-Performance Report (PR)

The overall objective of the report is to provide all stakeholders with an assessment of Public Financial Management (PFM) in Niue using the Public Expenditure and Financial Accountability (PEFA) methodology. This methodology allows measurement of country PFM performance over time and is an important element of the strengthened approach to PFM, which recognises the need for strong government ownership. It assesses the status of current systems and procedures and does not assess policy or capacity issues. Although recognising the ongoing reforms, the scores reflect the existing situation and therefore act as a baseline against which these reforms can be monitored.

The objectives of the assessment carried out at the request of the Government of Niue (GoN) are two-fold:

- Develop the PEFA performance indicators which will provide the baseline data to support the monitoring and evaluation of PFM reforms. The Niue Treasury anticipates the PEFA assessment will be repeated every three or four years; and
- Prepare the PFM Report to support the indicator scores, provide an integrated assessment of the strengths and weaknesses in PFM performance, identify the impact of PFM weaknesses and establish the links between the indicators and potential reform initiatives to enable the development of a PFM Road Map for Niue

Original terms of reference for the assignment are included as Annex B.

1.2 Process of preparing the PFM-PR

Methodology

At the request of GoN and donors including the EU and NZAID, the IMF/Pacific Financial and Technical Assistance Centre (PFTAC) agreed to lead an assessment based on the PEFA methodology. The main field phase of the Mission was conducted between 10th and 24th June 2011. An external consultant (Mrs Carole Pretorius) led the team, which included Mrs Doreen Siataga, Mrs Hane Tukutama, Ms Akata Bilitaki and Mr Kimray Vaha. Members of the team had the opportunity to hold meetings with a wide range of stakeholders including the Premier/Minister of Finance, Speaker, Heads of Departments, Treasury Officials, the New Zealand High Commissioner and Deputy High Commissioner and the private sector. They also attended the first reading of the Budget. A list of people interviewed and attending workshops is attached at Annex C. As shown in Annex D, a wide variety of documents was also reviewed. These include PFM related legislation and regulations, financial statements, budget formulation and execution documents, policy documents, Auditor General and internal audit reports.

An introductory workshop was held on the 13th June. During the workshop the PEFA methodology, based on the training material produced by the PEFA Secretariat was explained. A separate session was also held on the Niue PEFA process. The second workshop was held on the 23rd June and consisted of a discussion on the preliminary findings. The draft report was reviewed by PFTAC and quality assured by the PEFA Secretariat.

The team would like to thank everyone who has participated in the preparation of this report, and to express their sincere appreciation to the Premier, the Financial Secretary and their team at the Treasury for their hospitality and assistance.

Scope of the assessment

In accordance with the terms of reference, this assessment covers both non-trading and trading departments of government, as well as the government's oversight of fiscal risk with respect to its three state owned enterprises (authorities). Grants to the 14 village councils (VCs) total NZ\$70,000. The VCs have elected members and are legally able to borrow, but they have no employees, carry out few functions and present minimal fiscal risk to the government.

2 Country background information

2.1 Description of country economic situation

Country context

Niue is a small island state in the South Pacific Ocean. It is located 2,400 kilometres northeast from New Zealand, within a triangle between Tonga (southwest), Samoa (northeast) and the Cook Islands (southeast). The 269 km² island is one of the world largest coral islands and is surrounded by a coral reef, with the only major break being near the capital Alofi. The terrain consists of steep limestone cliffs along the coast with a central plateau rising to about 60 metres above sea level. The only major natural hazard the country is susceptible to, is cyclones. The last Cyclone (Heta) in 2004 caused significant damage to the island.

Niue became a British Protectorate in 1900 and was annexed to New Zealand in 1901 due to difficulties in the administration of policies from afar. A referendum regarding Niue's Constitutional future was held on 19 October 1974. The results supported the change to internal self-government in free association with New Zealand. The Niuean translation of Self Government is *Pule Fakamotu*, meaning for 'Niueans to lead, make decisions and do their own thing'. Under the constitution New Zealand is responsible for Niue's defence, external affairs and for providing administrative assistance.

According to the latest official statistics (2006) the population is 1,625⁵, but it is estimated that the current population is around 1,300. It has an estimated annual population growth rate of -0.032. The 2001 census indicated that the ethnic make-up of the population is Niuean (78.2%), Pacific Islander (10.2%), Caucasian (4.5%), mixed (3.9%), Asian (0.2%) and unspecified (3%). English and Niuean (closely related to Tongan and Samoan) are the official languages. All Niueans are also automatically citizens of New Zealand.

The economy suffers from the typical Pacific island problems of geographic isolation, few resources and a small (and ever reducing) population. The economy is small with a GDP of NZ\$ (000) 25,460.3 and GDP per capita at current prices = \$16,575 (2009 figures). Average inflation in 2010 was 5.4%. It largely depends on agriculture, tourism, fishing, remittances and international aid. The agriculture sector consist of subsistence farming, although small amounts of vanilla, noni and taro are grown for the export market (mainly New Zealand). Tourism is seen as a priority, but is hampered by a lack of airlines flying to Niue and a shortage of hotel rooms for international tourists. Currently, Niue is served by only one flight per week from New Zealand.

Niue's education system follows the New Zealand curriculum and provides free and compulsory primary and secondary education. There is one primary school, one high school and a branch of the University of the South Pacific. There is one hospital and one main health clinic situated at the high school.

Niue is heavily dependent on its Constitution partner, New Zealand for financial assistance. While New Zealand has a statutory obligation to provide the necessary economic and administrative assistance to Niue, in its strategic plan, the Government of Niue has highlighted the need to foster

⁵ A population census is planned for September 2011

diplomatic relationships and strategic alliances with the wider international community and within Niue's Constitutional parameters with New Zealand.

Under the 10th European Development Fund (EDF), the EU's focus is on the renewable energy sector and continued assistance to the development of the village economy. The objective is to improve living standards in Niue's 14 villages and thus help retain Niueans on the island. Other organisations providing support to Niue include AusAID, Global Environment Fund (GEF), Global Fund for HIV/AIDS, Malaria and Tuberculosis, UNESCO and various other UN and regional bodies (e.g. Secretariat for the Pacific Community (SPC)). Assistance in the form of technical equipment has also been provided by China to the Broadcasting Corporation of Niue (BCN).

The Government of Niue has also established the Niue Trust Fund. Australia and New Zealand have also contributed to the fund, which is designed to provide Niue with a sustainable future. The Trust is for the sole benefit of the Niue Government and a Board comprising representatives of the Niue Government and major donors will oversee its operations and determine what payments are made from the Trust holdings. While the Trust is being established the funds are being held by NZ AID on Niue's behalf.

Overall government reform program

Niue's vision for achieving prosperity is set out in its National Strategic Plan (2009 – 2013) and is to “build a sustainable future that meets our economic and social needs while preserving environmental integrity, social stability, and the Niue culture”. Progress of the previous plan (2003 -2008) was mixed due in part to the devastation caused by Cyclone Heta. The plan comprises of six national development goals or pillars:

- **Financial stability:** ensure that sufficient financial resources are secured, and responsible fiscal management is prudent, sustainable and supports healthy development strategies;
- **Governance:** ensure that good governance reflects the principles of transparency and accountability and is practised at all levels;
- **Economic development:** maximise benefits from Niue's resources in a sustainable manner focusing on private sector development, targeting tourism, agriculture and fisheries supported by safe, reliable, affordable healthy infrastructure;
- **Social:** enjoy a harmonious and healthy lifestyle in a thriving, educated and safe community that has access to a wide range of quality social services and healthy development opportunities;
- **Environment:** sustainable use and management of Niue's natural resources and environment for present and future generations; and
- **Tāoga Niue:** promote, preserve and strengthen Niuean cultural heritage, language, values and identity.

Rationale for PFM reforms

Several consecutive years of fiscal deficits and the need to request a loan from New Zealand in 2006 highlighted the importance of improved financial management. In the NNSP financial stability is viewed as fundamental for Niue to develop into a prosperous nation. The NNSP specifically sets out that Niue must ensure that sufficient financial resources are available in order to continue to meet its obligation for the nation. Furthermore, as a nation with a small population, it recognises that the demands on the limited resources available are very high. Thus, better coordination and appropriate usage of all public and development partner funds is viewed as paramount for the delivery of all services.

2.2 Description of budgetary outcomes

Fiscal performance

There is limited economic analysis of Niue's fiscal performance and the government's statistical data on government finances is only to 2006. The following table has therefore been constructed from a number of sources.

Table 2: Summary of revenue and expenditure 2007/8—2009/10						
	07/08		08/09		09/10	
	Budget	Actual	Budget	Actual	Budget	Actual
	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Departmental Revenue	3,982,338	4,356,803	4,797,000	5,307,551	4,696,000	4,946,769
Trading Revenue	7,465,000	8,042,395	10,632,000	9,270,736	9,081,000	8,007,920
Total Domestic Revenue	11,447,338	12,399,198	15,429,000	14,578,287	13,777,000	12,954,689
Recurrent budget support	7,596,000	7,522,636	7,596,000	7,552,636	7,800,000	7,828,000
Total Revenue	19,043,338	19,921,834	23,025,000	22,130,923	21,577,000	20,782,689
Total Expenditure	18,877,000	19,447,645	22,690,000	21,694,695	21,214,400	20,333,188
Surplus/(Deficit)	166,338	474,189	335,000	436,228	362,600	449,501

Source: Consultant's calculation based on budget and year end data excluding Tourism Authority and BCN

Allocation of resources

There is no economic or functional analysis of the allocation of resources, the following analysis is therefore based on administrative classification for non-trading departments. In the period under review, donor funded expenditure was not included in the fiscal reports, therefore total expenditure by department is not available.

Table 3: Allocation of budgeted and actual expenditure 2007/8—2009/10						
	2007/2008		2008/2009		2009/2010	
	Budget	Actual	Budget	Actual	Budget	Actual
Administrative services	6.3%	5.7%	6.0%	6.2%	6.2%	6.4%
Agriculture	5.2%	4.3%	5.1%	4.3%	5.8%	5.0%
Community Affairs	13.3%	14.0%	11.9%	13.5%	13.1%	14.5%
Education	12.9%	11.6%	12.2%	12.2%	11.6%	12.0%
Environment	1.7%	1.7%	1.8%	2.0%	2.0%	2.1%
Health	13.8%	13.7%	13.5%	16.2%	13.5%	15.2%
Justice	3.8%	3.5%	3.8%	3.3%	3.5%	3.2%
Public Service Commission	3.0%	2.5%	3.1%	2.9%	3.7%	3.6%
Police	3.3%	3.3%	3.6%	3.5%	3.7%	3.1%
Public Works	7.1%	6.3%	7.2%	7.4%	7.0%	8.3%
Premiers	21.3%	21.8%	23.0%	21.5%	20.7%	18.0%
Taoga Niue	1.0%	1.0%	1.1%	0.9%	1.0%	0.9%
Treasury	5.4%	6.4%	5.8%	4.4%	5.7%	5.6%
Meteorological services	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%
Non trading capital	0.9%	3.0%	0.8%	0.8%	1.3%	1.3%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Estimates and Financial statements /outturns – consultants own calculations

Approximately 40% of all government expenditure (excluding donor project funding) is allocated to and spent by health, community affairs and education. The Premier's department, which includes the airport and consular/trade commission, is allocated a further 21% - 23%. Over the three year period, there appears to have been very limited reallocation of funds between the different 'sectors'.

2.3 Description of the legal and institutional framework for PFM

The legal framework for PFM

Overall guidance for the management of public finances is set out in Part IV of the *Constitution* (1974). In particular it specifies that:

- All revenue received by the Government of Niue shall be paid into an appropriate public fund or account, the Niue Government Account;
- All expenditure of public money in any financial year shall be charged to votes specified in the Appropriation Act and in accordance with the estimates for that year;
- It shall be the responsibility of the Cabinet to make proposals to the Assembly as to the projected levels of public revenue and of public expenditure in each financial year, and as to all other budgetary matters;
- The Cabinet shall also be accountable to the Assembly for all public expenditure, and for relating such expenditure to the appropriations made by the Assembly and
- The Audit Office of New Zealand should be the government's auditor; and that at least once annually, prepare and forward a report to the Speaker of the Niue Assembly for presentation to the Assembly.

Further detailed guidance is set out in the *Public Revenues Act* (1959) and the *Treasury Regulations* (2002). Rules and regulations for tax revenue administration are found in the *Income Tax Act* (1961) amended 2009, the *Customs Act* (1966) and the *Niue Consumption Tax Act* (2009)

The Institutional framework for PFM

Structure of Government

The legal status of Niue is a self-governing state in free association with New Zealand under the Niue Constitution (1974). The Head of State is Queen Elizabeth II, represented by the Governor General of Niue and New Zealand.

Legislative

The Head of Government is the Premier who is elected for a three year term by the Legislative Assembly. There is a unicameral Legislative Assembly of 20 seats. Members are elected by popular vote to serve a three year term (six are elected from a common Roll and 14 are village representatives). The latest parliamentary elections took place in May 2011. The Assembly is presided over by a Speaker, elected by its members from outside their ranks. The Public Expenditure Committee (PEC) is a parliamentary select committee with 8⁶ members elected for a three year period

Executive

Executive authority is established in the office of the Premier, who is responsible for the day-to-day running of government affairs. The Premier, who is elected by members of the Legislative Assembly, appoints/dismisses three other Ministers to form the Cabinet. The Cabinet is fully responsible for internal affairs, while New Zealand retains responsibility for external affairs and defence (although

⁶ There are 8 members for the 2011= 2014

only exercised at the request of the Government of Niue). Over the years Niue has taken greater responsibility in their external affairs and since 1988 the country has entered into treaties in its own right. There is also full diplomatic relations (with respective High Commissions in each country) between Niue and New Zealand.

Judiciary

The judiciary is independent of the Executive and the Legislature. Niue has a High Court with three divisions (Civil, Criminal and Land) and a Court of Appeal.

Auditor General

The Audit Office of New Zealand is the auditor of the Niue Government Account and of all other public funds or accounts, and of the accounts of all Departments and Offices of executive government, and of such other public or statutory authorities or bodies as may be provided by law.

Business of Government

Niue Public Service Commission is the employment authority for the Niue Public Service and consists of three commissioners that are appointed for three years by Cabinet. The business of government is carried out by 14 non-trading departments and six trading departments, the Bond Store, the Bulk Fuel Department, Telecoms, Public Works, Government residences and Niue Power. As the name suggests trading departments receive revenue for the goods or services provided. There are also three organisations which have been established as public enterprises (authorities) with their own enabling legislation and Board of Directors, the Broadcasting Corporation of Niue (BCN), the Tourism Authority and the Niue Development Bank (NDB).

The Treasury is responsible for financial policy, accounting and budgeting services, tax and customs and internal audit. The External Affairs Department is responsible for aid coordination. Annex E sets out the organisational chart for the Treasury.

The key features of the PFM system

The financial year for the Government of Niue is from July to June. Currently, the government produces its financial statements on a modified accrual basis. As noted above, GoN does not have its own external audit office and the Audit Office of New Zealand is the Government's auditor. A new financial management information system (Greentree) was introduced on 1st August 2010 (backdated to 30th June 2009). Five modules (accounts payable, accounts receivable, cash management, fixed assets and general ledger) were installed in August 2010. The purchase order module was installed in February 2011 with the payroll module being installed in June 2011. Customs uses the 'PC trade' computer system and tax uses an access based system

3 Assessment of the PFM systems, processes and institutions

3.1 Budget Credibility

The indicators in this group assess to what extent the budget is realistic and implemented as intended, firstly by comparing the actual revenues and expenditures with original approved ones, and then by analysing the composition of expenditure out-turn. “Hidden” expenditure is also assessed by reviewing the stock and level of monitoring of expenditure arrears.

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

Assessment 2011

The budget is the central mechanism for controlling expenditure in accordance with amounts appropriated by parliament. The ability to implement the budgeted expenditure is an important factor in supporting the government’s ability to deliver agreed public services as expressed in policy statements.

The deviation for central government expenditure has been calculated based on the original estimates for total departmental expenditure in 2007/8, 8/9 and 9/10. Given the delays in the production of the financial statements for 2008/9 and 2009/10, actual expenditure has been taken from a number of sources. For 2007/8, the figures in the audited financial statement (statement of appropriation) were used, for 2008/9 the final outturn figures shown in the 2009/10 approved budget were used and for 2009/10 from the final outturn report maintained on the government’s system. There is no debt in Niue and for the period under review, no donor funded project expenditure was included in the estimates. Detailed calculations are included in Annex F.

Given that the data for two of the three years is from unaudited data and that as indicated in PI 22, there are a number of suspense accounts that need to be reconciled and cleared; some caution must be used when interpreting the scores.

Expenditure	2007/8		2008/9		2009/10	
	Original budget NZ\$	Actual expenditure NZ\$	Original budget NZ\$	Actual expenditure NZ\$	Original budget NZ\$	Actual expenditure NZ\$
Departmental ⁷ expenditure	11,653,000	11,998,048	12,067,000	11,748,327	12,648,600	12,335,558.
Deviation (%)	3%		2.6%		2.5%	
Trading ⁸ dept expenditure	7,224,000	7,449,597	10,623,000	9,946,368	8,565,800	7,997,630
Total expenditure	18,877,000	19,447,645	22,690,000	21,694,695	21,214,400	20,333,188
Deviation (%)	3%		4.4%		4.2%	

Source: Estimates and financial statements/outturns

⁷ This relates to expenditure by non-trading departments e.g. Treasury, Premier, Health

⁸ This relates to expenditure by trading departments e.g. Bulk fuel, Niue Power, Bond Store but excludes expenditure by the Tourist Authority (treated as a state enterprise – see PI 9)

The resulting score is shown in the table below, based on non-trading primary expenditure, the variances are 3% or less. The variance for total primary expenditure (including trading department expenditure) is less than 4.5% and therefore in both cases is an A. For the purposes of PI-1 and PI -2, non-trading and trading department expenditure are both viewed as central government expenditure.

Dimension	Score (M1)	Justification and cardinal data
i)The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure	A	At an aggregate level, the budget appears to have been a reasonably credible indicator of actual expenditure with variances of 3% or less for non-trading departmental expenditure and less than 4.5% for total expenditure (trading and non-trading departments) <i>Source: Financial statements/ outturns and Estimates for 2007/8 – 2009/10</i>

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

Assessment 2011

Where the composition of the budget varies considerably from the original budget, the budget will not be a useful indicator of intent. Changes in the overall level of expenditure (assessed in PI-1) will translate into changes in spending for administrative (functional/program) budget heads. The first dimension of this indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. The second dimension recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency reserve (although this should not be so large as to undermine the credibility of the overall budget), accepted “good practice” requires that these amounts be vired to those votes against which the unforeseen expenditure is recorded (in other words, that expenditure is not charged directly to the contingency vote).

Dimension (i)

Table 4 Deviations and Variations			
Year	Total exp. deviation (PI-1)	Composition Variance	
	for PI-1	for PI-2 (i)	for PI-2 (ii)
	total exp. deviation	composition variance	contingency share
2008	3.0%	10.8%	n/a
2009	2.6%	10.5%	
2010	2.5%	7.9%	

The variances are based on non-trading and trading department expenditure and result in a composition variance of 10.8%, 10.5% and 7.9%. Government control over expenditure levels is more limited with respect to trading activities (cost of fuel and liquor) and therefore could explain some of the variance. Caution is required in the interpretation of the result for the reasons cited in PI-1 above. In addition, the variance does not show the extent to which there are internal re-allocations (or virements) within a Department or Branch (sub-department).

Dimension (ii) The GoN has not maintained a contingency reserve, only a very small Emergency Fund (NZ\$15,000) controlled by the Treasury for various emergencies. For the purposes of this assessment, this has not been treated as a contingency reserve or fund.

Dimension	Score(M1)	Justification and cardinal data
(i) Extent of the variance in expenditure composition	C	Variance in expenditure composition exceeded 15 % in no more than one of the last three years. <i>Source: Financial statements/ outturns and</i>

during the last three years, excluding contingency items		C+	<i>Estimates for 2007/8 – 2009/10</i>
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A		There is no contingency reserve in the estimates for the period under review and as nothing has therefore been charged to a contingency the dimension is scored as A. <i>Source: Financial statements/outturns and Estimates for 2007/8 – 2009/10</i>

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

Assessment 2011

This indicator assesses the quality of revenue forecasting by comparing domestic revenue estimates in the original approved budget to actual domestic revenue collection based on tax and non tax recurrent revenues.

The main sources of tax revenue⁹ in Niue are Income tax, consumption tax and customs duties. Other departmental income includes various fees and charges, while trading revenue includes sale of bulk fuel, liquor, rents from government residences, telecommunication and electricity charges. Revenue forecasts are made by the Treasury based on historical tax revenue trends, changes in rate and to a limited extent the extrapolation of relevant statistical data e.g. tourist numbers.

A comparison of departmental income (including tax revenues) to budgeted figures shows that actual domestic revenue was up to 11% greater than forecast. The greater than anticipated revenues can primarily be attributed to the fact that in 2008/9, the tax reforms were accompanied by a greater emphasis on obtaining outstanding monies. While in 2009/10, the introduction of the Niue Consumption Tax (NCT) led to greater than forecast funds. If the government's trading operations are included, actual revenues were between 94% - 109% of revenue forecasts.

Given the delays in the production of the financial statements for 2008/9 and 2009/10, actual revenue has been taken from a number of sources. For 2007/8, the figures in the audited financial statement (statement of appropriation) were used, for 2008/9 the final outturn figures shown in the 2009/10 approved budget were used and for 2009/10 from the final outturn report maintained on the government's system. Given that the data for two of the three years is from unaudited data and that as indicated in PI 22, there are a number of suspense accounts that need to be reconciled and cleared; some caution must be used when interpreting the scores.

Table 5 Analysis of Revenue (NZ\$)									
Revenue	2007/8 estimate	2007/8 actual	07/8 %	2008/9 estimate	2008/9 Actual	08/9 %	2009/10 estimate	2009/10 actual	09/10 %
Departmental income	3,982,338	4,356,803	109.4	4,797,000	5,307,551	110.6	4,696,000	4,946,769	105.3
Trading income	7,465,000	8,042,395	107.7	10,632,000	9,270,736	87.2	9,081,000	8,007,920	88.2
Total Income	11,447,338	12,399,198	108.3	15,429,000	14,578,287	94.5	13,777,000	12,954,689	94.0

Source: Financial statements/outturns and estimates

The resulting score for this indicator is shown below and is a B as actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years

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⁹ A breakdown across all three years showing type of tax was not feasible.

Dimension	Score (M1)	Justification and cardinal data
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget	B	Total income was between 94 -109% of approved estimates, the result of greater than a combination of higher than anticipated tax revenues and lower than anticipated trade income e.g. telecommunications because of the use of Skype and similar internet based communication systems. . <i>Source: Budgets for 2007/8 – 2009/10 and financial statements/outturns</i>

PI-4 Stock and monitoring of expenditure payment arrears

Assessment 2011

The presence of expenditure payment arrears constitutes a form of non-transparent financing that affects the credibility of the budget. A credible, and prudent, budget requires that the government is well informed on the size of its payment arrears and that the stock of arrears is low compared to total expenditures. This indicator considers to what extent stock of arrears is a concern, as well as to what extent it is addressed and consequently controlled.

In 2006, New Zealand provided Niue with a NZ\$1.4 million loan to overcome the results of a succession of fiscal deficits. The provision of this loan or advance (see PI 17) set out a number of conditions. These conditions included an analysis of arrears and then regular payment of international memberships, improved performance of trading operations, analysis of staff budgets and increase in the sums allocated to asset maintenance. Niue does not have a formal definition of an ‘arrear’ but adopts the commercial principle of thirty days. However, although not formally set out in any specific guidance, the Government now adopt a principle of paying all invoices received by the Treasury within a maximum of one week.

Dimension (i) There are only a few outstanding invoices for international membership and these amount to approximately NZ\$182,000¹⁰. Invoices have not been received from several other international organisations for FYs 2010/11 and 2011/12, but for the purposes of this indicator, these are not treated as arrears.

Dimension (ii) As noted above, there is no formal definition of an arrear and invoices received by the Treasury are normally paid within one week, with a few rare exceptions for high value invoices if there are cash constraints. There are two mechanisms for monitoring arrears; firstly a report on outstanding commitments (when a purchase order is placed but not received and paid) is available from the Greentree financial system. Commitments are clearly not the same as expenditure payment arrears, but can be used as a first base by the treasury for establishing any potential arrears situations, in the rare case that invoices are not submitted to them for payment. In addition, in the accounts payable module of the Greentree financial system, individual supplier accounts are available on both an Open Item or Balance Forward basis, thus enabling the Treasury to maintain a constant overview of the status of supplier payments, again in the rare cases that there is insufficient cash to pay them within the week. As the Government has an unwritten policy of paying within a week, an age profile is not produced.

Dimension	Score		Justification
(i) Stock of expenditure payment arrears (as a % of total exp for the	A	A	Expenditure arrears relating to international memberships are approximately NZ\$ 182,000, this

¹⁰ These outstanding invoices are cumulative for a couple of international organisations

corresponding fiscal year) and recent change in stock		represents < 2% of total expenditure. <i>Source: Total international memberships outstanding and year-end creditor figures.</i>
(ii) Availability of data for monitoring the stock of expenditure payment arrears	A	The report on outstanding commitments combined with the functionality of the Greentree system allow for the regular monitoring of arrears. Given the Government's unofficial weekly payment policy, no age profile is produced as although there is no official definition of an arrear, commercial terms (30 days) is seen as appropriate. <i>Source: Greentree system and interviews Treasury</i>

3.2 Comprehensiveness and transparency

The indicators in this group assess to what extent the budget and the fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public.

PI-5 Classification of the budget

Assessment 2011

A robust classification system which is used consistently for the formulation, execution and reporting of the central government's budget is an important element of fiscal transparency. In Niue, a new chart of accounts was introduced in financial year (FY) 2010/11. As illustrated below, this breaks down account details into account type and account category.

Account type	Account Category		
Current assets	C - Cash & Cash Equivalents	C01 Petty Cash C02 Bank Accounts	1011 Petty Cash 1021 BSP Current Account (01)
Revenue	U1 - Taxes, Duties & Fines Taxes	U11 Taxes	3011 Individual Income Tax 3012 Corporate Income Tax. 3013 NCT
Expenditure	V2 - Personnel Expenses		4111 Salaries & Wages 4112 Board & Other Attendance Fees

Administrative classification breaks down expenditure into department and branch. The economic classification is applied across trading and non-trading operations and development projects. Economic classification is GFS compatible. Currently reports are not produced using the Government Finance Statistics (GFS) format, but the level of detail maintained in the economic classification particularly for revenue would allow GFS reporting to be done. If required therefore GFS reports could be produced using a bridging table.

Dimension	Score (M1)	Justification and cardinal data
(i) The classification system used for formulation, execution and reporting of the central government's budget.	C	The budget uses an administrative and economic classification (GFS compatible) which is broken down into sufficient detail to facilitate mapping to GFS format. <i>Source: Budgets for 2011/12 and new chart of accounts,</i>

PI-6 Comprehensiveness of information included in budget documentation

Assessment 2011

Annual budget documentation (the annual budget and supporting documents) submitted to the legislature for scrutiny and approval should provide a complete picture of the government's fiscal forecasts budget proposals and previous year's outturns.

Over the past two or three years the budget documentation has changed format. The latest format for 2011/12 includes a five year perspective. Although the budget for 2011/12 has been presented to the Assembly for its first reading, it is still an ongoing process, therefore the assessment has been based on the last sets of budget documentation those for 2010/11.

Elements of budget documentation	Availability	Notes
1. Macro-economic assumptions , incl. at least estimates of aggregate growth, inflation and exchange rate	No	These have not been presented to the Assembly in prior years, although there is a plan to include them for subsequent readings of the 2011/12 budget.
2. Fiscal deficit , defined according to GFS or other internationally recognised standard	N/A	Inclusive of constitutionally prescribed support from NZ, the Government aims to run a balanced budget
3. Deficit financing , describing anticipated composition	N/A	Inclusive of constitutionally prescribed support from NZ, the Government aims to run a balanced budget
4. Debt stock , incl. details at least for the beginning of the current year	N/A	GoN does not have any debt stock
5. Financial assets , incl. details at least for the beginning of the current year	Yes	Information on the International Trust is included in the budget documentation
6. Prior year's budget out-turn , presented in the same format as the budget proposal	No	Prior year's budget outturn was included in the 2009/10 budget but not in the 2010/11
7. Current year's budget (revised budget or estimated out-turn) , presented in the same format as the budget proposal	Yes	
8. Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	Yes	Data for both revenue and expenditure is summarised and included in 2010/11 data for current year and budget year. In 2009/10, previous year was also included.
9. Explanation of budget implications of new policy initiatives , with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to exp programs	No	There are plans to provide more information on the budgetary implications of changes in revenue thresholds as part of further evidence to the PEC and Assembly, but this has not been done in the past.

The resulting indicator score is shown below.

Dimension	Score (M1)	Justification and cardinal data
i) Listed information (see above) available in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met.	C	Of the 9 criteria, three are not applicable. Of the remaining six, two were recorded for 2010/11. A C score has been assigned. <i>Source: Budget documents 2009/10 and 2010/11</i>

Ongoing Activities

As noted above, improvements to the presentation of budget information particularly forward estimates, budgetary implications and macroeconomic data are being prepared for 2011/12.

PI-7 Extent of unreported government operations

Assessment 2011

The extent of unreported government operations is assessed against two dimensions: i) unreported extra-budgetary expenditure, and ii) income/expenditure information on donor-funded projects, which is included in fiscal reports. Given the need to assess the extent of unreported operations across a full reporting cycle, the latest full set of information relates to the period 2007/8 (see PI 22 for related information).

Dimension (i) In Niue, there are no extra budgetary funds and departmental information (trading and non-trading) is included in the estimates, the budget execution reports and financial statements.

Dimension (ii) Prior to the preparation of the 2011/12 estimates, information on donor funded projects with few exceptions e.g. Cyclone Heta assistance was not included in the estimates presented to the Assembly. For those projects maintained by the Treasury monthly reporting did take place and cash balances were consolidated into the financial statements. Projects such as those supported by the EU were not reported on as part of the government's normal reporting procedures.

Dimension	Score(M1)	Justification and cardinal data
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports	A	There is little or no unreported government expenditure. <i>Source: Treasury interviews, budget documentation, financial statements and monthly reports</i>
(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.	D	Donor funded projects were not included in the estimates, consequently only cash balances were included in the financial statements and only treasury managed projects reported on a monthly basis. <i>Source: Treasury interviews, budget documentation, financial statements and monthly reports</i>

PI-8 Transparency of inter-governmental fiscal relations (M2)

This indicator is not applicable in Niue

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

Assessment 2011

This indicator assesses the extent to which central government has a formal role in relation to the oversight of other public sector entities. It is assessed against two dimensions: i) extent of central government monitoring of Autonomous Govt Agencies (AGAs) and PEs and ii) extent of central government monitoring of SN governments' fiscal position.

As described in the section on the business of government, because of the small size of the economy, GoN is involved in a number of activities, which are normally associated with the private sector and/or public enterprises. Niue Power, Telecom, Bulk fuel and the Bond Store are trading departments of the government and with the exception of Telecom use the government accounting system and treasury bank accounts. For the purposes of the PEFA assessment these have been treated as central government and not Public Enterprises.

There are only three state owned enterprises/ authorities in Niue. These are the Broadcasting Corporation of Niue (BCN), the Tourism Authority and the Niue Development Bank (NDB), that all have their own Board of Directors and own enabling legislation..

As discussed above although the 14 village councils could legally incur debt, they are mainly reliant on government support for their expenditure, which is primarily related to show days¹¹.

Dimension (i). A representative from the Treasury is on the board of the three state owned enterprises. The Treasury manages the payments and prepares the reports and accounts for both BCN and the Tourism Authority. Although the financial statements for BCN and the Tourism Authority are not up to date, it has the regular monthly reports. For NDB, financial statements are up to date, and quarterly reports are now being sent to Cabinet and the Treasury. Data is then consolidated into the annual financial statement.

Dimension (ii) Not applicable

Dimension	Score (M1)	Justification
(i)Extent of central government monitoring of AGAs and PEs	A	A For BCN and the Tourism Authority, the Treasury provides payment, accounting and reporting services, thus having up to date information on fiscal risk. NDB provides quarterly data to the Cabinet and Treasury. Data is then consolidated into the annual financial statement ¹² . <i>Source: NDB quarterly reports, interviews Treasury, BCN and Tourism Authority</i>
(ii)Extent of central government monitoring of SN government's fiscal position	N/A	

PI-10 Public access to key fiscal information

Assessment 2011

Transparency will depend on whether information on fiscal plans, position and performance of the government is easily accessible to the general public or at least interested groups.

At present, Assembly meetings are broadcast by BCN and reported in the Niue Star. However, as shown in the table below, despite the widespread availability of Wi-Fi facilities, accessibility to key fiscal information in Niue is limited. It is recognised that in the past there has been only limited demand, but there is a growing realisation that if information is made easily available, there is less likelihood of misunderstandings.

Required documentation	Availability	Comments
Annual budget documentation when submitted to the legislature	No	In the past complete copies of the government's approved estimates were not always provided to departmental heads/government officials.
In-year budget execution reports within one month of their completion	No	
Year-end financial statements within 6	No	

¹¹ Local village events

¹² It is acknowledged that there is a delay in the production of the financial statements but this is assessed in PI-25

months of completed audit		
External audit reports within 6 months of completed audit	No	
Contract awards (app. USD 100,000 equiv.) published at least quarterly	No	See PI 19 only bidding opportunities are regularly broadcast on the radio.
Resources available to primary service unit at least annually	No	Some information is presented in the PTA newsletters for the primary school but this is not complete.

The resulting score for the indicator is shown below.

Dimension	Score (M1)	Justification and cardinal data
(i) No ⁷ of the listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification must be met.	D	Despite the widespread use and availability of the internet, none of the key fiscal information is uploaded or made easily available in hard copy format. <i>Source: Government website; interviews Chamber of Commerce</i>

3.3 Policy-based budgeting

The indicators in this group assess to what extent the budget is prepared with due regard to government policy.

PI-11 Orderliness and participation in the annual budget process

Assessment 2011

This indicator shows the quality of the budget preparation process as well as the involvement of budget end users in the process. There are 3 dimensions to assess: i) existence of and adherence to a fixed budget calendar; ii) clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent); iii) timely budget approval by the legislature (within the last three years);

Dimension (i) There was a budget calendar setting out key dates for the budget preparation process for the 2009/10, 2010/11 and 2011/12 budget processes. Elections in May 2011 led to some deviations in timing for the 2011/12 process, but the budget was presented for the first reading within one week of the original date. The calendar allows between two to three weeks for the preparation of the budget drafts, although in discussions with the Departments they informed the team that they started work prior to the receipt of the letter from Treasury.

Dimension (ii) A budget circular or memorandum is issued to departments. The memorandum for the 2010/11 set out the need for there to be no increase in expenditure, but did not specify ceilings or allocations for individual administrative units¹³. Planned involvement of the Cabinet is at a relatively late stage in the budget preparation process, but there was some time for review and input of comments (one week in late April) in the 2010/11 process.

Dimension (iii) The budgets were approved by the Assembly and subsequently passed into law on the following dates: (i) 2008/09 Budget - 24th September 2008; (ii) 2009/10 budget – 29th July 2009; and (iii) 2010/11 budget - 16th August 2010.

¹³ No ceilings were specified in the 2011/12 memorandum either.

Dimension	Score (M2)	Justification and cardinal data
(i) Existence of and adherence to a fixed budget calendar	C	There is a budget calendar but there is limited time (2-3 weeks) allocated for preparation of draft budgets. <i>Source: Budget Calendars</i>
(ii) Clarity/comprehensiveness of and political involvement in the guidance and preparation of budget submissions (budget circular or equivalent)	D	A memorandum is issued, but allocations/ceilings to individual administrative units are not issued, only to work within previous year's overall figures. Cabinet has limited time to review estimates prior to their finalisation. <i>Source: Budget memorandum 2010/11 and 2011/12</i>
(iii) Timely budget approval by the legislature or similar mandated body (within the last three years)	C	The 2008-09 Budget was appropriated on 24 th September 2008. The 2009 -10 budget on 29 th July 2009 and the 2010/11 budget on 16 th August 2010 <i>Source Appropriation Acts for the three years</i>

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

Assessment 2011

Expenditure policy decisions have multi-year implications and must be aligned with the availability of resources in the medium term perspective. Therefore, multi-year forecasts including debt sustainability analysis should be the basis of policy changes. The indicator is assessed against four dimensions: i) preparation of multi-year fiscal forecasts and functional allocations; ii) scope and frequency of debt sustainability analysis; iii) existence of sector strategies with multi-year costings of recurrent and investment expenditure and iv) linkages between investment budgets and forward expenditure estimates.

Dimension (i) The concept of multi-year budgeting was only introduced in 2010/11 at a summary level (main economic classifications). For the purposes of this dimension multi-year budgeting is very much in its infancy.

Dimension (ii) Not applicable.

Dimension (iii) Departments e.g. agriculture, environment, education have prepared corporate plans, some sector plans are also being prepared. However these are not yet costed.

Dimension (iv) Although referred to in the NNSP there is currently no Public Sector Investment Programme (PSIP).

Dimension	Score (M2)	Justification and cardinal data
(i) Preparation of multi-year fiscal forecasts and functional allocations	D	Fiscal aggregate forecasts on a rolling basis were not prepared for the last two completed financial years <i>Source: 2009/10 and 10/11 estimates</i>
(ii) Scope and frequency of debt sustainability analysis	N/A	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	D	Corporate plans per department exist but planned sector strategies are not yet developed or costed. <i>Source: NISP, interviews with departments</i>
(iv) Linkages between investment budgets and forward expenditure estimates.	D	Given the absence of forward expenditure estimates and information on donor funding projects, the link between investment budgets and forward recurrent expenditure estimates has been weak. <i>Source: Budgets for period, budget memorandum</i>

Ongoing Activities

A five year perspective has been introduced for the estimates for 2011/12, this combined with the introduction of donor-funded development expenditure into the 2011/12 estimates is designed to enable greater attention to be paid to the linkages between investment budgets and forward expenditure estimates.

3.4 Predictability and control in budget execution

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

PI-13 Transparency of taxpayer obligations and liabilities

Assessment 2011

Effective assessment of tax is very dependent on the direct involvement and co-operation of taxpayers from the individual and corporate private sector. This indicator therefore assesses i) the clarity and comprehensiveness of tax liabilities; ii) taxpayer access to information on tax liabilities and administrative procedures and iii) existence and functioning of a tax appeals mechanism.

Dimension (i) In Niue there are three main Acts in relation to tax, the Income Tax Act, the Customs Act and the Niue Consumption Tax (NCT). The current Income Tax Act sets out the legislation with respect to: Administration; Returns and Assessments; Objections to Assessment; Income Tax; Agents and Non-Residents; Tax Deductions by Employers; Payment And Recovery of Tax Penalties.

In terms of the taxpayer base there are approximately 150 businesses of varying sizes in Niue. The majority are small and a large number are very small or micro businesses. On Niue, businesses run by an individual attract the low income rate (LIR), whereby those with a net profit of \$10,000 or less have no tax liability at all. However, they still have to furnish an annual income tax return with supporting accounts. Salary and wage earners are also required to furnish annual returns to claim some of the rebates due to them. This results in about 550 returns. Currently within the Income Tax Act there is a provision for Cabinet to provide tax incentives to new or expanded businesses. However, it is understood that there are only a few cases in which this power has been exercised.

The Customs Act (the New Zealand Customs Act) from 1966 appears comprehensive setting out issues with respect to: Administration; Control of the Customs, General Provisions as to Entries; Importation, Exportation, Removal within Niue; Warehouses; Valuation of Goods; Powers of Officers of Customs; Securities; Agents and Carriers; Offences; Forfeitures; Detention of Ships and Aircraft; and Evidence. However, in terms of modern customs legislation, it is quite outdated, and is not in line with modern and World Trade Organisation (WTO)¹⁴ requirements. In particular, authorisation of electronic filing, post clearance audits and other modern procedures are not covered. Valuation of goods are based on invoices but can be re-assessed by the Manager with appeals being made to the Minister.

The Niue Consumption Tax (NCT) was introduced to Niue with effect 1 April 2009. The legislation is quite comprehensive and clear and is set out as follows:

- Part II Imposition of NCT; *Imposition of NCT Zero-rated supplies; Exempt supplies*
- Part III Registration: *application for registration; registration; Cancellation of registration*
- Part IV Rules relating to supplies;

¹⁴ Although it should be noted that Niue is not a member of the WTO

- Part V Rules relating to imports; *exempt imports, time of imports, value of imports*
- Part VI Input tax credits (ITC); *ITC for newly registered person; denial of ITC*
- Part VII Post sale adjustments;
- Part VIII computation of net NCT payable and refunds
- Part IX NCT documentation; *NCT invoices; NCT credit and debit notes; NCT documentation issued by or to agents; requests for NCT documentation; maintenance of NCT documentation*
- Part X Procedural rules; *Division I Returns and Payments; Division II Assessments; Division III Objections and Appeals; Division IV Recovery of NCT; Division V Information, Collection and Investigations; Division VI Representatives; Division VII Penal Tax; Division VIII; offences; Division IX Forms and notices*
- Part XI Administration
- Part XII Miscellaneous
- Part XIII Final Provisions

However there is some degree of discretion (outside of the legislation) as Cabinet may exempt certain supplies of goods and/or services as it thinks fit. Cabinet may grant a partial or full exemption and may be for such period not exceeding 5 years. In terms of the current taxpayer base for NCT, the current turnover threshold over which persons are required to register is NZ\$200,000. There are 15 private sector and 22 GoN registered persons. There is a proposal that the threshold be revised down to NZ\$75,000 bringing in about 15 new businesses. Subject to a limited number of exemptions, the broad based consumption tax imposes a 12.5% tax on all imports and on all sales by registered taxpayers.

Simply because of their age, neither the Customs Act nor the Income Tax Act are particularly user-friendly and administrative procedures are quite burdensome. Earlier reviews in conjunction with PFTAC have noted for example the administrative burden of the requirement for all businesses to file returns, whether or not they meet the required tax threshold. The planned Customs reforms (mid 2000's) also did not take place.

Dimension (ii) Tax legislation and regulations are no longer available on the government website. Copies can be obtained informally by residents from the tax office. Tax education material was prepared as part of the tax reform process between 2008 and 2009, some in conjunction with the Niue Chamber of Commerce. Advice can also be obtained directly from the Tax Office. GoN and NCoC consider that tax education material would benefit from updating and/or a refresher process being undertaken. Also for potential investors and Niueans based in New Zealand, it is considered desirable to improve access to tax related material.

Dimension (iii). In the Income Tax Act, there is a procedure, including a time period whereby a taxpayer can object to an assessment. Administratively this objection is then reviewed by the Senior Revenue Officer, the Chief Accountant and the Financial Secretary. Discussions take place with the taxpayer and a written explanation provided. If a dispute remains, there is a provision for the aggrieved taxpayer to take out an action in the High Court. The provisions in the Income Tax are also applicable to the NCT Act. In the Customs legislation, appeals on valuation can be raised with the Minister. Procedures therefore exist but there are reported to have been few objections and no objection taken to the High Court, it is therefore not feasible to assess whether the system is

Dimension	Score (M2)		Justification and cardinal data
(i)Clarity and comprehensiveness of tax liabilities	C	C	NCT is clear and comprehensive. Income Tax and Customs legislation are not as clear as modern day equivalents. Administrative procedures are quite burdensome and certain powers e.g. post clearance audit for customs are not available. As in many

		countries, Cabinet has discretionary powers in deciding whether potential investors can be provided with tax exemptions. Similarly it can decide which goods and services to exempt from NCT. This power is not available to the administration e.g. Treasury/Minister. A rating of C has therefore been assigned. <i>Source: Income Tax Act, NCT Act and Customs Act</i>
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	C	Resident taxpayers have access (formal and informal) to information on tax legislation and liabilities through the Tax Office. For potential investors/Niueans in NZ access is not as easy as relevant legislation has been removed from the GoN website. Tax education literature was produced as part of the tax reforms in 2008/9, but the view of both government and private sector is that this would benefit from updating/refresher course A C has therefore been assigned. <i>Source: NCoC literature, Tax office guidance, interviews, website</i>
(iii) Existence and functioning of a tax appeals mechanism	N/R	There is an administrative based objections process set out in the legislation and applied within the Treasury. Only a couple of objections have been raised and these have been clearly dealt with. None have been taken to Court, with such a small number of objections, there is insufficient evidence ¹⁵ to determine how fair, transparent and effective the process is. <i>Source: Income Tax Act, NCT Act, interviews</i>

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

Assessment 2011

The effectiveness of taxpayer registration and tax assessment is assessed by reviewing: i) controls in taxpayer registration; ii) effectiveness of penalties for non-compliance with registration and declaration obligations and iii) planning and monitoring of tax audit and fraud investigation programmes.

Dimension (i) As indicated in the previous indicator, taxpayer numbers are relatively small. However their details are maintained on different databases for Income Tax, NCT and Customs purposes. However, there is a common strand with the business licence number being applied as part of the relevant tax number e.g. NCT number. Databases are considered complete and although there is no occasional taxpayer surveyor (probably superfluous in Niue) and no direct link to the business register, informal contacts are maintained.

Dimension (ii) Penalties are set out in the income tax legislation and associated regulations. They include fines for non-filing of returns, false returns and a penal tax for evasion of tax liabilities. Penalties are also set out in the NCT with respect to failure to apply for registration, failure to display NCT certificate, failure to maintain adequate records and for making a false or misleading statement. Penal taxes for NCT offences are quite high (double NCT for non-registration, NZ\$20 per day for non display etc). Historically, enforcement of fines/penalties has been low, although there was an increase in enforcement as part of the tax reforms more recently. Customs applies penalties only with respect to discrepancies in quantity not undervaluation as this is considered too complex to control. Penalties are low as are the number of offences.

¹⁵ It should not be inferred that the process is not fair but that there have been insufficient cases to test the process.

Dimension (iii) As part of the tax reform, training was undertaken and procedures (checklist) were put in place to enable tax officers to carry out a programme of continuous audits; however there is no risk-based audit plan established, not least because of the small number of taxpayers. For customs, no post clearance audit is done, as the current legislation does not provide Customs Officers with this authority.

Dimension	Score		Justification and cardinal data
(i) Controls in taxpayer registration	C	C	Taxpayer information is maintained in different but complete databases, PC Trade for customs and an access based system for Income Tax and NCT. There is no direct link with the business register but informal contacts are maintained ¹⁶ . <i>Source: Interviews Tax and Customs officials</i>
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration.			There are penalties in place. For customs the structure and level of penalties require revision, for Income tax the level. For all taxes traditionally enforcement has been quite low. <i>Source: tax documentation, interviews Treasury (tax and customs)</i>
(iii) Planning and monitoring of tax audit programmes.			There is a continuous audit process for income tax and NCT, but no risk based audit plan. <i>Source: Legislation, tax files</i>

PI-15 Effectiveness in collection of tax payments

Assessment 2011

The effectiveness in collection of tax payments is assessed based on the following criteria: i) debt collection ratios for the past two years; ii) effectiveness of transfer of tax collection to the Treasury and iii) frequency of complete accounts reconciliation.

Dimension (i) The data on tax arrears is maintained in the accounts payable module of the financial management system (Greentree). Similar data was maintained on the previous system, as discussed elsewhere the Greentree system was implemented in August 2010 backdated to the 30th June 2010. As part of this exercise, there was a cleaning process of accounts payable data including outstanding tax arrears, it is therefore not possible to calculate the collection ratio for gross tax arrears.

Dimension (ii) Tax revenues are transferred directly to the Treasury managed bank account (for example salaried government employees) or cheques/cash received by revenue collection officers and banked at least weekly (often daily¹⁷) into a treasury managed bank account.

Dimension (iii) Individual taxpayers are set up in the Greentree system as debtors based on their assessments. Collections are recorded in the system enabling a reconciliation of assessments, collections, arrears and transfers to treasury on a continuous basis.

Dimension	Score		Justification and cardinal data
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two years).	N/R	N/R	Data is not available to calculate the collection ratio due to the introduction of a new financial management system in 2010/11 and cleaning of debtor data from the previous system. <i>Source: Interviews treasury officials</i>

¹⁶ In the Niuean context occasional taxpayer surveys are not considered relevant.

¹⁷ Revenues are only not banked daily if there are very small amounts

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	Tax revenues are either transferred directly or banked at least weekly (most often daily) into treasury managed bank accounts <i>Source: Tax file data – receipt books, deposit books and banking summaries</i>
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	A	There is a continuous updating/reconciliation of assessments, collections, arrears records and receipts by the Treasury as they are all maintained on the Greentree system. <i>Source: Tax file data, Greentree system information</i>

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

Assessment 2011

The effective execution of the budget, in accordance with work plans, requires that the spending ministries, departments and agencies receive reliable information on the availability of funds within which they can commit expenditure for recurrent and capital inputs.

Dimension (i) The Treasury is the central budgeting and accounting body and is responsible for preparing cash flow forecasts. On receipt of the information from the departments and based on historical trends, Treasury profiles the annual budget across the months to reflect anticipated revenue and expenditure patterns. The Treasury then prepares quarterly cash flow forecasts and updates weekly based on anticipated cash inflows and outflows.

Dimension (ii) If there are delays in the appropriation of the budget; there is a provision in the legislation for departments to spend up to one quarter of their previous year's budget. Once the budget has been approved, there is then no further restriction on the department's ability to commit allocated funds, provided there is sufficient cash available.

Dimension (iii) The legislation allows an increase in expenditure for a specific item within a vote (sub-department) only if there is a compensating reduction in expenditure on another item. This reallocation can only be done by the Department requesting permission from the Financial Secretary. Under the Constitution, the Cabinet can increase total expenditure up to 1.5 % without ex-ante approval from the legislature (see PI-27 (iv)), but there is a degree of transparency as a report is required to be included in the financial statements on this unauthorised expenditure. Other significant in-year adjustments to budget allocations are rare and if they occur are done in a fairly transparent manner.

Dimension	Score (M1)	Justification and cardinal data
(i) Extent to which cash flows are forecast and monitored.	A	The annual budget is profiled representing an annual cash flow plan. Quarterly cash flow forecasts are then prepared and updated weekly based on anticipated cash inflows and outflows. <i>Source: Cash Flow forecast; treasury interviews</i>
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	A	Once the budget has been appropriated, departments have access to their total budget allocation. <i>Source: Constitution;</i>
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	B	B+ Requests for re-allocations are made by the Department and approved by the Financial Secretary but must be accompanied by compensating reductions. The Cabinet can increase total expenditure by up to 1.5% but must report. Other significant adjustments are rare e.g. because of need to reduce overall expenditure/emergency situation. Generally re-allocations are done in a fairly transparent way. <i>Source: Legislation and treasury regulations</i>

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

Assessment 2011

Proper recording and management of cash balances, debt and guarantees is an important component of PFM. Poor management of debt and guarantees can create high debt service costs and significant fiscal risks. The maintenance of a sound debt data system and regular reporting are critical for ensuring data integrity, accurate debt service budgeting and timely service payments.

Dimension (i) The NNSP specifies that the intention is for the government to remain debt free. A loan of 1.4 million was provided by New Zealand in 2006, no interest is being charged. Effectively an advance, it is being paid back at the rate of NZ\$100, 000 a year with a provision to write off up to NZ\$333,000 per year. The sum written off depends on an assessment of the extent to which the various conditions (see PI-4) have been met. As at August 2010, the remaining value was NZ\$ 600, 375 but assessments of performance for 2009/10 had not been done. The Government also guaranteed a credit facility for NDB with the European Investment Bank; however this was never utilised and has now been cancelled.

Dimension (ii) Government bank accounts are maintained at WestPac in New Zealand and the Bank of the South Pacific (BSP) in Alofi. The balances held on the main treasury managed bank accounts are calculated daily but there is no consolidation of balances for investment purposes (currently the Government does not borrow funds).

Dimension (iii) Currently, neither the legislation nor the treasury regulations set out the procedures for contracting loans or issuance of guarantees. Recognising the fact that there is currently no debt stock other than the loan (advance) from New Zealand, it is important that procedures and criteria are in place to ensure that government does not become exposed to unsustainable debt repayments.

Dimension	Score (M2)	Justification and cardinal data
(i) Quality of debt data recording and reporting	A	For the purposes of this dimension the advance from NZ is treated as a loan and as full information is available, the dimension has been rated as an A. <i>Source: Financial statement and interviews - treasury</i>
(ii) Extent of the consolidation of the government's cash balances	C	
(iii) Systems for contracting loans and issuance of guarantees	D	

PI-18 Effectiveness of payroll controls

Assessment 2011

The assessment of the effectiveness of payroll controls are based on the following criteria: (i) degree of integration and reconciliation between personnel records and payroll data, (ii) timeliness of changes to personnel records and the payroll, (iii) internal controls of changes to personnel records and the payroll, and (iv) existence of payroll audits to identify control weaknesses and/or ghost workers.

Dimension (i) The Administration Department is responsible for the government's payroll (approximately 430 employees plus MPs allowances) and pension payments (approximately 90

pensioners). The Payroll is computerised and maintained by the Administration Department. Relevant details of employees are maintained within the payroll system. Two sets of manual personnel records are maintained, one set by the Administration Department and one set by the individual ‘employing’ department. The computerised payroll is updated by information received from the Public Services Commission/Employing Department. A set of procedures are in place within the Administration Department to check that changes have been input correctly (audit trail) and this is cross checked against the previous month’s payroll data. Currently GoN is not using its establishment list.

Dimension (ii). The payroll is run bi-weekly and the pensioners’ payroll every four weeks. Changes (new employees, transfers, retirements, leavers) are infrequent (two or three a month). There is no evidence to suggest that in the majority of cases, once information is received from the NPSC changes to the payroll are not actioned within a month. Indeed if a new employee misses the bi-weekly payroll, a mini payroll is run specially.

Information received from the Public Services Commission also acts as an update of the manual personnel records kept by the Administration Department. Updating of personnel records by the employing department may not always be done so regularly. In discussions, some delays in obtaining information on retirements from employing departments was noted, but for the purposes of this indicator is minimal.

Dimension (iii) A payroll procedures file has been established to guide the overall process. This procedures file set out the responsibilities within the Administration Department. Broader roles and responsibilities with respect to personnel procedures are established by the Niue Public Services Commission. Within these two sets of documents the authority and basis for changes to personnel records and payroll are clear. In practice, the administrative procedures files are effectively supplemented by training of new personnel by those already in post. Outside of the government’s control, payroll data is input manually by the BSP and errors have been recorded, in the absence of employee payslips it is difficult for individual employees to reconcile their own bank accounts, although obviously more serious errors (no pay) are quickly identified.

Dimension (iv) No payroll audit that includes physical verification of personnel in post has been carried out in the past three years.

Dimension	Score (M1)	Justification and cardinal data
(i) Degree of integration and reconciliation between personnel records and payroll data	B	Personnel records are maintained manually and payroll data is computerised including a list of employees. The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month’s payroll data by the administration department. <i>Source: Interviews NPSC, Administration Department, Departments</i> There are few changes to the payroll and once received by the Administration Department, they are generally actioned within a week. There may be the odd exception of a retirement/termination but limited in terms of value or numbers. A mini payroll is run for new employees that may have missed the bi-weekly payment. Segregation of duties is established in the payroll system. Authority and basis for changing payroll data is spelt out in the relevant documentation. Outside of government manual inputting of data by BSP results in some errors. This part does not result in an audit trail
(ii) Timeliness of changes to personnel records and the payroll	A	
(iii) Internal controls of changes to personnel records and the payroll	B	

			and therefore a B is assigned.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	D		No payroll audit that includes physical verification of personnel in post has been carried out in the past three years. <i>Source: Interviews NPSC and Administration Department</i>

Ongoing activities

In June 2011, the payroll module of the Greentree financial suite was being implemented. This will provide GoN with more advanced reporting facilities, as well as the more accurate management of accrued leave.

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

Assessment 2011

Significant public spending takes place through the public procurement system. A well functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programs and services by the government. The assessment is based on four criteria: (i) Transparency, comprehensiveness and competition in the legal and regulatory framework; (ii) Use of competitive procurement methods; (iii) Public access to complete, reliable and timely procurement information; and (iv) The existence of an independent administrative procurement complaints system.

Dimension (i) There is no separate procurement legislation and current regulations only require that all capital expenditure is to be approved by Cabinet. Authorisation for recurrent expenditure is delegated to Heads of Departments. Procurement methods are not specified.

Dimension (ii). There is no data on the methods used for awarding contracts.

Dimension (iii) Of key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints), only bidding opportunities are broadcast on the radio and not in a methodical way to ensure all interested parties are aware of the opportunities.

Dimension	Score (M2)	Justification and cardinal data
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	D	Legislation and regulations do not cover procurement, only authorisation of expenditure for capital and recurrent expenditure. <i>Source, Public Revenues Act and Treasury Regulations</i>
(ii) Use of competitive procurement methods	D	There is no data available on use of competitive procurement methods. <i>Source, Interview Treasury</i>
(iii) Public access to complete, reliable and timely procurement information;	D	Public have access to bidding opportunities only and even the coverage of these opportunities is not complete. <i>Source, Interview CHOBS, Chamber of Commerce</i>
(iv) Existence of an independent administrative procurement complaints system.	D	There is no independent procurement complaints body <i>Source Regulations, Interview CHOBS, Chamber of Commerce.</i>

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

Assessment 2011

Effectiveness of expenditure commitment controls, the comprehensiveness, relevance and understanding of other internal control rules/ procedures and the degree of compliance with rules for processing and recording transactions.

Dimension (i) A new purchase order process has been recently introduced by Treasury (1st July 2010). The process requires departments to obtain approval from Treasury before committing government to any expenditure. Before issuing a purchase order number, remaining budget allocations and cash availability are monitored. It is recognised that this process is both new and manual, and therefore some purchases may take place outside of the system, but as all capital expenditure of more than NZ\$ 500 requires Cabinet approval as well, the controls are quite strict.

Dimension (ii) The Constitution, the Public Revenues Act (1959), the Treasury Regulations (2002) and specific treasury instructions (including those accompanying the final budget documentation) set out the basic rules and internal control procedures. Although quite comprehensive, there is a recognised need to review the Treasury regulations as changes in business processes have made some of the current internal controls redundant. Knowledge of the regulations/instructions by non-treasury officials is undermined by the non distribution of the complete budget documentation.

Dimension (iii) The level of compliance with transaction procedures (expenditure and revenue) is relatively good. Audit reports although dated have generally highlighted only minor issues with respect to central government operations such as poor access controls and back up procedures for computerised systems. The qualified opinions issued have related to financial operations of a former banking institution, and poor practices at the Matavai resort and the Bond Store. Internal audit reports also highlighted problems in for example Niue Power, but these have been addressed by Treasury assuming the responsibilities for their accounting services.

Dimension	Score (M1)	Justification and cardinal data
(i) Effectiveness of expenditure commitment controls	B	Although the purchase order controls are new, they are reasonably effective and are supplemented by the need for cabinet approval of capital expenditure. <i>Source: Purchase order procedures, treasury regulations, budget book (09/10) instructions</i>
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	C	Regulations which set out the internal controls are fairly comprehensive (in some cases made redundant by new business processes); understanding outside of the treasury is weaker. <i>Source: see above plus interviews with departments</i>
(iii) Degree of compliance with rules for processing and recording transactions	B	Audit reports are not up to date, but their findings highlight problems such as miscodings and access controls. Rules are generally followed but there are some instances of the use of simplified/emergency procedures. <i>Source: Interviews, audit reports (external and internal)</i>

Planned activities

Updating of the regulations is scheduled to be done in the FY 2011/12

PI-21 Effectiveness of internal audit

Assessment 2011

Internal control mechanisms can be improved through the effective use by management of internal audit. The indicator assesses the coverage, quality of the internal audit function; the frequency and distribution of reports; and extent of management response.

Dimension (i) Internal audit is part of the Treasury’s organisation structure with the internal auditor currently reporting directly to the Financial Secretary. An internal audit charter providing the necessary mandate and powers has been drafted but not passed. Currently, some aspects of internal auditing standards are not followed e.g. independent structure, a factor partly of the small nature of government business in Niue. Audits carried out recently have adopted a systems approach within a particular department or section. Coverage has been limited by the fact that there was only one internal auditor

Dimension (ii) Internal audit reports were prepared including one for Niue Power, one on Customs and one on Tax. These were distributed to the Financial Secretary and the head of department but not to the external auditor. Reports were issued regularly.

Dimension (iii) There is no evidence of any management response to internal audit findings.

Dimension	Score (M1)	Justification and cardinal data
(i) Coverage and quality of the internal audit function	D	Due to limited manpower, internal audit coverage is limited. A draft internal audit charter has been developed. Some auditing standards are not followed (a factor of the small size of the function) but a systems approach has been adopted. <i>Source: Interviews Treasury, internal audit reports</i>
(ii) Frequency and distribution of the reports.	C	Reports were sent to the Financial Secretary (who in two cases was also the head of the relevant department,) but not to external audit. During the tenure of the internal auditor (recently resigned) reports were prepared regularly and therefore a C has been assigned. <i>Source: Internal audit report – Niue Power and interviews - treasury</i>
(iii) Extent of management response to internal audit findings	D	There is no evidence of management response to the internal audit reports.

3.5 Accounting, recording and reporting

This set of indicators assesses the quality and timeliness of accounting, recording and reporting.

PI-22 Timeliness and regularity of accounts reconciliation

Assessment 2011

Reliable reporting of financial information requires constant checking and verification of the recording practices. This is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. High quality of bank reconciliation requires that large differences are not left unexplained. Regular reconciliation of suspense accounts and advances is

essential to ensure that the financial reports reflect actual expenditure levels. As indicated in PI 1 and 2, lack of regular reconciliation and clearance potentially undermines budget credibility.

Dimension (i) In the past twelve months, there has been a concerted effort to reduce the number of bank accounts and to ensure that those remaining are under the control of the Treasury. There are 14 bank accounts managed by the Treasury. A review of these accounts shows that at the time of the assessment (20th June 2011), 10 accounts were reconciled to 31st May 2011, the two main accounts (main and donor) were reconciled to 2nd June 2011, leaving two term deposit accounts with limited movements reconciled to 28th February and 6th April.

There are additional accounts held by Telecoms and also a few donor accounts e.g. EU and Unesco, which are not yet controlled by the Treasury.

Dimension (ii) There is a recognised backlog in the reconciliation of a large number of suspense accounts going back to FY 2008/2009. GoN does not provide advances except in rare cases and reconciliation and clearance of advances is not a problem.

Dimension	Score (M1)	Justification and cardinal data
(i) Regularity of bank reconciliations	B	The most significant bank accounts managed by the Treasury are reconciled regularly, at least monthly and within four weeks of month end. <i>Source: Bank reconciliation summary</i>
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	D	The reconciliation and clearance of suspense accounts is not up to date (more than two years old). <i>Source: Interviews Treasury</i>

Ongoing activities

Clearance of suspense accounts is currently ongoing, with attention first being paid to the current financial year (2010/11). The introduction of a new chart of accounts has also reduced the number of suspense accounts available.

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

Assessment 2011

Information on resources (cash and in-kind) received by service delivery units is an important indicator of the reliability and integrity of the fund flows from the centre to the “front line”.

In Niue there is one primary school, one high school and one health clinic situated at the high school. Niue’s classification system means that both the primary school and the high school are established as branches (sub-departments) in the budget. Cash resources provided by the government are therefore known. Regular primary school newsletters also set out receipt of other cash and in kind contributions. Expenditure in cash and in kind at the health clinic is distributed across a number of ‘branches’ e.g. medical, dentistry. Furthermore information on donor funded support to the health clinic is maintained separately.

Dimension	Score (M1)	Justification and cardinal data
i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units.	B	Information on resources received in cash and in kind at the primary school is available through the normal monthly reporting system plus the school’s newsletter. Information on health clinic resources is not regularly collated. <i>Source: Interviews Head Primary school; parents and officials from the health department</i>

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

Assessment 2011

The quality and timeliness of in year budget reports is an important measure of a government's ability to "bring in" the budget. The indicator is assessed based on: i) scope of reports in terms of coverage and compatibility with budget estimates; ii) timeliness of the issue of the reports and iii) quality of information.

Dimension (i) The Treasury produces monthly management reports from the new Greentree system. The reports are produced at the same level of detail as the estimates. The reports show actual budget and variance both for the month and for the cumulative to date. However, commitments are not currently reported in the same format, potentially portraying an overstatement of remaining budget allocation.

Dimension (ii) Management reports are produced monthly by the Treasury within a few days of month end.

Dimension (iii) Quality of data is generally considered reasonable, although in the current year some miscodings have been identified by both the auditors and departmental heads.

Dimension	Score (M1)	Justification and cardinal data
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	Monthly reports show actual, budget and variance for the current month and cumulative to date at line item level. They do not yet include commitments. <i>Source: Monthly reports from Green tree system</i>
(ii) Timeliness of the issue of reports	A	C+ Management reports are produced monthly by the Treasury within a few days of month end. <i>Source: Monthly reports from Green tree system; interviews with Departments, Presentation to Cabinet</i>
(iii) Quality of information	B	

PI-25 Quality and timeliness of annual financial statements

Assessment 2011

The quality and timeliness of annual financial statements are assessed by looking at: i) the completeness of financial statements, ii) the timeliness of submission and iii) the accounting standards used.

Dimension (i) The consolidated statement is prepared annually and includes full details of revenue, expenditure, assets and liabilities for all government departments (trading and non-trading) as well as information on the government's interest in its state owned enterprises (authorities) and other limited companies in which it has a share. Balances relating to donor funds held outside the government system are also recorded.

Dimension (ii) The 2006/7 and the 2007/8 financial statements were prepared between January and April 2008 and January and April 2010 with the assistance of a secondee from the Audit Office of New Zealand. Internal work is ongoing for the preparation of the 2008/9 and 9/10 accounts.

Dimension (iii) The accounts are prepared on a modified accruals basis. Although not produced in accordance with international financial reporting standards with respect to presentation and consolidation, they have been presented in a consistent format over the years.

Dimension	Score (M1)	Justification and cardinal data
(i) Completeness of the financial statements	A	D+
(ii) Timeliness of submission of the financial statements	D	
(iii) Accounting standards used	C	

A consolidated statement is prepared and includes full details of revenue, expenditure, financial assets and liabilities.
Source: Financial statements 2006/7 and 7/8

The last statement for 2007/8 was submitted for audit in March 2010, almost 2 years after year end.
Source: Financial statements 2006/7 and 7/8

The Statements are presented in consistent format over time with some disclosure of accounting standards
Source: Financial statements 2006/7 and 7/8 and interviews Treasury

Planned Activities

It has been agreed with the Audit Office of New Zealand that a gradual move to the preparation of financial statements in accordance with international financial reporting standards will be done over the next few years. Production of the 2008/9 and 9/10 financial statements is planned to be completed by the end of June 2012.

3.6 External Scrutiny and Audit

The indicators in this group seek to assess the scope, quality, timeliness of external audit and the level of follow up of audit recommendations. Key elements of the quality of external audit include the scope and coverage of the audit, adherence to auditing standards, including the independence of the external audit institution.

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

Assessment 2011

Dimension (i) As indicated in section one, article 60 of the Constitution establishes the Audit Office of New Zealand as the auditor of the Niue Government Account and all other public funds or accounts, inclusive of all Departments and Offices of executive government, and other public or statutory authorities as provided by the law. Audit Office of New Zealand is compliant with international auditing standards. In expressing its opinion on GoN's financial statements it carries out a full range of financial (regulatory and compliance) audits on all organisations of central government. However no performance audit has been carried out.

Dimension (ii) As noted above financial statements for FY 2006/7 were prepared between January and April 2008 and for FY 2007/8 were prepared between January and April 2010. This latter statement was submitted for audit in March 2010. The resulting audit report on the two sets of financial statements was submitted to the Speaker in June 2011.

Dimension (iii) The reports of the Controller and Auditor General do provide some high-level recommendations, although the management letter setting out more detailed recommendations/observations has not yet been issued. In the period under review one audit report was received in December 2009 on the financial statements for the financial years (FY) ending 30th June 2004, 2005, 2006. No response to their findings has been found.

Dimension	Score	Justification and cardinal data
(i) Scope/nature of audit performed	B	D+ All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits are performed. Audit Office of New Zealand adhere to auditing standards, focusing on significant and systemic issues. In the period under review no performance audits have been carried out in Niue. A B has therefore been assigned. <i>Source: Audit reports</i> ¹⁸
(ii) Timeliness of audit reports to legislature	D	
(iii) Evidence of follow up on audit recommendations	D	

PI-27 Legislative scrutiny of the annual budget law

Assessment 2011

Legislative scrutiny of the annual budget law is an important element of its oversight responsibilities. The indicator is assessed based on: i) scope of the legislature's scrutiny; ii) extent to which procedures are well established; iii) adequacy of the time provided for scrutiny; iv) rules for in year amendments without ex ante approval.

Dimension (i) The legislature's review of the estimates covers details of revenue and estimates but only at the end of the budget process. As indicated in PI 6 for the period under review, budget documentation submitted to the Assembly has been quite limited and did not include for example information on the macro-economic framework.

Dimension (ii) Part 20 of the Assembly's standing orders set out the procedures for the Appropriation Bill. Part 21 sets out the establishment of select committees, their chairpersons and voting mechanisms. The Bills and Public Expenditure Committee (PEC) are both established as select committees. The eight member PEC has a Terms of Reference covering a three year period e.g. 2011 – 2014 that sets out its role, its functions, its meeting schedule and its reporting obligations. In the past, these procedures have generally been respected. In addition to the review of the estimates, it is also responsible for reviewing reports i.e. Audit reports and monthly financial reports and make recommendations to the Assembly. Although the mechanism for receiving responses from the Executive is not set out.

Dimension (iii) The budget estimates must be provided to members of the Assembly at least ten days prior to their first reading. A further minimum of 14 days are allowed for the Public Expenditure Committee to review the estimates. In the period under review, the PEC has spent more time in reviewing the estimates and in addition has carried out mid- year reviews of budget execution.

Dimension (iv) The Constitution allows for a situation where the Cabinet can incur up to 1.5% of total expenditure without ex-ante approval by the legislature. However as noted in Pi 16, a statement of the unauthorised expenditure for any financial year has to be included in the audited accounts for that year and tabled with the Assembly. The latest Auditor's report and the Financial Statement show that

¹⁸ An email was sent to audit office of new Zealand but no response was received.

slightly more than 1.5% was authorised by Cabinet for the FY 2007/8. Information on later years is not available due to the delays in the production of the financial statements (see PI 22).

Dimension	Score (M1)	Justification and cardinal data
(i) Scope of the legislature's scrutiny	C	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. <i>Source: Assembly standing orders</i>
(ii) Extent to which the legislature's procedure are well established and respected	B	C+ The appropriation bill procedures and the appointment of the select committee are set out in standing orders. The role and functions of the PEC are set out in its terms of reference and are generally followed. <i>Source: Assembly standing orders, PEC reports and ToR</i>
(iii) Adequacy of time for the legislature to provide a response to budget proposals and, where applicable, on macro-fiscal aggregates earlier in the budget preparation cycle.	C	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	Procedurally the legislature has less than a month, but in practice with the work of the PEC in carrying out mid-year reviews it has spent more than a month in deliberations. <i>Source: Assembly standing orders, PEC reports and ToR</i>
		Rules exist but they allow reallocation within the vote and increases to total expenditure. <i>Source: Constitution and Public Revenues Act</i>

PI-28 Legislative scrutiny of external audit reports

Assessment 2011

The legislature has a key role in scrutinising the execution of the budget. This indicator therefore assesses: i) timeliness of examination of audit reports; ii) extent of hearings; iii) issuance of recommendations.

Dimension (i) In the period under review, the Assembly (and the PEC) has received only one audit report relating to the financial statements for the financial years ending 30th June 2004, 2005, 2006. This report was tabled in the Assembly in December 2008 and the corresponding PEC report was tabled in June 2009, thus taking only six months to respond.

Dimension (ii) The PEC did not hold any hearings in relation to the audit report.

Dimension (iii) No recommendations were issued, the report summarised the findings of the Controller and Auditor General.

Dimension	Score	Justification and cardinal data
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	B	For the one audit report received, a PEC report was prepared within six months of its receipt. <i>Source: PEC report on the Audit report</i>
(ii) Extent of hearings on key findings undertaken by legislature	D	D+ The PEC did not hold any hearings <i>Source: PEC report on the Audit report, interviews former PEC chair</i>
(iii) Issuance of recommended actions by legislature and implementation by the executive	D	

3.7 Donor practices

The indicators in this group assess the extent to which donor practices impact the performance of country PFM systems. After Cyclone Heta in January 2004, Niue signed another agreement with New

Zealand called the ‘*Halavaka Ke he Monuina*’ or Memorandum of Agreement, securing additional fiscal assistance of \$20 million over a five-year period outside the Recurrent Budget Support. In addition, the Niue Trust Fund (NTF) was set up for future assistance to Niue.

D-1 Predictability of Direct Budget Support

Dimension (i) Direct Budget Support from New Zealand is the main component of the Bilateral Programme. It is a cash grant paid to the Government of Niue in quarterly instalments for its normal operations. As a cash grant, it goes directly to the Government Account. Over the period 2007/8 – 2009/10, the actual figures were within 1% of forecast figures. However, in 2010/11, the original forecast of NZ\$7.8 million was revised downwards to NZ\$7 million, less than four weeks before the estimates were submitted to the Assembly.

Dimension (ii) Disbursements have always been made within one or two weeks of the envisaged date (1st July, 1st September, 1st January and 1st April). In some quarters, disbursements have been made slightly ahead of schedule to assist the Government’s cash flow position.

Dimension	Score	Justification and cardinal data
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	A	In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%. Consequently for the purposes of this dimension an A is given. However, it should be noted that as for D 2 an agreed plan is not finalised until at least two months into the financial year. <i>Source: Estimates and actual receipts (bank statements)</i>
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	A	Quarterly disbursements have taken place regularly, over the last three years (variance less than two weeks) <i>Source: Bank statements</i>

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

Assessment 2011

Dimension (i) The major donors include New Zealand, European Union, various UN agencies. In New Zealand’s case targeted support includes human resource development; the preservation of culture under Taoga Niue; tourism and marketing; education; technical assistance; airline marketing; asset maintenance; and other initiatives. For New Zealand, agreed level of support has not been approved until several months into the financial year e.g. approval of bilateral programme for 2009/10 was signed in October 2009 and for 2010/11 in August 2010.

Information on EU funds is available as the Premier is the National Authorising Officer, prospective receipt of funds from global funds and UN agencies is dependent on their selection and approval processes e.g. the Global Environment Fund approves its funding allocations in April and September.

Dimension (ii) New Zealand provides an annual summary of funds disbursed including off shore expenditure. Information on EU funds is available quarterly but may not always be complete (excluding offshore payments). Reports are not automatically received from the other major donors on their total quarterly disbursements.

Dimension	Score	Justification and cardinal data
(i) Completeness and timeliness of budget estimates by donors for project support.	D	Approval of New Zealand's bilateral programme (as the key external funding body) has been several months after the start of the FY. Other donor estimates/approvals have been even more ad hoc. <i>Source: Interviews and bilateral approval documents</i>
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D	

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

Assessment 2011

This indicator analyses to what extent the principles of the Paris Declaration have resulted in some harmonisation and alignment of externally funded projects to the use of the national procedures (procurement, payment, auditing and reporting). The indicator is assessed on the proportion of aid funds to central government that are managed through national procedures.

For the purposes of the indicator, the last completed Financial Year is used (FY2010/11). As noted earlier, government only included direct budget support from NZAID in its estimates. While some donor funds e.g. UN funds used some treasury and accounting procedures. This is estimated to have represented less than 50% of funds received from donors.

Dimension	Score	Justification
(i) Overall proportion of aid funds to central government that are managed through national procedures.	D	As only budget support was included in estimates and only limited UN/SPC funds used government accounting and treasury procedures, it is estimated that less than 50% of funds used national procedures in FY 2010/11. <i>Source: 2010/11 estimates, interviews departments, NZ high commission</i>

Ongoing reforms

Based on the total level of funding in the 2011/12 budget of NZ\$ 30 million, future use of national procedures can be broadly broken down as follows:

- ▶ NZAID Budget support 7 million (100%),
- ▶ NZAID trust 8 million (only budget);
- ▶ NZAID (administrative, asset management and specific projects) 8 million (approx 85%)¹⁹
- ▶ Other donors included in the budget approx NZ\$7 million (varies, EU uses own procedures, SPC has own reporting, UN uses own auditors on some occasions)
- ▶ Other (e.g. UNESCO, China)

In this case, it is estimated that between 50 -75% of funds use national procedures (C).

¹⁹ Some funding relates to support to medivac, airlines etc which would be paid directly.

4 Government (PFM) reform process

4.1 Description of recent and on-going reforms

PFM reform and related programmes

The tax reforms that took place between 2008 and 2009 with assistance from advisers from the New Zealand Revenue Service led to the introduction of the Niue Consumption Tax (NCT) and some improvements in tax administration. Training manuals and folders that outline procedures and practices in tax administration including audit guidelines were prepared. A new financial management system (Greentree) was introduced in August 2010 (backdated to 30th June 2010), with the payroll module being installed in June 2011.

A new budgeting framework and format with a medium-term perspective has been introduced for the 2011/12 estimates. Work is ongoing to eliminate the backlog of financial statements and to update treasury regulations and associated instructions. Customs reforms proposed in 2003 have not yet taken place.

4.2 Institutional factors supporting reform planning and implementation

Niue is a very small community with a population of approximately 1,300. Its pool of skilled human resources is therefore limited. In addition there have been demands by the New Zealand Government for greater control of the staff budget and improvements in trading operations. It is widely recognised that in order for ongoing and planned reforms to be sustainable, it will be important that plans are realistic and buy-in obtained from all key stakeholders. Ideally, any roadmap will set out the agreed destination (the vision), which can be followed consistently even when there are management or political changes.

Annex A Summary Table of Performance Indicators

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
A.	PFM-OUT-TURNS: Credibility of the budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	At an aggregate level, the budget appears to have been a reasonably credible indicator of actual expenditure with variances of 3% or less for non-trading departmental expenditure and less than 4.5% for total expenditure (trading and non-trading departments) <i>Source: Financial statements/ outturns and Estimates for 2007/8 – 2009/10</i>
PI-2	Composition of expenditure out-turn compared to original approved budget	C+	Variance in expenditure composition exceeded 10 % in no more than one of the last three years. <i>Source: Financial statements/ outturns and Estimates for 2007/8 – 2009/10</i> . There is no contingency reserve in the estimates for the period under review.
PI-3	Aggregate revenue out-turn compared to original approved budget	B	Total income was between 94 -109% of approved estimates, the result of greater than anticipated tax revenues and lower than anticipated trading income e.g. telecommunication charges. <i>Source: Budgets for 2007/8 – 2009/10 and audited/ unaudited financial statements/ outturns</i>
PI-4	Stock and monitoring of expenditure payment arrears	A	There is no explicit definition of arrears but a commercial view of 30 days is seen as appropriate. However GoN adopts a strict payment within one week policy and the only expenditure arrears are those relating to a couple of old international memberships. These are approximately NZ\$ 182,000, this represents < 2% of total expenditure. <i>Source: Total international memberships outstanding and year-end creditor figures</i> . GoN accounts on an accrual basis and adopts a weekly payment regime. As a check it uses a combination of the report on outstanding commitments combined with the functionality of the Greentree system for the regular monitoring of arrears. <i>Source: Greentree system and interviews Treasury</i>
B.	KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	C	The budget uses an administrative and economic classification (GFS compatible) which is broken down into sufficient detail to facilitate mapping to GFS format through bridging mechanism. <i>Source: Budgets for 2011/12 and new chart of accounts,</i>
PI-6	Comprehensiveness of information included in budget documentation	C	Of the 9 criteria, three are not applicable. Of the remaining six, two were recorded for 2010/11 A C score has been assigned. <i>Source: Budget documents 2009/10 and 2010/11</i>
PI-7	Extent of unreported government operations	D+	There is little or no unreported government expenditure. <i>Source: Treasury interviews, budget documentation, financial statements and monthly reports</i> . Donor funded projects were not included in the estimates, consequently only cash balances were included in the financial statements and only treasury managed projects reported on a monthly basis. <i>Source: Treasury interviews, budget documentation, financial statements and monthly reports</i>
PI-8	Transparency of inter-governmental fiscal relations	N/A	
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	A	For BCN and the Tourism Authority, the Treasury provides payment, accounting and reporting services, thus having up to date information on fiscal risk. NDB provides quarterly data to the Cabinet and Treasury. Information is then consolidated into the annual financial statement.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			<i>Source: NDB quarterly reports, interviews Treasury, BCN and Tourism Authority</i>
PI-10	Public access to key fiscal information	D	Despite the widespread use and availability of the internet, none of the key fiscal information is uploaded or made easily available in hard copy format. <i>Source: Government website; interviews Chamber of Commerce</i>
C.	BUDGET CYCLE		
C(i)	Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	D+	There is a budget calendar but there is limited time (2-3 weeks) allocated for preparation of draft budgets. <i>Source: Budget Calendars.</i> A memorandum is issued, but allocations/ceilings to administrative units are not issued, only to work within previous year's figures. Cabinet has limited time to review estimates prior to their finalisation. <i>Source: Budget memorandum 2010/11 and 2011/12.</i> The 2008-09 Budget was appropriated on 24 th September 2008. The 2009 -10 budget on 29 th July 2009 and the 2010/11 budget on 16 th August 2010. <i>Source Appropriation Acts for 3 yrs</i>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	Fiscal aggregate forecasts on a rolling basis were not prepared for the last two completed financial years. The government does not borrow so no DSA is required <i>Source: 2010/11 estimates.</i> Corporate plans per department exist but planned sector strategies are not yet developed, neither are costed. <i>Source: NISP, interviews with departments.</i> Given the absence of forward expenditure estimates and information on donor funding projects, the link between investment budgets and forward recurrent expenditure estimates has been weak. <i>Source: Budgets for period, budget memorandum</i>
C(ii)	Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	C	NCT is clear and comprehensive. Income Tax and Customs legislation are not as clear as modern day equivalents. Administrative procedures are quite burdensome and certain powers e.g. post clearance audit for customs are not available. As in many countries, Cabinet has discretionary powers in deciding whether potential investors can be provided with tax exemptions. Similarly it can decide which goods and services to exempt from NCT. This power is not available to the administration e.g. Treasury/Minister. A rating of C has therefore been assigned. Resident taxpayers have access (formal and informal) to information on tax legislation and liabilities through the Tax Office. For potential investors/Niueans in NZ access is not as easy as relevant legislation has been removed from the GoN website. Tax education literature was produced as part of the tax reforms in 2008/9, but the view of both government and private sector is that this would benefit from updating/ refresher course A C has therefore been assigned. <i>Source: NCoC literature, Tax office guidance, interviews, website</i> There is an administrative based objections process set out in the legislation and applied within the Treasury. Only a couple of objections have been raised and these have been clearly dealt with. None have been taken to Court, with such a small number of objections, there is insufficient evidence ²⁰ to determine how fair, transparent and effective the process is. <i>Source: Income Tax Act, NCT Act, interviews</i>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	Taxpayer information is maintained in different but complete databases, PC Trade for customs and an access based system for Income Tax and NCT. There is no direct link with the business register although informal

²⁰ It should not be inferred that the process is not fair but that there have been insufficient cases to test the process.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			contacts are maintained. <i>Source: Interviews Tax and Customs officials.</i> There are penalties in place but their level is quite low and traditionally they have not been consistently enforced. <i>Source: tax documentation, interviews Treasury (tax and customs).</i> There is a continuous audit process for income tax and NCT, but no risk based audit plan. <i>Source: Legislation, tax files</i>
PI-15	Effectiveness in collection of tax payments	N/R	Data is not available to calculate the collection ratio due to the introduction of a new financial management system in 2010/11 and cleaning of debtor data from the previous system. <i>Source: Interviews treasury officials.</i> Tax revenues are banked at least weekly into treasury managed bank accounts <i>Source: Tax file data – receipt books, deposit books and banking summaries.</i> There is a continuous updating/reconciliation of assessments, collections, arrears records and receipts by the Treasury as they are all maintained on the Greentree system. <i>Source: Tax file data, Greentree system information</i>
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	The annual budget is profiled by the Treasury producing an annual cash flow plan. Quarterly cash flow forecasts are then prepared and updated weekly based on anticipated cash inflows and outflows. <i>Source: Cash Flow forecast; treasury interviews.</i> Requests for re-allocations are made by the Department and approved by the Financial Secretary. Other significant adjustments are rare. Additional expenditure approved by Cabinet is allowed by the Constitution and done in a fairly transparent manner. <i>Source: Legislation and treasury regulations</i>
PI-17	Recording and management of cash balances, debt and guarantees	C+	Information on NZ loan/advance is complete and up to date. <i>Source: Financial statement and interviews – treasury.</i> Calculation of most government cash balances take place daily, but the banking system used does not allow consolidation of bank balances. <i>Source: interviews – treasury.</i> There is no mechanism or set of procedures for awarding loans or issuing guarantees. <i>Source: Public Revenues Act, Treasury regulations and interviews - treasury</i>
PI-18	Effectiveness of payroll controls	D+	Personnel records are maintained manually and payroll data is computerised including a list of employees. The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data by the administration department. There are few changes to the payroll and once received by the Administration Department, they are generally actioned within a week. There may be the odd exception of a retirement/termination but limited in terms of value or numbers. A mini payroll is run for new employees that may have missed the bi-weekly payment. Segregation of duties is established in the payroll system. Authority and basis for changing payroll data is spelt out in the relevant documentation. Outside of government manual inputting of data by BSP results in some errors. This part does not result in an audit trail and therefore a B is assigned. There has been no payroll audit which includes physical verification.
PI-19	Competition, value for money and controls in procurement	D	Legislation and regulations do not cover procurement, only authorisation of expenditure for capital and recurrent expenditure. <i>Source, Public Revenues Act and Treasury Regulations.</i> There is no data available on use of competitive procurement methods. <i>Source, Interview Treasury.</i> Public have access to bidding opportunities only and even the coverage of these opportunities is not complete. <i>Source, Interview CHOBS, Chamber of Commerce.</i> There is no independent procurement complaints body. <i>Source Regulations, Interview CHOBS, Chamber of Commerce.</i>
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	Although the purchase order controls are new, they are reasonably effective and are supplemented by the need for cabinet approval of capital expenditure. <i>Source: Purchase order procedures, treasury regulations, budget book (09/10) instructions.</i> Regulations are fairly comprehensive (in some cases a little excessive); understanding outside of the treasury is weaker. <i>Source: see above plus interviews with departments</i> Audit reports are not up to date, but their findings highlight problems such as miscodings and access controls. Rules are generally followed but there are some

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			instances of the use of simplified/emergency procedures. <i>Source: Interviews, audit reports (external and internal)</i>
PI-21	Effectiveness of internal audit	D+	Due to limited manpower, internal audit coverage is limited. A draft internal audit charter has been developed. Some auditing standards are not followed (a factor of the small size of the function) but a systems approach has been adopted. <i>Source: Interviews Treasury</i> , Reports were sent to the Financial Secretary (who in two cases was also the head of the relevant department,) but not to external audit. During the tenure of the internal auditor (recently resigned) reports were prepared regularly and therefore a C has been assigned. . <i>Source: Internal audit report – Niue Power and interviews – treasury</i> . There is no evidence of response to recommendations.
C(iii)	Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	D+	The most significant bank accounts managed by the Treasury are reconciled regularly, at least monthly and within four weeks of month end. <i>Source: Bank reconciliation summary</i> . The reconciliation and clearance of suspense accounts is not up to date (more than two years old). <i>Source: Interviews Treasury</i>
PI-23	Availability of information on resources received by service delivery units	B	Information on resources received in cash and in kind at the primary school is available through the normal monthly reporting system plus the school's newsletter. Information on health clinic resources is not regularly collated. <i>Source: Interviews Head Primary school; parents and officials from the health department</i>
PI-24	Quality and timeliness of in-year budget reports	C+	Monthly reports show actual, budget and variance for the current month and cumulative to date at line item level. They do not yet include commitments. <i>Source: Monthly reports from Green tree system</i> . Management reports are produced monthly by the Treasury within a few days of month end. <i>Source: Monthly reports from Green tree system; interviews with Departments, Presentation to Cabinet</i> . There are some minor concerns about the quality of the data (e.g. miscodings) but these do not affect the overall usefulness of the information. <i>Source: Monthly reports from Green tree system; interviews with Departments, Presentation to Cabinet</i>
PI-25	Quality and timeliness of annual financial statements	D+	A consolidated statement is prepared and includes full details of revenue, expenditure, financial assets and liabilities. <i>Source: Financial statements 2006/7 and 7/8</i> . The last statement for 2007/8 was submitted for audit in March 2010, almost 2 years after year end. <i>Source: Financial statements 2006/7 and 7/8</i> . The Statements are presented in consistent format over time with some disclosure of accounting standards. <i>Source: Financial statements 2006/7 and 7/8 and interviews Treasury</i>
C(iv)	External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+	All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits are performed. Audit Office of New Zealand adhere to auditing standards, focusing on significant and systemic issues. In the period under review no performance audits have been carried out in Niue. A B has therefore been assigned. In terms of a structured response and follow up to the Audit Office recommendations, none have been found.
PI-27	Legislative scrutiny of the annual budget law	C+	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. <i>Source: Assembly standing orders</i> . The appropriation bill procedures and the appointment of the select committee are set out in standing orders. The role and functions of the PEC are set out in its terms of reference, and these are generally adhered to. <i>Source: Assembly standing orders, PEC reports and ToR</i> . Procedurally the legislature has less than a month, but in practice with the work of the PEC in carrying out mid-year reviews it has spent more than a month in deliberations. <i>Source: Assembly standing orders, PEC reports and ToR</i> . Rules exist but they allow

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			reallocation within the vote and increases to total expenditure. <i>Source: Constitution and Public Revenues Act</i>
PI-28	Legislative scrutiny of external audit reports	D+	For the one audit report received, a PEC report was prepared within six months of its receipt. <i>Source: PEC report on the Audit report.</i> The PEC did not hold any hearings. <i>Source: PEC report on the Audit report, interviews former PEC chair.</i> The PEC did not issue any recommendations. <i>Source: PEC report on the Audit report</i>
D.	DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	A	In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%. Consequently for the purposes of this dimension an A is given. However, it should be noted that as for D 2 an agreed plan is not finalised until at least two months into the financial year. <i>Source: Estimates and actual outturns.</i> Quarterly disbursements have taken place regularly, over the last three years (variance less than two weeks). <i>Source: Bank statements</i>
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	Approval of New Zealand's bilateral programme (as the key external funding body) has been several months after the start of the FY. Other estimates/approvals have been even more ad hoc. <i>Source: Interviews and bilateral approval documents.</i> Information on donor flows for project support is not done quarterly with the exception of the EU (although this may not always include offshore payments). <i>Source: Interviews Treasury, external affairs and departments</i>
D-3	Proportion of aid that is managed by use of national procedures	D	As only budget support was included in estimates and only limited UN/SPC funds used government accounting and treasury procedures, it is estimated that less than 50% of funds used national procedures. <i>Source: 2010/11 estimates, interviews departments, NZ high commission</i>

Annex B Terms of Reference

Terms of Reference for an assessment of Public Financial Management In Niue based on the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework

A. Background

The Public Expenditure and Financial Accountability (PEFA) Program was founded in December 2001 as a multi-donor partnership. The goals of the PEFA Program are to strengthen partner country and donor abilities to: (i) assess the condition of country public expenditure, procurement and financial accountability systems; and (ii) develop a practical sequence of reform and capacity-building actions.

The PEFA Performance Measurement Framework is a high level analytical instrument which provides an overview of the performance of a country's public financial management (PFM) system. In the Pacific region PEFA assessments have been undertaken in the Fiji Islands, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu. A assessment of the Cook Islands is due in May, 2011

The Government of Niue has implemented some measures to improve the PFM systems in the past. However, no PEFA has so far been undertaken in Niue. With a view to improve PFM the Government of Niue has now indicated their interest in undertaking a PEFA assessment and the development of a PFM Road Map in the future. This document sets out the Terms of Reference for an assessment of PFM in Niue based on the PEFA Performance Measurement Framework.

B1. Objectives of the assessment

The overall aim of the assessment is to produce a comprehensive Public Financial Management Performance Report prepared according to the PEFA methodology which will provide an assessment of the current performance of PFM processes and systems in Niue and lead to the development of a PFM Road Map for the future, with PFTAC assistance.

The objectives of the assessment are two-fold:

1. Develop the PEFA performance indicators which will provide the baseline data to support the monitoring and evaluation of PFM reforms. The Niue Treasury anticipates the PEFA assessment will be repeated every three or four years; and
2. Prepare the PFM Report to support the indicator scores, provide an integrated assessment of the strengths and weaknesses in PFM performance, identify the impact of PFM weaknesses and establish the links between the indicators and potential reform initiatives to enable the development of a PFM Road Map for Niue

There are potential harmonisation benefits from government and development partners using a widely accepted framework, such as PEFA, to assess PFM systems. This includes encouraging a common understanding of the strengths and weaknesses of PFM systems and assistance with the development of an integrated PFM Road Map that would help in improving PFM in the country.

B2. Scope and Coverage of the assessment

The PEFA assessment shall cover the Government of Niue in its entirety, all its authorities and agencies and its public enterprises.

C. Main assessment agents

The Government of Niue:

The assessment team will report to the Finance Secretary. An official, or officials, nominated by the Finance Secretary will be a central part of the assessment team {referred to hereinafter as “Team”} (refer *Assessment team’s composition* below). Government officials of, and principal technical advisers to the Ministry of Finance (MoF), and other relevant Government ministries and agencies, will be associated with and consulted in this assessment as appropriate. The Audit Office will also be consulted during the assessment, if possible.

The donor community:

IMF/PFTAC, working with other donors, including the EU and New Zealand, will provide support throughout the duration of the PEFA in the form of an external consultant. S/he will work with Niue government officials to disseminate relevant information, consolidate and coordinate development partner comments on preliminary findings and provide the draft report and the final report.

The IMF/PFTAC will be consulted closely during the planning of this assessment (including developing these terms of reference). The “Team”, comprising of the consultants and Niue officials nominated by the Government for this purpose, working in close collaboration with other Niue counterparts, will send an official communication to development partners and other stakeholders informing them of the ToR, names of the experts and dates for the field mission phase. This letter should reach the development partners and other stakeholders at least two weeks prior to the field mission phase.

IMF/PFTAC will provide the “Team” back stopping support, and guidance where necessary. On completion of the PEFA assessment, IMF/PFTAC will assist Niue develop the PFM Road Map, including action plans to improve PFM in the future.

Donors will have the opportunity to comment on the draft report, and will receive a copy of the final report.

D. Methodology

The primary reference for the exercise will be the PEFA PFM Performance Measurement Framework. Annex 1 and 2 of the PEFA PFM Performance Measurement Framework will constitute the guidelines for fieldwork and reporting.²¹ The Performance Measurement Framework aims to support

²¹ PEFA, *Public Expenditure and Financial Accountability, Dépenses publiques et responsabilité financière, Public Financial Management, Performance Measurement Framework, June 2005, Reprinted May 2006, PEFA Secretariat, World Bank, Washington DC, USA.*

integrated and harmonised approaches to assessment and reform in the field of public expenditure, procurement and financial accountability. Relevant documentation can be found on www.pefa.org.

Available information on public finance and economic reforms in Niue will be accessed and analyzed by the Team Leader / Expert prior to the field mission phase, and s/he will work with the “Team” to form the basis of the background section of the report. Possible sources of relevant information include the Government, EU, MFAT/New Zealand Aid Programme, IMF/PFTAC and other development partners.

An indicative work plan will be presented by the assessment “Team”, comprising of the consultant and the Niue Government officials, to the Government and development partners at least 2 days prior to the start of the field mission phase. The work plan, broadly comprising of a field mission phase and a report drafting phase, followed by a report finalization phase, will need to summarize the principal stages of the assessment, including a list of people to be consulted and also outline the information to be collected from stakeholders. The work plan should also include a mid-term review meeting with development partners and key government officials.

E. PEFA training and dissemination

The “Team” will conduct a one-day preparatory workshop in Niue for all stakeholders at the beginning of the field mission phase, including government, development partners, private sector and civil society stakeholders. The core material for the preparation of the workshop can be found on the website of the PEFA Secretariat (www.pefa.org). Care should be taken to include the recent changes in assessment process for three indicators²². This workshop will include two types of sessions: one providing a brief overview including general information about PEFA and the assessment; and the other detailing the techniques to be applied and the indicators directed at Government representatives and their advisers.

At the end of the field mission phase, a one-day completion workshop for stakeholders will be held to distribute and discuss the findings contained in an aide-mémoire (refer *Reporting* below), with the aim of achieving agreement on the scores between the assessment team and Government officials. Development partners will be invited to this workshop as observers, and adequate notice given to them to make appropriate travel arrangements. The exercise shall be led by PFTAC and the development partners shall comprise of the EU, MFAT/New Zealand Aid Programme, AUSAID, and the ADB.

F. Reporting

During the end of field mission phase workshop, the “Team” should provide an aide-mémoire (maximum 10 pages, excluding annexes) to government and development partners. The aide mémoire should indicate the main findings and highlight sections to be developed further in the draft report. This aide-mémoire will be complemented by the detailed assessment of the 31 indicators included in the PEFA PFM Performance Measurement Framework.

On completion of the field mission phase, the assessment team will submit a draft report complying with the PEFA PFM Performance Measurement Framework (refer **Annex 2**). This will incorporate comments and feedback received by the assessment team during the final workshop. The draft report

²² Changes have recently been made to the assessment of indicators PI-1, PI-3, and PI-19.

will be sent electronically to the MOF, participating donors²³, and the PEFA Secretariat in Washington DC, by the “Team”.

Comments from government, participating donors²⁴ and the PEFA Secretariat will be forwarded within one week of receipt of the draft report. The “Team” will receive and consolidate the comments from donors and thereafter finalise the report.

The Team will have one week from the receipt of feedback on the draft report to finalise and submit the final report. Comments from the Government will be attached in full as an annex to the report. The final report will be sent – in hard and electronic copies – to the MOF, participating development partners including New Zealand, the EU and IMF/PFTAC, and the PEFA Secretariat in Washington DC. The Government has agreed to allow the PEFA Secretariat to publish the final report on its website.

All reports should indicate clearly the information sources and documents used for the assessment of indicators, with information being triangulated from different sources whenever possible. Difficulties in the assessment of each indicator and/or suggestions for further investigation should also be mentioned.

G. Assessment team’s composition

The assessment team²⁵ will comprise at least four members:

Team leader / Expert: The Team Leader / Expert will be an independent consultant, (Ms. Carole Pretorius), contracted by PFTAC and with experience in conducting PEFAs. Her role is to facilitate the work of the team, and provide support as required. She shall coordinate closely with the IMF/PFTAC PFM Advisor in Suva during the entirety of this work.

Team members / Government officials (3 or 4): Assisted by technical advice from the team leader/expert, and supported by other members of the assessment team, the government officials will be responsible for planning and executing the field work. In particular, the Government officials will ensure access to information and documents, and that relevant people are consulted and informed about the assessment. The Government officials will have good writing and communication skills in English.

In addition to the assessment team described above, the IMF/PFTAC PFM Advisor, based in Suva, shall provide back stopping support and advice to the team in the completion of this assessment.

H. Timing of the assessment

²³ These shall comprise of the EU, PFTAC, MFAT/New Zealand Aid Programme, AUSAID and ADB.

²⁴ For details see footnote 3

²⁵

- 1) Team member / Government official costs which will be covered by the Government (see *Assessment team’s composition* above).
- 2) All external consultant/ Team Leader/Expert costs , including back stopping costs, travel, accommodation and per diem for participation of IMF/PFTAC staff, if necessary, will be borne by IMF/PFTAC

The indicative date for the start of the field mission phase in Niue is **13 June 2011**. Briefing, work plan development and meeting arrangements would occur prior to this date. The overall field mission phase is estimated at 14 calendar days (including the one-day preparatory workshop and the one-day completion workshop), with an additional 3 days for reporting, not including travel time. Refer **Annex 1** for more details.

Annex 1: Schedule for the preparation and execution of the PEFA assessment (TBC)

Tasks	Responsible	Calendar
Awareness raising within the Government		
Establish the modalities of Government involvement as well as the list of documentation that the Government has to provide before the start of the field mission phase	Government, “Team”, IMF/ PFTAC, EU, MFAT/New Zealand Aid Programme	11 May
Agreeing the field mission phase timetable		
Dates agreed taking into account other donor missions and the budget calendar of the Government.	Government, “Team”, IMF/ PFTAC,	completed
Recruitment of the assessment team		
Recruitment of consultants according to the specific recruitment procedures of each contracting donor.		Prior to 23 May
- Team leader / Expert (international consultant)	IMF/PFTAC	By 22 May
- Team members / Government officials (3 or 4)	Government With IMF/PFTAC input	By 23 May
PEFA assessment		
Briefing of Team leader / Expert	Government, Team leader / Expert and “Team”, IMF/ PFTAC, EU	13 June
Collection of initial documentation from MOF, Line Ministries, Niue Constitution, MOF Act, Niue Audit Office etc.	”Team”	Prior to 3 June
Preparatory workshop	”Team”	14 June
Assessment team commences fieldwork	”Team”	15 June
Analysis of documentation and interviews / consultation with Government, civil society, donors, and preparation of the aide mémoire	”Team”	15-21 June
Completion workshop	”Team”	23 June
Comments due back	”Team”	30 June
Final report submitted	”Team”	5 July
Debriefing by Team leader / Expert	Government , Team, EU, IMF/ PFTAC, MFAT/New Zealand Aid Programme , AUSAID, ADB	24 June
Draft report submitted, field work ends	”Team”	24 June

Annex 2: The Public Financial Management – Performance Report (PFM-PA)²⁶

Summary assessment

1. Introduction

2. Country background information

2.1. Description of country economic situation

2.2. Description of budgetary outcomes

2.3. Description of the legal and institutional framework for PFM

3. Assessment of the PFM systems, processes and institutions

3.1. Budget credibility

3.2. Comprehensiveness and transparency

3.3. Policy-based budgeting

3.4. Predictability and control in budget execution

3.5. Accounting, recording and reporting

3.6. External scrutiny and audit

3.7 Donor practices

3.8. Country specific issues (if necessary)

4. Government reform process

4.1. Description of recent and on-going reforms

4.2. Institutional factors supporting reform planning and implementation

Annex 1: Performance Indicators Summary

Annex 2: Sources of information

²⁶ PEFA, *Public Expenditure and Financial Accountability, Dépenses publiques et responsabilité financière, Public Financial Management, Performance Measurement Framework, June 2005, Reprinted May 2006, PEFA Secretariat, World Bank, Washington DC, USA* (page 55).

Annex C People consulted/ Workshop attendees

Name	Institution	Position
Treasury		
Brendan BEAK	Treasury	Financial Secretary
Graham NOOTEBOS	Treasury	Chief Accountant
Sue STCLAIR	Treasury	Office Manager
Doreen SIATAGA	Treasury	Financial Accountant
Priscilla KAPAGA	Treasury	Accounts Payable Team Leader
Akata BILITAKI	Treasury	Assistant Financial Accountant
Hane TUKUTAMA	Tax	Assistant Collector of Tax
Pokau SIONETAMA	Customs	Collector of Customs & Tax Revenues
Morgan MOUGAVALU	Customs	Assistant Collector of Customs & Tax
Chamberlain PITA	Customs	Senior Customs Officer
Departments		
Jamal TALAGI	Premier's Department	Personal Assistant to Premier
Christine IOANE	Premier's Department	Dir. Of Cabinet & Parliamentary Services
Kim RAY VAHA	Statistics	Government Statistician
Sauni TONGATULE	Environment	Environment Director
Haden TALAGI	Environment	PACC Project Coordinator
Margaret SIOSIKEFU	Project Management Unit	PMU Manager
Andre SIOHANE	Public Works Department	IWRM Project Manager
Kennedy TUKERTAMA	Education	Senior Manager
Ilzy TUKUITOGA	Education	Niue Primary School Principal
Jessica SIONETUATO	Education	Niue Primary School Administrator
Joseph MAHAKITAU	Agriculture, Fisheries & Forestry	Manager
Gaylene TASMANIA	Community Affairs	Director
Toe TUKOTOMA	Community Affairs	Manager
Wennie SALATIELU	Administration Department	Director
Suefane TOUNA	Administration Department	Payroll Officer
	Niue Public Service Commission	Chair
	Niue PSC	
Justin Kamupala	Ombudsman (project)	
Assembly		
Hon. Toke TALAGI	Assembly	Premier
Hon. Ahohiva LEVI	Assembly	Speaker
Moka TANO	Assembly	Clerk to Assembly
Donors		
Mark Blumskey	New Zealand High Commission	NZ High Commissioner
Tauaasa TAAFAKI	New Zealand High Commission	Deputy NZ High Commissioner
State Owned Enterprises		
Vaine PASISI	National Development Bank	General Manager
Catherine PAPANI	National Development Bank	Company Accountant
Hayden PORTER	Tourism Authority	Senior Tourism Development Manager
Trevor Tiakia	BCN	

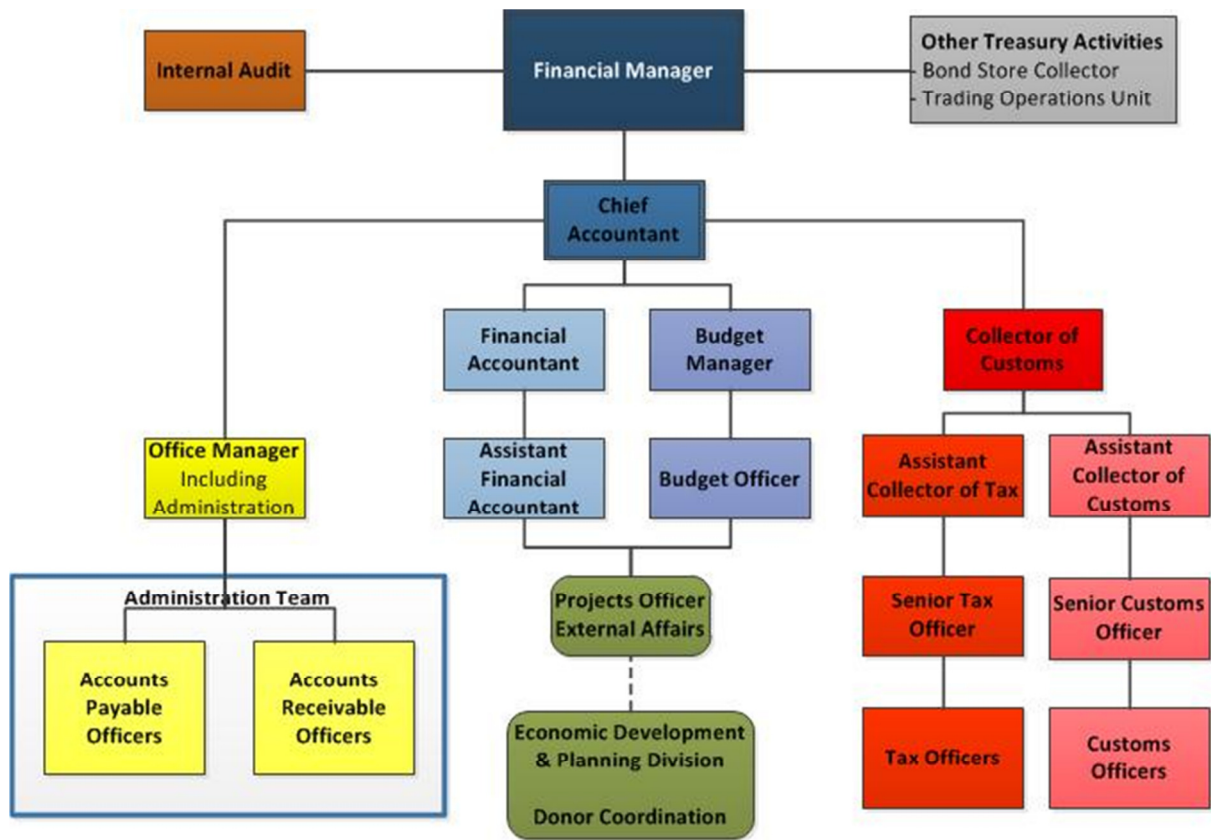
Name	Institution	Position
Private sector		
Elliot KIRTON	Niue Chamber of Commerce	Business Development Manager
Lofa REX	Niue Chamber of Commerce	Vice-President
Other		
Judy NEMAIA	Alofi South Village Council	Councillor
Workshop Attendees		
Richard HIPA	Premier's Department	Secretary of Government
Mokalita HEKA	Niue Bulk Fuel	Office Manager
Gabriel VAREA	Niue Chamber of Commerce	Business Support Officer
Beveridol MOKALEI	Niue Power Corporation	Data Entry & Accounts
Moka IOANE	Niue Tourism Authority	Finance & Administration Manager
Brendon PASISI	Agriculture Fisheries & Forestry	Director
Gispana KONELVO	Public Works Department	IWRM Coordinator
Sue STCLAIR	Treasury	Office Manager
Margaret SIOSIKEFU	Project Management Unit	PMU Manager
Meleta T TUPAU	Treasury	Accounts Receivable Officer
Priscilla KAPAGA	Treasury	Accounts Payable Team Leader
Sifakalipa PULEHEIDA	Treasury	AR Team Leader
Leasley Haletama	Treasury	Accounts Clerk
Missouri TUINEAU	Treasury	Accounts Payable Officer
Wennie SAIOTELU	Administration Department	Director
Sidney IKIUA	Public Works Department	Accounts Officer
Frank SIONEHOLO	Premier's Department	Head of Trade
Akata BILITAKI	Treasury	Assistant Financial Accountant
Sufane TOUNA	Administration Department	Payroll & Administration
Hane TUKUTAMA	Tax	Assistant Collector of Tax
CM Tagatu	National Training and Development Centre	Manager
S L SIONEPOKAU	Customs	Collector
Etaena POINEGA	Project Management Unit	Project Support Officer
Toe TUKUTAMA	Community Affairs	Manager
Gaylene TASMANIA	Community Affairs	Director
Graham NOOTEBOS	Treasury	Chief Accountant
Anne McLEAN	Health	Director
Doreen SIATAGA	Treasury	Financial Accountant
Brendan BEAK	Treasury	Financial Secretary

Annex D List of documents consulted

Title	Author	Date
Laws and regulations		
Constitution	Government of Niue	1974
Public Revenues Act	Government of Niue	1959
Customs Act	Government of Niue	1966
Income Tax Act	Government of Niue	1961
Niue Consumption Tax	Government of Niue	2009
Assembly Standing Orders	Government of Niue	1988
Appropriation Act 2011	Government of Niue	2011
Appropriation Act 2010	Government of Niue	2010
Appropriation Act 2009	Government of Niue	2009
Treasury Regulations	Government of Niue	2002
Budget Book instructions 2009/10	Government of Niue	2009
Financial Statements		
Financial statements for the year ended 30 June 2007	Government of Niue	2008
Financial statements for the year ended 30 June 2008	Government of Niue	2010
Government financial report for the year ended 30 June 2010	Government of Niue	2010
Budget formulation and execution documents		
Estimates of Expenditure and Revenue for FY 2011/2012	Government of Niue	2011
Estimates of Expenditure and Revenue for FY 2010/11	Government of Niue	2010
Estimates of Expenditure and Revenue for FY 2009/10	Government of Niue	2009
Monthly execution report by department and branch	Government of Niue	2011
Budget memorandum (letter) 2010/11	Treasury Department	2010
Budget Calendars 2009/10, 2010/11, 2011/12	Treasury Department	
Statement of appropriation for the period ending 30 th april 2011	Treasury Department	2011
Policy documents		
Niue National Strategic Plan 2009 - 2013	Government of Niue	2009
Auditor General's reports		
Report of the Controller and Auditor General on the Audit of the Financial Statements of the Government of Niue For the year ended 30 th June 2007; 30 th June 2008	Audit Office of New Zealand	March 2011
Legislature's reports		
Public Expenditure Committee 2011 -2014 Terms of reference	GoN	2011
Recommendations on the 2010/11 recurrent budget	PEC	2010
Report on the audit report	PEC	2009
Internal audit reports		
Internal audit report to the Niue Power Corporation 2008/9	Internal Audit	2009
Donor Documents		
Niue: Strategy for introducing the Niue Consumption Tax and Modernising the Revenue Section	Pacific Financial Technical Assistance Centre	Nov. 2003
Other Documents		
Board meeting 243	NDB	May 2 nd 2011
Niue Business Tax Booklet	NCoC	2008
Important things to remember for business	Tax office	2008

Title	Author	Date
Statistical releases Niue Consumer Price Index	Niue Statistics Office	Mar 2011
Statistical releases National Accounts Estimates Niue	Niue Statistics Office	
Niue Chart of Accounts		
Websites		
www.gov.nu		
www.pefa.org		
www.greentree.com		

Annex E Treasury Organisation Structure



Annex F Calculation of Variances

Data for year =	2008					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	%
Administrative services	734000	682717	756,188.6	-73,471.6	73,471.6	9.7%
Agriculture	601000	521867	619,168.0	-97,301.0	97,301.0	15.7%
Community Affairs	1546000	1682153	1,592,735.0	89,418.0	89,418.0	5.6%
Education	1509000	1397535	1,554,616.5	157,081.5	157,081.5	10.1%
Environment	201000	202611	207,076.2	-4,465.2	4,465.2	2.2%
Health	1604000	1645700	1,652,488.3	-6,788.3	6,788.3	0.4%
Justice	448000	425461	461,542.9	-36,081.9	36,081.9	7.8%
Public Service Commission	350000	303377	360,580.4	-57,203.4	57,203.4	15.9%
Police	390000	397117	401,789.6	-4,672.6	4,672.6	1.2%
Public Works	824000	760983	848,909.2	-87,926.2	87,926.2	10.4%
Premiers	2487000	2611280	2,562,181.1	49,098.9	49,098.9	1.9%
Taoga Niue	118000	125660	121,567.1	4,092.9	4,092.9	3.4%
Treasury	630000	765591	649,044.7	116,546.3	116,546.3	18.0%
Meteorological services	111000	111592	114,355.5	-2,763.5	2,763.5	2.4%
non trading capital	100000	364404	103,023.0	261,381.0	261,381.0	261.4%
government residences	51000	29108	52,541.7	-23,433.7	23,433.7	45.9%
pub works trading	537000	495664	553,233.3	-57,569.3	57,569.3	10.7%
bond store	659000	538752	678,921.3	140,169.3	140,169.3	21.3%
telecom	1120000	852448	1,153,857.2	301,409.2	301,409.2	26.9%
Niue power	1564000	1649333	1,611,279.2	38,053.8	38,053.8	2.4%
bulk fuel	3293000	3884292	3,392,546.2	491,745.8	491,745.8	14.9%
allocated expenditure	18877000	19447645	19,447,645.0	0.0	2,100,673.4	
contingency						
total expenditure	18877000	19447645				
overall (PI-1) variance						3.0%
composition (PI-2) variance						10.8%
contingency share of budget						0.0%

Data for year =	2009					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Administrative services	724000	728105	704,880.1	23,224.9	23,224.9	3.3%
Agriculture	614000	504749	597,785.1	-93,036.1	93,036.1	15.6%
Community Affairs	1433000	1586928	1,395,156.4	191,771.6	191,771.6	13.7%
Education	1477000	1437591	1,437,994.4	-403.4	403.4	0.0%
Environment	217000	237427	211,269.3	26,157.7	26,157.7	12.4%
Health	1626000	1903455	1,583,059.6	320,395.4	320,395.4	20.2%
Justice	456000	390474	443,957.7	-53,483.7	53,483.7	12.0%
Public Service Commission	380000	340125	369,964.7	-29,839.7	29,839.7	8.1%
Police	439000	409634	427,406.6	-17,772.6	17,772.6	4.2%
Public Works	872000	864984	848,971.7	16,012.3	16,012.3	1.9%
Premiers	2780000	2526732	2,706,584.0	-179,852.0	179,852.0	6.6%
Taoga Niue	138000	108977	134,355.6	-25,378.6	25,378.6	18.9%
Treasury	699000	517170	680,540.4	-163,370.4	163,370.4	24.0%
Meteorological services	112000	102202	109,042.2	-6,840.2	6,840.2	6.3%
non trading capital	100000	89774	97,359.1	-7,585.1	7,585.1	7.6%
government residences	52000	64232	49,719.0	14,513.0	14,513.0	27.9%
pub works trading	582000	515356	556,470.4	-41,114.4	41,114.4	7.1%
bond store	563000	631712	538,303.8	93,408.2	93,408.2	16.6%
telecom	1124000	1041720	1,074,695.3	-32,975.3	32,975.3	2.9%
Niue power	2047000	2298621	1,957,207.6	341,413.4	341,413.4	16.7%
bulk fuel	6255000	5394727	5,980,622.2	-585,895.2	585,895.2	9.4%
allocated expenditure	22690000	21694695	21,694,695.0	0.0	2,274,651.5	
contingency						
total expenditure	22690000	21694695				
overall (PI-1) variance						4.4%
composition (PI-2) variance						10.5%
contingency share of budget						0.0%

Data for year =		2010					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent	
Administrative services	785300	786204.36	765,864.5	20,339.9	20,339.9	2.7%	
Agriculture	733000	610616.06	714,858.9	-104,242.8	104,242.8	14.6%	
Community Affairs	1658000	1786880.29	1,616,965.9	169,914.4	169,914.4	10.5%	
Education	1473000	1483768.06	1,436,544.5	47,223.5	47,223.5	3.3%	
Environment	251000	262663.77	244,788.0	17,875.8	17,875.8	7.3%	
Health	1713000	1871865.33	1,670,604.7	201,260.6	201,260.6	12.0%	
Justice	449000	391596.79	437,887.6	-46,290.8	46,290.8	10.6%	
Public Service Commission	470000	437933.18	458,367.9	-20,434.7	20,434.7	4.5%	
Police	469800	386345.67	458,172.9	-71,827.2	71,827.2	15.7%	
Public Works	888500	1021608.53	866,510.4	155,098.1	155,098.1	17.9%	
Premiers	2613000	2217871.63	2,548,330.5	-330,458.9	330,458.9	13.0%	
Taoga Niue	132000	114901.69	128,733.1	-13,831.4	13,831.4	10.7%	
Treasury	723000	690062.36	705,106.4	-15,044.0	15,044.0	2.1%	
Meteorological services	120000	116326.09	117,030.1	-704.0	704.0	0.6%	
non trading capital	170000	156914.29	165,792.6	-8,878.4	8,878.4	5.2%	
government residences	50000	41758.14	47,923.1	-6,164.9	6164.9	12.3%	
pub works trading	592000	510845.97	567,409.3	-56,563.3	56563.3	9.6%	
bond store	588000	637054.11	563,575.4	73,478.7	73478.7	12.5%	
telecom	4363300	4072362.05	4,182,055.5	-109,693.5	109693.5	2.5%	
Niue power	1175000	1035983.18	1,126,192.4	-90,209.2	90,209.2	7.7%	
bulk fuel	1797500	1699626.33	1,722,834.7	-23,208.4	23,208.4	1.3%	
allocated expenditure	21214400	20,333,187.9	20,333,187.9	0.0	1,600,289.6		
contingency							
total expenditure	21214400	20333187.88					
overall (PI-1) variance							4.2%
composition (PI-2) variance							7.9%
contingency share of budget							0.0%