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KUWAIT

Public Expenditure and Financial Accountability

Public Financial Management Performance Assessment Report

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CURRENCY EQUIVALENTS
(Exchange Rate Effective: June 10, 2010)

Currency Unit	=	Kuwaiti Dinar
1 KWD	=	US$ 3.43879
US$1	=	1 KWD 0.2908

FISCAL YEAR
April 1 – March 31

PEFA Assessment Period
FY 2005/2006, FY2006/2007, FY 2007/2008

ABBREVIATIONS AND ACRONYMS

AG	State Audit Bureau
AGA	Autonomous Government Agencies
AO	Accounting Officer
CF	Consolidated Fund
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GNI	Gross National Income
GRAP	Generally Recognized Accounting Practice
HDI	Human Development Index
IA	Internal Audit
ICT	Information & Communication Technology
IFMIS	Integrated Financial Management Information Systems
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
KD	
KFAS	Kuwait Foundation for the Advancement of Sciences
KIA	Kuwait Investment Authority
LG	Local Government
MDA	Ministries, Departments and Agencies
MENA	Middle East and North Africa region
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NA	National Assembly
NT	National Treasury
OPEC	Organization of the Petroleum Exporting Countries
PAC	Public Accounts Committee Public Enterprise
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PMF	Performance Management Framework
PI	Performance Indicator
PPP	Public Private Partnership
PU	Procurement Unit
SNG	Sub National Government
SOEs	State-Owned Enterprises
ToR	Terms of Reference
TSA	Treasury Single Account
TIMSS	Trends in International Mathematics and Science Study

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KUWAIT

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY

PUBLIC FINANCIAL MANAGEMENT PERFORMANCE ASSESSMENT REPORT

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Acknowledgements

The consultant wishes to thank the Government of Kuwait, especially the officials in the different PFM institutions who provided their time and much assistance; as well as the information necessary for assessing the indicators presented in this report. The interviewees were generous with their time and patient in carefully explaining the PFM systems and procedures under their responsibility. In particular the team would like to thank the NAO, Ministry of Finance, for providing crucial logistical support during the mission. The World Bank Office in Kuwait, who commissioned this assessment, also provided work facilities and much appreciated logistical support.

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

Summary Assessment

This Public Expenditure and Financial Accountability (PEFA) assessment was initiated as part of the Kuwait Governance Program, a set of activities jointly undertaken by the World Bank and the Government of Kuwait. The assessment adopts the widely accepted methodology of the Public Financial Management Performance Measurement Framework (PFM-PMF) issued by the PEFA multi-agency programme in June 2005. The approach is based upon a careful consideration of the demonstrated observable public financial management (PFM) systems, procedures and practices in Kuwait at the time of the assessment as determined through direct interviews with Government officials and the reviews of official documents and reports. It is also based upon the use of corroborating evidence sought from a variety of independent sources where ever possible.

The purpose of the PFM Performance Report is to assess the current status of the public financial management system of the central government. It should serve to identify both areas of strength and weakness. It is not designed to comment upon any aspects of specific fiscal or expenditure policy and has been careful not to do so. It has not taken into account considerations of capacity, except to the degree implicit in the capacity to successfully carry out the assessed PFM procedures. It is important also to underline that the objective of the assessment has not been to evaluate and score the performance of institutions or any PFM offices or officials, but rather to assess the capacity of the PFM systems themselves to support sound fiscal policy and financial management.[1]

The PEFA performance review for Kuwait presents a first assessment of the 28 high-level indicators of the PEFA Performance Measurement Framework. It is anticipated that such PEFA assessments shall continue to be carried out every three to four years and in doing so will provide a clear and accessible basis for monitoring PFM reform progress over the long term.

It is anticipated that the PEFA assessment shall support the on-going dialogue between the government and its technical cooperation partners on assistance for support to PFM reform in Kuwait. While this report, by design, neither articulates specific recommendations for PFM improvements nor details an action plan, it is anticipated that the results, which establish areas of both strength and weakness, shall assist the government in further defining its PFM reform priorities and subsequent reform activity sequencing and pacing schedule.

Integrated Assessment of PFM Performance

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

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

Credibility of the budget

Revenue outturns easily exceed budget projections and thus provide a sound starting point for achieving a credible budget. As a consequence of the large proportion of revenues derived from oil and gas and the high price volatility, the Ministry of Finance adopts an intentionally conservative posture. The upshot of this has been revenue outturns exceeded budget estimates for all three fiscal years considered.

When considered at the aggregate level, and restricted to an assessment of primary expenditure, Kuwait generally does not demonstrate a close agreement between the budget as approved by the legislature and the outturn as reflected in the final accounts.

The cautious revenue forecasting, along with a debt management strategy that maintains very low levels of debt (limited to monetary policy implementation debt instruments) should provide the flexibility to facilitate the specification of a meaningful envelope for public expenditure. But in practice, top-down budgetary discipline is undermined due to a sense that additional revenue can be found if needed. Thus, the budget process can look like a bidding process. The lack of a multiyear perspective on the budget (PI-12) along with a project focus in the sector ministries leads to significant deviations between original primary budget estimates and actual outturns (the latter are lower for expenditure and higher for revenue).

Two factors that can undermine the credibility of the budget are significant extra-budgetary activities, and the poor monitoring of fiscal risk, debt and contingent liabilities. While the PFM system can address fiscal risk that might emanate out of unforeseen expenditure burdens, guarantees – which have been used during the financial crisis – are not addressed in the same way. For example, the financial stability law foresees that guarantees would be funded through debt issuance. But such scenarios are not included in the budget.

Comprehensiveness and transparency

The budget documentation is complete and comprehensible including the macroeconomic assumptions, the fiscal balance along with the make-up of any deficit financing, the debt profile and status, the financial assets, the historical budget outturns and clear explanations on the impacts of new major revenue and expenditure policy initiatives.

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

All revenues generated directly by Departments are transferred to the Consolidated Fund which operates as a Treasury Single Account, with minor exceptions. Almost all expenditure is made through a centralised payments system. This arrangement provides effective control over the extent of extra-budgetary expenditure by the ministries that can be undertaken. The Ministry of Finance has the capacity to oversee revenue and expenditure transactions through daily bank reconciliations and to monitor the public entities plans and financial management. There are no unreported unconventional financing instruments for addressing losses of Public Enterprises. All security agency funds are reported on in aggregate, even if details of expenditure remain undisclosed.

A review of the mechanisms for the vertical and horizontal allocation of resources to sub-national government (SNG) suggests a transparent system. The Kuwait City Municipal Council serves as a single SNG entity whose budgetary operations reflect the budgetary procedures and financial reporting of the Ministries, Departments, and Agencies (MDAs). The budget allocation process provides reliable information on the allocations to be made to them before the start of their detailed budgeting processes. The budget releases to the sub-national government entity are timely and fully predictable.

There is a fairly high level of transparency in Kuwait´s budget processes. There is broad transparency demonstrated by way of legislative oversight, the supervision of public enterprises and debt, and with respect to public access to key fiscal information. Awarded contracts are published. The culture of transparency with regards to budget documentation is active and there is budgetary, tax revenue and audit information that is made available in a timely fashion on the Internet, through the government publications office, and public and academic libraries. There is however no information however available on the amounts of resources received by the front line facilities such as primary schools and primary health care facilities.

Policy-based budgeting

The budget process occurs within a single year fiscal framework and thus without the benefit of a medium-term fiscal framework being in place. However, a macro-fiscal unit is being established with the support of the International Monetary Fund (IMF), so this situation will evolve. There is clear policy direction from the cabinet to the budget holders through the budget call circular. However the lack of cabinet approved budget ceilings dilutes the effectiveness of the bottom-up elements from the budget entities. This is even though the budget schedule provides ample time for budget holders to prepare their budget. Without definite ceilings it is difficult to systematically prioritise programmes and projects. Kuwait adopts a single budget process with both the recurrent and capital budget process coordinated by the Budget Division within the Ministry of Finance. The Ministries, Departments, and Agencies (MDAs) have approximately eight weeks to prepare their budget bids, which may not be long enough to facilitate strategic thinking.

There are not sector strategies produced for all the major sector ministries although one has been developed for the education sector. The inclusion of projects into the development budget process is not guided by ceilings. Some MDAs report that their budget submissions do not specifically include forward linked recurrent costs emanating out of the development projects. Further, the absence of cabinet approved ceilings guiding the budget preparation process has resulted in budget bids received from MDAs exceeding final approved ceilings by as high as a factor of four in the 2007-08 budget cycle.

The extremely large budget reconciliation adjustments, coupled with the very late communication of finalised budgetary allocations to the MDAs leaves no time for them to realign their priorities with the final approved ceilings. The executive typically completes its budget submissions after the start of the fiscal year.

Debt sustainability analysis is not performed, but is envisaged as one of the functions of the macro-fiscal unit.

Predictability and control in budget execution

Predictability in budget execution is premised upon revenue adequacy which in turn requires sound revenue administration. Many elements of revenue administration work well, which given the dominance of oil in the budget, is essentially a statement about the careful accounting system for oil revenues.

Cash management and debt management are very well managed and facilitate highly predictable budget releases. Kuwait uses a centralised payments system out of the Consolidated Fund which provides daily bank balance consolidation that informs and guides budget releases and facilitates effective treasury management. The effective management of debt at very low levels has ensured adequate fiscal space within which to operate budget releases. Hence there is no need for cash rationing and the system can disburse to the ministries in accordance with agreed draw-down schedules announced over a three month forecast horizon.

The government employs a computerised system for expenditure management, accounting and financial reporting. Budget allocation and budget release discipline is strong. Commitment control is effected through the implementation of computerised expenditure control system. There remain some issues pertaining to procurement planning and reporting on commitments which may contribute to the end of year rush to spend unutilised funds at the close of the year. This in turn may be part of the reason for high levels of expenditure arrears accrued.

Payroll management is facilitated using a transverse computerised human resource management and payroll system. This system directly links three databases: the establishment of posts, the personnel database which serve as control files, and the payroll database. Changes to these databases leave an audit trail and permit only selected access dependent upon function. The databases are encrypted. All civil servants are registered through the system that includes appropriate fields to protect against duplication of posts. There are effective controls with respect to the creation of new posts, that include budgetary controls, the hiring of new employees (controlled by the posts database), and the assignment of promotions, transfers, allowances and terminations. Further, through the use of verification procedures, exception reports and staff surveys there is fair assurance of the integrity of the payroll management system. Nonetheless, it is possible for a single recipient to be on the books at different ministries or agencies without this being captured by the system.

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

Internal audit, which is called Finanacial Control in Kuwait, is evolving from a focus on transactions to now include systemic issues. Financial control information is shared with the State Audit Bureau.

Accounting, recording and reporting

Bank account balances at the central bank are calculated daily. Full bank account reconciliations take place monthly, within four weeks after the close of a given month. Reconciliation and clearance of suspense accounts take place within a month of the close of the month (except for a few accounts identified for follow-up) and are force closed as part of the end of year procedures.

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

No reporting on the resources (in cash or in kind) disbursed to the front-line service delivery units are carried out on a routine basis. There have been no Public Expenditure Tracking Surveys (PETS) nor any other special surveys carried out in Kuwait or are there any planned to be carried out in the near future.

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

External scrutiny and audit

Both the position and the office of the State Audit Bureau (SAB) meet most of the standards of independence set by the International Organization of Supreme Audit Institutions (INTOSAI) for audit institutions. These include the legal requirements with respect to the appointment and termination of the State Audit Bureau, the financing of the budget, the hiring of staff, the auditor's jurisdiction and the timing and extent of dissemination of audit reports. In practice all central government entities are audited every year. It is estimated that three quarters of total expenditure is audited each year. A range of audits are performed, including systems audits, financial and compliance, procurement and systems audits. Public Enterprises are audited by private audit firms. At this time these audit reports are not disseminated to the State Audit Bureau.

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

The accounting officers are responsible implementing corrective measures emanating out of the State Audit Bureau findings. There is some evidence of systematic and timely follow up on external Audit findings and it is often left to the field auditors to ensure that recommendations are followed through as part of subsequent audits.

Assessment of the impact of PFM weaknesses

When viewed from the perspective of the three main objectives of a sound PFM system, namely aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services; Kuwait shows strength with respect to fiscal discipline. The definite budget calendar that facilitates the meaningful bottom-up participation by ministries, along with the sound cash management and debt management, and the achievement of predictable budget releases and effective payroll management all point to efficient delivery of services. However these positives are offset by the absence of a multi-year perspective to budget formulation; cabinet approved ceilings at the beginning of the budget formulation cycle, weaknesses in procurement management and the lack of financial feedback at the end of the service delivery cycle – the receipts by the front line facilities such as primary schools and primary health care facilities.

Overall summary of PFM Performance Scores

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C				**C**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B				**B**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				**A**
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	A			**D+**
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C+				**C+**
PI-6	Comprehensiveness of information included in budget documentation	M1	B				**B**
PI-7	Extent of unreported government operations	M1	A	A			**A**
PI-8	Transparency of inter-governmental fiscal relations	M2	A	C	A		**B+**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	A	A			**A**
PI-10	Public access to key fiscal information	M1	A				**A**
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	D	C		**C+**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	D	D	D	**D**
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	A	A		**A-**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B	B	B		**B**
PI-15	Effectiveness in collection of tax payments	M1	A	A	A		**A**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	C	A		**C+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	A	A	A		**A**
PI-18	Effectiveness of payroll controls	M1	A	B	A	B	**B+**
PI-19	Competition, value for money and controls in procurement	M2	D	D	C		**C-**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	B	C		**C+**
PI-21	Effectiveness of internal audit	M1	D	C	B		**D+**
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	B			**B+**
PI-23	Availability of information on resources received by service delivery units	M1	D				**D**
PI-24	Quality and timeliness of in-year budget reports	M1	A	A	A		**A**
PI-25	Quality and timeliness of annual financial statements	M1	B	A	C		**C+**
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	A	B	B		**B+**
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	B	B	**B+**
PI-28	Legislative scrutiny of external audit reports	M1	B	B	C		**B**

Key: **NS**: No score

1. Introduction

1.1 Objective of the PFM Performance Report

The purpose of this Public Expenditure and Financial Accountability (PEFA) Assessment has been to assess the current status of the Central Government of Kuwait's Public Finance Management (PFM) systems, procedures and practices using the PEFA methodology. This is based upon a set of 28 high-level performance indicators that measure the current status of the Central Government's PFM systems; an additional 3 common PEFA high-level performance indicators that measure the performance of development partner practices are not relevant for Kuwait.

This assessment is being carried out in order to set a baseline for the continued use and assessment of these indicators. The performance indicators, which are scored on a rating system from A to D are presented along with a narrative to provide a brief description of PFM processes and procedures adopted by the government, and also to support and explain the scorings. In addition to the performance indicators, the PFM performance report reviews the country context in which such PFM is carried out, the legal and regulatory framework, the institutional arrangements and an assessment of the PFM reforms currently being undertaken.

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

The rationale for carrying out this PEFA Assessment has been to benchmark the PFM performance of the central government of Kuwait against a widely adopted international standard, to provide feedback on the outcome of its extensive PFM reforms over the past decade and a half, and to identify areas of weakness to guide the areas of focus for continuing improvements. The immediate impetus for this assessment has been to provide Government with: an assessment of the current quality of PFM in the country; and to strengthen the capacity of the Ministry of Finance and other groups within Kuwait, including civil society, to conduct self assessment and target prioritized reforms

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

1.2 Process of preparing the PFM-PR

This PEFA assessment was sponsored by the World Bank under contract to the Government of Kuwait. The World Bank prepared the terms of reference (TOR). The TOR was circulated to the PEFA Secretariat and Government Officials. During the field mission a presentation of the PEFA methodology was made to Government Officials. An Interim Report including a Work plan was prepared and disseminated to a number of government officials who were to participate in the interview process.

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

1.3 Methodology

Two field missions were carried out. The first was an exploratory mission to discuss with the Ministry of Finance a work plan for carrying out the main mission. This was carried out from March 27th and April 10th 2009. The main field mission was carried out between July 19thth and 28th 2009. Meetings were arranged with the assistance of the NAO and the World Bank.

The PEFA assessment involved:

- Reviewing legal and regulatory documentation, budget documentation and financial and audit reports;
- Assessing the requirements for further analysis and evaluation of PFM practice in the central government of Kuwait, based upon:
    - Interviews with Government Officials in the Ministry of Finance, Central Bank of Kuwait, the Civil Service Commission, the Office of the State Audit Bureau, the Ministries of Local Government, Education, Public Works, Public, Kuwait Investment Agency, Kuwait Petroleum Corporation;
    - Quantitative analysis of official financial and budgetary data;
    - Reviews and assessment of legal and regulatory documentation;
    - Assessments of PFM procedures and systems; and
    - The application of professional judgement.

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

1.4 Scope of the assessment

The assessment focuses on all public revenues and expenditures of the central government and the institutions responsible for such. The scope of the PEFA Assessment is limited to the central government and does not include the Local Governments. Nor does it include an assessment of the public enterprises (commercial and non commercial, financial and non financial).. Nonetheless, payments in Kuwait are highly centralised so the reach of the public financial management system is significant.

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

Chapter 2 provides background information and the economic and fiscal context for the evaluation; Chapter 3 explains the scores for the 28 individual performance indicators; Chapter 4 describes the government's reform programme.

2. Country background information

Kuwait is slowly emerging from recession. While 5 percent GDP growth was estimated for 2008, Kuwait has been observing its share of OPEC production cuts since September 2008 and non-oil growth was reduced with falling oil revenues and financial sector disruption. The decline in oil revenues in turn affects the economy through two channels: the budget and the impact of oil-related spending on growth in the non-oil sector. Inflation was around 10 percent for 2008, but is expected to be less than half that level for 2009, thus relieving concerns about food prices.

The new government, which took office in May 2009, successfully pushed for approval of the long-stalled five-year development plan. As a signal of its intent, the Emir created a new Cabinet position of Deputy Prime Minister for Economic Affairs who holds the existing portfolios of housing and development affairs. A sub-committee of the Supreme Council for Development Planning prepared a streamlined five year plan which has now been approved by the National Assembly, the first plan in decades to be so. The plan's projected spending figures have in turn been incorporated into the budget for the 2010-2011 fiscal year.

The government is also emphasizing streamlined project implementation through private participation. While the focus on private sector involvement is logical given the rigidities in the public spending process, it will direct attention to the country's tendering, procurement, and public-private partnership procedures – all of which have proven to be sources of controversy in the past. In addition to PPP arrangements, the government has indicated that it intends to use government-sponsored firms with widely held public shareholdings as implementation vehicles. These are seen as a way of making citizens direct stakeholders in development, but the means by which citizen-shareholders will exercise meaningful oversight or control of these entities has not been clarified.

Education and health service quality are recurring sources of public dissatisfaction with the government. For education, the quality shortfall has emerged most starkly in international comparisons of attainment. In the 2007 Trends in International Mathematics and Science Study (TIMSS), Kuwait finished 3rd last among 36 countries on grade 4 mathematics and 5th last among 48 countries on grade 8 mathematics. It was 5th last on grade 4 science, and 11th from bottom on grade 8 science. Health does not as easily lend itself to cross-country comparisons, but studies have found that while Kuwait performs adequately in the provision of the full range of healthcare services, the limits of the current model have been reached. As the financing model is one where care is free at the point of use with costs covered from general revenues, the system is riddled with blunt or even perverse incentives which limit the scope for improving quality. Ambitions to move to an insurance-based model of financing had stalled. The government is concerned about being restricted to meeting the rising demand for services through pouring more resources into an unreformed system. There is growing acceptance of the need to move forward with reform and renewed engagement with the World Bank reflects this.

Table 2.1 Kuwait: Main Economic Indicators

				Est.	Proj.
	2005	2006	2007	2008	2009
	(Percent change; unless otherwise indicated)				
National income and prices					
Nominal GDP, market prices (billions of US$)	80.8	101.6	111.8	158.1	99.2
Real GDP	10.7	5.2	2.5	6.4	-1.2
Oil	11.4	2.9	-2.3	1.3	-4.5
Non-oil sector	12.0	9.4	8.9	7.3	1.0
CPI (period average)	4.1	3.1	5.5	10.5	6.0
Crude oil production (In million barrels per day)	2.6	2.6	2.6	2.7	2.6
Average oil export price (US$ per barrel)	49.1	60.2	67.8	95.7	40.0
		(Percent of GDP)			
Central government finances					
Revenue	75.6	67.0	67.8	65.5	48.1
Of which: from oil	51.7	48.3	51.5	52.4	36.8
Expenditure	27.2	34.2	27.9	39.7	39.2
Current	23.8	30.1	23.8	35.7	33.3
Capital	3.6	4.1	4.1	4.0	5.8
Overall fiscal balance (deficit -)	48.5	32.8	39.9	25.7	9.0
Fiscal deficit excluding investment income	27.1	17.0	26.9	15.7	1.9
Government debt (gross, end-year)	11.8	8.3	6.9	5.3	8.0
	(Changes as percent of beginning money stock)				
Money and credit					
Net foreign assets	3.2	12.5	1.1	10.0	1.2
Net domestic assets	9.1	9.1	18.2	5.6	7.2
Credit to government	-2.6	-6.4	-6.8	-9.0	-1.1
Money and quasi money	12.3	21.7	19.3	20.1	9.5
Deposit interest rate (in percent)	2.9	5.0	5.2	3.3	1.6
		(In billions of U.S. dollars)			
Balance of payments					
Exports of goods	47.0	58.9	63.7	88.2	40.0
Of which: petroleum (net)	44.1	55.7	60.1	84.1	35.2
Imports of goods	-14.2	-15.4	-18.5	-21.2	-19.7
Current account balance	34.3	50.6	50.0	70.6	19.0
Current account (as percent of GDP)	42.5	49.8	44.7	44.7	19.2
FDI (in billion US dollars)	-4.9	-8.1	-13.6	-8.6	-2.2
Reserves					
Gross official reserves (billions of US$- end period)	8.1	11.8	15.9	17.8	16.9
In months of imports of goods and services	4.3	5.5	5.7	6.0	6.0
External Debt					
External debt (in billion of U.S. dollars)	1.8	…	…	…	…
External debt (in percent of GDP)	2.2	…	…	…	…
Exchange rates					
Exchange rate (per US$, period average)	3.4	3.5	3.5	3.7	…
Real effective exchange rate (percent change)	2.0	0.9	0.4	7.2	…

Source: International Monetary Fund, February 2010.

3. Assessment of the PFM systems, processes and institutions

3.1 Budget credibility

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

This PEFA assessment covers the fiscal years 2005/2006, 2006/2007 and 2007/2008; 2007/2008 being the most recent fiscal year for which final appropriations accounts were available at the time of the field assessment. The reporting formats of the budget documentation permit an identification of debt service elements. So it is possible to identify and measure primary expenditure estimates as well as primary expenditure achievements. The original approved expenditure estimates presented in Table 3.1 were obtained from budget documentation and audited financial statements.

The Government of Kuwait uses a a cash accounting basis for its central government accounts, though accrual basis has been adopted for some asset purchases and a full transition to accrual accounting will be achieved under the new financial management information system. The fiscal year is defined from April 1 to March 31st. Outstanding commitments for goods, works and services (i.e. open purchase orders) not delivered by the end of the fiscal year are cancelled and payments are then completed for all outstanding bills (i.e. verified invoices). Any unspent funds at the close of the fiscal year are returned to the Treasury and are lost by the Ministry. One consequence of this implementation of the end of year procedures is that a number of Ministries tend towards increased expenditure rates in the last month as Ministries seek to avoid having to return unspent funds to the Treasury (see PI-20). This pressure on spending may contribute to the accrual of expenditure arrears, as well as contribute to an increased incidence of direct procurement during the last month

The match of aggregate actual expenditures to original primary expenditure showed an absolute deviation of 5% in two of the three years and the other at 14% was greater than a 10% deviation though less than 15% to score a C . Over the three years the deviations were negative. Such a result is consistent with the overestimates in budgeted investment expenditure observed that arise out of multi-year project costs being applied to annual budget estimates.

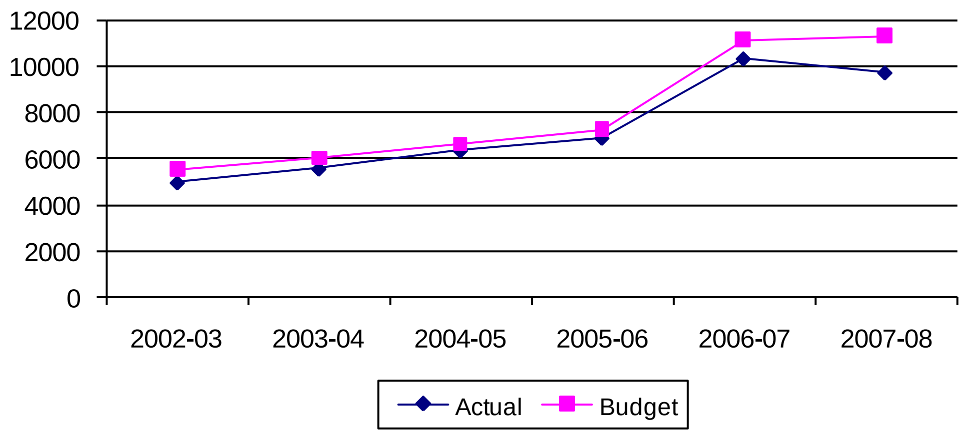
Table 3.1 Comparison of Budget Estimates against Actuals (Primary Expenditure, KD)

			Deviation	
Fiscal Year	Estimate	Actual	Amount	Percentage
2005/2006	7,232,000,000	6,861,977,839	- 370,022,161	**-5%**
2006/2007	10,866,000,000	10,306,377,533	- 559,622,467	**-5%**
2007/2008	11,300,000,000	9,698,018,470	- 1,601,981,530	**-14%**

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

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

Figure 3.1 Figure: Actual and Budget Expenditures (KD million), 2002-03-to 2007-08



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

No.	Credibility of Budget	Score	Justification
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	Actual primary expenditure deviated from expenditure estimates by 14% in one of the three years considered. Deviations were -5%, -5% and -14% respectively.

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

By composition, two chapters account for most of the deviation of actual expenditure from budgeted expenditure: transport and equipment, and development spending. The years covered by this review saw large increases in allocations to these categories but a much lower increase in actual spending. However, although the percentage deviations are large, these chapters are small relative to the overall budget. As the country moves to implement the five year development plan, development spending (Chapter 4) will become more important and its role in explaining overall budget deviations will be correspondingly higher.

No.	Credibility of Budget	Score	Justification
PI-1	Composition of expenditure out-turn compared to original approved budget	B	Deviations are largest for relatively small allocations.

Figure 3.2 Percentage deviation of actual expenditure from budget by chapter, 2005-06 to 2007-08

Source: Ministry of Finance

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

The principal sources of domestic revenue were from oil revenues (90%) with significant contributions from taxes on international trade and transactions. A comparison of budgeted versus actual revenues demonstrates actuals exceeding revenue estimates in 2005/2006, 2006/2007 and 2007/2008 by up to 198% (see Table 3.4 below).

The Budget Division of the Ministry of Finance is responsible for the preparation of fiscal forecasts. The process of estimating revenue forecasts is intricately tied into the preparation of oil revenue forecasts and investment income profiles carried out by the Kuwait Oil Company, Kuwait Investment Authority, and customs revenue projections carried out by the revenue agencies.

Figure 3.3 Comparison of Budgeted and Actual Revenue Receipts restated (Domestic KWD)

	2004/05	2005/06	2006/07
Revenue Estimates	4,606,810,000	8,519,683,000	8,320,265,000
Revenue Outturns	13,728,108,218	15,509,262,505	19,022,622,528
Deviation, KWD	9,121,298,218	6,989,579,505	10,702,357,528
Deviation, %	198%	82%	129%

Source: Budget Estimates and Audited Financial Statements 2005/2006, 2006/2007 and 2007/2008;

No.	Credibility of Budget	Score	Justification
PI-3	Aggregate revenue out-turn compared to original approved budget	A	Domestic revenue collection exceeded 97% in all three of the last three budget years. The ratio of aggregate revenue out-turn to original approved budget were 298%, 182% and 129% respectively.

3.1.4 PI-4 Stock and monitoring of expenditure payment arrears

An unpaid bill outstanding for more than 30 days after verification of the invoice is deemed to be a payment in arrears. Even with the effective commitment control mechanisms and the regular monitoring of expenditure arrears substantial expenditure arrears were accrued during the period of review. More careful procurement planning and commitment control monitoring and management of in year expenditure would ensure that outstanding payments would not be significant at the close of the fiscal year with a risk (after 30 days) of such transforming to expenditure arrears. Table 3.4 indicates the ratio of the stock of arrears to actual expenditure for each of the years reviewed. It indicates the ratio of expenditure arrears to total expenditure for two of the three years was above 10%.

Figure 3.4 Stock of outstanding commitments at the close of the fiscal year (KD)

Fiscal Year	Stock of Arrears April 30th	Actual Expenditure	Ratio
2005/2006	328,160,453	6,861,977,839	5%
2006/2007	1,290,331,684	10,306,377,533	13%
2007/2008	1,250,043,725	9,698,018,470	13%

No.	Credibility of Budget	Score	Justification
PI-4	Stock and monitoring of expenditure payment arrears	D+	
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	D	The ratio of expenditure arrears to total expenditure for two of the three years was above 10%. The data shows an increasing trend over the three years.
(ii)	Availability of data for monitoring the stock payment arrears	A	As part of the routine financial reporting a suspense account is maintained to report on outstanding payments. The stock of expenditure arrears is reported on a monthly basis which permits an extraction of an aggregate ageing report.

3.2 Comprehensiveness and transparency

3.2.1 PI-5 Classification of the budget

The budgetary framework is structured on the basis of administrative and economic, classifications. The economic classifications specify five chapters; namely, Wages and Salaries, Requisite Commodities and Service, Means of Transport Equipment and Services, Construction Projects and Public Requisitions and Various Expenses and Transfer payments. The revenue budget may be classified into recurrent and capital revenues, with each segregated by revenue type into a total of seven recurrent revenue chapters and one capital revenue chapter. This classification is used for formulation, execution and financial reporting of the budget and is consistent with the institutional arrangements for the implementation of the budget. Using a mapping table the economic and administrative classifications employed can produce consistent documentation according to GFS standards.

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

3.2.2 PI-6 Comprehensiveness of information included in budget documentation

The budget documentation presented to parliament includes fairly comprehensive information on the budgetary context, intent and recent financial achievements. Proposed budget estimates are prepared and published in the budget documentation. The approved votes, which may differ from the proposed allocations but cannot result in increased allocations, are gazetted and promulgated as appropriation acts of parliament. The Budget format includes current estimates (budget year), budget estimates revised estimates for the year prior to the budget year, and actual audited outcomes from two years previous to the budget year.

Budget documentation is comprehensive, and consists of the following main components:

- The Minister's Statement presented in the Summary Budget which outlines new policy initiatives but without an explanation of their impacts on revenues.
- The Draft Estimates of the Revenue contain the revenue estimates segregated by tax, non tax and capital revenues.
- The Details of Estimates of Recurrent Expenditure contain five main economic classifications (chapters) by budget head and sub-head
- Estimates of Expenditure which includes the approved establishment for each budget head and a consolidated statement of recurrent and development expenditure.
- Draft Estimates of the Revenue and Expenditure of the Statutory Boards and Similar Bodies

The table below summarises the availability of budget information.

Elements of budget documentation	Availability	Notes
Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	Estimates for GDP growth, inflation, interest rates, the exchange rate, and budgeted price of oil are presented in the Budget Statement
Fiscal deficit, defined according to GFS or other internationally recognised standard	Yes	Fiscal deficit defined according to GFS is presented in the Budget Statement
Deficit financing, describing anticipated composition	Yes	The amounts of borrowings are included in the Revenue Estimates but without any indication of the composition.
Debt stock, incl. details at least for the beginning of the current year	No	There is no statement of outstanding public debt included in the public accounts made available to parliament. It should be noted that only debt for monetary purposes are issued.
Financial assets, incl. details at least for the beginning of the current year	No	No information on financial assets segregated as current and non-current assets is included in the budget documents. All financial assets are managed by Kuwait Investment Authority and its financial statements are not available to public scrutiny.
Prior year's budget out-turn, presented in the same format as the budget proposal	Yes	Yes, prior year's budget (budget year -2) out-turn is included.
Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	The estimates of expenditure show the current year's revised budget (budget year -1) in the same format as the budget proposal.
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	The budget includes summarised data (recurrent and development presented separately) according to the main heads of classification for both revenue and expenditure.
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 expenditure programs	No	A number of new policy initiatives are described in the Minister's statement in the Budget Summary but the impacts on revenue are not outlined.

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

3.2.3 PI-7 Extent of unreported government operations

One element of government operations which affects fiscal discipline and the efficient allocation of resources is reflected by unreported government expenditure. In general, given their nature, it is difficult to ascertain the full extent of unreported government operations, but every indication suggests that few extra-budgetary expenditures occur.

A significant component of budget revenue may be considered as arising as a residual of Kuwait Investment Authority (KIA) revenues. Excess funds over budgetary revenues are invested by KIA. These are purely investment payments (purchase of financial assets). However, all KIA expenditure is included in the budget.

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

While the Government subsidises a number of commercial public enterprises it addresses all subsidies through the budget. Officials state that promissory notes, repurchase agreements, sell-backs and other off balance sheet financial instruments are never used to finance subsidies. Consequently, all subsidies are reflected in the budget.

Intelligence and security activity funds are all reported in the budget even if all the details of expenditure are not disclosed. The State Audit Bureau reviews and reports on these expenditures. Further the amounts are a small proportion of the budget.

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

Kuwait receives no loans and grants from donor sources and so donor funded project expenditure is nil. For this reason this sub-indicator is scored an NS.

No.	Comprehensiveness and transparency	Score	Justification
PI-7	Extent of Unreported government Operations	A	
(i)	Level of unreported extra-budgetary expenditure	A	While the Kuwait Investment Authority does not report on its investment portfolio, all of its expenditures are reflected within the budget. All revenues generated directly by the MDAs are transferred to the Consolidated Fund. Intelligence and security agency budgets are reported on, if not in detail. There is no evidence of off balance sheet debt instruments being used to finance subsidies. The consolidation process of the final accounts includes an aggregate reconciliation process that would reveal any gaps in the sources and uses of funds. The level of unreported extra-budgetary expenditure remains insubstantial.
(ii)	Income/Expenditure information on development partner-funded projects	NS	Budget is entirely own-funded.

3.2.4 PI-8 Transparency of inter-governmental fiscal relations

The fiscal year for local authorities (of which the largest is Kuwait Municipality) is coincident with the central government's fiscal year. The transfers to the Sub National Government is summarised in Table 1.1 in Chapter 1. The funds transferred from central government to Sub National Government represent approximately 2% of the Central Government budget. The transfers to local authorities are transparent and are based upon a budget process that is fully integrated into the central budget process. The successful cash management implemented by the Treasury assures predictable disbursements to the SNG entities. Disbursements to SNG entities are made monthly.

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

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

No.	Comprehensiveness and transparency	Score	Justification
PI-8	Transparency of Inter-governmental fiscal relations (M2)	B+	
(i)	Transparent and objectivity in the horizontal allocation among SN government	A	The transfers to local authorities are transparent and are based upon a budget process that is fully integrated into the central budget process. The successful cash management implemented by the Treasury assures predictable disbursements to the SNG entities. Disbursements to SNG entities are made monthly

No.	Comprehensiveness and transparency	Score	Justification
(ii)	Timeliness of reliable information to SN government on their allocations	C	The SNG entities are not provided budget ceilings as part of the budget call circular at the start of the budget preparation cycle. They are only provided with their allocations shortly before printing of the proposed budget and so too late for significant budget changes to be made.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	A	The SNG entities prepare budgets which are integrated into the national budget documentation and submitted before parliament as part of the budget approval process. They also prepare financial reports consistent with the National Budget and which is consolidated into a financial report within 4 months of the end of the fiscal year.

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

The fiscal oversight of public enterprises is carried out by the Ministry of Finance. There are state-owned enterprises (SOEs) operating in broad sectors of the economy including energy and communications as well as some recently established special purpose companies with citizen shareholdings.

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

Two sources of aggregate fiscal risk are worth mentioning. First, there may be large fluctuations in the portfolio of the KIA. Since the KIA is a public entity, these fluctuations are, in principle, a source of changes in national wealth and might thus be subject to risk assessment by the PFM system. In practice however, asset and liability management is a function devolved completely to KIA and so does not appear in budget functions. Both the size of KIA's portfolio and a presumption that that the portfolio is highly liquid may justify the procedure of isolating it from the fiscal accounts. In addition, KIA's confidentiality procedures – which are normal for a large financial investment fund – would impede an incorporation of associated risk into the budget. Nevertheless, for the purposes of risk monitoring, the Ministry of Finance could consider conducting an internal scenario analysis of the impact of global asset price fluctuations on Kuwait's financial wealth.

Second, Kuwait's implementation of the development plan will result in increased reliance on public private partnerships (PPP). Even though these are intended as private sector-led ventures, they can be a source of fiscal risk through borrowing of the PPP entities. This is especially so in cases where projects might not be completed, resulting in the government having to take on legacy debt and possibly fund the project to completion. Because PPPs have been relatively little used in the past and have included a significant real estate concession, actual fiscal risk from them has been low. This could change as projects become more ambitious and cover a broader range of sectors.

No.	Comprehensiveness and transparency	Score	Justification
PI-9	Oversight of aggregate fiscal control	A	
(i)	Extent of central government monitoring of AGAs/PEs	A	All Public Enterprises submit audited financial statements to the central government. Also quarterly operational and financial statements are reported on. These remain an

No.	Comprehensiveness and transparency	Score	Justification
			internal document.
(ii)	Extent of central government monitoring of SN governments' fiscal position	A	SNGs cannot on their own authority generate fiscal liabilities for the central government. Any loan that binds the Consolidated Fund requires the written approval of the Minister of Finance.

3.2.6 PI-10 Public access to key fiscal information

Fiscal transparency will depend on whether information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Such transparency requires that the Government makes relevant information widely available in a comprehensive, understandable and timely fashion. Public access to key fiscal information in Kuwait is fairly transparent and timely. It should be noted though that such access is not always direct. For example, the audit report in the past few years has been published in the newspapers by an independent body rather than through direct dissemination by the State Audit Bureau. The main source of information is through the Government print shop, although the internet also serves as a relevant source of information (with more documents available in Arabic than in English). Information is also made available through other means such as university libraries and printed media.

Budget documents are made available to the public at the time they are tabled by the Minister of Finance in the Parliament. The budget is also broadly discussed in the print media.

In-year execution reports are issued on a monthly basis and are made accessible to the public made available to the public. The Office of the State Audit Bureau provides to the public annual audited financial statement s as well as audit reports. The resources available to primary service units are not yet available. The Central Tender Committee publishes all contracts above 5,000 KD and all the minutes of tender committee meetings. The table below summarises the elements of public finance management information available to the public.

Elements of information for public access	Availability and means
Annual budget documentation when submitted to the legislature	Yes - these are made available to the public upon request and through public libraries when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6
In-year budget execution reports within one month of their completion	Yes – in-year budget implementation reports are made accessible to the public.
Year-end financial statements within 6 months of completed audit	Yes - these are made available immediately upon completion.
External audit reports within 6 months of completed audit	Yes - The Audit Report are made available typically within a few months of completed audit. Other audit reports are made available upon their completion.
Contract awards (app. USD 100,000 equivalent) published at least quarterly	Yea – while the Central Tender Committee publishes all contracts above 5,000 KD.
Resources available to primary service unit at least annually	No - these are not made available to the public (see PI-23).

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

3.3 Policy-based budgeting

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

The budget procedures are guided by a definite budget calendar and budget circulars issued in late May or early June which are clear and serve to inform upon the policy context, the requisite submission formats as well as provide useful preparation guidelines. They are generally adhered to. The MDAs hold budget negotiations with the Ministry of Finance at the end of September. The calendar allows for the meaningful completion of MDA budgets. The time allowed for budget preparation from the time of issuance of the budget call circular to the budget hearings is typically eight weeks.

At this time the budget circulars do not include vote ceilings within which budget holders may prioritise their costed budget inputs. The budget proposals are guided principally by previous budget amounts. MDAs are not informed of the budget allocations at the close of the budget cycle immediately before the submission of the detailed estimates to the Council of Ministers. Consequently they so are provided no opportunities for the adjustment of departmental budgets.

Usually approval of the budget and enactment into law occurs prior to the start of the fiscal year. For the fiscal 2006/2007 and 2007/2008, the Appropriations Act was signed into law in March 31st of each of those years. In the 2005/2006 fiscal year there was a three month delay. All expenditure must be preceded by an authority to incur expenditure through the issuance of a General Authorisation Warrant upon approval of the appropriations bill. Pending the General Authorisation Warrant a continuation warrant for up to 1/12 of the previous year's budget is issued to facilitate on-going expenditure.

No.	Policy-based budgeting	Score	Justification
PI-11	Orderliness and participation in the annual budget process	C+	
(i)	Existence of and adherence to a fixed budget calendar	A	A clear annual budget calendar exists that is generally adhered to and the calendar allows eight weeks for MDAs to meaningfully complete their detailed estimates of revenue and expenditure.
(ii)	Guidance on the Preparation of budget submissions.	D	The Ministry of Finance issues comprehensive and clear budget circulars but without ceilings. MDAs are guided by previous year's amounts. MDAs are not informed of the budget allocations at the close of the budget cycle immediately before the submission of the detailed estimates to the Council of Ministers. Consequently they so are provided no opportunities for the adjustment of departmental budgets
(iii)	Timely budget approval by the legislature.	C	In two out of years reviewed under this assessment, the budget was signed into law prior to the start of the fiscal year. In one of the years it was approved three months after the start of the fiscal year.

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

Kuwait at the present time carries out aggregate fiscal forecasts. However it does not adopt a multi-year perspective to its budget formulation process. These forecasts are done on the basis of the economic classifications but are not linked to the budget aggregates.

At this time neither the Ministry of Finance nor the Central Bank of Kuwait carry out a Debt Sustainability Analysis (DSA) for either domestic or external debt. The negligible debt to GDP ratio has made it a low priority but also should make the calculus of debt sustainability straight forward. Officials state that the credit crisis of 2008 has brought to attention the importance of DSA considerations.

None of the MDAs develop sector strategies. However many of the MDAs prepare annual corporate plans. However, these have not been developed within fiscal frames that are broadly consistent with published macroeconomic forecasts. Neither are the projects and programmes generally fully costed with both investment and forward linked recurrent cost ramifications reflected.

The inclusion of projects into the development budget process is not guided by ceilings. Some MDAs report that their budget submissions do not specifically include forward linked recurrent costs emanating out of the development projects. The extremely large budget reconciliation adjustments, coupled with the very late communication of finalised budgetary allocations to the MDAs leaves no time for them to realign their priorities with the final approved ceilings.

No.	Policy-based budgeting	Score	Justification
PI-12	Multi-year perspective in fiscal planning, expenditure Policy and budgeting	D	
(i)	Multi-year fiscal forecast and functional allocations	D	Forecasts of fiscal aggregates are prepared, however Kuwait does not adopt a multi-year perspective to its budget formulation process. These fiscal forecasts are done on the basis of the economic classifications but are not linked to the budget aggregates.
(ii)	Scope and frequency of debt sustainability Analysis	D	Neither the Ministry of Finance nor the Central Bank of Kuwait carry out regular DSAs for either domestic or domestic debt. It should be noted that the debt portfolio (limited to monetary instruments) remains very small.
(iii)	Existence of costed sector strategies	D	Sector strategies are not prepared other than for project submission purposes.
(iv)	Linkages between investment budgets and forward expenditure estimates	D	The recurrent budget does not reflect recurrent cost implications emanating out of forward investment budget estimates.

3.4 Predictability and control in budget execution

3.4.1 PI-13 Transparency of taxpayer obligations and liabilities

There is no personal income tax or value added tax in Kuwait. There are various corporate taxes. The corporate income tax is set out in the Kuwait Income Tax Decreee (No. 3) of 1955, with amendments up to 2008. Taxes include the corporate income tax, social security contributions payable monthly on gross salaries, the national labor support tax payable annually, zakat, and contribution to the Kuwait foundation for the advancement of sciences (KFAS), both also paid annually. All registered companies are liable for these taxes, but in practice, only foreign companies are liable for the corporate income tax. The corporate income tax applies to all Kuwait-sourced income; typically this is determined on a case-by-case basis by the tax authorities in consultation with tax treaties. The 2008 law significantly improved clarity on what activities are subject to taxation. Nevertheless, tax holidays of up to 10 years (under the foreign direct investment law of 2003) are seen as one instrument for attracting foreign direct investment, which leads to some uncertainty among foreign investors about the scope of taxation before details have been negotiated.

Customs taxes are straightforward, as they are structured around the 5 percent common external tariff of the GCC countries.

No.	Predictability and control in budget execution	Score	Justification
PI-13	Transparency of taxpayers obligations and liabilities	A-	
(i)	Clarity and comprehensiveness of tax liabilities	B+	For all major taxes the rules governing obligations are well specified in the Acts and in regulations.However additional calculations may be undertaken by KTD in cases where records were inadequate or assessments seem not apply the rules correctly. .
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	A	KTD shares this information with taxpayers.
(iii)	Existence and functioning of a tax appeals mechanism	A	The Ministry applies an administrative appeal mechanism. The Objections unit, separate and independent of the audit unit, is responsible for the timely resolution of objections. Transparent administrative procedures have been developed.

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

The main base for direct taxation is the corporate sector. Under the companies law, a company can exist as (1) a limited liability company, (2) a shareholding company, or (3), partnership. Foreign entities can operate through a sponsor, forms (1) or (2) above, or under the provisions of the foreign direct investment law of 2001. The taxable year is usually the calendar year. The tax declaration for each year must be submitted by mid-April. Taxes are paid in quarterly instalments in arrears. The procedures for taxpayer registration and assessment are straightforward, although the broader business registration process in Kuwait is highly complex. It falls to the Kuwait Tax Department (KTD) to make an initial identification of liability and assessment. Thus, a company can wait until it is detected by KTD, e.g. through having a contract with the government. There is no penalty for non-registration.

No.	Predictability and control in budget execution	Score	Justification
PI-14	Effectiveness of measures for taxpayer registration system	B	
(i)	Controls in taxpayer registration system	B	Corporate taxpayers are registered in databases for income tax and levies.
(ii)	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	Penalties are moderate (1%) however once an assessment has been made, compliance procedures are fairly persistent and government contracting procedures can be used to enforce payment.
(iii)	(iii) Planning and monitoring of tax audit and fraud investigation programs	B	In the case of income tax, audit and fraud investigation are based upon informal risk assessment criteria undertaken by a tax department audit unit. A rules-based selection of tax audits and fraud investigation is not yet fully implemented.

3.4.3 PI-15 Effectiveness in collection of tax payments

Given its relatively small base, Kuwait's collection system is effective. According to the Doing Business indicators, the total number of payments is 15 per year, compared to a 23 payment average for MENA and 13 for the OECD. Payments can be made electronically and the Single Treasury Account is operative for revenue receipts. The time (in hours per year) spent on payments is 118 for Kuwait, compared to 204 for MENA and 194 for the OECD. This performance contributes to Doing Business in 2010 rank on the “Paying Taxes” subcomponent of 11, which is Kuwait’s best performance on any subcomponent.

Corresponding to this relative ease of payment is a well managed collection system in which there is good follow-up of outstanding obligations and arrears are insignificant – although this statement is conditional on the obligation having been identified (see above). Reconciliation is performed monthly. However, the context should be borne in mind: The Kuwait Tax Department interacts with a few thousand taxpayers and plays a direct role in assessing their obligations, in contrast to the self-assessment basis of most modern tax systems. Thus within its remit, the system performs well – but would not be well suited to a large expansion of the tax base with existing resources.

No.	Predictability and control in budget execution	Score	Justification
PI-15	Effectiveness in collection of tax payments	A	
(i)	Collection ratio for gross arrears	A	Overall arrears are very small, but there is a backlog in dealing with some complex tax files.
(ii)	Effectiveness of transfers to the Treasury from revenue administration	A	Immediate.
(iii)	Frequency of reconciliation	A	Monthly.

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

A fiscal policy based upon conservative oil price estimates, the strict implementation of both an establishment and expenditure commitment control across all MDAs has provided the basis for achieving substantial predictability with respect to budget releases and the commitment of expenditures. An annual general authorisation warrant is issued by the Minister of Finance on the authority of and in accordance with the appropriations act. Budget releases are informed by pro forma cash flows submitted by the MDAs. These are submitted at the beginning of the fiscal year but which may and are updated on a monthly basis to take into account actual expenditure rates.

The *pro forma* cash flows are used to set expenditure ceilings at the vote level a monthly basis. Kuwait’s budget operates under a reasonably broad fiscal space and so has been able to carry out its budget releases without cash rationing.

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

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

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

The consolidated fund is operated as a treasury single account and daily balances of the government's cash position are calculated.

The contracting of loans and the issuing of guarantees are bound by transparent criteria. The Minister of Finance is the sole authority for the contracting of loans and guarantees that bind the Consolidated Fund. In practice cabinet always approves all loans signed by the Minister of Finance. When the Minister of Finance borrows, he does so within the constraints of the stated net borrowings in the budget. It should be noted that at this time Treasury Bonds which are used solely as a monetary policy management instrument is not governed by ceilings. In addition, the comments for PI-9 on contingent liabilities remain relevant.

No.	Predictability and control in budget execution	Score	Justification
PI-17	Recording and management of cash balances, debt and guarantees	A	
(i)	Quality of debt recording and reporting	A	Comprehensive monthly accounts of securities and debit balances at banks.
(ii)	Extent of consolidation of the Government's cash balances	A	The consolidated fund is operated as a treasury single account and daily balances of the government's cash position are calculated on a daily basis.
(iii)	Systems for contracting loans and issuance of guarantees	A	All central government loans and guarantees must be approved by the Minister of Finance. However, KIA guarantees may be offered separately.

3.4.6 PI-18 Effectiveness of payroll controls

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

It is a requirement that senior posts established receive cabinet approval and must be reflected in the budget. The establishment is the basis for budget formulation pertaining to wages and salaries. New employee recruitment requires Accounting Officer approval. Promotions can only be effected through the transfer of one post to another, thus introducing a degree of control over arbitrary promotions. An employee has to apply for a new post in order to get a promotion. The payroll management system directly links three databases: establishment of posts and personnel database that serve as control files, and the payroll database. Nevertheless, due to incomplete record matching, it is possible for a single individual to hold multiple posts in separate ministries or agencies.

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

Any changes and updates to the payroll management databases are done monthly, almost always within the next pay period and there is not often the need for retroactive adjustments, and where so do not extend beyond three months. Payroll arrears are managed manually, and always audited prior to payment. For the most part there are very few payroll arrears accrued except when salaries are negotiated and effected retroactively.

The Financial Control Unit reviews payroll cards and reconciles payments with pay-sheets. Payroll audits are carried out the Control Department and, occasionally, by the State Audit Bureau.

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

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

For the period covered by this assessment, the procurement law and legal framework are outdated, incomplete, and fragmented, thus causing inefficiency, higher costs, and poor performance. The manifestations of this are as follows. First, weaknesses in institutional arrangements hinder implementation and management. There is a lack of a modern central policy and oversight autonomous body to monitor and to define procurement policies. There is little collection of relevant statistics to facilitate systematic monitoring of the procurement process and a corresponding lack of capacity building for the procurement workforce. Furthermore, there is redundancy and duplication in the various ex-ante controls resulting in chronic delays – partly explaining the underspending of development allocations documented earlier.

Second, gaps and weaknesses in procedures and practices result in persistent poor quality and higher cost of procurement. For example, some basic procurement methods and standardized procedural documents are not used, resulting in deficient implementation, process and execution delays. There is a tendency towards less competitive methods and restrictions on participation by bidders and inadequate assessment of bidders' qualifications due to reliance on ex ante classification.

Finally, transparency and accountability issues diminish confidence and credibility. Key issues here include the absence of public bid opening, non-transparent bid evaluation practices, and lack of adequate and independent review mechanism for complaints of bidders. This encourages "back door" complaints made directly to policymakers, which, if succcessful, can draw projects into extended but poorly understood review.

No.	Predictability and control in budget execution	Score	Justification
PI-19		C-	
(i)	Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	D	Monetary thresholds set in the Public Tenders Law are outdated and artificial splitting of procurement is common. Certain key procuring entities have been granted partial or complete exclusion of their procurement from the application of the Law. Some mega-projects appear to be allocated directly, bypassing the normal procedures.
(ii)	Justification for use of less competitive procurement methods	D	There are no clear criteria for use of less competitive methods.
(iii)	Existence and operation of a procurement complaints mechanism	C	A complaints procedure exists, but is not formalized, and complaints are first seen by the Central Tenders Committee, which would have approved the original award.

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

Financial control within a ministry is the responsibility of the Accounting Officer. He or she must ensure that internal procedures and internal control measures are in place to ensure reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported. Expenditure is managed through an automated payments system that incorporates commitment control directly and assures that commitments are limited to actual cash availability and the approved budget allocations as revised. In spite of this, expenditure arrears accrue. This appears to occur as a result of end of year procedures where all outstanding payments are transferred to a suspense account and out of which payments are made only slowly.

The other control rules and procedures incorporate a comprehensive set of controls that are widely understood. In some cases there appears to be unnecessary duplication that leads to inefficiency.

The Financial ControlReports indicate a number of cases where controls are bypassed by adopting informal arrangements for arranging supplies. There is evidence of the adoption of emergency procedures in about 10% of the transactions. Methods employed include using slicing to bypass procurement controls and short circuiting routine expenditure procedures to speed up the expenditure process. This may be contributing to the accrual of expenditure arrears that are not captured in the annual reporting of outstanding commitments that is used as a proxy for monitoring expenditure arrears.

No.	Predictability and control in budget execution	Score	Justification
PI-20	Effectiveness of internal controls for non-salary expenditure (M1)	C+	
(i)	Effectiveness of expenditure commitment controls	A	All payments are made through an automated payments system that has an effective built in commitment control that limit commitments to approved budget allocations.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	The other control rules and procedures incorporate a comprehensive set of controls that are widely understood. In some cases there appears to be unnecessary duplication that leads to inefficiency.
(iii)	Degree of compliance with rules for processing and recording transactions	C	Although compliance to rules is generally considered high there are concerns about the occasional use of informal procurement procedures that bypass controls such as the use of slicing.

3.4.9 PI-21 Effectiveness of internal audit

The Control Department is responsible for internal audit for the Ministries, Departments and Agencies. Under Law 31, 1978 the Control Department is responsible for Controllers and Chief Accountants in the MDAs. Its jurisdiction encompasses all central government agencies, as well as attached and independent agencies with the exception of the State Audit Bureau, the Parliament and the Amiri Diwan. For the most part control is limited to financial audits compliance checking applied in pre-audit context. However, a growing amount of staff time is allocated to systems review.

Financial control reports are prepared on a regular basis (monthly, quarterly and annual) against annual audit work plans for a number of important MDAs. There are at this time no internal audit manuals developed nor are international audit standards adopted. The control reports are disseminated within the Ministry of Finance, the respective Line Ministries, the Council of Ministers, the Government Performance Follow Up Agency, and the State Audit Bureau.

Monthly follow up reports are prepared and recommendations for corrective actions to be undertaken are issued on a quarterly and annual basis. These reports point out recurring anomalies. According to officials the recommendations are responded to in a comprehensive and timely fashion across most MDAs.

No.	Predictability and control in budget execution	Score	Justification
PI-21	Effectiveness of internal audit	D+	
(i)	Coverage and quality of the internal audit function	D	Internal audit is operational in all of the MDAs. However, for the most part internal audit is limited to financial audits and compliance checking carried out in a pre-audit mode. There is very little staff time (less than 20%) allocated to systemic issues.

No.	Predictability and control in budget execution	Score	Justification
(ii)	Frequency and distribution of reports	B	Internal Audit reports are prepared on a regular basis against annual audit work plans. Reports are submitted to the State Audit Bureau.
(iii)	Extent of management response to internal audit findings	B	Reports are prepared regularly with recommendations made for corrective actions to be taken, these recommendations are in most cases responded to comprehensively and in a timely fashion.

3.5 Accounting, recording and reporting

3.5.1 PI-22 Timeliness and regularity of accounts reconciliation

The Ministry of Finance operates a Treasury Single Account held with the Central Bank of Kuwait that is reconciled to the cash book on a monthly basis and takes place within 4 weeks of the close of the month. Monitoring is very close and cash balances are determined daily. There are some number of exceptions to the single account procedure and the Ministry of Finance has engaged in discussions to further limit these exceptions.

Advances are reconciled and cleared on a regular basis with any un-cleared amounts directly deducted from staff salaries. Specific suspense accounts for expenditure are very limited. As part of the year end closing procedures all suspense accounts (expenditure) are force closed within 2 months of the close of each year to facilitate the issuance of the annual financial statements.

No.	Accounting, recording and reporting	Score	Justification
PI-22	Timeliness and regularity of accounts reconciliation (M2)	B+	
(i)	Regularity of Bank reconciliations	A	All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 4 weeks of the close of the month.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	B	As part of the year end closing procedures all suspense accounts (expenditure) are force closed within 2 months of the close of each year to facilitate the issuance of the annual financial statements.

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

No reporting on the resources (in cash or in kind) disbursed to the front-line service delivery units are carried out on a routine basis. The accounting procedures permit the segregation of wages and salaries by service delivery unit. It would be possible to derive from accounting records the value (at cost) of the amounts received by service delivery units. It would also be possible to determine the amounts received by service delivery units by way of development expenditure. Hence in principle, it would be possible to determine the amounts received both in kind and in cash by service delivery units. However, at this time no routine reports are compiled annually, or have been in the past three years.

No special surveys have been undertaken within the last three years. There have been no Public Expenditure Tracking Surveys (PETS), Public Expenditure Reviews to determine efficiency of public spending and the quality and quantity of services delivery, nor any other special surveys carried out. There are no expenditure tracking surveys planned to be carried out in the near future. The existence of high quality operational and performance indicators for education would warrant a linked study of expenditure and outcomes in this sector. However, unlike most of the PEFA indicators in this report, the performance on this indicator is not within the sole control of the Ministry of Finance, since a study at the service delivery unit level would require the cooperation of the counterpart ministries

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

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

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

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

There are no major concerns on data integrity or accuracy. This is assured by a full consolidation and reconciliation process (against bank statements) carried out monthly. This reconciliation process is completed within 30 days of the close of the month.

No.	Accounting, recording and reporting	Score	Justification
PI-24	Quality and Timeliness of in-year budget reports	A	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	A	Comparison to the main budget is available at the vote and main economic classifications reported for all five chapters. Information includes all items of expenditure at the payment level and at the commitment level.
(ii)	Timeliness of the issue of reports	A	Reports are prepared monthly by MDAs and submitted to the Treasury within 30 days of the close of the month.
(iii)	Quality of information	A	There are no major concerns on data integrity or accuracy. This is assured by a full consolidation and reconciliation process (against bank statements) carried out monthly

3.5.4 PI-25 Quality and timeliness of annual financial statements

The Ministry of Finance has a well-established procedure for producing annual financial statements. Preliminary accounts for the fiscal year are usually available within a month of its conclusion. These come with the proviso that some expenditure may not be captured due to delayed reporting by the line ministry or agency. However, a final set of accounts is produced within 3 months of the end of the fiscal year. This is disseminated widely through the Ministry's website and print publication. The accounts are audited by the State Audit Bureau. The key gap in the financial statements is any reporting of assets and liabilities. This relates to long-standing government policy regarding the sensitivity of information about assets under management in various funds by the Kuwait Investment Authority.

No.	Accounting, recording and reporting	Score	Justification
PI-24	Quality and Timeliness of annual financial statements	B+	
(i)	Completeness	B	Annual reports provide comprehensive coverage of revenues and expenditures but not assets and liabilities.
(ii)	Timeliness of the issue of reports	A	A consolidated statement of revenues and expenditures is usually available one month of the end of the fiscal year. This is considered preliminary due to late reporting of some expenditure. Final accounts are usually issued in June.
(iii)	Accounting standards	TBD	

3.6 External scrutiny and audit

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

The State Audit Bureau derives its independence, powers and mandate from the Constitution (Chapter 3, Article 34) and the State Audit Bureau Law 30/1964. The President of the State Audit Bureau must audit and report on the accounts, financial statements of all central government ministries, and statutory bodies. The State Audit Bureau is empowered to audit state owned enterprises. At the present time the State Audit Bureau audits all central government ministries. The State Audit Bureau must submit audit reports to the parliament.

The President of the State Audit Bureau exercises substantial independence. The President of the State Audit Bureau is nominated by the speaker of the National Assembly and voted upon by the Council of Ministers and the National Assembly. His tenure in office has no time limits. He or she may not be removed from office except where the National Assembly votes on removal specifically in the instance that she is found unfit to carry out her responsibilities (restricted to reasons of incompetence, poor health or criminal conduct). The salary of the President of the State Audit Bureau is charged directly to the Consolidated Fund. The State Audit Law grants the President of the State Audit Bureau the authority over access to all books, records, returns and documents relating to the accounts (Article 29). The Audit reports are disseminated at the discretion of the President of the State Audit Bureau. In practice these have been submitted to the National Assembly, the Council of Ministers and the Ministry of Finance. However, he does not have the authority to disseminate audit reports directly to the public. However, since 1998 audit reports have been leaked to the press every year.

The President of the State Audit Bureau has control over the employment of the staff of the office of the State Audit Bureau. It is however done in consultation with the Civil Service Commission. The staff is funded through the budget. The State Audit Bureau reports that in practice this arrangement has not introduced any obstacles to the performance of their audit obligations. In fact, the independence of the State Audit Bureau from outside oversight has resulted in a legal ambiguity regarding its own accountability for funds received.

A wide range of audits are performed, including some systems audits focusing primarily on controls, financial and compliance audits, as well as value for money audits. Payroll audits are also carried out. The standards adopted are guided by the International Organisation of Supreme Audit Institutions

(INTOSAI). However, State Audit Bureau also carries out pre-audit. There is a formal general audit manual developed based upon international audit standards. At this time there are no quality assurance reviews carried out either through self assessments or on the basis of external reviews. There is 100% coverage in the audit of central government budget heads. Audits cover revenue, expenditure, debt and financial assets.

For each of the fiscal years reviewed, the audit report along with their audited financial statements was submitted to the legislature within seven months from the end of the fiscal year which is equivalent to three months from submission to the State Audit Bureau.

The State Audit Bureau reports that although formal responses are required by law, not all of the MDAs implement prompt corrective measures to the audit recommendations. It estimates that 70% or so of the MDAs cooperate fully and promptly. Further, at the present time no log is maintained to monitor follow up systematically. However, auditors will follow up on progress as part of their subsequent audits to a given MDA. Some MDAs have Audit committees instituted with the responsibility of ensuring that audit recommendations are carried out.

No.	External scrutiny and audit	Score	Justification
PI-26	Scope, nature and follow-up of external audit	B	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	A	The State Audit Bureau audits all Ministries, Departments and Agencies on an annual basis covering revenue, expenditure, debts and financial assets. SAB performs a wide range of audits including systems, financial, compliance. Value for money audits are rarer. The audit manual is based upon INTOSAI Standards.
(ii)	Timeliness of submission of audit reports to the legislature	B	Audit reports are combined with certified audited financial statements. In the three years reviewed were submitted to the legislature 7 months after the close of the fiscal year and 3 months after receipt of financial statements submitted by the MoF. The Audit Reports are submitted to the legislature within seven months from the fiscal year-end.
(iii)	Evidence of follow-up on audit recommendations	B	Although a formal response is made in timely manner in the majority of MDAs, there is no systematic evidence of follow up on corrective measures taken by the Executive in response to the State Audit Bureau recommendations.

3.6.2 PI-27 Legislative scrutiny of the annual budget law

Legislative scrutiny of the annual budget law is in principle extensive. Typically, the budget preparation is from June to December, with an objective of having a budget law ready to submit to the National Assembly by January. In practice the timetable is somewhat more compressed, although the Ministry of Finance is usually in a position to provide an outline budget presentation to the Assembly at the beginning of the calendar year. However, due to refinement of the expenditure submissions (especially for development spending) and delays in receiving budget submissions from independent agencies, formal submission of the budget law can occur much closer to the end of the fiscal year (March 31). Although the general budget and that for attached agencies is approved by the start of the new fiscal year, budgets for independent agencies may not get legislative approval until into the new fiscal year. This creates a clustered set of budget approvals, impeding the scope for in-depth scrutiny.

No.	External scrutiny and audit	Score	Justification
PI-27	Legislative Scrutiny of the Annual Budget Law		
(i)	Scope of the legislature's scrutiny	A	Virtually all aspects of the budget can be examined by the relevant committees before being presented to the full Assembly for a vote.
(ii)	Extent to which the legislature's procedures are well-established and respected	A	The procedures have been routinized, although timelines have slipped in recent years (see below).
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	B	A significant backlog of MDA budget proposals has built up in recent years well past the beginning of the new fiscal year.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature.	B	In-year amendments are difficult, but quasi-budgetary measures (e.g. special allowances) can be accomplished by Amiri decree.

3.6.3 PI-28 Legislative scrutiny of external audit reports

The Public Accounts Committee examinations of audit reports are typically completed within 12 months from receipt of the audit reports. The examination process is subject to specific rules and procedures which are well documented and segregate the scrutiny process into clearly identifiable steps. The scrutiny process starts with the review of the audit report and a classification of the reports according to the type of the audit opinion (adverse disclaimer qualified and other). In depth hearings on key findings take place on occasion covering only selected audit entities.

Officials report there is little systematic follow up on PAC recommendations for the Executive to carry agreed corrective measures. The members of the PAC do not have any support from technical committees and further the membership changes on an annual basis and so limiting the opportunity for continuing follow up. No log is maintained of corrective measures taken by the PAC.

No.	External scrutiny and audit	Score	Justification
PI-28	Legislative scrutiny of external audit reports (M1)	B	
(i)	Timeliness of examination of audit reports by legislature (for reports received with the last three years)	B	The Public Accounts Committee examinations of audit reports are typically completed within 12 months from receipt of the audit reports in October
(ii)	Extent of hearings on key findings undertaken by legislature	B	In depth hearings on key findings take place on occasion covering only selected audit entities.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	C	Actions are recommended but there is little evidence of follow up on corrective measures in response to such recommendations being carried out by the MDAs.

4. Government reform process

4.1 Description of recent and on-going reforms

A significant PFM reform process is underway in Kuwait. This covers three critical areas: a new government financial management information system (GFMIS) which will facilitate moving more systems to GFSM 2001 accounts, incorporation of the development plan into the budget, and establishment of a macro-fiscal unit. These reform projects are proceeding in parallel but are mutually supportive. In addition, a major work program on performance budgeting is in the initial stages.

The GFMIS reform is referred to as the "reengineering project" and is anticipated to take 3 years in total. When completed, the accounting and budgetary systems in the Ministry of Finance will be fully switched to an accrual basis using the Government Financial Statistics Manual 2001 (GFSM 2001) classisfication and will be able to produce standard aggregations of such data; as things stand now, GFSM 2001 data is produced by a correspondence between the chapter based system and the GFSM categories.[2] The integration of systems should also facilitate the monitoring of arrears and the timeliness of accounts reconciliation. Thus, PI-4 (arrears monitoring), PI-5 (classification), and PI-22 (reconciliation) should improve.

In the past, the budget process in Kuwait has been criticized for lack of integration with the development planning process, and conversely, the development plan has been seen as detached from the budget. In part, this detachment reflected the lack on an approved development plan; many draft plans have circulated since the last plan that was approved by the National Assembly in the 1980s. In February 2010, the development plan for the period 2010-2014 was approved. The plan outlines KD 30.8 billion in spending over this period, of which about half will come from the private sector. The first year public spending component (equal to about KD 5 billion) is included in the 2010-2011 budget and this practice will continue for the future years of the plan. Thus PI-12 will show improvement. Nevertheless, project design and management is still primarily a function of the line ministries and the process by which projects are costed and prioritized is opaque.

The Ministry of Finance has established a macro-fiscal unit. Staff have been hired for the unit and it is expected to be up and running during the 2010-11 fiscal year and thus in a position to contribute fully to the budget preparation cycle. In its initial stage, the unit is expected to concentrate on building databases for use in typical macro-fiscal analysis, before expanding its workload to multi-year budgeting, sustainability analyses etc. The unit could also undertake an assessment of contingent liabilities. These activities will strengthen PI-10 and PI-12.

The Ministry of Finance is moving in the direction of introducing Performance-Based Budgeting to replace the existing Chapter and Headings-based budget system. The project is composed of the following three main phases:

- Phase 1: Setting the general framework of the project;
- Phase 2: Pilot implementation on some government bodies;
- Phase 3: Full implementation on all government bodies.

Phase 1 has concluded, and the ministry is in the process of contracting with an international consultant for the execution of phases 2 and 3. The project is aimed at moving from the current traditional budgeting system, focused primarily on control over funds (financial appropriations), to a more developed system

[2] For a description of GFSM 2001, see http://www.imf.org/external/pubs/ft/gfs/manual/.

that ensures leveraging efficiency of resources allocation, prioritizing objectives and outcomes, improving the level of service delivery, and controlling performance. This project requires approximately 8 years to be completed.

4.2 Global lessons learned for reform planning and implementation

The new FMIS is typical of integrated FMIS systems (IFMIS) that have been introduced in many countries. An IFMIS can offer great benefits for all PFM activities, especially budget execution. Such systems can facilitate timely and accurate reporting of budget execution; allow internal controls to be exercised through the IFMIS, and therefore support more consistent compliance; and allow central agencies to oversee budget execution by line ministries, therefore facilitating the devolution of responsibility to front line managers while retaining information in the Ministry of Finance. Thus, an IFMIS could be a precursor to a performance budgeting system.

Many countries have made some effort to introduce computerized systems to support PFM. In principle, these could be (1) a “sophisticated” fully integrated IFMIS; or (2) a simple customized IT system to support budget execution. Many of the “sophisticated” projects have struggled to meet their implementation milestones, budgets and promised functionality. A number of problems have undermined these large projects, but two important concerns are weak project management arrangements and inadequate capacity building for Ministry of Finance staff even when the project is envisaged a turnkey solution. Kuwait seems to have set a realistic timeline for full implementation of IFMIS (3 years from start to finish) and project management arrangements appear to be firmly placed within existing Ministry structures. Nevertheless, it will be important to ensure that IFMIS does not result in a parallel systems : an information technology system expecting one kind of data while the day-to-day functioning of the Ministry continues in its previous form. This outcome has been observed in other countries implementing ambitious financial management systems.

Many countries in the MENA region continue to have elements of dual budgeting (i.e. planning and finance), and many continue to have separate ministries managing the two budgets. These arrangements impede efforts to get the best value for money from expenditures as they risk: gaps or duplication of expenditure; inconsistent expenditures; and the wrong mix of expenditures both in aggregate and at the level of activities. While some progress has been made in many countries to integrate the presentation of the budget – as in Kuwait -- efforts to integrate other elements of budget management have largely been elusive. When full consolidation does occur, one of the main requirements is to develop the necessary analytical capacity in the Ministry of Finance to manage the capital budget.

Having a unit in the Ministry of Finance to provide macroeconomic and fiscal (macro-fiscal) policy advice is important for good aggregate fiscal management. The Ministries of Finance in the MENA region have traditionally not had this capacity but in recent years a number of countries have established units to provide macro-fiscal advice. Initially, many of these units focused on monitoring revenue and preparing monthly reports on budget execution. However, as they have increased their capacity, they have become more involved in budget preparation through developing a fiscal framework for the budget—although the links between these frameworks and the final budget is still not strong. Because the work of a macro-fiscal unit is analytically demanding, one of the challenges has been ensuring that the right staff are recruited. In the context of Kuwait, this has been a source of delays in getting the macro-fiscal unit up and running, but it is worth having the appropriate capacity in place from inception.

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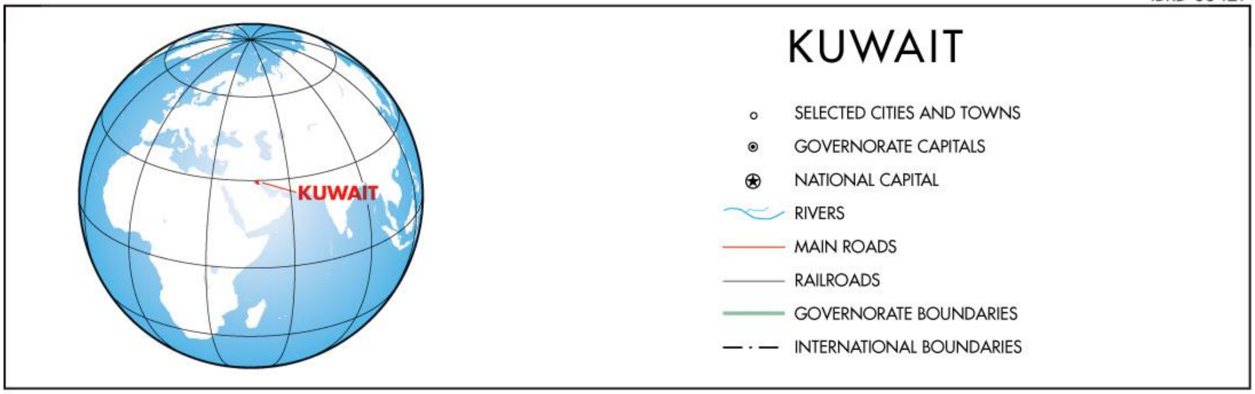

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