Government of the Solomon Islands

Public Expenditure and Financial Accountability (PEFA) Assessment:

Final Report

11th December 2012

Financed by:

Executed by:

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CURRENCY AND EXCHANGE RATES

Currency unit = Solomon Island Dollars (SBDs)

€1 = SBD 8.7 (as of 6 September, 2012)

Government Fiscal Year (FY): Calendar year

Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for the Solomon Islands, final report dated 11th December 2012.

1. *Review of Concept Note and/or Terms of Reference*

- Draft concept note and/or terms of reference dated 15th May 2012 was submitted for review on 15th May 2012 to the following reviewers:
  - 1) Mr Harry Kuma, Under Secretary, Ministry of Finance and Treasury, Solomon Islands Government
  - 2) Mr Phil Sinnett, Senior Public Finance Specialist, PEFA Secretariat
  - 3) Mr Ron Hackett, Public Financial Management Advisor, PFTAC/IMF
  - 4) Mr Tim Bulman, Country Economist, World Bank
  - 5) Ms Anna McNicol, Senior Development Program Specialist, AusAID
  - 6) Mr Eoghan Walsh, Charge d'Affaires, EU Delegation to Solomon Islands

  Final concept note and/or terms of reference: 14th June 2012 forwarded to reviewers, if necessary, on 14th June 2012, including a table[1] showing the response to all comments raised by the reviewers

2. *Review of draft report(s)*

- Draft report dated 23rd September 2012 was submitted for review on 23rd September 2012 to the following reviewers:
  - 1) Mr Harry Kuma, Under Secretary, Ministry of Finance and Treasury, Solomon Islands Government
  - 2) Ms Helena Ramos, Senior Public Finance Specialist, PEFA Secretariat
  - 3) Mr Ron Hackett, Public Financial Management Advisor, PFTAC/IMF
  - 4) Mr Tim Bulman, Country Economist, World Bank
  - 5) Ms Anna McNicol, Senior Development Program Specialist, AusAID
  - 6) Mr Eoghan Walsh, Charge d'Affaires, and Mr Juan Carlos Hinojosa, Governance Adviser, EU Delegation to Solomon Islands

3. *Review of final draft report*

   A revised final draft assessment was forwarded to reviewers on 25th November 2012 and included a table showing the response to all comments raised by all reviewers.

4. This form, describing the quality assurance arrangements is included in the revised draft report.

PEFA assessment report Solomon Islands, December 11, 2012

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the 'PEFA CHECK'.

PEFA Secretariat, December 19, 2012

[1] For minor comments (e.g. typos, language) a revised version of the document with tracked changes may suffice.

Abbreviations and Acronyms

ACG	Accountable Cash Grant
ADB	Asian Development Bank
AIASI	Association of Internal Auditors in the Solomon Islands
ANZ	Australia New Zealand banking group
ASYCUDA	Automated System for Customs Data
AusAID	Australian Agency for International Development
AX	Axapta (new FMIS being rolled out by MoFT)
BSP	Bank South Pacific
CBSI	Central Bank of Solomon Islands
CCC	Cash Coordination Committee
CED	Customs and Excise Division
CEWG	Core Economic Working Group
CIT	Corporate Income Tax
CoC	Chamber of Commerce
COFOG	Classification of Functions of Government
CW	Contingency Warrant
CS-DRMS	Commonwealth Secretariat Debt Reporting and Management System
CTB	Central Tender Board
DAC	Development Assistance Committee
DMAC	Debt Management Advisory Committee
DMS	Debt Management Strategy
DMU	Debt Management Unit
DSA	Debt Sustainability Analysis
EBO	Extra Budgetary Operation
EC	European Commission
EFRP	Economic and Financial Reform Programme
EITI	Extractive Industries Transparency Initiative
EFT	Electronic Funds Transfer
ERU	Economic Reform Unit
ESF	Education Strategic Framework
EU	European Union
FAR	Financial Availability Report
FEDU	Financial and Economic Development Unit
FEMSP	Financial and Economic Management Support Programme
FIs	Financial Instructions
FMIS	Financial Management Information System
FMSS	Financial Management Services Section
GBS	General Budget Support
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GL	General Ledger
IA	Internal Audit
ICSI	Investment Corporation of Solomon Islands
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organisation of Supreme Audit Institutions
IMF	International Monetary Fund

IPAM	Institute of Public Administration and Management
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Division
IT	Information Technology
ITA	Income Tax Act
LPO	Local Purchase Order
MDA	Ministries, Departments and Agencies
M&E	Monitoring and Evaluation
MALD	Ministry of Agriculture and Livestock Development
MEHRD	Ministry of Education and Human Resource Development
MID	Ministry of Infrastructure Development
MoFT	Ministry of Finance and Treasury
MDPAC	Ministry of Development Planning and Aid Coordination
MHMS	Ministry of Health and Medical Services
MP	Member of Parliament
MPGIS	Ministry of Provincial Government and Institutional Strengthening
MPNSCS	Ministry of Police, National Security and Correctional Services
MPS	Ministry of Public Service
MTEF	Medium Term Expenditure Framework
MTFS	Medium Term Fiscal Strategy
NCRA	National Coalition of Reform and Advance (current government in Solomon Islands)
NDS	National Development Strategy (2011-20)
NEAP	National Education Action Plan 2010-2012
NGO	Non-Government Organisation
NOL	No Objection Letters
NPF	National Provident Fund
NTF	National Transport Fund
NZAID	New Zealand Agency for International Development
NZHC	New Zealand High Commission
OAG	Office of the Auditor General
OECD	Organisation of Economic Cooperation and Development
OT	Oversight Team
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PCDF	Provincial Capacity Development Fund
PCSC	Police and Correctional Service Commission
PEFA	Public Expenditure and Financial Accountability
PEC	Public Expenditure Committee
PFAA	Public Finance and Audit Act
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PGSP	Provincial Government Strengthening Programme
PI	Performance Indicator
PIT	Personal Income Tax
PS	Permanent Secretary
PSC	Public Service Commission
PV	Payments Voucher

RAMSI	Regional Assistance Mission to Solomon Islands
ROC	Republic of China
RCDF	Rural Constituency Development Fund
SAI	Supreme Audit Institution
SBD	Solomon Bokolo Dollar
SCF	Standby Credit Facility
SDU	Service Delivery Unit (e.g. school, health centre)
SI	Solomon Islands
SICCI	Solomon Islands Chamber of Commerce and Industry
SIERA	Solomon Islands Economic Recovery Assistance
SIG	Solomon Islands Government
SO	Standing Orders
SWAp	Sector Wide Approach
SWG	Sector Working Group
TA	Technical Assistance
TIN	Taxpayer Identification Number
TSA	Treasury Single Account
TSC	Teaching Service Commission
TSI	Transparency Solomon Islands
TPF	Treasury Personal File
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	US dollar
VAT	Value Added Tax
WB	World Bank

SUMMARY ASSESSMENT

(i) Integrated Assessment of PFM Performance

Comparing this repeat PEFA assessment with the original 2008 assessment reveals overall improvement across most Performance Indicators, with slippage in some areas and no change in the rating for others. This 2012 PEFA report also takes place at a time of considerable transition as various PFM reforms are either newly implemented (e.g. systems: Aurion, AX, BERT), or in the process of being implemented/close to being implemented (e.g. ASYCUDA, a new Chart of Accounts; a new Public Finance and Audit Act; revised Financial Instructions; and a new dedicated Procurement Unit within the Ministry of Finance and Treasury (MoFT)).

Credibility of the Budget (PIs 1-4)

In some respects, the credibility of the budget has improved. Aggregate expenditure outturns are closer to original budgets due to improved estimation reflecting improved revenue forecasting, and to improved monitoring of expenditures during the year. Revenue outturns were still significantly different from budget estimates, but this is mainly related to the highly uncertain global economic environment.

In terms of individual line ministries, credibility of the budget was perhaps not so good, with most line ministries receiving fewer financial resources than budgeted for, despite revenues exceeding estimates in two of the three years under review, and a handful of others receiving more financial resources than budgeted for, even larger in percentage terms than the revenue over-performance. The approved budget appears not to have been a constrained optimum with some sectors being accorded higher priority than other sectors in all three years during the process of in-year adjustments to the budget.

Payments arrears can indicate a budget credibility problem, when overspending relative to budget comes at the expense of service delivery in some other area, either during the current year or in the future. The budget execution system, which includes the requirement that all commitments should be consistent with the approved budget and should be paid off before the end of the year, has been successful to a large extent in minimising the extent of payments arrears, though during the year suppliers may face delays in getting paid. The new Financial Management Information System (FMIS), AX, that fully came on stream at the beginning of 2012 is an improvement upon the previous FMIS, because of its relative modernity and partly because of the absence of an override function, which, if used, could contribute to payments arrears.

A problem area appears to be personnel emoluments, teachers' salaries in particular, due to delays in getting teachers on the payroll after they have been hired, or to delays in removing them from the payroll, following recruitment, resignation or termination. This problem should diminish as: (i) Aurion (the payroll control IT package adopted in 2009) is rolled out to line ministries; (ii) monthly payroll preparation processing is delegated to the offices of line ministries located in the different provinces; and (iii) the human resource management component is acquired by the service commissions.

Comprehensiveness and Transparency (PIs 5-10)

The comprehensiveness and transparency of the Government's Budget Papers has strengthened since the 2008 PEFA report (PIs 5-6). The addition of a separate volume on the *Budget Strategy and Outlook* (Budget Paper Volume 1) potentially helps members of the public who have access to it to strengthen their understanding of the Government's fiscal strategy and the parameters underpinning the proposed budget. The document provides an overview of the Budget aggregates, links the design of the Budget to the Government's policy priorities, lists new measures, and explains how the budget position relates to the general economy, including both domestic and international aspects. Contributing to the strengthening has been increased transparency of the budget classification system through functional classifications being used in the Budget Papers for both recurrent and development expenditure estimates.

Transparency has improved in terms of inter-governmental fiscal relations (PI-8), the fiscal information available to the public (PI-10), and the extent of fiscal risk posed by public enterprises and sub-national governments. Further improvement is possible.

- A dysfunctional and complex system for setting and managing transfers to Provincial Governments has been replaced by a clear rules-based transfer system that is predictable and provides timely reliable estimates to Provincial Governments, with some consolidated reporting occurring annually;
- The financial and performance audit reports of the Auditor-General are now publicly available (PI-10) once they are tabled and become available on the OAG website; these reports are often of keen interest to the media. The non-functionality of the Public Accounts Committee in recent years in terms of reviewing OAG's audit reports has detracted, however, from the level of debate on them. Timely and regular in-year budget performance reports are still not available to the public (only after a long delay), and neither are contract awards (except at Central Tender Board level to an extent) and reports on resources delivered to service delivery units.
- Public enterprises, Statutory Authorities and Sub-National Governments represent a fiscal risk in terms of unexpected calls on the national Budget when financial difficulties arise. The MoFT monitors such risk and briefs the Finance Minister accordingly. Such monitoring has strengthened, but public reporting on fiscal risk remains patchy and high-level, however, thus hindering debate on such risk. The annual Budget Papers do not contain a specific section that discusses fiscal risks.

Unreported domestic Extra-Budgetary Operations (EBOs) (PI-7) in the form of Special Funds still pose a transparency issue as they can create the conditions for and raise the possibility of misuse of public funds. Concerns still remain regarding the operation and accountability of these funds (with the apparent exception of the National Transport Fund), with little central oversight provided by either MoFT or the Parliament.

Policy orientation of the budget (PIs 11-12)

The organisation and coordination of the annual budget preparation process has strengthened since 2009 with the early release to all ministries of a clear timetable and greater political stability; instability in previous years contributed to non-adherence to budget preparation deadlines. The budget is supposed to be approved by the end of the year, but political events precluded this in the case of the budgets for 2011 and 2012 (general election and changeover of Prime Minister).

A medium-term perspective is evolving that will in time strengthen the policy-based nature of the budget preparation process. The Government already publishes a Medium-Term Fiscal Strategy (MTFS)[1] which will be significantly enhanced if attempts to introduce detailed rolling forward estimates into the 2014 Budget are successful, supported by the revised Chart of Accounts and the

[1]The latest update of the MTFS was published in August 2011 and covers the period 2011-2016.

new budget programming software recently introduced (BERT). The *National Development Strategy 2011-2020* (NDS), approved in August, 2011 and based on The *Policy Statement of the National Coalition for Reform and Advancement (October 2010)*, is the overarching development strategy that underpins budget preparation. Sector-specific strategies currently exist only for the Education and Health sectors, but a variety of national policy plans exist for most ministries, covering key policy objectives linked to the NDS. The sector strategies, however, are lacking in fiscal realism.

Nevertheless, despite overall improved links between policy statements and funding, the link between the recurrent cost implications of capital investments (particularly donor-funded and central Government investments throughout the country) remains weak, thereby limiting the meaningfulness of a medium term perspective to budgeting. This weakness should dissipate as detailed rolling forward estimates are introduced.

Predictability and control in budget execution (PIs 13-21)

Revenue Administration (PIs 13-15)

Transparency of taxpayer obligations: Advances have been made since the 2008 assessment, mainly through strengthened tax payer education, including through the establishment by Inland Revenue Division (IRD) of its own website. The main legislative development was the Customs Valuation Act (2010), which has enhanced transparency in customs valuation. Transparency should increase further once the Customs and Excise Division (CED) has established its own web site, and two major bills have been enacted including the Exemptions Bill reducing the scope for discretion in the awarding of exemptions, and the pending Customs and Excise Amendment Bill. The latter bill will bring the nearly 50 year legislative framework for customs administration into line with modern practices.

Effectiveness of measures for tax registration and assessment: The effectiveness of controls in tax registration has strengthened somewhat through stronger linkages between Taxpayer Identification Numbers and other databases. Effectiveness will strengthen further through the impending modernization of the IT-based Revenue Management System under IRD and the recently commenced introduction of ASYCUDA under CED. The forthcoming Exemptions Act and Customs and Excise Amendment Act will enable CED to levy higher penalties; the current levels of these are not high enough to deter potential tax payers from not complying with the law and regulations. The forthcoming legislation combined with the new IT systems will aid the further development of the tax audit function, which has already had some notable success (for example, through the post-clearance audit function in CED) in recent years in catching and convicting tax evaders.

Effectiveness in collections of taxes: The IRD still has problems in tracking its tax debt. Its debt collection section is having some success in collecting debts, but is limited in its efforts by its small size. The CED has fewer problems by virtue of the nature of its operations. Strengthened monitoring in recent years, has reduced the extent of tax debt, and the full implementation of ASYCUDA combined with the post-clearance audit function should further reduce its extent.

Budget Execution and Cash and Debt Management (PIs 16-17)

The predictability of budget execution is improving through the introduction of cash flow forecasting, and the establishment of a Cash Co-ordination Committee. Strengthened predictability of in-year cash flows helps MoFT to take mitigation measures with respect to possible revenue shortfalls. Cash flow forecasting has yet to be firmly entrenched and the concept of expenditure commitments linked to monthly/quarterly budget allocations and cash plans has not yet been adopted.

An issue concerning budget execution is the limited transparency of budget adjustments during the year. Many of these come about through the use of contingency warrants, which are supposed only to be used for unforeseen and urgent expenditures and then are regularized through Supplementary Appropriations Acts. The Office of the Auditor General and the Public Accounts Committee claim that at least some of these warrants were not unforeseen and urgent and that the expenditures out of them were in fact illegal as they were not covered by the approved budget. The situation in terms of fiscal discipline has improved as a surplus has been budgeted for, starting in 2011, in order to finance possible contingency warrants, but the limited transparency is still an issue.

MoFT's knowledge of its overall cash position has improved (PI-17 dimension ii), though it is not yet in a position to operate a Treasury Single Account system in the interests of optimizing liquidity management. Its debt management has, and continues to be, improved, not only in technical terms but also through its recently approved Debt Management Strategy (DMS) and its new capacity to conduct debt sustainability analyses (DSA).

Internal Controls (PIs 18-21)

Payroll: Performance has improved mainly through the introduction of Aurion in 2009 and its attendant benefits in terms of strengthened linkages between personnel records and payroll and strengthening of controls over changes to the payroll. Further strengthening will come about through the roll-out of Aurion to line ministries and the purchase by the service commissions of the human resource management function in Aurion, as well as other improvements such as the automation of overtime payments and leave approval processes.

The main issue concerns the teachers' payroll, specifically the time lags between changes to their personnel records and changes to the payroll and, in relation to resignations, the lag between the resignation and the change to the personnel record. Wage and salary arrears are suspected of being significant. The problem partly arises from the long chain between the school, the provincial education office, Teaching Service Commission (TSC), Ministry of Education and Human Resources Development (MEHRD) and MoFT. To address this problem, the MEHRD is piloting the delegation of personnel control to the provincial education offices.

Procurement: Performance has improved in terms of more publication of contracts awarded by the Central Tender Board, but transparency is still low in terms of the justification provided for using restricted competitive procurement methods and the lack of an independent appeals body.

Non-salary internal controls: Commitment controls are being strengthened through the use of AX, which, unlike its predecessor (Maximise) does not have an over-ride function. Compliance with other internal control systems is an issue, as strongly emphasized by the Auditor General in his annual reports; the reports highlight in particular long delays in acquitting imprests. Theinternal audit function, which can check if internal control systems are working properly, is improving, but is hampered in its efforts by inadequate resources.

Accounting, recording and reporting (PIs 22-25)

- The monthly bank reconciliation exercise has continued to run satisfactorily, though the Office of Auditor General (OAG) reports suggest some problems. The timely acquittal of imprests continues to be an issue.
- Information on resources received by service delivery units continues to be unavailable.

- In-year budget performance reports are prepared for management for the purposes of determining whether the budget is on track or not, but there is an issue with the quality of the reports, as indicated by inconsistencies between MoFT data and line ministry data. These inconsistencies should diminish over time as AX becomes embedded in line ministries.
- The timeliness and quality of annual financial statements is improving over time, and IPSAS cash is now being used. Nevertheless, the OAG report for 2009 (the most recent one prepared) indicated that it was not possible to form an opinion of the financial statements for that year, due to the internal control weaknesses that affected the quality of the data.

External scrutiny and audit (PIs 26-28)

The principal disappointment since the 2008 PEFA assessment has been the non-functionality of the PAC in terms of its scrutiny of audit reports. The ability of the legislature to hold the executive branch of Government to account has thus significantly diminished. In the process the effectiveness of the external audit function has also been diminished, as the PAC gives force to the OAG's recommendations.

Parliamentary scrutiny of the budget has improved, through its enhanced scope of scrutiny (now including the Budget Strategy and Outlook Paper) and greater adherence to procedures. These positive developments are undermined, however, by continuing lack of time to review the Budget and by the continuing practice of the executive to present supplementary appropriations bills to Parliament to cover expenditures that have already occurred, particularly through the use of the Contingency Warrant instrument. Some of these expenditures may have represented genuine urgent and unforeseen expenditures, but, in the opinion of OAG and PAC, some do not.

(ii) Assessment of the impact of PFM weaknesses

Aggregate fiscal discipline: Aggregate fiscal discipline has largely been maintained through SIG sticking with its prudent macro-fiscal policies, as agreed to with the IMF. Strengthening revenue administration, and robust expenditure controls and debt management have helped SIG to adhere to its macro-fiscal framework.

The main impact of PFM weaknesses has been mainly in terms of the strategic allocation of resources and efficient service delivery.

Strategic allocation of resources: Examples are:

- Non-transparent extra-budgetary operations (e.g. activities financed through the Rural Constituency Development Fund) that use up resources that could perhaps have been used more effectively elsewhere through the transparent budget preparation process;
- Contingency warrants that have not gone through prior legislative scrutiny may result in public monies being spent on items that are less useful to society, than if they had been spent on other items;
- Insufficient monitoring of the financial situation of SOEs may result in public funds being used to prop up such enterprises, when the funds could perhaps have been better used in other areas; and
- Not budgeting adequately for the future recurrent cost implications of capital projects already committed would lessen the benefits of those projects to such an extent that it might have been better not to have undertaken the capital project and to use the funds

saved for other more effective purposes; the planned introduction of rigorous Forward Spending Estimates will hopefully address this issue.

Efficient service delivery:

- Weaknesses in internal control systems may negatively impact on the quality and quantum of public services delivered. For example, unjustified use of non-competitive procurement methods may result in the costs of providing services being higher than necessary, resulting in services being delivered at a lower level than could have been achieved.
- Weaknesses in tax collection systems may result in revenue collection being lower than could have been achieved, at the expense of the volume of public services being delivered.
- Weaknesses in accounting, recording and reporting systems imply that issues in budget execution and internal control systems may not be picked up promptly by senior managers, leading to delays in taking mitigation measures, with possible negative impact on service delivery. The non-functionality of the PAC in recent years in terms of its scrutiny of external reports adds to the problem; an effective PAC could have exerted pressure on the executive branch of Government to address PFM issues.

(ii) PFM Reform Program

The Solomon Islands Government established a Core Economic Working Group (CEWG) in March 2009 to improve coordination and dialogue between the Government and its development partners in order to better meet the economic and fiscal challenges facing the country. The Government's economic and financial reform priorities have been articulated in an *Economic and Financial Reform Program (EFRP)*. Development partners that are members of the CEWG support the Government in achieving the reform objectives of the EFRP through financial (and including budget support) and technical assistance. The EFRP is also a capacity development model (focusing both on management capacity and systems capacity) as well as a vehicle for agreeing, prioritising and sequencing PFM reforms.

The Third Annual Joint Review Mission (JRM), which conducts annual reviews of the formulation and progress of the EFRP on behalf of the CEWG, has found that the CEWG continues to be a successful model for joint government-donor dialogue for the advancement of key economic and financial policy reforms[2]. The CEWG model is considered to represent best practice of donor-government coordination in the Pacific and is being replicated in a number of other Pacific Island countries.

An issue that may impact the effectiveness of the EFRP is the impending transition of the Regional Assistance Mission to the Solomon Islands (RAMSI) in 2013. A component of the Mission is technical assistance to SIG, including in the area of PFM through the Financial and Economic Management Strengthening Programme (FEMSP) under the auspices of the MoFT Corporate Plan. The FEMSP component of RAMSI is expected to transition to bilateral aid programs in July 2013, including the more than 20 foreign advisers to MoFT currently under FEMSP. Emphasis is being placed on a seamless transition to minimise adverse consequences for the EFRP.

[2] *Report of the Economic & Financial Reform Program – Third Annual Joint Review* (2012), draft report.

Summary of Performance Indicator Ratings, 2008 and 2012 PEFA Assessments

	A: BUDGET CREDIBILITY	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
PI-1 (M1)	Aggregate expenditure out-turn compared to original approved budget	**C**	**B**	**Performance improved** due to increasing monitoring of expenditure and improvement in budget estimation.
PI-2 (M1)	Composition of expenditure out-turn compared to original approved budget	**C+** (i) C (ii) A *(revised methodology)*	**C+** (i) C (ii) A	**Performance unchanged.** The variance was higher in 2010 mainly due to reservations being applied across the Ministries except education, health and police.
PI-3 (M1)	Aggregate revenue out-turn compared to original approved budget	**D** *(revised methodology)*	**D▲**	**Performance is improving.** Revenue outturns were 89%, 108% and 116.5% of budget estimates in 2009-11 respectively. The size of the deviations mainly reflect the uncertain global environment, as forecasting capability has improved significantly since the 2008 assessment. One factor is that revenue estimation is now based on actual revenues in the previous year rather than budgeted revenues.
PI-4 (M1)	Stock and monitoring of expenditure payment arrears	**C+** (i) A (ii) C	**NR** (i) NR (ii) D	**Not possible to track performance since 2008 PEFA.** The MoFT collects information routinely on the end-year stock of unpaid accounts. (less than 1% of total expenditures). Information is not routinely collected, however, on the end-year stock of arrears in personnel emoluments, which are apparently significant in the case of teachers. Dimension (i) in the 2008 assessment indicates no significant payroll arrears, but this may have been incorrect.
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
PI-5/ M1	Classification of the budget	**C**	C▲	**Performance is unchanged, but strengthening is underway and will gather pace through the imminent introduction of a revised Chart of Accounts.** Since 2008, the use and reference to functional classifications has expanded in the recurrent Budget estimates.
PI-6/	Comprehensiveness of	**B**	**A**	**Performance improved.** Budget

M1	information included in budget documentation			documentation fulfils 8 of the 9 benchmarks for this indicator, previously only achieving six. In 2008 Benchmark 1 was only partially fulfilled with limited information provided on exchange rates and then only for development estimates, and no information on aggregate growth and inflation. Volume 1 of the Budget Papers now publishes information on these items.
PI-7/ M1	Extent of unreported government operations	**C** (i) C (ii) C	**C** (i) C (ii) C	**Performance unchanged.** The extent of unreported EBOs remains significant.
PI-8/ M2	Transparency of Inter-Governmental Fiscal Relations	**D** (i) D (ii) D (iii) D	**B** (i) A (ii) A (iii) D	**Performance has improved over dimensions (i) and (ii), but, nevertheless, it is still not possible to produce consolidated general government reports according to sectoral or functional categories** consistent with central Government reporting categories.
PI-9/ M1	Oversight of aggregate fiscal risk from other public sector entities	**D** (i) D (ii) D	**C** (i) C (ii) C	**Performance improved** under both dimensions, but MoFT still does not prepare consolidated fiscal risk reports covering public enterprises and provincial governments.
PI-10/ M1	Public access to key fiscal information	**C**	**B**	**Performance has improved, as the year-end audited financial statements of SIG are now available to the public.**
	C. BUDGET CYCLE	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
	C (i) Policy-Based Budgeting			
PI-11/ M2	Orderliness and participation in the annual budget process	**D** (i) D (ii) D (iii) C	**B** (i) B (ii) A (iii) C	**Performance improved** sharply as a result of reforms.
PI-12/ M2	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C** (i) D (ii) A (iii) D (iv) C	**C** (i) D (ii) B (iii) C (iv) C	**Performance improved** through MoFT undertaking its own Debt Sustainability Analysis (DSA) rather than relying on those undertaken by IMF/World Bank through the IMF Article IV requirements. The DSA, completed earlier in 2012, was the basis of the Medium Term Debt Strategy, as discussed under PI-12. The 2008 rating appears too high as MoFT had very little input into the preparation of the DSA, which was prepared by IMF and World Bank

				staff.
	C (ii) Predictability & Control in Budget Execution			
	Revenue Administration			
PI-13/ M2	Transparency of taxpayer obligations and liabilities	**D** (i) D (ii) D (iii) D	**D+▲** (i) D▲ (ii) C▲ (iii) D	**Performance has strengthened through the 2009 Customs Valuation Act and improved tax payer education.** Further strengthening is likely through the planned revision of the tax laws, including the enactments of the Exemptions Bill and Customs and Excise Amendment Bill, and establishment of ASYCUDA and a website at CED.
PI-14/ M2	Effectiveness of measures for taxpayer registration and tax assessment	**D+** (i) D (ii) D (iii) C	**C▲** (i) C▲ (ii) C (iii) C▲	**Performance improved and continues to do so** due to (i) strengthened linkages with other database systems; (ii) introduction of system of automatic kick-in of penalties; and (iii) introduction of audit plans based on risk assessment criteria. CED scores higher than IRD under (i), as the border itself provides an element of control, but lower under (iii), as the risk-based tax audit system is still being introduced. Under (ii), the penalties that CED can levy are too low to be effective.
PI-15/ M1	Effectiveness in collection of tax payments	**D+** (i) NR (ii) B (iii) D	**D+** (i) NR (ii) B (iii) C	**No change in performance, as information on tax debts owed to IRD is still not consistently available.** IRD's performance under dimensions (i) and (iii) should improve once the Revenue Management System is upgraded. Performance under CED appears to have improved due to strengthened administrative controls, but the aggregated rating is unchanged.
	Budget Execution & Cash/Debt Management			
PI-16/ M1	Predictability in the availability of funds for commitment of expenditures	**D+** (i) D (ii) A (iii) A	**C+** (i) C (ii) A (iii) B	**Performance improved** through strengthened cash flow planning. Dimension (iii) in the 2008 assessment appears to have been an over-score.
PI-17/ M2	Recording and management of cash balances, debt and guarantees	**C** (i) C (ii) C (iii) C	**C+** (i) C (ii) B (iii) C	**Performance improved** in terms of dimension (ii) with regard to SIG's knowledge of its cash balances. The new Debt Management Strategy that came into effect in May, 2012 should

				lead to a higher rating for (iii) in the future, with regard to the system for contracting loans.
	Internal Controls			
PI-18/ M1	Effectiveness of payroll controls	**D+** (i) D (ii) B (iii) C (iv) B	**C+** (i) B (ii) C (iii) B (iv) C	**Performance improved** under dimensions (i) and (iii) mainly due to the introduction of Aurion. Timeliness of changes to the payroll of teachers remains an issue.
PI-19/ M2	Competition, value for money and controls in procurement	**D** (i) C (ii) D (iii) D (iv) D *(revised methodol ogy)*	**D+** (i) B (ii) D (iii) C (iv) D	**Performance has improved, but nevertheless transparency is still low.** More procurement information is being provided to the public, particularly through the MoFT website. Nevertheless, non-compliance with the procurement law and regulations appears high, with instances of contracts being awarded through restrictive competition without sufficient justification..
PI-20/ M1	Effectiveness of internal controls for non-salary expenditures	**D+** (i) C (ii) D (iii) C	**C+** (i) C▲ (ii) B (iii) C	**Performance essentially unchanged (given that the 2008 rating for (ii) was likely too low), but strengthening of commitment controls is underway due to the new FMIS in place.** The other internal control systems are still in a state of transition. Improvements are being made and will be implemented in 2012/2013, but, for the period under review the system still has weaknesses. The rating of D for dimension (ii) in the 2008 assessment is implausibly low, as it implies that understanding of controls is worse than compliance.
PI-21/ M1	Effectiveness of internal audit	**D** (i) D (ii) D (iii) D	**C+** (i) C (ii) B (iii) C	**Performance improved.** Evidence indicates that the Internal Audit function is improving, but insufficient resources are a serious constraint. A move to systems review and risk matrix audit sequencing signals a better use of resources.
	C. BUDGET CYCLE	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
	C (iii) Accounting, Recording and Reporting			
PI-22/ M2	Timeliness and regularity of accounts reconciliation	**D+** (i) B	**C+** (i) B	**Performance unchanged.** Timely acquittal of imprests is still an issue,

		(ii) D	(ii) C	as noted in the OAG reports. The rating in 2008 for dimension (ii) appears to have been too low.
PI-23	Availability of information on resources received by service delivery units	**D**	**D**	**Performance unchanged.** No comprehensive data collection on resources to service delivery units in any major sector and in particular the largest ones of health and education has been undertaken and processed within the last 3 years.
PI-24/ M1	Quality and timeliness of in-year budget reports	**C+** (i) B (ii) A (iii) C	**C+▲** (i) A (ii) A (iii) C▲	**Performance unchanged, but the trend is towards strengthening.** The OAG reports indicate concerns over the accuracy of data and thus of budget performance reports but also highlight that MoFT is making progress in enhancing accounting and reporting processes within ministries. Inconsistencies between line ministry budget performance reports and those generated through FMIS should be ironed out over time as AX becomes embedded in line ministries.
PI-25/ M1	Quality and timeliness of annual financial statements	**D+** (i) C (ii) D (iii) D	**B** (i) B (ii) B (iii) B	**Performance improved**: Consolidated government statements are prepared annually and on time, but they are still qualified by OAG, though improvements are recognized.
	C (iv) External Scrutiny and Audit			
PI-26/ M1	Scope, nature and follow-up of external audit	**C+** (i) B (ii) C (iii) B	**D+** (i) B (ii) D (iii) C	**Performance diminished, through timeliness of audit reports and the response of line ministry management to audit recommendations both becoming worse.** The repetitive nature of audit observations and recommendations clearly indicate that management is lagging in terms of implementing remedies and solutions.
PI-27/ M1	Legislative scrutiny of the annual budget law	**D+** (i) C (ii) B (iii) D (iv) C	**D+** (i) B (ii) A (iii) D (iv) C	**Performance unchanged.** No change in performance overall, but the scope of parliamentary scrutiny and adherence to procedures has improved *(dimensions i-ii)*. Even with these improvements, inadequate time for review *(dimension iii)* will continue to yield a low overall rating. The executive, through its unjustified (as claimed by OAG and PAC) use of contingency warrants, continues to violate the rules for in-year

				adjustments to the budget without prior approval of the Parliament *(dimension iv)*.
PI-28/ M1	Legislative scrutiny of external audit reports	**C+** (i) C (ii) B (iii) B	**D** (i) D (ii) D (iii) D	**Performance diminished** as the PAC has not been functional in recent years in terms of its mandate to review external audit reports.
	D. DONOR PRACTICES	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
D-1/ M1	Predictability of Direct Budget Support	**NA**	**D**	EU agreed to provide GBS in 2010 and 2011 but the estimates were not included in the 2010 Budget and the wrong amount was included in the 2011budget. Disbursements have not been provided on the basis specified in the financing agreement.
D-2/ M1	Financial information provided by donors for budgeting and reporting on project and program aid	**D+** (i) C (ii) D	**C+** (i) B (ii) C	**Performance is improving through the installation of the DAD system.**
D-3/ M1	Proportion of aid that is managed by use of national procedures	**D**	**D**	**Performance unchanged.** The SIG still has capacity issues in terms of properly managing large amounts of donor funds. Donors are still reluctant to use SIG PFM systems.

2008 PEFA PI ratings that appear to be incorrect

PI	**Rating**	**Reasons**
PI-12 (ii)	A	The rating should have been D, as DSA was conducted by IMF/World Bank without MoFT participation.
PI-16 (iii)	A	The rating should have been C, reflecting the extensive use of contingency warrants, as noted under PI-27 (iv).
PI-20 (ii)	D	The rating should have been B, indicating that understanding of internal control systems has not changed since the 2008 assessments. The D rating was implausibly low, as it implied that understanding of internal control systems was worse than compliance with them. The overall rating should therefore have been C+.
PI-22 (ii)	D	The rating should have been C and the overall rating C+, not D+. The D rating appears to have been too low, as evidence suggests that records on imprests are kept and reconciled, but are not acquitted in a timely manner.

1. Introduction

1.1. Objective

The purpose of the assessment is to assess the PFM system performance of the Solomon Islands Government (SIG), using the PEFA assessment methodology, and to gauge progress in strengthening performance since the last PEFA assessment conducted in 2008. The results of the assessment will principally be used by the Government to determine: (i) whether the current Economic and Financial Reform Programme (EFRP) should be refined; and (ii) by the development partners to determine how best they can support SIG in any implementing any such refinement.

1.2. Process of preparing the report

The conduct of a PEFA assessment was among the policy reforms included in the Government's Economic and Financial Reform Programme (EFRP) under Policy Reform Area II.12a in the EFRT matrix for 2011-2014 in the context of the Core Economic Working Group (CEWG). Upon discussions between MoFT and CEWG development partners, it was agreed that the EU would support Ministry of Finance and Treasury (MoFT) in the conduct of the PEFA assessment. In discussion between MoFT and the EU in the first quarter of 2012, it was planned to conduct the PEFA after the Festival of Pacific Arts which was going to take place in the first fortnight of July 2012.The EU discussed a draft Concept Note with MoFT and the main scope of the PEFA was outlined. It was agreed to follow the PEFA Framework for a repeat PEFA and apply PEFA CHECK quality assurance principles (elaborated on in Annex D) that came into effect on 1 July, 2012, under the auspices of the PEFA Secretariat.

A key component of the quality assurance process is the Oversight Team (OT). After consulting with CEWG members and the Pacific Finance and Technical Assistance Centre (PFTAC) on the interest to take part in the OT, the first OT meeting was organised (15th May) where the OT was established, the Assessment Manager was nominated and the first draft ToR for the assessment were shared. The OT comprises both MoFT staff and representatives of CEWG development partners.[3]After a consultation process with PEFA Secretariat, EC and OT (including MoFT) on the ToR, all reviewers submitted comments. The ToR were adjusted and a response to the comments prepared. An OT meeting served to validate the ToR and a final version was ready on 14th June.

In parallel, discussions were held with PFTAC, led by MoFT, for ensuring PFTAC participation in the PEFA exercise. It was planned for SIG staff to carry out a self-assessment with support from PFTAC prior to the formal assessment by the contracted assessment team.

The assessment was conducted by a team of consultants recruited by Linpico consulting company, and by a representative – Charles Broughton – of the Australian Department of

[3]Mr. Shadrach Fanega, Permanent Secretary of MoFT and Chairman of OT; Mr Harry Kuma, Undersecretary for Economics, MoFT; Mr. Matthew Pitavato, Acting Director, Financial and Economic Development Unit, MoFT; Mr. Ron Hackett, PFM Adviser, PFTAC/IMF; Mr. Tim Bulman, Country Economist, World Bank; Ms. Anna McNicol, Senior Programme Development Specialist, AusAID; Mr. Eoghan Walsh, Charge D'Affaires, EU Delegation to Solomon Islands; Mr. Juan Carlos Hinojosa, Governance Adviser, EU Delegation to Solomon Islands.

Finance. The consulting team comprised Peter Fairman (team leader), Terry O'Donnell and Peter Lokay. Charles Broughton was a late addition to the team.

The assessment team commenced its fieldwork in Honiara on 19th August and finished it on 7th September. Initial meetings were held with the EU Delegation to the Solomon Islands – Juan Carlos Hinojosa (Attaché, Social Sector/Governance, and assessment manager) and Mr. Eoghan Walsh (Chargé D'Affaires) –, the Oversight Team, and the MoFT counterpart staff (Mr. Norman Hiropuhi, Budget Unit; Mr. Douglas Sade, Financial Management Services Section; and Mr. Greg Moores, Adviser to Budget Unit) who had been designated to work with the assessment team.

Prior to the arrival of the PEFA assessment team, as noted above, a number of staff in the Ministry of Finance and Treasury (MoFT) received training from PFTAC in the use of the PEFA Framework. The training took place in Fiji and Sydney through formal sessions and, during July, 2012, in Honiara through a number of workshops. The staff then prepared a self-assessment, using templates prepared by PFTAC and introduced at the workshops. The self-assessment was presented to the external PEFA assessment team on 21st August, the day following the first working day of the team in Honiara. The team reviewed the assessment during 22nd August, and presented its review at the PEFA workshop held on 23rd August. The team found the self-assessment to be of generally good quality and provided a very valuable basis for its own assessment, which began on 24th August.

Commencing 24th August, the team held meetings with the Minister of Finance, the Permanent Secretary of MoFT and the main operational units/sections/divisions in the MoFT: Budget, Financial Management Services, Debt Management, Economic Reform, Payroll, Inland Revenue, Customs and Excise, Central Tender Board, and Internal Audit. The team also met representatives from a number of line ministries (Education, Health, Police, Infrastructure, Agriculture), the Ministry of Development Planning and Aid Coordination (MDPAC), the Office of the Auditor General, the head of the Central Tender Board, the Central Bank of Solomon Islands, the Public Accounts Committee of Parliament, the Guadalcanal Provincial Government, the Solomon Islands Chamber of Commerce, Transparency International, and AusAID. The team requested meetings with the Ministry of Public Service and the Ministry of Provincial Administration but unfortunately these did not materialise.

The team submitted a preliminary draft report, mainly comprising Section 3, to Juan Carlos Hinojosa on 4th September and presented it at the de-briefing workshop held on 5th September.[4] Comments from some members of the OT were submitted to the assessment team over the next ten days. The team incorporated these comments, along with comments provided at the workshop, into a formal first draft report, which was submitted to Juan Carlos Hinojosa on 23rd September. The EU Delegation submitted comments on the draft to the assessment team on 5th November, the comments coming from MoFT, PEFA Secretariat and Juan Carlos Hinojosa (including comments from OT members and other donors). The assessment team incorporated the comments into a second draft, which was submitted to Juan Carlos Hinojosa on 25th November. The team received follow-up comments on 7th December, mainly from the PEFA Secretariat. This final draft incorporates those comments.

The development partners working closely with MoFT and MDPAC in support of PFM reform (through the Core Economic Working Group – CEWG - established in 2009) are: EU, Asian

[4] The team submitted an Inception Report to the EU Delegation to the Solomon Islands on 27th August, the report including the work plan for the assessment.

Development Bank, World Bank, IMF, AusAID and NZAID. As indicated under D-2 in Section 3, a number of other development partners provide developmental assistance to Solomon Islands (Republic of China, for example), but these are not members of CEWG.

The team greatly appreciates the work of the MoFT counterpart staff (mentioned above) in arranging these meetings, obtaining and providing the documents requested and discussing these with the team, and providing a conference room as a base for the team's work, including the meetings. The team also much appreciates the support provided by Juan Carlos Hinojosa (the PEFA assessment manager) in all areas of the assessment process, particularly in the form of finding hotel accommodation, provision of useful background documents, co-ordinating with MoFT counterpart staff and other development partners, arranging of the two workshops and the printing of workshop documentation. Without all this assistance, the assessment team would not have been able to submit a preliminary draft report on 4th September, only 12 days after commencing the formal assessment.

1.3. Scope of the Assessment

This PEFA assessment is focused on the 29 institutions of the Solomon Islands Government (SIG), comprising the line ministries, Office of the Auditor General, Office of the Governor General, the National Parliament, the Office of the Prime Minister and Cabinet, and the National Judiciary. It does not cover the nine decentralised Provincial Governments and Honiara City Council, except in terms of the transparency of the fiscal transfers provided to them by SIG (PI-8). Nor does it cover extra-budgetary operations (EBOs), such as Special Funds, except in terms of the transparency of their planned and actual expenditures and sources of funding (PI-7). Nor does it cover State-Owned Enterprises and Statutory Bodies, except in terms of monitoring the extent of fiscal risk that they may pose (PI-9 in Section 3).

Statistics are not published on the expenditures of Provincial Governments. Nevertheless, their size in relation to total consolidated general government expenditure (i.e. SIG plus Provincial Governments plus EBOs) appears to be small, particularly since 2009, when key functions, education and health functions in particular, were taken over by SIG. As noted under PI-7 regarding EBOs (Special Funds, Rural Constituency Development Fund, revolving funds), these are not fully reported on, but annual expenditures are estimated at 5-10 percent of total SIG expenditure. Thus SIG expenditure comprises the bulk of total consolidated general government expenditure.

The assessment is mainly backward looking, assessing PFM performance to date. Depending on the context, the assessment under an indicator may be concerned with the current status of PFM (e.g. revenue administration, PIs 13-14) or performance over the last completed fiscal year (e.g. PI-16, concerning the in-year predictability of the budget), or performance over the last three completed fiscal years (e.g. PIs 1-3, concerning expenditure and revenue performance relative to the approved budget).

2. Solomon Islands Background Information

2.1. General Information

The Solomon Islands remains a primarily rural-based country in demographic, economic, social and cultural terms. About 80 percent of the population still lives in rural villages. In urban centres where population is growing at 4.7percent a year, many residents retain close connections with their rural village homes. Despite being the recipient of one of the highest levels of aid per capita in the world, human development indicators in Solomon Islands are among the lowest in the Pacific Islands. The country ranks 142 out of the 187 countries listed in the 2011 UNDP Human Development Report. The economy remains mainly dependent on forestry, fisheries, mining and certain agricultural products such as copra, palm oil and cocoa. Gold production is expected soon to take over from logging as the main driver of growth.

Table 1 provides general economic background information.

Table 1: Solomon Islands, Selected Economic Indicators

	2008	2009	2010	2011
Total population, thousands			528	
National income and prices				
GDP per capita (US$)	1,207	1,159	1,280	1,554
GDP current prices (SBD millions)	4,713	4,815	5,449	6,404
GDP, annual real growth, %	7.1	-4,7	7.0	9.3
CPI % change	18.1	1.8	0.8	7.1
External sector (US$ millions)				
Current account balance	-124.4	-128.2	-171	-97.7
% of GDP	-20.5	-21.4	-21.7	-11.6
Gross official reserves of CBSI (end-year)	89.5	146.6	304.6	364.6
Months of imports coverage	3.1	3.2	5,1	6.5
Central Govt. debt, % GDP	35.0	33.2	28.1	21.3

Source: IMF Article IV Report, December 2011.

Table 1 indicates that a healthy looking macroeconomic picture is emerging from the adverse impact on Solomon Islands of the global financial crisis. After falling by nearly 5 percent in 2009, real GDP growth rebounded to 7 percent in 2010 and to 9.3 percent in 2011 as a result of strong performance in the forestry, fisheries and agriculture sectors. Nevertheless the country remains vulnerable to commodity price and demand shocks. Inflation reached 18 percent in 2008, but plummeted to just below 2 percent in 2009, as demand pressures cooled in the wake of the crisis, and to just below 1 percent in 2010, before rising sharply in 2011 as both external and domestic demand picked up. Central Government debt fell to 33 percent of GDP in 2009 and fell further to 21.3 percent of GDP in 2011. The months of reserves coverage of imports rose sharply to 5.1 in 2010 and then again to 6.5 in 2011.

These favourable outturns reflect in part the prudent macro-fiscal policies being implemented by SIG, with the support of the IMF under a Standby Credit Facility (SCF), the support of development partners, and buoyant exports and fishing license fees. The SCF expired on 1 December 2011 and was replaced by a precautionary one year SCF arrangement. The Letter of Intent written to the Managing Director of IMF by the Minister of Finance and the Governor of the Central Bank on 7th June, 2012 mentioned that Solomon Islands had benefited from its strong engagement with the IMF, the one year agreement having helped to anchor the policy agenda.

The economic recovery had been stronger than expected, the fiscal and external positions hade improved and donors' support had been catalysed as a result.

2.2 Description of Budgetary Outcomes

Table 2: Fiscal Summary

SBD billions	**Actual 2008**	**Actual 2009**	**Actual 2010**	**Actual 2011**
Domestic revenues	**1366**	**1467**	**1757**	**1959**
External Grants	**826**	**1192**	**1677**	**1661**
Development	717	1054	1281	1335
Recurrent Budget	109	138	396	326
Current expenditure	***1192***	***1376***	***1548***	***1734***
Non-interest	*1139*	*1331*	*1525*	*1706*
Personnel emoluments	453	511	588	588
Other recurrent expenditure	686	820	937	1118
Interest	53	45	23	28
Development expenditure	***921***	***1231***	***1525***	***1849***
Total expenditure	**2113**	**2607**	**3073**	**3583**
Overall Balance	***79***	***52***	***361***	***37***
Financing	**-79**	**-52**	**-361**	**-37**
Net external	*-75*	*-53*	*-65*	*-58*
Net domestic	-4	1	-296	21
GDP, SBD millions	4713	4815	5449	6404
Domestic revenue, % GDP	29.0	30.5	32.2	30.6
Total expenditure, % GDP	44.8	54.1	56.4	55.9
Overall balance, % GDP	**3.3**	2.1	13.2	1.1
Personnel emoluments, % Exp..	21.4	19.6	19.1	16.4
Other recurr. expenditure, % Exp.	32.5	31.5	30.5	31.2
Interest expenditure, % Exp.	2.5	1.7	0.7	0.8
Develop. expenditure, % Exp.	43.6	47.2	49.6	51.6

Source: IMF Article IV Consultation report, December 2011

Table 2 indicates a favourable fiscal situation. Domestic revenue collection has been stable in terms of GDP, the growth in the main economic sectors, combined with strengthening revenue administration, generating rapid revenue growth. Total expenditure has risen sharply in terms of GDP, with external grants making up the difference between revenue and expenditure and providing for a surplus. The reasons for budgeting for a surplus (except in 2011) were to: (i) limit domestic borrowing, which might have put upward pressure on domestic interest rates with an adverse impact on economic growth (the opportunity for domestic borrowing is limited by the Honiara Club Debt Agreement); (ii) provide a cushion for funding unexpected expenditures, including those funded through contingency warrants; and (iii) provide a buffer against commodity-related revenue surprises.

The main contributions that SIG's PFM systems have made towards the favourable macro-fiscal picture indicated in Table 2 are: (i) strengthening revenue administration, which has contributed to the robust pace of domestic revenue growth; (ii) expenditure controls, that have helped to prevent expenditures not covered by approved budgets, and therefore helped to prevent the build-up of informal debt in the form of payments arrears; (iii) competent formal debt management, thus guarding against the build-up of unsustainable debt positions.

Table 2 also shows the composition of expenditure according to economic classification. Unlike many other countries, personnel emoluments are a relatively small component of total expenditure, and capital (development) expenditures a relatively large component. This picture may be misleading, however, as development expenditure is likely to contain elements of recurrent expenditure, personnel and non-personnel, though this is also the case in the significant numbers of countries that have 'development' budgets rather than 'capital' budgets. The classification system for the development budget, unlike that of the recurrent budget, is not shown on an economic basis that differentiates clearly between genuine capital expenditure (construction of a capital asset, such as a building, acquisition of capital equipment) and recurrent expenditure (e.g. salaries for personnel contracted under technical assistance projects, school text books under education support projects, drugs under health support projects).

Table 3 provides an indicative functional classification of expenditure. This is not shown explicitly in the budget estimates, which only show expenditure by budget agency, separately for recurrent, appropriated development expenditure and non-appropriated development expenditure (the latter mainly comprising development partner-funded projects that are mainly implemented outside SIG's PFM systems). The classification is indicative only, as some budget agencies have a mix of functions. The classification shows that social services (mainly education and health) comprises almost 40 percent of total expenditure, and economic services (e.g infrastructure, agriculture) comprise 25 percent of total expenditure. These proportions are not far out of line with those of many other countries.

Table 3: Indicative functional classification of the 2011 budget

	2011
	Budget
	%
Functions	**Expenditure**
Economic Services	25.4
Social Services	38.6
Law, Order and Justice Services	10.3
Administrative Services	21.5
National Debt Service	3.9
Pensions & Gratuities	0.3
Sum	100.0

Source: Table compiled by assessment team on the basis of tables in the 2011 Budget Estimates showing the recurrent, appropriated development budget, and non-appropriated budget estimates by ministries and agencies.

Legal and Institutional Framework for PFM

Legal framework for PFM

The institutional relations between the Executive, Legislature and the Judiciary are set out in the Constitution of the Solomon Islands. Her Majesty, the Queen of the Commonwealth, is the Head of State. S27(1) of the Constitution provides that: *'There shall be a Governor-General of*

Solomon Islands who shall be appointed by the Head of State in accordance with an address from Parliament and who shall be the representative of the Head of State in Solomon Islands.' The executive authority of the people of Solomon Islands is vested in the Head of State.

The Executive Government serves the Head of State through a Prime Minister elected by the Parliament (S.33). Ministers are appointed by the Governor-General on the advice of the Prime Minister. The Prime Minister and Ministers form the Cabinet (S.35). Ministers are charged with the responsibility for the administration of departments of the Government (S.40). This section also provides for the appointment of a supervising Permanent Secretary or other supervising officer of a department who will be a 'public officer' in terms of the Constitution.

The legislature is established under S.46 '*There shall be a national legislature for Solomon Islands, which shall consist of a single chamber and shall be known as the National Parliament of Solomon Islands.*' S.59 provides that:

> *(1) Subject to the provisions of this Constitution, Parliament may make laws for the peace, order and good government of Solomon Islands.*
>
> *(2) The laws referred to in this section shall take the form of Bills passed by Parliament; and when a Bill has been passed by Parliament it shall be presented to the Governor-General who shall assent to it forthwith on behalf of the Head of State, and when such assent is given the Bill shall become law.*

The judiciary is also established under the Constitution. S.77(1) provides that '*There shall be a High Court for Solomon Islands which shall have unlimited original jurisdiction to hear and determine any civil or criminal proceedings under any law and such other jurisdiction and powers as may be conferred on it by this Constitution or by Parliament.*' All other courts in the Solomon Islands are subordinate to the High Court.

Public financial management law is enshrined in the *Public Finance and Audit Act 1978*. This confers PFM responsibility on the Minster for Finance and also aligns PFM management with the terms of the Constitution and, in particular, the operation of the Consolidated Fund. The MoFT, supervised by the Permanent Secretary for Finance under the direction of the Minister for Finance, remains in charge of all PFM functions in Solomon Islands. Key operational divisions reflecting these functions are: Inland Revenue; Customs and Excise; Accountant General; Undersecretary for Economics, under which falls the Economic Reform Unit, which, *inter alia*, monitors the macro-economy, Special Funds and state owned enterprises, and; Undersecretary for Finance and Economic Management System under which, *inter alia*, fall the Budget Unit and Debt Management Unit.[5]The payments system remains centralised under MoFT.

Since the 2008 PEFA assessment, the main changes in the legal framework have been: (i) the Customs Valuation Act, which has significantly improved the transparency of customs valuations in line with international best practices; and (ii) the updating (2010) of the Financial Instructions, that provide the regulatory framework underpinning the 1978 Public Finance and Audit Act.

[5]The structure of MoFT is shown diagrammatically in MoFT's Corporate Plan for 2011-2013.

Further changes are in the process of being made:

(i) Preparation of a revised PFM Act that remedies issues regarding the current 1978 Public Finance and Audit Act, particularly:

- A general lack of transparency, including insufficient clarity of the roles of the key officials in charge of PFM, and insufficient clarity of the delegation of powers;
- Lack of clarity over the procedures for entering into expenditure commitments, particularly those with a multi-year horizon.
- Over-use of virements; the IMF has recommended tightening up.
- Too loose a definition of urgent and unforeseeable expenditure in the context of the use of contingency warrants; tightening up the definition has been a specific recommendation of the IMF, which recommends excluding adjustments for matters already funded in the budget. The 'exposure' draft proposes that contingency warrants for recurrent expenditure should be no higher than 2 percent of the original budget for recurrent expenditure.
- Lack of clear provision for reallocations of appropriations between Ministries during the year or between recurrent and development expenditure;
- Lack of clear rules for the establishment of Statutory Appropriations, thereby complicating SIG's ability for flexible management of public expenditure; statutory spending currently comprises more than 12 percent of total recurrent budget appropriations.
- Lack of fiscal responsibility provisions that are increasingly commonplace in PFM laws around the world: for example the lack of provision for a budget strategy paper to be prepared prior to the preparation of the detailed budget estimates; lack of guidelines for supplementary appropriations bills; lack of provision of a medium term fiscal strategy, and as part of this, a debt management strategy, including the management of contingent liabilities (e.g. guarantees of loans incurred by SOEs);
- Lack of clarity regarding financial recording and reporting: for example, no requirement for preparing monthly financial statements, including requirements for Special Funds and Statutory Boards to do so (as indicated also under PI-7 in Section 3).
- Inconsistency between the Act and the Financial Instructions that were revised in 2010 as a way of addressing some of the above-mentioned PFM issues.

An 'exposure' draft of the revised PFM Act was released by SIG on 17th August, 2012, for discussion at a workshop the following week (which coincided with the first week of the PEFA assessment mission).

(ii) Preparation of an Exemptions Act that will tighten up the scope of administration discretion in the use of tax incentives; and

(iii) Revision of the Customs and Excise Act, to bring it up to date; further elaboration is provided for (ii) and (iii) under PI-13 in Section 3.

Institutional Framework and Key Features for/of PFM

Changes in the institutional framework and key features/of PFM since the 2008 assessment include (as also elaborated on under the relevant PIs under Section 3):

- Commencement of EFRP and the supporting FEMSP in 2009, partly on the basis of the findings of the 2008 PEFA assessment;

- Establishment of the CEWG as the main vehicle for co-ordinating the implementation of EFRP, including the involvement of the development partners who subscribed to EFRP;
- The introduction of new up-to-date IT packages to support strengthened budget execution, accounting and reporting (AX, in place of Maximise), payroll control (Aurion, in place of Telepay) and budget preparation (BERT), and revenue administration, through the impending upgrading of the Revenue Management System (under IRD) and the introduction of ASCYCUDA World in place of PC Trade;
- The revision of the Chart of Accounts in order to provide it with a more functional dimension, and, in conjunction with BERT, to strengthen the medium term perspective of the budget;
- The introduction of Volume 1 in the budget documentation in the form of a Budget Strategy and Outlook paper in order to strengthen the linkages between policies and budgets.
- The establishment of the Cash Coordination Committee in MoFT in 2010 in order to strengthen cash flow management in support of efficient budget execution consistent with fiscal responsibility.
- The preparation of a Medium Term Debt Strategy, that was finalised in 2012.
- Up-dated Financial Instructions (2010), which, inter alia, provide for further strengthening of PFM according to international best practices (e.g. introducing a medium term fiscal framework, and aligning of budget estimate formats to enable the reporting requirements of international accounting standards to be achieved), to be covered in revised PFM legislation.
- Adoption of IPSAS Cash (2009).
- Improvements in transparency, for example through the establishment of a website by IRD, and enhanced scope of MoFT’s website.

3. Assessment of the PFM Systems, Processes and Institutions

3.1. Introduction

The following sub-sections provide the detailed assessment of the PFM indicators contained in the PFM PMF (Public Finance Management-Performance Measurement Framework). The scoring methodology only takes into account the existing situation and does not cover on-going and planned activities that may result in higher scores under future assessments, but these are summarized at the end of the discussion on each section.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where good performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. A conversion table for 2, 3 and 4 dimensional indicators is used to calculate the overall score. The PEFA handbook ("PFM Performance Measurement Framework, www.pefa.org) provides detailed information on the scoring methodology. Effective January 2011, a revised methodology is being used for PIs 2, 3 and 19.

3.2. Budget Credibility

Good practice in public financial management emphasizes the importance of the budget being credible so that planned Government policies can be achieved. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. The indicators in this group assess to what extent the budget is realistic and implemented as intended.

Assessment of Performance Indicators of Budget Credibility

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-1: Aggregate expenditure performance	C	B	**Performance improved** due to increased monitoring of expenditure and improvement in budget estimation.
PI-2: Variance in expenditure composition (M1)	C+ (i) C (ii) A *(using revised methodology)*	C+ (i) C (ii) A	**Performance unchanged in terms of ratings, though the variance was higher during 2009-2011 than during 2004-06.** The variance was higher in 2010 than in 2009 and 2011 mainly due to reservations being applied across the Ministries except education, health and police. The main contingency expenditure specifically provided for in the budget was for personnel emoluments for allocations to line ministries later in the year through a supplementary budget. As the contingency is fully allocated, the rating for dimension (ii) is A.
PI-3: Domestic revenue performance	D *(using revised methodology)*	D▲	Revenue outturns were 89%, 108% and 116.5% of budget estimates in 2009-11 respectively. The size of the deviations mainly reflects the uncertain global environment, as forecasting capability has improved significantly since the 2008 assessment. One factor is that revenue estimation is now based on actual revenues in the previous year rather than budgeted revenues.
PI-4: Extent of expenditure arrears (M1)	C+ (i) A (ii) C	NR (i) NR (ii) D	The MoFT can routinely track the level of receipted LPOs outstanding at the end of each year. In terms of total actual primary expenditures, these amounted to 0.2 percent in 2009 and 2011 and virtually zero in 2010. The amounts outstanding do not necessarily constitute arrears, using the international convention of 30 days cut-off date). They are likely to be arrears, however, by the time they are paid out of the next year budgets of the relevant MDAs and thus identified as such. The level of teacher salary arrears does not seem to be tracked easily due to the geographical dispersion of teachers and their mobility and may be significant, according to MEHRD staff. The 2008 PEFA assessment indicated no payroll arrears but this may have only reflected the timely payment of the payroll as recorded on MoFT's system. In terms of non-salary arrears alone, the rating appears to be A. In terms of teacher salary arrears, which may be sizeable, the rating appears to be NR (NR and D for dimensions i and ii respectively). The overall rating is therefore NR.

3.2.1. PI-1: Aggregate expenditure out-turn compared to original budget; and PI-2: Expenditure composition variance and average contingency

Comparison of aggregate actual expenditure against the original budget shows that actual expenditure deviated from the original budget by -8.8% in 2009, 3.7% in 2010 and 5.5% in 2011.

The underperformance in 2009 was mainly due to a revenue shortfall and low implementation of the SIG funded Development Budget. The over-performance in 2010 was despite a budget reservation being imposed on a number of ministries, with some ministries still being allowed to incur additional expenditure.[6]The extent of the aggregate deviation has improved relative to the 2008 PEFA assessment, mainly due to better budget forecasting and compliance compared to the earlier period when the country was emerging from the ethnic conflict. Donor assistance to MoFT through RAMSI has helped significantly.

Table 4: Budget execution rate for total primary expenditures

SBD$millions	**2009**	**2010**	**2011**
Original budgeted total primary expenditure	1,604	1,682	1,863
Actual primary expenditure	1,461	1,744	1,966
Difference between actual & original budgeted primary expenditure	-142	62	103
Difference as % of original budgeted primary expenditure (%)	-8.8	3.7	5.5

Sources: Annual budget estimates, audited Appropriations Accounts and unaudited Appropriations Accounts for 2009/2010/2011).

Note: Primary expenditures are defined as total expenditure less debt service payments less donor-funded projects/programmes, including those implemented through Sector Wide Approaches (SWAps), such as the grants for health and education provided by AusAID and NZAID.

The variance in the composition of expenditure at ministerial level in relation to the budget (adjusted for the aggregate deviation) was 13.4 percent in 2009, 15.7 percent in 2010 and 13.4 percent in 2011 (full tables in Annex 1). Five Ministries, Departments and Agencies (MDAs) (Office of the Prime Minister and Cabinet, National Parliament, Ministry of Foreign Affairs and External Trade, Ministry of Mines and Energy, Ministry of Communication and Aviation) overspent their original budget in each of the three years. Five MDAs (Ministry of Education, Ministry of Provincial Government, Ministry of Rural Development, Ministry of Home Affairs, and Ministry of Forestry) overspent their original budget in 2010 and 2011. One MDA (Office of the Governor General) overspent its budget in one year (2010). The remaining 19 MDAs under-spent their budgets in each of the three years, even though revenue outturns exceeded budget estimates in two out of the three years.

Contingency provisions in the approved budget (under MoFT for the personnel emoluments budget) were allocated through supplementary budgets to the relevant line ministries for the years being assessed.

The variance in the composition of expenditure during the period covered by the previous assessment (2004-06) was, except for 2004, significantly lower: 23.1 percent, 9.6 percent and 12.3 percent respectively, the high variance in 2004 reflecting the continuing impact of the Tensions.

A significantly sized variance in the composition of expenditure after adjusting for revenue performance indicates: (i) the approved budget did not represent an optimum allocation of resources in the first place in terms of the outcome of the balancing of spending priorities between MDAs: at the margin, the spending of some MDAs is of higher priority than others; and/or (ii)

[6]Through circulars issued by the PS of MoFT, 35 percent was withdrawn from line ministries during mid-2010 in response to the impact of the global financial crisis. Twenty-five percent (25) was released back (de-reserved) to line ministries later in 2010, resulting in a net reservation (i.e. permanent withdrawal) of 10 percent.

priorities changed during the year, the result being that those MDAs for which priority increased during the year were allocated the lion's share of the excess domestic revenues and were even allocated resources originally budgeted under other MDAs.

Table 5: PI-2: Expenditure Composition Variance & Average Contingency

FY	Average Contingency (% of budget) **1/**	Composition Variance**2/**
2009	0	13.4%
2010	0	15.7%
2011	0	13.4%

1/: The rating is A if the contingency is allocated to line ministries.
2/: Defined as the sum of the absolute deviations for each MDA from the 'adjusted' budget, defined as the original budget for the MDA plus/minus the aggregate deviation (as assessed under the revised methodology for PI-2 that came into effect in January 2011).
Source: Budget documents and MoFT. The outturn data for 2010-2011 are unaudited.

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

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based on that forecast. A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting.

The revenue performance during 2009 to 2011 shows that the revenue for 2009 was under budget by 11 percent while 2010 and 2011 revenues were over the revenue estimates by 7.6 percent and 16.5 percent respectively. Notwithstanding the overestimate, revenue forecasting has improved markedly since the last assessment; revenue exceeded budget estimates by 73 percent, 16 percent and 17 percent in 2004, 2005 and 2006 respectively. The under collection in 2009 was mainly due to the global financial crisis during that year. Services were still maintained in the education, health and infrastructure sectors due to donor aid provided through the recurrent budget.

Non-tax revenue – comprising about 12 percent of total revenue - fell short of budget estimates in 2009 and 2010, but sharply exceeded them in 2011, the main reasons being higher than projected performance in fisheries and logging revenue. The major portion of fisheries revenue comes from licenses issued to overseas fishing companies under bilateral and multilateral fishing agreements.

Table 6: Domestic Revenue Performance

SBD millions	**2009 Budget**	**2009 Actual**	***% Diff.***	**2010 Budget**	**2010 Actual**	***% Diff.***	**2011 Budget**	**2011 Actual**	***% Diff.***
Taxes on income	461	492	*6.7*	488	590	*20.9*	484	464	*-4.2*
Taxes on goods & services	607	466	*-23.2*	601	620	*3.2*	713	802	*12.4*
Taxes on international trade	363	311	*-14.4*	342	394	*15.1*	378	580	*53.3*
Other taxes	13	14	*7.5*	14	8	*-42.4*	9	18	*98.7*
Non-tax revenue	198	180	*-9.3*	219	179	*-18.2*	180	260	*29.5*
Total	**1,642**	**1,463**	***-10.9***	**1,664**	**1,791**	***7.6***	**1,969**	**2,294**	***16.5***

Source: MoFT

3.2.3. PI-4: Stock and monitoring of expenditure payment arrears

Payments arrears can arise from financial resource inflow unpredictability, combined with problems with budgeting and budget execution systems. The arrears have to be paid off at some point (providing that the original commitments were legally entered into) out of future budgets, thereby reducing the resources available for financing the delivery of services in future years. In general, a persistent arrears problem reduces the credibility of the budget as a tool for providing for the public goods and services required by society.

All bills are supposed to be paid by the end of the year, which is when accounts are closed. Every year the MoFT issues a Finance Circular indicating the procedures for ensuring that all bills are paid at the end of the year. Under the cash system of accounting, unpaid bills cannot be carried over to the next budget year. Intended payments have to be recommitted and spent out of the following year's budget.

The Finance Circular dated 7 November, 2011 (no. 7/2011) indicates the following:

- Ministries should not hold onto 2011 invoices, so that all commitments can be paid in 2011 (FI 5.87.6).
- The final day for accepting requests for the issuing of LPOs (for purchases of less than SBD 100,000) will be 18th November, and the receipted LPOs (effectively the same as payments vouchers) need to be returned to the Procurement Section in MoFT by ministries or suppliers by 25th November.
- The final day for accepting payments vouchers (for purchases not requiring LPOs) will be 25th November, with the final batch of cheques for collection on 20th December.

Some suppliers require advance payments (permitted under FI 7.99) in order to guard against delayed payments.[7] According to line ministries interviewed, such payments are more common than payment after goods and services are received. In the instances where suppliers are not paid in advance, payments to them may be delayed as the procured goods and services have not been received. This, as pointed out by the Chamber of Commerce (CoC), seems unlikely, as suppliers have an incentive to supply the goods and services as quickly as possible, in order to get paid. The CoC attributes the problem to slow bureaucratic processes in Government. Supplying goods as quickly as possible is not necessarily straight-forward, however, as most of the goods have to be imported, and the lead-time can be significant.

Another reason for delayed payments is that the line ministries may have run out of available uncommitted appropriations, but this should not be possible as purchase requisitions should not be approved if sufficient uncommitted appropriations are not available (as per Sections 5 of and 7 of the FIs concerning expenditure control and supply chain management).

As in many countries, line ministries tend to under-budget for non-discretionary items such as utilities and rents, or budget adequately but not pay the bills, reallocating the budgeted amounts to

[7]Mainly referring to payments to private sector suppliers. Payments due from parent ministries (through inter-agency funding agreements) to their service delivery units that procure inputs may apparently be delayed due to slow bureaucratic processes, as also referred to by CoC.

other expenditure areas, either way getting into payments problems[8]. In Solomon Islands, the MoFT has been paying utilities directly, through overriding the controls in Maximise. Starting in 2012 this is no longer possible, as the AX system cannot be overridden. Unless supplementary funding is available, line ministries must therefore wire into their utility budget lines from other lines. Supplementary funding is in fact being made available this year (2012) for utility payments. Budgeting properly for utility bills is clearly much the preferable solution, but supplementary funding at least avoids utility arrears. Such arrears not only reflect negatively on the image of SIG, but also negatively impact the liquidity of the utility companies, with consequent adverse downstream impacts on the liquidity of their suppliers.

The MoFT monitors end-year unpaid accounts through a facility called SIGVOU (used prior to AX), which keeps a record of unpaid PVs and receipted LPOs outstanding at the end of the year. Receipted LPOs outstanding at the end of 2009, 2010 and 2011 amounted to SBD 3.3 million, SBD 0.002 million and SBD 4.1 million respectively, representing only 0.2 percent of total primary expenditure (Table 5) in 2009 and 2011. According to MoFT staff, the high degree of liquidity in SIG over the last three years due to buoyant revenue performance and disbursements from donors has facilitated prompt payment of LPOs and PVs following receipt of invoices. Payments vouchers outstanding at the end of 2011 amounted to SBD 3.4 million, but, according to MoFT staff, they are mostly for pro forma invoices (requests for advance payments) for which the goods and services have not yet been supplied.

Another possible area of arrears is teacher salaries due to their geographical dispersion and mobility, as discussed under PI-18. Indications are that they are significant, but tracking of them is not easy. The 2008 PEFA assessment indicated that arrears were zero, but this reflected timely payment of wages and salaries for only those staff captured in MoFT's payroll system.

3.3. Comprehensiveness and transparency

The indicators in the Comprehensiveness and Transparency dimension of PFM assess to what extent the budget and fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The matrix below summarises the assessment of indicators under this dimension.

Assessment of Performance Indicators for Comprehensiveness and Transparency

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-5: Budget classification	C	C▲	*Performance is unchanged, but strengthening is underway and will gather pace through the imminent introduction of a revised Chart of Accounts*
PI-6: Budget documentation	B	A	*Improvement in performance, with 8 of the 9 assessment benchmarks for this indicator now achieved.*
PI-7 (M1): Extent of un-reported government operations	C	C	*No change in performance*

[8]For example, a cursory review of the virements reports generated by MoFT indicate virements from the electricity and gas line item to, for example, overseas travel for MPs.

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-8 (M2) Transparency of inter-governmental relations	D	B	*Performance has improved over dimensions (i) and (ii), but, nevertheless, it is still not possible to produce consolidated general government reports according to sectoral and functional categories consistent with central government reporting categories.*
PI-9 (M1): Oversight of aggregate fiscal risk	D	C	*Improvement in performance.* SOE accounts are now up to date and audited annually by the Auditor-General, with improved central oversight by MoFT also taking place. Consolidated fiscal reports are not yet prepared, however. Provincial government capability is assessed annually as part of the PGSP process. Consolidated fiscal risk reports are not yet prepared, however.
PI-10: Public access to fiscal information	C	B	*Performance has improved, as the year-end audited financial statements of SIG are now available to the public..*

3.3.1. PI-5: Classification of the budget

This indicator assesses the extent to which the budget classification system enables the tracking of budgeted expenditure on an administrative, functional and economic classification basis. The assessment is based on the classification system in place for the 2011 and 2012 budgets.

The Solomon Islands Government recurrent Budget formulation and execution is based on economic and administrative classifications (codified in the current Chart of Accounts),the economic classification being compatible with Government Finance Statistics (GFS). The Development Budget, however, is coded only according to administration classification on a project-by-project basis: the projects are likely to include elements of recurrent expenditure, while the types of capital expenditure are not coded. Partial sectoral information consistent with COFOG functional classifications is also currently provided in the annual Budget Strategy and Outlook papers (Volume 1 of the Budget documentation) that started to be prepared in 2009. (see Chart 4.3: Expenditure by Government Function 2006-2011 in *Budget Paper Volume 1: Budget Strategy and Outlook*).

Ongoing and planned activities

The Chart of Accounts has been revised and is being used for the preparation of the 2013 budget. It will enable functional classification of line items in the FMIS (AX) and a degree of output orientation.

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-5: Budget classification	C	C▲	**Performance is unchanged, but strengthening is underway and will gather pace through the planned introduction of a revised Chart of**

			Accounts. Compared with 2008, there has been an expansion in the use and reference to functional classifications in the recurrent Budget estimates. It is anticipated that when the current project to revise the Chart of Accounts is completed (currently scheduled for later in 2012) the provision of functional information in the published Budget Papers will be vastly improved

3.3.2. PI-6: Comprehensiveness of information included in budget

Annual budget documentation should inform the executive, the legislative, and the general public and assist in informed budget decision making and transparency and accountability. In addition to the detailed information on revenues and expenditures, the annual budget documentation should include information on the elements in Table 11. The assessment is based on the last budget presented to the legislature for 2012.

The *Budget Strategy and Outlook*, introduced in 2009, now contains information and analysis not previously included in the detailed Estimates: macroeconomic indicators in Chapters 1-4, and stronger linkages to Ministry outputs in Chapter 5: Ministry Plans and Outputs. Ministry key outputs are described and linked to the resourcing budgeted for that output. New Budget measures funded in the 2012 Budget are also listed by ministry, together with resourcing and whether the measure is ongoing or one-off. Also provided in each ministry section in Volume 1 is a list of key activities for the coming year, a summary of total projected ministry expenditure for 2012 and a series of tables providing expenditure analysis for the ministry covering 2006-2012. These improvements provide an important element in the platform to support movement towards more results-based budgeting.

While the quality of the information in Chapter 5, Volume 1, contributed by the individual ministries on their outputs and key activities was not of a consistent standard across all portfolios, it is an important step, and the publication of this information represents a significant increase in budgetary transparency to Parliament and the public.

Table 6 summarises the main elements of the budget and their availability in the budget information.

Table 7: Information Provided in the Budget Documentation

No.	Budget documentation benchmarks	Availability	Notes
1.	*Macro-economic assumptions*, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes.	Macroeconomic assumptions, including estimates of aggregate growth, inflation, and exchange rates as well as levels of expenditure growth levels for balance budgets for the next 4 years are shown in the Budget document Volume 1: *Budget Strategy and Outlook*.
2.	*Fiscal surplus or deficit* is defined according to GFS or another internationally recognised standard	Yes.	GFS standard are complied with regarding formulation of the Budget balances.
3.	*Deficit financing*, describing anticipated composition	Yes.	Consistent with its commitments under the Honiara Club Agreement, the Government does not intend to borrow any funds to finance its

No.	Budget documentation benchmarks	Availability	Notes
			recurrent expenditures in 2012. The 2012 Budget documentation notes the Budget is 'fully funded' (including donor budget support), with a small positive Budget balance planned for 2012 if budgeted revenue estimates prove accurate. The cash reserves established in 2010 and 2011 will be preserved to allow for improved cash management through the course of the year where necessary. The Government is likely to replace the Honiara Club Agreement in the near future under a revised debt management strategy agreement.
4.	*Debt stock*, incl. details at least for the beginning of the current year	Yes.	Section 4.4 Debt Management in the *Budget Strategy and Outlook* reviews total government debt levels at the end of 2011, with totals provided for official public sector debt and other debt (comprising informal debt obligations, contingent liabilities and loan guarantees). Forward debt projections are provided in a graph and interactions with foreign exchange rates and other risk factors are also discussed.
5.	*Financial assets*, incl. details at least for the beginning of the current year	No.	Information on financial assets is not provided. There are no plans to introduce this information.
6.	*Prior year's Budget out-turn*, presented in the same format as the proposed Budget	Yes.	Prior year and current year financials (proposed Budget (B), original current-year Budget (B-1') and revised current-year Budget (B-1''), and prior year Budget actuals (B-2)) are presented at the same level of detail for all budget lines in Volume 2 of the Budget Papers, allowing the tracking of expenditure over time for each ministry by line item.
7.	*Current year's Budget* (revised budget or estimated out-turn), presented in the same format as the proposed Budget	Yes.	See item 6 above.
8.	*Summarised Budget data for both revenue and expenditure* according to the main heads of the classification used, incl. data for current and previous year	Yes.	This information is provided at the whole-of-government level in Budget Paper Volume 1: *Budget Strategy and Outlook* and by ministry heads of authority in Volume 2: *Approved Recurrent Estimates*.
9.	*Explanation of Budget implications of new policy initiatives*, with estimates of the	Yes.	An overview of new policy measures is provided in Chapter 5: New Spending Measures of the *Budget Strategy and Outlook*.

No.	Budget documentation benchmarks	Availability	Notes
	budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs		The new measures are grouped by types of expenditure in a chart and larger initiatives are listed against thematic whole-of-government areas. Itemised complete lists of new measures are provided against individual ministries in Chapter 6: Ministry Plans and Outputs.

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-6: Budget documentation	B	A	**Performance has improved.** Budget documentation fulfils 8 of the 9 Benchmarks for this indicator, previously only achieving six. In 2008 Benchmark 1 was only partially fulfilled with limited information provided on exchange rates, and no information on aggregate growth and inflation. Volume 1 of the Budget Papers now publishes information on estimates of aggregate growth and inflation as well as additional information on exchange rate impacts, including prospective impacts.

3.3.3. PI-7: Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public should cover all budgetary and extra-budgetary activities of governments to allow a complete picture of government revenue, expenditures across all categories, and financing.

This indicator assesses the level of unreported extra-budgetary operations (EBOs) at the central Government level as defined by IMF GFS[9]. Reporting of EBOs should cover planned/budgeted expenditure, actual expenditure, and annual financial statements either through consolidation with other central government expenditure, or shown in a separate document presented to the legislature. The spending by MDAs of own-source revenues also potentially represents an EBO, if they are allowed to retain the revenue for spending, rather than surrendering it to MoFT. Own-source revenues include user fees and charges, fines and rental income. The assessment covers 2011 (the last completed fiscal year).

(i) Level of extra-budgetary expenditure (other than donor-funded projects), which is unreported, i.e. not included in fiscal reports

The 2008 PEFA report noted concerns over the quality of reporting and general lack of transparency regarding Special Funds, the budgets for which are not part of the Budget Estimates. As of 2012,concern remains regarding the operation and accountability of these funds, with little

[9] In GFS terminology, central government comprises all units at central level carrying out government policies including not only MDAs, but also non-market non-profit institutions that are controlled by and mainly financed by government (statutory funds, trust funds, special funds, social security funds and other autonomous agencies) but excluding local authorities and public business enterprises).

central oversight exercised by either MoFT or the Parliament, the main exception being the National Transport Fund (NTF), which is strongly supported by development partners.[10]

The definition of what represents public funding needs to be clarified and simplified. The existing 1978 Public Finance and Audit Act (PFAA) distinguishes between funds appropriated to the Consolidated Fund and funds deposited in Special Funds but the Act does not make clear that all of these funds are to be used for a public purpose and need to follow the same accountabilities. The current review of the PFA Act should result in a new Act being considered later this year and is expected to address this issue.

The allocation in the Development Budget to Parliamentarians' constituency funds (Rural Constituency Development Fund - RCDF) has been increased in recent years, with a number of development projects ranging from cocoa farmer support to tertiary scholarships to rural electrification now including 'constituency fund' components. These funds can be spent largely at the MPs' discretion in their constituency, and the disbursement rate on these funds is generally very high. The accountability systems for ensuring that these funds are spent on the purposes of the described development project are under-developed.[11]

Line ministries are required under the Constitution to surrender their own earned revenues directly to MoFT. This eliminates the possibility of un-reported EBOs that arise in some countries, through ministries retaining their revenues and spending them on items outside the approved budget.

(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports

Donor funding is included in the consolidated Budget against two revenue lines under Externally Sourced Funding in consolidated revenue, one against Ledger 3 (recurrent expenditure) and the other against the Development Budget line, and against one line for consolidated expenditure titled Donor Funded Development. The chapter on external budget support in Budget Paper Volume 1 provides supporting narrative. Budget Paper Volume 2 (recurrent expenditure) includes donor funding as a line item for each ministry. The Development Budget document is focused around donor and SIG contributions to development initiatives and, in the information on funding by sector, also includes donor funds channelled directly to Non-Government Organisations.

Ongoing and planned activities

The New PFM Act would provide greater transparency in the use of grants.

[10]In addition to the RCDF, Special Funds include the NTF, Civil Aviation Fund, Millennium Fund for Youth and Community Development, and the National Disaster Fund. The budgets and expenditure of the NTF are included in the Budget Estimates. With regard to NTF, one of the undertakings made by SIG to the IMF under the precautionary SCF is to report monthly data on NTF activities, sources of funding and accounts to IMF

[11]Funding for the RCDF is shown as one line items in the Development Budget under the Ministry of Rural Development under four projects: Rural Constituency Livelihood Project (SIG funded), ROC (Republic of China) Constituency Micro-Project Fund, Millennium Development Fund (ROC funded), and ROC Support to Constituency Development. Funding increased from SBD 80 million in 2009 to SBD 103 million in 2011.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-7	C	C	**No change in performance. The extent of unreported EBOs remains significant.**
(i)	C	C	**No change in performance.** Special funds (including the RCDF), revolving funds and discretionary grants are estimated to be 5-10% of total government expenditure in recent years and remain subject to inconsistent reporting and accountability requirements.
(ii)	C	C	**No change in performance.** Information on donor-funded projects is quite robust in the cases of health or education sector funding and is subject to regular quarterly or monthly reports. Donor funding is also captured in the consolidated expenditure and revenue reports. To the extent that some donor funding may be channelled through the special funds but not via the normal Budget mechanisms, or outside the budget altogether, the transparency is much lower.

3.3.4. PI-8: Transparency of Inter-Governmental Fiscal Relations

This indicator assesses the transparency of transfers from central government to sub-national governments (SNG) for the use of these funds during the last completed FY (2011).

Funds being transferred from central to provincial governments represent only a small percentage (3%) of total government recurrent expenditure. A revised formula for calculating the transfers (20% fixed, 80% population) was introduced in 2010 as part of the Provincial Government Strengthening Program (PGSP). Recurrent grants ('Fixed Service Grants') are allocated within the provincial government grants baselines. The grants are transferred out of the budget of the Ministry of Provincial Government and Institutional Strengthening (MPGIS).

Provincial Capacity Development Funding (PCDF) is the only capital investment funding given to provincial governments. This funding is discretionary and each province has the power to decide which investment projects to fund. An Operational Manual guides the use of the PCDF funding.

(i) Transparency and objectivity in the horizontal allocation among Sub-national governments

The implementation of a transparent rules-based system for 100 percent of the Fixed Service Grants has greatly improved the understanding of how transfers are calculated and the predictability of the amounts to be transferred to each provincial government. The transfers are built into the Provincial Government Ministry baseline budgets and incremented for inflation each year (the baseline allocation has been incremented by 7% and 14% for 2010 and 2011 respectively). Provincial Governments know each year that they will receive similar amounts to the last financial year with some modification for inflation (and population in post-Census years).

(ii) Timeliness of reliable information to SNGs

Allocation of both service grant funding and PCDF is communicated to each of the nine provincial governments before the start of their budget planning sessions in September each year. This is an improvement on prior years where the provincial governments would not be certain of receiving this information before they commenced their own budget preparations. The provincial governments have all set their Budget cycle to follow on from the release of the national Budget.

(iii) Extent of consolidation of fiscal data for general government according to sectoral strategies

Provincial governments report to central government (via their financial statements submitted to Office of the Auditor General) on about 88 percent of the use of the 'Fixed Service Grants' transferred them by SIG. This represents a sharp improvement from the 14 percent reported on prior to 2009, when the Provinces began submitting their financial statements to OAG. Provincial governments also submit quarterly financial reports to the MPGIS on the PCDF funding.

Additional central oversight is provided in the annual review of provincial government work-plans and budgets by the MPGIS in February/March of each year to review each PGS AWP/Budget before it is tabled in the Provincial Assemblies for final Approval in March each year.

The information in the reports provided by provincial governments is not yet consolidated into general government reports or according to sectoral or functional categories consistent with central government fiscal reporting, a major constraint being the provinces using a chart of accounts different to SIG's.

On-going and planned activities

The MPGIS is working on applying the PCDF modality to provincial service grant reporting and may in future withhold paying service grants to provinces, which do not send in timely and accurate quarterly financial reports.

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-8	**D**	**B**	**Performance has improved over dimensions (i) and (ii), but, nevertheless, it is still not possible to produce consolidated general government reports according to sectoral or functional categories used by central government.**
(i)	D	A	**Performance has improved.** The transfers system was completely revamped, with the old process replaced by a revised and simplified formula to determine transfers and the formula being accessible and known to provincial governments. The formula applies to 100 percent of the Fixed Service Grants (for recurrent expenditure). The modalities for use of the discretionary grant for capital investment (PCDF) that provinces may apply for are also transparent, as indicated by the Operational Manual that guides the use of the PCDF.
(ii)	D	A	**Performance has improved.** Provincial governments are made aware of their allocations in the central; government Budget sufficiently in advance to allow sufficient time and certainty to support provincial Budget formulation.
(iii)	D	D	**Performance in reporting has improved, but nevertheless it is still not possible to produce consolidated general government reports according**

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
			to sectoral or functional categories. Since 2008-09 about 88% of the fixed service grants have been reported on through the financial statements submitted to OAG by provincial governments compared to 14% between 1993 and 2007. All provincial governments' finance divisions have been equipped with MYOB accounting software for keeping the province accounts and to produce financial reports to provincial executives and MPGIS. The provincial government Chart of Accounts have been reclassified and standardized in line with the IPSAS- cash basis of reporting, though it is different to the central government Chart of Accounts.

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

This indicator assesses the extent to which central government monitors and manages fiscal risks with national implications arising from activities of autonomous government agencies (AGAs), public enterprises (PEs) and activities at SNG level. Fiscal risk can take the form of debt service defaulting (with or without government guarantee), operational losses caused by quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations. The assessment is based on the last completed FY (2011).

(i) Extent of central government monitoring of autonomous government agencies and public enterprises

The extent of central oversight of SOEs and Statutory Authorities operations has improved since 2008 but overall scrutiny and levels of public accountabilities remain less than what they should be. The ongoing underperformance of the State Owned Enterprises also represents a risk that has the potential to undermine future debt repayment capacity should further capital injections be required.

The number of SOEs has continued to fall as a result of privatisation. Home Finance Ltd and Sasape Marina Ltd were privatised, and Kolombangarra Forest Products Ltd and Soltai were partially privatised. Solomon Islands Printers Ltd is being liquidated.

Section 24 of the SOE Act gives the Minister for Finance the right to make regulations, and the State Owned Enterprises Regulations (2010) were gazetted in 2010 covering the process of appointment and removal of Directors, Directors' duties, economic regulation and Community Service Obligations.

With the support of donors, the Government has ensured that the few remaining SOEs have updated their accounts and have had them audited by the Auditor-General, resulting in a backlog of over 50 years of accounts being cleared. Investment Corporation of Solomon Islands (ICSI) has several subsidiaries that do not receive direct scrutiny from the Auditor-General. However the Finance Minister must approve any changes to subsidiaries. Commercialisation projects are underway in the Solomon Islands Electricity Authority and the Solomon Islands Water Authority.

The coverage provided by the OAG from its annual audits of the remaining SOEs' financial statements is a major improvement on the situation in 2008. The Economic Reform Unit (ERU) in

MoFT keeps track of the financial performance of SOEs, mainly through the annual financial statements submitted by them. The ERU does not as yet prepare consolidated fiscal risk reports.

(ii) Extent of central government monitoring of SN governments' fiscal position

The provincial governments have their financial statements audited annually by the Auditor General. The net fiscal position of the provincial governments is also monitored annually against public expenditure management criteria by the MPGIS for assessing qualification or disqualification of access to the Provincial Capacity Development Fund. A consolidated overview is not produced by either the Government or the Auditor-General.

Ongoing and planned activities

The review of the 1978 PFAA during 2012 included in its scope the desirability of monitoring more rigorously the fiscal risk posed by SOEs and provincial governments. Such risk is likely to be addressed in the revised Act, as part of its fiscal responsibility provisions, and the monitoring of the risk is likely to be included under the Medium Term Fiscal Strategy that SIG intends to prepare under the new Act.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-9	**D**	**C**	**Performance has improved under both dimensions, but MoFT still does not prepare consolidated fiscal risk reports covering public enterprises and provincial governments.**
(i)	D	C	**Performance has improved.** Significant improvements have been made since 2008 in the capacity of the Government to monitor SOEs and Statutory Authorities, and governance requirements have also been strengthened over this time with strengthened regulations. The MoFT still does not prepare a consolidated fiscal risk report.
(ii)	D	C	**Performance has improved**. Annual financial audits of provincial government accounts and increased oversight by MPGIS have improved overall fiscal oversight. The MoFT still does not prepare a consolidated fiscal risk report.

3.3.6. PI-10: Public access to key fiscal information

This indicator assesses the extent to which information on the budget and its execution by the government is easily accessible to the general public or at least the relevant interest groups. Transparency requires that the Government makes relevant information widely available in a comprehensive, understandable and timely fashion. The assessment is based on the completed 2011 Budget round and the 2012 budget.

The amount of fiscal information contained in the *Budget Strategy and Outlook* and in the MTFS is relevant and helps inform public debate to a much greater extent than before these two documents were available. Year-end financial statements and external audit reports are also made available to the public and the timeliness of these items has improved. Other assessment dimensions to this indicator are still not sufficiently achieved: In-year monthly Budget execution reports are not published on a timely basis; awarded contracts with value above approximately USD 100,000 equivalent are not routinely published; and consolidated information on the resources available to primary service units is not published (although some limited information may be available on a sectoral basis from relevant ministries or provincial governments).

Table 8 summarises the availability of the six elements of information stipulated under the PEFA methodology.

Table 8: Fiscal information available to the public

Elements of information for public access	Availability	Assessment
Annual budget documentation when submitted to the legislature	Yes	Under SIG practice, the detailed Budget documentation is made broadly available to the public only after it has been considered and approved by the Parliament. At this time copies of the approved estimates are made available free of charge to the public and can be obtained from the Budget Unit, MoFT and are accessible on MoFT's website. The MoFT claims with some justification that providing hard copies of the detailed Estimates to the public would be costly. The budget speech is available to the public and the main components of the draft budget are covered by the media. This appears to have been the situation also under the 2008 assessment, in which case, this component arguably should have been rated as 'yes'.
In-year budget execution reports within one month of their completion	No	In year actual vs. budget reports are posted on the MoFT web-site as "Media releases", but several months after the fact (last posted is October 2011), and do not show performance on a ministry-by-ministry basis. MoFT provided the assessment team with the report for June, 2012, but it appears not to have been published. Information on tax and non-tax revenue is provided in the CBSI's quarterly report, which is available in hard copy and on the CBSI website. Budget out-turns are occasionally published in the newspapers, but not consistently.
Year-end financial statements within 6 months of completed audit	Yes	The audited annual financial statements are made available to the public, including on the Auditor General's website, as soon as the Auditor General presents them to Parliament.
External audit reports within 6 months of completed audit	Yes	As per the above.
Contract awards (app. USD 100,000 equivalent) published at least quarterly	No	Contracts awarded in response to requests for tender considered by the Central Tender Board are sometimes published on the website or in the newspaper but this is not consistent. Contracts awarded through Ministerial Tender Boards are not published.
Resources available to primary service unit at least annually	No	Reports are not available. Some limited information may be available on a sectoral basis from relevant ministries or provincial governments.

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-10			
(i)	C	B	**Performance has improved, as the year-end financial statements are now available to the public.** The detailed draft budget estimates presented to Parliament are not available to the public, but the budget speech is available and the presentation of the budget is covered by the media. Monthly budget performance reports are published on the MoFT website, but with a long delay, and do not show performance on a ministry by ministry basis, Contracts awarded through tender and consolidated information on resources received by primary service delivery units are not publicised.

3.4. Policy based budgeting

The indicators in this group assess to what extent the central budget is prepared with due regard to government policy. The table below summarises the assessment.

Assessment of Performance Indicators for Policy Based Budgeting

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-11: Budget preparation	D+	B	*Improvement in performance due to reforms in the budget preparation process.*
PI-12: Medium term perspective in budgeting	C	C+	*Improvement in performance*. Some elements indicative of a developing medium term perspective for planning and Budget formulation are now entrenched in parts of the Budget framework, particularly the Medium-Term Fiscal Strategy and some high-level forward projections of Budget aggregates published in the Budget Strategy and Outlook.

3.4.1 PI-11: Orderliness and participation in the annual budget process

This indicator assesses the organisation, clarity and comprehensiveness of the annual budget preparation process.

Progress over recent years has seen the establishment of a robust Budget framework together with increased capacity in MoFT, the result of a concerted program to stabilise the Budget and shore up the country's fiscal sustainability. Budgetary reform has been a key pillar of the reform agenda of successive governments and has been greatly assisted by targeted technical assistance from RAMSI and development partners. Budgetary reform has focused on three dimensions: Capability improvements (through technical enhancement); facilitating an improved public debate on fiscal and budgetary matters (through increased transparency and better narrative explaining each Budget and the development of a Medium-Term Fiscal Strategy); and better linking of Budget formulation with the policy and development goals of the Government (through a strengthened bids process and improved analysis of bids before providing advice to Cabinet).

Technical improvements (particularly process modifications and systems upgrades) have facilitated better central coordination of the Budget Process and better engagement with central and line ministries by MoFT.

Improved budgetary management has been catalysed by forcing greater transparency and a more strategic approach by government to the consideration and management of fiscal matters, including the development of a medium term view. The addition of a new Budget Paper on the Budget Strategy and Outlook and the regular publication by government of its Medium-Term Fiscal Strategy are examples of this. These reforms have improved accountability which in turn has supported the continued achievement of the fiscal consolidation task.

The links between Budget formulation and policy have been improved through the bids development and consideration process. This has also been facilitated by greater use by the Government of documents outlining its key policy objectives.

The NCRA Policy Statement presents the high-level political and policy priorities of the current Solomon Islands Government. The Government has also published a 'Translation and Implementation' document to support the development of workable and achievable action plans from the key policy statements in the NCRA Policy Statement. However, the four-year National Development Strategy (NDS) covering 2012-2015 released in 2011 presents the strategic spending priorities that all new policy proposals and the allocation of resources across and between portfolio areas are required to reflect.

(i) Existence of and adherence to a fixed budget calendar

The Cabinet-endorsed Budget Timetable is prepared and distributed to ministries during the annual Budget Launch, allowing ministries 5-6 weeks to finalise their bids. Ministries also collect their revised baselines at this time. The timetable is then managed through individual follow-up consultations to discuss any issues they may have with constructing the business case that supports their bids. Starting with the 2012 budget, revised baselines have been based on the previous year's actual expenditure. This injects more realism into the budget preparation process, though the downside is that the previous year's actuals are unlikely to be ready at the time of the Launch and so ministries may have less time to prepare robust budget bids.

The timetable for the preparation of the 2011 Budget was as follows:

- 14th July, Budget Launch: Ministries pick up electronic baselines and documents from MoFT.
- End-July to mid-August: Budget Unit and MDPAC meet ministries to discuss processes and then provide support to them.
- 23rd August: Ministries submit baselines and new bids to MoFT.
- End-August: MoFT and MDPAC appraise new bids and finalise funding recommendations, and meet with ministries to convey decisions.
- 1st half of September: MoFT prepares draft recurrent budget and submits to Minister. MDPAC negotiates with donors and prepares draft development budget.
- End-September: Cabinet discusses draft recurrent and development budgets.
- End-October: Printed recurrent and development budgets submitted to Public Accounts Committee (PAC) in Parliament.
- Mid-November: Final Appropriations Bills submitted to Parliament.
- Mid-December: Appropriations Bills receive royal assent.

The processes for the 2012 Budget featured expanded and improved consultations with non-government organisations (NGOs), ministries and caucus. Extensive consultations and briefings were held with ministries prior to them submitting their Budget bids. This process facilitated timelier bids than in previous years and better targeted proposals but policy linkages and quality are still areas to work on. The release of the NDS has assisted ministries in improving policy linkages to the Budget.

When developing bids, the Cabinet endorsed Budget Timetable states that ministries must clearly demonstrate the contribution of the bid to the Budget Strategy and to Government policy priorities. In Chapter 6 of the *Budget Strategy and Outlook* a few ministries have made specific linkages between their outputs and activities and relevant national policy priorities (e.g. NCRA Policy Statement, NDS, National Education Action Plan, National Youth Policy etc) but most did not.

Improvements in Budget coordination and control systems means any slippage in dates now tends to be within allowable margins and can be managed by MoFT without jeopardising delivery of the Budget.

(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

The Budget Process Cabinet Memorandum is considered by Cabinet in June before the official Budget Launch to ministries occurs in July. As well as setting the Budget strategy and priorities the Memorandum also establishes the Budget timetable, sets the parameters for the calculation of the new baselines and sets guidelines for the consideration of new bids.

The new baselines represent technical adjustments to the current year's approved budget (e.g. for inflation, removal of 'one-offs'), the size of the baseline for each ministry representing a ceiling for that ministry. As the Cabinet and Parliament approved the current year's budget, they have implicitly approved the technical adjustments to it, resulting in the new baseline. Ministries may bid for funds for new spending initiatives (i.e. additional to baseline expenditure), subject to an overall ceiling for the new bids, as represented by the difference between the separately derived overall spending ceiling (based on macroeconomic considerations) endorsed by the Cabinet, and the sum of the baselines.

Extensive Caucus consideration of the individual proposals prior to final Cabinet consideration was also an improved feature of the budget consultations in 2012.

(iii) Timely budget approval by the legislature or similarly mandated body

The Solomon Islands Parliament considers the Budget estimates and is supposed to approve the Appropriation Bill before the start of the fiscal year. The Appropriations Bill for 2010 was approved on 30th December, 2009 (source, website of the Parliament). Approval of the Appropriations Bill for 2011 was delayed to 11th April, 2011, however, due to a Parliamentary election. The approval of the Appropriations Bill for 2012 was delayed to early 2012 due to a change of Prime Minister.

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-11	**D+**	**B**	**Performance has improved sharply as a result of reforms.**
(i)	D	B	**Performance has improved significantly.** The Budget Timetable is provided to all ministries during the annual Budget Launch. Ministries have roughly 5-6 weeks to prepare their bids, although many would have commenced internal planning earlier in anticipation. Where the release of baseline Budgets is delayed, for example due to delays in revenue projections, the timetable allows for extensions to the due date for receipt of bids to allow ample time for preparing bids.
(ii)	D	A	**Performance has improved sharply.** Early engagement by the Finance Minister with the Cabinet ensures that before the Budget Launch the Cabinet has endorsed (Budget Process Cabinet Memorandum) the Budget theme and strategy, the timetable, the method for baseline calculations (through which ceilings for baseline expenditure for the following year are derived), and the guidelines for the formulation and consideration of bids for new spending, for which there is an overall ceiling, based on the aggregate spending ceiling endorsed by the Cabinet.
(iii)	C	C	**Performance is unchanged.** Parliament approved the 2010, 2011 and 2012 Appropriations Bill on 30th December, 2009, 13th April, 2011 and early 2012 respectively; the reasons for the delayed approval for the 2011 and 2012 Appropriations Bills are noted in the narrative.

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

This indicator considers the link between budgeting and policy priorities in the medium-term perspective and the extent to which costing of the implications of policy initiatives is integrated into the budget formulation process.

(i) Preparation of multi -year fiscal forecasts and functional allocations

Solomon Islands Government has yet to implement detailed rolling forward estimates but is currently exploring this option with a view to possibly implementing it partly in the 2013 Budget (at sub-head level, but not a line item level) and more fully in the 2014 Budget, aided by the new Budget Management Systems (BERT) software package, which came on-stream earlier in 2012. The Medium-Term Fiscal Strategy and the Budget Strategy & Outlook provide forecasts of economic growth and expenditure growth needed for balanced budgets, and provide some high level functional information but this capability is derived and is not a feature of the current framework. Line ministries are beginning to include the forward recurrent cost implications of capital projects in their budget submissions. The new FMIS (AX) and Budget Management Systems (BERT) have been implemented since the start of 2012 with the objective of producing greater functional information once the revised Chart of Accounts is implemented.

(ii) Scope and frequency of debt sustainability analysis

As part of the IMF Article IV consultation and the development of capacity within MoFT (Debt Management Unit) debt sustainability has continued to be monitored closely, but mainly through the Debt Sustainability Analyses (DSAs) conducted by the IMF/World Bank. MoFT staff considered that the A rating provided in the 2008 PEFA assessment was wrong as the staff had very little involvement in the process. Debt is discussed in detail in the *Budget Strategy and Outlook document*. The Central Bank of Solomon Islands also monitors debt sustainability and publishes quarterly reports. The MoFT prepared its own DSA earlier in 2012, using a simplified methodology relative to that used by IMF/World Bank.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

Sector strategies exist for education and health but they are not well aligned with the Government Budget. The combined budgets for education and health comprise about 40 percent of the total SIG budget (Annex 1). There is no systematic mechanism for absorbing the recurrent outlays for capital and infrastructures projects managed by the Ministry of Development, Planning and Aid Coordination. The Ministry of Health is preparing a health sector MTEF, which will support the strategy through injecting greater fiscal realism.

iv) Linkages between investment budgets and forward expenditure estimates

Despite overall improved links between policy statements and funding, the link between recurrent cost implications and capital investments (particularly donor-funded and central government investments in the provinces) remains weak. There is no systematic mechanism for absorbing the recurrent outlays for capital and infrastructures projects managed by MDPAC (though, as noted under dimension (i), line ministries are beginning to include estimated future recurrent costs implied by committed capital projects into their budget submissions). There are continuing efforts to create linkages between recurrent and capital costs, but the links are weak. This is a particular problem for donor-funded projects and projects in the provinces, which have consequences for provincial governments. An example is a new hospital constructed in Western Province in 2009, which is very expensive to run. It replaced an old hospital destroyed by a tsunami, but the running costs are much higher.

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-12	C	**C**	**Performance has not changed overall, but significant progress has been made under dimension (ii).**
(i)	D	D	**No change in performance.** Budget Paper Volume 1: Budget Strategy and Outlook and the Medium-Term Fiscal Strategy show macroeconomic forecasts of GDP growth, inflation as well as expenditure rates that can be sustained over the medium term. The Budget documents do not show forecasts of fiscal aggregates against functional or economic classifications. While some forecasts of high-level fiscal aggregates are published in Budget Strategy and Outlook under the heading 'Forward Estimates', these are not broken down into functional or economic classification and are not produced on a rolling basis.
(ii)	A	B	**Performance has improved through MoFT undertaking its own Debt Sustainability Analysis (DSA)** rather than relying on those undertaken by IMF/World Bank through the IMF Article IV requirements. The DSA is supplemented by the MTFS, quarterly reports

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
			on debt from CBSI and internal MoFT briefings to the Finance Minister. The DSA, completed earlier in 2012, was the basis of the Medium Term Debt Strategy, as discussed under PI-12. The 2008 rating appears too high as MoFT staff consider that they had very little input into the preparation of the DSA, which was prepared by IMF and World Bank staff. They consider that the DSA they recently completed is the first under their full ownership.
(iii)	D	C	**Performance has improved to an extent.** Only the Education and Health sectors have costed multi-year strategies (National Education Action Plan, 2013-15; National Health Strategic Plan, 2011-15). Expenditures of these two sectors comprise about 40 percent of total government expenditure (2011 Budget), but they are inconsistent with fiscal realities (a B rating requires consistency with fiscal realities).
(iv)	C	C	**Performance is unchanged.** Many investment decisions have weak links to sector strategies and their recurrent costs implications are included in the Budget estimates only in a few cases.

3.5. Predictability and control in budget execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner. The set is divided into three sub-components: Revenue administration, budget execution and cash/debt management, and internal control systems.

3.5.1. Revenue Administration (PIs 13-15)

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-13:Transparency (M2)	D	D+▲	*Performance has strengthened through the 2009 Customs Valuation Act and improved tax payer education. Further strengthening is likely through the planned revision of the tax laws, including the enactments of the Exemptions Bill and Customs and Excise Amendment Bill, and the introduction of ASCYUDA and establishment of a website at CED.*
PI-14: Controls (M2)	D+	C▲	*Performance has strengthened and continues to do so.*
PI-15: Collection and Accounting (M1)	D+	D+	*No change in performance, as information on tax debts owed to IRD is still not consistently available. Performance under CED appears to have improved due to strengthened administrative controls, but the aggregated rating is unchanged.*

3.5.1.1. PI-13: Transparency of taxpayer obligations and liabilities

This indicator assesses the level of clarity and comprehensiveness of major tax legislation and regulations; access of taxpayers to this information; and the existence and functioning of the tax appeals mechanism

Background

As with the rest of SIG, retaining skilled and experienced staff in the Inland Revenue Division (IRD) is problematic due to low remuneration relative to opportunities outside SIG. The number of positions filled has increased to 87 from 73 in 2008, indicating a still high vacancy rate in terms of an establishment size of 116. The Chamber of Commerce (CoC), interviewed by the assessment team, indicated the frustrations experienced when trying to resolve complex tax issues, when the relevant personnel keep on changing. Even when skilled staff do not quit, they are often away on study leave and thus are not available to help resolve issues.

The situation in Customs and Excise Division (CED) is better, partly because SI uses the internationally accepted Tax Harmonised System, which reduces the scope for lack of clarity over tariff rates.

The IRD has received extensive technical assistance (TA) over many years from New Zealand, Australia and RAMSI, with many benefits in terms of the resultant strengthened performance of IRD. The capacity issues imply, however, the risk that the strengthened performance may not be sustained.

(i) Clarity and comprehensiveness of tax liabilities

Inland Revenue Division
The current tax laws have not changed since the 2008 assessment.[12] As noted in the 2008 PEFA assessment, the extent of discretionary powers available to the tax authorities has been an issue, as reflected by a D rating. One administrative improvement has been the establishing of delegation levels in relation to the exercise of the discretions allowed under the ITA. An Exemptions Bill is being drafted that will considerably diminish the extent of discretionary power (as indicated in 'Ongoing and Planned Activities' below).

Customs and Excise Division
Progress has been made through the Customs Valuation Act of 2009, which has significantly improved the transparency of customs valuations in line with international best practices. The extent of exemptions are a major problem for CED, with importers attempting to bypass it and have exemptions approved at higher levels; revenue losses are significant. The Customs Committee (including senior management representatives from CED, IRD, MID and the Ministry of Tourism) can attempt to exert control through its monthly meetings, but in practice has been meeting less frequently.

As noted under "On-going and planned activities", the Customs and Excise Act is being amended in order to bring it up to international standards.

[12] Customs and Excise Act, Goods Tax Act, Income Tax Act, Sales Tax Act and Stamp Duties Act.

(ii) Taxpayer access to information on tax liabilities and administrative procedures

Inland Revenue Division

Taxpayer access to information has significantly improved since the 2008 assessment:

- The IRD established its own website (www.ird.gov.sb) in 2011 and this is now available in most urban areas in SI. Most would-be users of the internet (e.g. civil servants) tend to live in urban areas. Copies of all the Tax Acts, the Stamp Duties Act and the Secured Transactions Act have been available on the website since 2010. The website contains comprehensive information about the main areas of interest to taxpayers: guides (including exemption guidelines), PAYE tables, tax registration and tax return forms, tax due dates, a tax calculator and seminars on selected topics (e.g. four in mid-2012, for example, one on surveying and land values), recent press releases. Only Stamp duty does not have its own guide. The Commissioner of IRD provided many examples of the above to the assessment team. The website is kept up to date. Hard copies are available in IRD's three offices (Honiara and two other provinces).
- Trade shows in 2010, 2011 and 2012 (July) in Honiara, and provincial tours in 2010 and 2011 (one in 2011).
- Outreach programme through RAMSI.

As indicated by the CoC to the assessment team (see Background above), a number of grey areas remain in tax policies and their administration (e.g. withholding tax). Even when issues are resolved, the resulting decisions are not well-publicised and thus the lack of clarity remains, leaving tax payers, companies in particular, unclear about the nature of these decisions and therefore having to return to IRD to make further enquiries. The IRD used to have quarterly meetings with tax agents (accounting firms), until a few years ago, making for greater transparency and clarity, but, according to CoC, these appear to have fallen by the wayside.

Customs and Excise Division

CED does not yet have its own website yet, so most of its taxpayer education programmes are paper-based. The CED puts on seminars from time to time, for example, recently with the CoC in terms of explaining the Goods Tax (a difficult to understand tax, due to the complicated calculation method), and shares tax payer education workshops with IRD. Some specific trading groups appear to warrant briefing on laws and procedures, which they apparently attempt to circumvent.

CED is in the process of adopting ASYCUDA (Assimilative Customs Database) World, which will be easier for users to understand than the PC-Trade system that has been in use for several years. New Zealand has been providing support for the system, but is now withdrawing it, the immediate reason for acquiring ASYCUDA. Another reason is the very large increase in transactions that CED has to process, related to the large increase in imports over the last several years. ASYCUDA is in a much better position to handle these than PC-Trade, and, moreover, is better equipped to handle on-line transactions that are increasingly becoming the norm in other countries, and will become the norm in SI over the next few years.

(iii) Existence and functioning of a tax appeals mechanism

Inland Revenue Division and Customs and Excise Division

Under the current legislation, objectors can approach the Investigator in IRD or the Comptroller in CED, and most objections are satisfied at this level. If unsatisfied, the objector can then go to Court; ITA sections 77-81 cover these two instances. Two cases related to IRD are currently in Court. In the case of CED, objectors may write to the Minister of Finance.

An independent Tax Appeals Commission has yet to be established. Establishing such a Commission in a small island economy may be more difficult than in a large economy due to capacity constraints and perhaps the greater difficulty of establishing arms-length relationships between members of the Commission and appellants. The Exemptions Bill provides scope for the establishment of a formal appeals process for all tax-types.

On-going and planned activities

- *Drafting of new tax legislation:*
    - *An Exemptions Bill* was prepared during 2011, which will tighten up the extent of discretionary powers in relation to exemptions in the various tax laws. The Bill was supposed to be presented to Parliament, but, in light of comments on the Bill, has been completely re-written, with assistance from ADB. The Bill also provides for strengthened tax appeals processes, with one Committee overseeing appeals under all the different types of taxes.
    - *The Customs and Excise Act* (1964) is being re-written, also with assistance from ADB, to bring it into line with modern-day practices. It will conform to the Kyoto Convention on Customs Control. A specific feature will be a provision for pre-arrival checks. Consultations with stakeholders (e.g. Chamber of Commerce) have been extensive. The CED expects that the draft legislation (‘Customs and Excise Amendment Bill’) will be submitted to Parliament by the end of 2012. The amended Act will also be more conducive to the establishment of a tax appeals process.
- The IRD is preparing a library of tax administration policies in order to ensure consistent application of tax laws.
- The IRD is considering appointing a Deputy Commissioner for Human Resource Management in order to help address capacity issues.
- The IRD is considering establishing a large business unit, as is the practice in many countries. About 100 large businesses generate 70-80 percent of SIG revenues.
- The IRD is considering an Income Tax Act (ITA) specific to the mining industry. The current ITA already has a provision for additional income tax for mining companies. The IMF is currently working with IRD to prepare a resource tax regime. The SIG has applied for membership in the Extractive Industries Transparency Initiative (EITI) and was accepted as a candidate in June, 2012. Only one mining company currently operates in SI, but a number of mining companies are prospecting.
- The International Finance Corporation (IFC) is examining transfer pricing and withholding tax issues on behalf of IRD. As indicated by CoC to the assessment team, these are ‘grey’ areas in the current tax regime.
- The IRD has prepared a Capacity Development Plan for 2012.
- The CED is planning to establish its own website, which will facilitate tax payer education. The establishment of ASYCUDA in 2013 will also facilitate such education.

Inland Revenue Division

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-13	**D**	**D+▲**	**Performance has strengthened through improved tax payer education. Further strengthening is likely through the planned revision of the tax laws.**
(i)	D	D▲	**Performance hasn't changed but strengthening is likely.** The tax legislation has not changed since the last assessment, but an Exemptions Bill is being drafted that will reduce the amount of discretionary powers available to tax administration officials.
(ii)	D	B	**Performance has strengthened due to**: (i) establishment of IRD's website containing an array of useful information for tax payers; (ii) Trade Fairs and Provincial Tours; and (iii) an Outreach Program through RAMSI. The internet is available in most urban areas. Information on decisions on complex tax issues is not yet publicised.
(iii)	D	D	**Performance is unchanged.** The only recourse for appeals if objections are not resolved at IRD level is the court system, which is cumbersome. An independently functioning tax appeals system is not yet in place. Establishing such a system in a small island economy would perhaps be challenging.

Customs and Excise Division

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-13	**D**	**D+▲**	**Performance has strengthened under dimensions (i) and (ii) with further strengthening expected.**
(i)	D	C▲	**Performance has strengthened, with further strengthening expected.** The 2009 Customs Valuation Act has strengthened the transparency of the valuation system. The Exemptions Bill, noted above, will reduce the scope for discretionary exemptions, which have been a problem for CED. A Customs and Excise Amendment Bill that will bring customs legislation up to international standards may be passed by the end of 2012.
(ii)	D	C▲	**Performance has strengthened, with further strengthening expected**. CED does not have its own web-site at present, but engages in tax payer education programmes through delivery of workshops, including through participation with IRD. Traders do not have direct access to the IT system used by CED at present, but this will change in 2013 with the introduction of ASYCUDA in 2013, a much more modern system. CED is planning to establish its own website.
(iii)	D	D	**Performance is unchanged.** Objectors may appeal to the Comptroller on an ad-hoc basis, and can resort to the legal system on matters of interpretation. The draft Customs and Excise Amendment Act introduces a much more modern method based on transparency and fairness.

Combined IRD and CED 1

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-13	**D**	**D+▲**	**Performance has strengthened through the 2009 Customs Valuation Act and improved tax payer education. Further strengthening is likely through the planned revision of the tax laws, including the enactments of the Exemptions Bill and Customs and Excise Amendment Bill, and the introduction of ASCYCUDA and establishment of a website at CED.**
(i)	D	D▲	**Performance is strengthening and is likely to continue to do so.** The 2009 Customs Valuation Act has strengthened the transparency of the valuation system. Other tax legislation has not changed since the 2008 assessment. An Exemptions Bill is being drafted that will reduce the amount of discretionary powers available to revenue administration officials. A Customs and Excise Amendment Bill that will bring customs legislation up to international standards may be passed by the end of 2012.
(ii)	D	C▲	**Performance has strengthened due to**: (i) establishment of IRD's website containing an array of useful information for tax payers; the internet is available in most urban areas. (ii) Trade Fairs and Provincial Tours; and (iii) an Outreach Program through RAMSI. CED is also engaging in tax payer education activities. It is planning to establish its own webite and introduce ASYCUDA in 2013 in place of its current old IT-based administration system, with attendant taxpayer education benefits. Information on decisions on complex tax issues is not yet publicised.
(iii)	D	D	**Performance is unchanged.** An independently functioning tax appeals system is not yet in place, and would perhaps be challenging to establish in a small island economy. The only recourse for appeals if objections are not resolved at IRD and CED level is the court system, which is cumbersome. The draft Customs and Excise Amendment Act introduces a much more modern appeals method based on transparency and fairness.

1/: The ratings for IRD and CED are aggregated on the basis of: (i) CED revenue ranges from one quarter to one third of IRD revenue; and (ii) if the ratings for the two divisions are different but adjacent for a particular dimension, the lower rating is shown; e.g. if IRD scores B and CED scores C, the aggregated rating for the dimension is C.

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

Background

The IT-based Revenue Management System (RMS) was installed in 2003 to support IRD's revenue administration, although it wasn't used fully until 2008 due to problems in using it. Taxpayer registration is conducted by RMS using taxpayer registration forms obtainable through the IRD website. The RMS is to be upgraded, with incorporation of debt management and tax audit functions. It has potential to link with AX.[13] The CED is replacing the out-dated PC-Trade customs administration system by ASYCUDA World, an on-line system that will facilitate the establishment of a Single Window concept and the processing of customs declarations online.

[13]Reforms to RMS are described in "RMS-An Overview", part of "Accountants Reform Training", prepared by IRD in 2011.

(i) Controls in the taxpayer registration system

Inland Revenue Division
Since 2008, the coverage of the Taxpayer Identification Number (TIN) has been strengthened through the establishment of linkages with other systems:

- Companies that register under the Companies Act, 2009 are required to have TINs, which the Business Registrar's Office then supplies to IRD. Importers are required to be registered under the Companies Act, and thus to have TINs. CED forwards information on importers and their importing transactions to IRD
- Companies that provide goods and services to SIG are required to have tax clearance certificates, which can only be obtained if the companies have TINs.
- Banks require companies that open bank accounts with them to have TINs
- The CBSI shares information with IRD by virtue of the Financial Intelligence Act. Banks deduct withholding tax at source, for which a TIN is required, and a TIN is required for companies that transfer funds through the banking system.
- Companies that register under the Goods Tax Act and the Sales Tax Act are required to have TINs.

Customs and Excise Division
In general, registration controls are easier to enforce under CED than under IRD as the border itself acts as a control with all border crossers in principle required to clear customs. Companies that import are required to be registered under the Companies Act and thus to have TINs, which link with the levying of the Goods Tax at the border. If they don't, they are assigned identification numbers and CED informs IRD. Companies have an incentive to acquire TINs as they can then apply for exemptions.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

Inland Revenue Division
A major improvement is the automatic kick-in of penalties for late filing that started in 2011. Previously the 'switch' in RMS for the automatic kick in had been 'off'. The kick in applies to all tax laws and provides a major incentive to pay tax liabilities on time. The penalties are being collectedthrough instalment arrangements. This improvement helps get around the provisions in tax laws that provide discretion in providing exemptions, including exemption from penalties.[14]

No penalties are applied for non-registration, although, when identified, the taxpayer is required to file all returns due and is subject to late filing and late payment penalties (which are now automatically applied).

As noted under PI-13, the penalties system has been reviewed in the context of the preparation of the Exemptions Bill.

[14]Penalties are covered in IRD's Operational Policy 2011/2, "Guide to Late Payment and Late Filing" and a number of related documents provided to the assessment team.

Customs and Excise Division
The automatic kicking in of penalties under IRD also holds for CED, but the penalties are still too low to have significant impact. For many traders, it is cheaper to not comply with the rules than to comply and thus incur the costs of compliance (e.g. unpacking and then re-packing containers).

(iii) Planning and monitoring of tax audit and fraud investigation programmes

Inland Revenue Division
The audit function is strengthening. The Audit Section in IRD began to prepare annual business plans in 2010.[15] Audit plans were prepared for 2011 and 2012, with focus on tax evasion at the top end of the market, through risk profiling undertaken by the Audit Section in IRD. An advisor from New Zealand has been in place for the last 2 years, and IFC has been looking at transfer pricing issues. For example, a big businessman was sentenced to 3 years in prison in 2011, the first such prosecution in several years. Performance is hampered through a high vacancy rate in IRD, with 9 out of 26 positions absent.

Customs and Excise Division
The audit function is being strengthened through training and advice. Training was provided by a representative from CARTAC recently. An advisor is arriving shortly for a 7 month stint in SI. Audit is mainly in the form of post-clearance audit (PCA); pre-audit also takes place through checking cargo before arrival, as, ideally, paper work should be complete before cargo ships arrive. PCA currently focuses on manifests rather than, as would be ideal, on the shop-floor, but the focus will be changed to the shop-floor as the use of ASYCUDA beds in.

Although ASYCUDA will not be fully established until 2013, CED is already using its ‘traffic light’ features, starting in July 2012. Traders that display non-compliant behaviour (e.g. deliberate mis-classification of goods, concealing goods, and not paying tax debts that arise from the PCA process) are coded red (high risk). Individuals may be coded red, partly because it may be difficult to track non-compliant behaviour later as they are less likely to be registered for tax.

Ongoing and planned activities
The RMS is to be upgraded. It will include debt management and tax audit functions. The ASYCUDA IT-based customs administration system is being introduced to replace the current legacy system.

Inland Revenue Division

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-14	**D+**	**C+**	**Performance has improved under all dimensions.**
(i)	D	C	**Performance has improved through the development of linkages with other database systems.** This is still work-in progress and a complete database covering all linkages and tax-types is not yet in place. The planned upgrading of RMS will facilitate establishing such a database.

[15] Documents provided to the assessment team include (i) Audit Section Business Plans for 2011 and 2012; and (ii) A Guide to Tax Audits.

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
(ii)	D	C	**Performance has improved through the RMS being enabled to provide for automatic kick-in of penalties for late filing and payments,** starting in 2011. The envisaged new Taxation Act is expected to include a strengthened penalty regime.
(iii)	C	B	**Performance has improved through the introduction of audit plans based on risk criteria**.

Customs and Excise Division

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-14	**D+**	**C+▲**	**Performance has improved through dimensions (i) and (ii), and strengthening is underway under dimension (iii) concerning tax audit.**
(i)	C	B	**Performance has improved, through increased linkages between TIN and other systems.** The CED has an inherent control advantage relative to IRD, as the border forms a natural control in itself. Companies that import are required to be registered under the Companies Act and therefore to have TINs, which link with the levying of Goods Tax at the border. Anyone trading without a TIN uses an identification number assigned by CED. The CED cross checks with CBSI in relation to telegraphic transfers through EFT in order to ensure compliance with valuation matters. The planned introduction of ASYCUDA should further strengthen performance.
(ii)	D	C	**Performance has improved marginally due to the new policy of automatically levying of penalties for non-compliance.** Despite this, the current penalties in the Customs and Excise Act do not deter non-compliance. The envisaged Customs and Excise Amendment Act should result in a more effective penalty regime.
(iii)	C	C▲	**Performance is unchanged but strengthening is in process:** a new audit process is being followed with effect from August 2012, with a new TA providing direction to the Audit team. Investigations are being conducted as required.

IRD and CED combined

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-14	**D+**	**C▲**	**Performance has improved and continues to do so under all dimensions.**
(i)	D	C	**Performance has improved through the development of linkages between TIN and other database systems.** This is still work-in progress and a complete database covering all linkages and tax-types is not yet in place. The planned upgrading of RMS will facilitate the establishing of such a database. The CED has an inherent control

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
			advantage relative to IRD, as the border forms a natural control in itself in terms of monitoring whether importers are registered for tax. The on-going introduction of ASYCUDA should help to further strengthen performance.
(ii)	D	C	**Performance has improved through the RMS being enabled to provide for automatic kick-in of penalties for late filing and payments, starting in 2011.** The Exemptions Bill includes a strengthened penalty regime. The new policy also applies to CED, but the current penalties in the Customs and Excise Act are too low to deter non- compliance. The Exemptions Bill and Customs and Excise Amendment Bill, when enacted, should result in a more effective penalty regime.
(iii)	C	C▲	**Performance has improved in IRD through the introduction of audit plans based on risk criteria**. S**trengthening is in process in CED,** a new audit process being followed with effect from August 2012.

3.5.1.3. PI-15: Effectiveness in collection of tax payments

This indicator assesses the effectiveness of the tax administration authorities to control the level of tax arrears and collect them when they occur, to transfer tax collection to the Treasury on a timely basis and to undertake reconciliation exercises to ensure that the collection system works as intended. This indicator analyzes the last two completed fiscal years for the first dimension and the situation at the time of this assessment (August 2012) for the other two dimensions.

(i) Collection ratio for gross tax arrears

Inland Revenue Division

The IRD is still not confident with its debt tracking system. Prior to 2008, the size of tax debts was considerable, but the data were such that it was not possible to know exactly the amounts. It has not been possible to differentiate between tax debts being collected from current tax revenues being collected. Debt collection ratios and tax arrears/total revenue collections ratios therefore cannot be calculated. A data cleansing process is still ongoing. In the meantime, the Debt Collection Division is chasing up people who haven't paid their taxes on time, but is hampered by having only 5 staff. The upgraded RMS will include a tax debt tracking system, which should resolve the situation.

Customs and Excise Division

CED has an inherent advantage over IRD in monitoring debt in that it can hang on to cargo until payment is made. The PCA process may identify traders who have mis-declared and owe duty. If they are registered for tax in SI, they can be followed up. Follow up is difficult if the non-compliant importers have already left the country, but they can be apprehended if they return. The pre-arrival checking system can now categorise importers according to risk, so that those going through the red channel are subject to search, thereby also reducing the scope for irrecoverable bad debt. Such bad debt used to be a significant problem, but is much less of a problem now due to the strengthened administrative processes that have been put in place.

(ii) Effectiveness of transfer of tax collections to MoFT

Inland Revenue Division

Tax collections are deposited in the SIG revenue account mainly daily; the IRD and CED do not have their own bank accounts, as they are divisions within MoFT. Manual over-the-counter payments are banked every day, the morning after the cash is received. To facilitate collection, the MoFT holds revenue collection accounts in two commercial banks (two in BSP and one in ANZ), which have branches in two provinces (Auko and Gizo), the same provinces where IRD also has offices. Deposits into bank accounts may not be daily, as the IRD branch may collect some of the revenue itself and then deposit it into its bank account (which is part of the SIG Revenue Account), once the amounts become large enough. Balances in these accounts are not necessarily deposited daily into the SIG Revenue Account held by MoFT in CBSI, but they can be transferred at any time, though in practice the transfer is once a month via check. Appointed agents collect taxes in provinces without IRD branches and then periodically deposit the money into MoFT accounts held in BSP/ANZ.

Customs and Excise Division

Payments are made by cheques that are directly deposited by the next day at the latest into MoFT's revenue account. The exception is the payments made from CED's outposts in three provinces (Western, Malaita, Temotu) where commercial banks do not have branches. Payments are then made to the CED offices, including in cash (which raises a risk issue), which then at some point deposit the money into MoFT accounts held at CBSI in Honiara or in commercial bank branches on some other islands. CED recognises this to be an issue, which may grow in size due to the expectation that the rapid growth in cargo traffic over the last few years will continue. The issue is mitigated to an extent through importers paying duties in Honiara, though the cargo is off-loaded in the other islands.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by MoFT

Inland Revenue Division

Complete accounts reconciliation is not possible at this time, as IRD does not have accurate records on tax debt. In terms of reconciliation within MoFT, details of all payments are entered into RMS, following confirmation of receipt (checked through the general treasury receipts issued to taxpayers), and are transferred to AX every night, following which reconciliation takes place. As discussed under PI-24, dimension (i) timing issues may result in AX records not exactly matching RMS records at the end of the month.

Customs and Excise Division

The low level of tax debt and the ability to track this debt enables complete reconciliation to be conducted at the end of every month.

Ongoing and planned activities

The planned upgrading of RMS and the planned introduction of ASYCUDA in 2013 should result in continuing strengthened performance.

Internal Revenue Division

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-15	**D+**	**D+**	**No change in performance.** Performance under dimensions (i) and (ii) should improve once RMS is upgraded.
(i)	NR	NR	**No change in performance.** IRD is still in the process of cleansing its data so as to be able to accurately differentiate tax debts from current revenues.
(ii)	B	B	**No change in performance.** Revenue collections are transferred to MoFT's SIG Revenue account at least weekly. Most transfers are daily, but transfers may take 1-2 weeks in provinces without IRD offices and commercial bank branches. Collections deposited in IRD branches in provinces may not be deposited immediately into MoFT bank accounts, if the amounts are small.
(iii)	D	D	**No change in performance,** as unambiguous data on the stock of tax debt are still not available.

Customs and Excise Division

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-15	**NR**	**B+**	**Performance appears to have improved due to strengthening controls and more accurate information and accounting.**
(i)	NR	B	**Performance appears to have improved, due to strengthening administrative controls** (e.g. cargo is held until taxes are paid, and use of the PCA process). The very recent (July, 2012) introduction of the ASYCUDA-based traffic lights system will further reduce the risk of bad debts. *(Dimension (i) in the 2008 assessment may have been assessed on the situation only at IRD. Unless CED has information on the amount of tax arrears at the end of 2006 and 2007, the NR rating in the 2008 assessment stands).*
(ii)	B	B	**Performance has not changed.** Nearly all revenues are paid directly into MoFT's revenue account. Revenues collected by CED outposts in other islands where commercial banks do not have branches take longer to be deposited in MoFT's revenue account.
(iii)	D	A	**Performance has improved.** Reconciliation is straightforward as the stock of tax debts is low and known, is monitored more closely than at the time of the 2008 assessment, and taxes collected are, for the most part, deposited straight into MoFT's revenue account. Reconciliation between duties assessed and collected takes place monthly. The rating in the 2008 assessment may be too low as it appears to have been based only on the situation at IRD.

IRD and CED combined

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-15	**D+**	**D+**	**No change in performance, as information on tax debts owed to IRD is still not consistently available.** Performance under dimensions (i) and (ii) should improve for IRD once RMS is upgraded. CED's performance has improved under dimensions (i) and (iii) due to strengthened administrative controls and should continue to improve as ASYCUDA is introduced.
(i)	NR	NR	**No change in performance.** IRD is still in the process of cleansing its data so as to be able to accurately differentiate tax debts from current revenues. Performance appears to have improved under CED, due to strengthening administrative controls (e.g. cargo is held until taxes are paid, and use of the PCA process). The NR under IRD means, however, that the overall rating is also NR.
(ii)	B	B	**No change in performance.** Revenue collections are transferred to MoFT's SIG Revenue account at least weekly. Most transfers are daily, but transfers may take 1-2 weeks in provinces without IRD offices and commercial bank branches. Collections deposited in IRD branches in provinces may not be deposited immediately into MoFT bank accounts, if the amounts are small. Nearly all CED-based revenues are paid directly into MoFT's revenue account. Revenues collected by CED outposts in other islands where commercial banks do not have branches take longer to be deposited in MoFT's revenue account.
(iii)	D	C	**Performance has improved at CED, but not at IRD,** as unambiguous data on the stock of tax debt owed to IRD are still not available. The rating for CED improved to A, but the overall rating of C reflects a weighted average, based on IRD collecting a much higher proportion of total revenue than CED.

3.5.2. Budget Execution and Cash/Debt Management (PIs 16-17)

Summary of assessment of indicators for PIs 16-17

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-16: Budget execution	D+	C+	*Performance has improved through strengthened cash flow planning.*
PI-17: Cash/Debt management	C	C+	*Performance has improved/is improving with regard to cash management and systems for contracting loans.*

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

Effective execution of the budget in accordance with work plans requires that spending ministries and agencies receive reliable information on the availability of funds within which they can commit expenditure.

(i) Extent to which cash flows are forecast and monitored

The MoFT prepares a month by month forecast of its own revenue collections, but is not yet in a position to prepare a month by month cash plan that indicates the monthly financial resources required to execute the budget, the plan thus informing efficient liquidity management. To achieve this ideal, line ministries need to prepare cash profiles based on projected monthly expenditure needs and own revenue earnings, but, at the time of the 2008 assessment, they were not doing this, instead simplistically dividing their approved budgets by 12.

In the wake of the revenue shortfalls that arose in 2010, the MoFT established a cash coordination committee (CCC), the members consisting of top management and managers of the key divisions and sections (Budget Unit, FMSS, Accountant General, DMU). Weekly meetings began in June, 2010. This arrangement is facilitating the tracking of budget performance on both the revenue and expenditure side and identifying possible resources pressures arising. The preparation of monthly line ministry-specific Financial Availability Reports (FARs) by MoFT provided useful budget execution information for the CCC. In the event of such pressures, line ministries may be requested, for example, to delay certain expenditures, or MoFT may cut them altogether, using its ‘reservations’ powers, as happened in May, 2010.[16][17]

Following on from the cash management meetings, line ministries began to experiment in preparing cash flow profiles and trying to identify patterns based on previous activities (e.g. payroll and rent projections are relatively straightforward). Some ministries have been better than others at this (for example, Ministry of Education is better than Ministry of Health). But cash flow profiles still seem to be based on the dividing by 12 month method, according to the four ministries interviewed by the assessment team (Education, Police and Correctional Service, Infrastructure Development, and Agriculture). [18]

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

Following approval of the draft budget, budget execution commences with the issuance of Accounting Warrants to line ministries, providing them with the authority to spend their approved budgets. The Accounting Warrant for recurrent expenditure covers the payroll and Other Charges budgets per the divisions in each line ministry (for example, 7 divisions in the Ministry of Agriculture).[19] The Warrant means that line ministries can plan and commit their approved budgets with time horizons of close to a year for recurrent expenditure. In the case of development budgets, line ministries can commit expenditures once MDPAC has approved their work plans.

[16] The request was made in the form of Reservation Warrants (also known as Withdrawal of Warrant) issued to line ministries by the Permanent Secretary of MoFT. For example the warrant issued to Ministry of Health and Medical Services in May, 2010 amounted to 25 percent of Other Charges (non-wage recurrent expenditure). The letter provides for the possibility of ‘dereservation’ of the warrant later in the year, depending on the cash availability situation.

[17]The assessment team was provided with a copy of the minutes of a CCC meeting held in August, 2012 concerning Treasury Bill sales and SIG’s cash balances.

[18]The MoFT is clearly interested in developing cash flow forecasts and preparing cash plans, as indicated in a workshop on Cash Flow Forecasting and Management, presented in the form of a PowerPoint presentation by FMSS (date not shown in the presentation) and a detailed cash flow forecast spreadsheet (May 11, 2012).

[19] The assessment team was provided with copies of the Accounting Warrants for the Ministries of Agriculture and Livestock Development and Health and Medical Services, dated 15th February, 2012, following the approval of the recurrent budget.

Having such long time horizons for making commitments is not necessarily a good thing in an environment of resource un-predictability (as in 2010) accompanied by still undeveloped cash flow forecast capability and potentially creates a situation of expenditure arrears if expenditure commitments are not consistent with projected cash availability.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

The main incident of such an adjustment was in 2010, when MoFT issued Reservation Warrants to line ministries that effectively reduced the Accounting Warrants for Other Charges by 25 percent. Such warrants are permitted under Section 10 (ii) of the Public Finance and Audit Act (1978), if 'financial exigencies or the public interest so require', and as also reflected in the Financial Instructions. This type of adjustment appears to contain a fair degree of transparency, though the magnitude of the reservation in percentage terms may not be the same for each MDA.[20]

Another type of adjustment that appears to be decided above the level of management of MDAs, as also alluded to under PI-7, has been reallocations from ministry budgets to constituency development funds (the expenditure from which is overseen by Parliament) in an apparently non-transparent manner.

Other adjustments to line Ministry budgets, apart from reallocations (virements) within approved budgets, have tended to take place at the requests of line ministries, funded by Contingency Warrants (for unforeseen and emergency expenditures) or by revenues in excess of approved budgets. Both types of adjustments require Supplementary Appropriations Acts, the former type regularising/acquitting the warrants and in part reflecting grant guidelines under aid-funded programmes. As indicated under PI-27, and emphasised in PAC reports on Supplementary Budgets, this type of adjustment has been frequent and less than transparent. These types of adjustments originate from line ministries, however, and are not relevant to this dimension.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-16	D+	C+	**Performance has improved through strengthened cash flow planning.**
(i)	D	C	**Cash flow planning is beginning to be practised, representing some progress since the 2008 assessment.** The MoFT has started to prepare revenue forecasts. A Cash Management Committee (CMC) was formed in June 2010 and some ministries have prepared indicative monthly cash profiles that are not simply approved budgets divided by 12. It is not clear, however, whether the CMC takes these into account in terms of its monitoring of budget performance. The line ministries interviewed by the team appear to have reverted to preparing cash flow profiles on a dividing by 12 basis, but this still represents an improvement over the situation in 2008.
(ii)	A	A	**No change in performance.** The issues of Accounting Warrants to line ministries following the approval of the draft budget enable ministries to commit recurrent expenditures with a time horizon of most of the year. In

[20] If the financial situation later improves, the Minister of Finance can reverse the Reservation Warrant through issuing a De-Reservation Warrant.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
			the case of the development budgets, ministries can commit expenditures once MDPAC has approved their work plans.
(iii)	A	B	**No change in performance.** As permitted by the 1978 Public Finance and Audit Act, the MoFT has the power to issue Reservation Warrants to line ministries in the interests of financial exigencies. Such warrants reduce the amount of funds available under the Accounting Warrants. This mechanism appears transparent, though the warrants may not apply equally to all line ministries, and has only been used once, in 2010. Less transparent adjustments have been made through the reallocation of line ministry budgets to constituency development funds. Significant and not always transparent adjustments to budget allocations take place during the year (e.g. through the use of contingency warrants), but these are initiated by line ministries. The rating in the 2008 assessment appears to be too high and not consistent with the low rating under PI-27 dimension (iv).

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

Efficient management of debt and debt guarantees is an essential component of fiscal management. Poor management of debt and debt guarantees can create unnecessarily high debt service costs. With regard to efficient cash management, an important requirement for avoiding unnecessary borrowing and interest costs is that balances in all government held bank accounts are identified and consolidated (including those for extra-budgetary funds and government controlled donor-funded project accounts).

(i) Quality of Debt Recording and Management

Information on external and domestic debt is generally accurate and well-reported on. The main reconciliation issue is in regard to debt owed to ADB for two reasons. *First*, MoFT lost its data files during a fire that burned down its building. Recreating the data has been difficult, as DMU does not have access to the ADB debt management system (in contrast to the access it has to the World Bank system). MoFT is paying interest, but it is still trying to reconcile the debt stock figures. *Second*, the external debt management software used by CBSI on behalf of MoFT (Commonwealth Secretariat Debt Recording and Management System - CS-DRMS) does not easily handle debt to ADB, which is expressed in terms of multi-currency SDRs; the actual currency of payment of debt service is determined by ADB and DMU/CBSI do not know in advance what currency it will be. The DMU is having difficulty in obtaining the services of an expert to fix the system.[21]

The CBSI (Banking Operations Department) manages domestic debt (using MS Access) on behalf of DMU and has few issues (as confirmed by a meeting with CBSI). Reconciliation problems can arise with respect to debt owed to National Provident Fund (NPF), but these are mainly due to problems NPF has with regard to its own accounting system. Management of debt (mainly 2, 3 and 6 month Treasury Bills) owed to ANZ and BSP do not pose reconciliation issues,

[21] The other main debt management software – DMFAS- used by many countries also has this problem.

though the debt restructuring bonds (under the Honiara Debt Agreement, 2005) can be complex to handle (e.g. a loan from a Japanese bank that was later converted into a domestic bond);

Timeliness of MoFT's debt service payments is facilitated through its debt service bank account in CBSI being credited with 10 percent of each day's revenues from the SIG Revenue account.

The DMU provided copies of monthly and quarterly debt management reports that it routinely prepares to the assessment team. The reports cover contingent liabilities and compensation arising from Court Orders (e.g. to SolomonsTelecoms, which is supposed to pay compensation out of its revenues). The reports are posted on MoFT's website. DMU intends to prepare annual reports, though a summarised report appears in MoFT's Annual Report).Quarterly and six monthly reports are also posted on CBSI's website.

(ii) Extent of consolidation of the government's cash balances

The CBSI (Banking Operations Department and Foreign Exchange Department) informs MoFT of its cash position on a daily basis with regard to the 52 accounts it holds in CBSI, and which, taken together, comprise the Consolidated Fund. Such information informs the deliberations of the Cash Management Committee, which meets weekly in MoFT. Twenty three of these accounts are those into which donor agencies transfer funds in relation to the projects and programmes they are implementing. The MoFT also holds balances in two commercial banks (ANZ and BSP) into which revenues are deposited, particularly in the provinces where these banks have branches. The amount of these balances is known to MoFT also on a daily basis, due to the electronic links it has to these banks (in contrast, MoFT does not yet have an electronic link to its accounts held in CBSI).

Neither MoFT nor CBSI have access to the balances held by line ministries in imprest accounts located in commercial banks. Being imprest accounts representing advances of petty cash, the end-month balances are likely to be small (reconciliation and clearance issues concerning imprest accounts are discussed under PI-20 and PI-22).

Through data routinely provided by CBSI and the commercial banks, MoFT has information on the bank balances held by Special Funds. The MoFT does not have access to these for the purposes of liquidity management, even in the case of the National Transport Fund (NTF), which is held in ANZ under MoFT's name. Special Funds accounts outside the control of MoFT include the Civil Aviation Fund, managed by the Civil Aviation Authority, which has balances reaching SBD 20 million, and the Disaster Fund, managed by National Disaster Commission under the Ministry of Environment. End-year balances on Special Funds accounts are outside of the Consolidated Fund, as provided for under the Constitution, and are therefore not returned to the SIG Revenue Account.

CBSI only moves money around between SIG accounts if so advised by MoFT. MoFT is restricted from switching funds between accounts at will. For example, it cannot move funds freely into its Revenue account from the Debt Service Account or the Development Account, or the Budget Support Accounts (e.g. NZ, Australia, ADB, EU). Unappropriated funds in the Budget Support accounts may be moved into commercial bank accounts, where they at least earn interest.

(iii) Systems for contracting loans and issuance of guarantees

The MoFT finalised its Debt Management Strategy in May 2012. Limits on annual borrowing are derived from Debt Sustainability Analysis (DSA) carried out by DMU and ERU (PI-12) and are based on limits set for the debt stock (not to exceed 25 percent of GDP) and the debt service coverage (not to exceed 8 percent of domestic revenue).[22] External borrowing must be consistent with the National Development Strategy. The DSA includes stress testing against key economic parameters. Non-concessional borrowing (below 35% grant element) is not allowed under the IMF-funded programme currently in place. Grace periods negotiated are to be linked to cash flow projections. SOEs are allowed to borrow commercially under certain circumstances. The IMF supported programme places limits on borrowing by SIG from CBSI and the commercial banks.

The Government has not borrowed externally for several years as per the Honiara Debt Agreement (2005), but borrowing to finance two new projects is currently under consideration. Borrowing proposals are to be assessed by the Debt Management Advisory Committee (DMAC), which makes recommendations to the Minister of Finance, who has sole approval authority. The The DMAC is chaired by the Permanent Secretary, other members being senior management in MoFT). The DMAC was formed in July 2012 and has held four meetings to date. The Honiara Club of Creditors has agreed to amend the Honiara Debt Agreement to reflect the new Debt Management Strategy.

On-going and planned activities

- The DMU plans to assume management of CS-DRMS once its data base has been reconstructed.

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-17	**C**	**C+**	**Performance has improved in terms of dimension (ii) with regard to SIG's knowledge of its cash balances and is improving with regard to its systems for contracting loans.**
(i)	C	C	**No change in performance**. Debt management is good, but the limiting factor is the reconciliation issue with regard to management of debt owed to ADB.
(ii)	C	B	**Performance has improved.** The MoFT knows its consolidated cash position on at least a weekly basis with regard to the bank accounts under its control, these balances comprising the bulk of balances held by SIG institutions. At the time of the 2008 assessment, it knew its position only on a monthly basis. It does not have routine access to information on bank balances held by line ministries and Special Funds, and has no access to the balances held by Statutory Authorities and State Owned Enterprises.
(iii)	C	C	**Performance is unchanged, but it is expected to improve** through the new Debt Management Strategy that came into effect in May 2012.

[22] This seems at variance with the information provided under dimension (i) concerning the transfer of 10 percent of revenues collected daily to the Debt Service Account from the SIG Revenue account. The Debt Management Strategy is still very new relative to the transfer arrangement, and it's possible that the transfer percentage may be adjusted accordingly at some point.

3.5.3. Internal control systems

Summary of assessment

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-18: Payroll control (M1)	D+	C+	*Performance has improved under dimensions (i) and (iii) mainly due to the introduction of Aurion. Timeliness of changes to the payroll of teachers remains an issue.*
PI-19: Procurement controls (M2)	D *(under revised methodology)*	D+	*Performance has improved through more procurement information being provided to the public, particularly through the MoFT website.*
PI-20: Non-salary expenditure controls (M1)	D+	C+	*Performance unchanged (the rating for (ii) appears too low in the 2008 assessment).*The internal control system is still in a state of transition. Improvements are being made and will be implemented in 2012/2013, but, for the period under review the system still has clear weaknesses.
PI-21: Internal audit (M1)	D	C+	*Performance has improved.* Evidence indicates that the Internal Audit function is improving, but insufficient resources are a serious constraint. A move to systems review and risk matrix audit sequencing signals a better use of resources.

3.5.3.1. PI-18: Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management.

Background

A major development since the 2008 PEFA assessment has been the replacement of the IT-based payroll management system. Aurion replaced Telepay in 2009 and is regarded by the Payroll Section (which falls under the Treasury Division in MoFT, which is headed by the Accountant General) and line ministries interviewed by the assessment team as being far superior in terms of its depth of coverage, its holding of personnel records, and its ability to retain historical data. There is a one-to-one linkage between each employee and the budget. Aurion has not yet been rolled out to line ministries. Improvements still to be made include the automation of overtime and leave pay approval processes, replacing the current cumbersome manual processes.

The personnel databases are still divided into three systems: Public Service Commission (PSC), through the Ministry of Public Service (MPS), covering about 7,000 employees, the Teaching Services Commission (TSC), covering about 7,000 teachers and the Police and Correctional Service Commission (PCSC), covering about 1,200 staff. Each Commission has its own establishment list. In addition, there are a number of contract and temporary employees, who are not on the establishment list controlled by MPS and are under the direct control of the line ministries.

(i) Degree of integration and reconciliation between personnel records and payroll

The Commissions control their establishment lists and thus the number of positions and the total number of employees. Any changes in the lists have to be approved by the Parliament first and checked by MoFT in terms of budgetary affordability. Any changes in personnel data due to recruitments, promotions, relocations, termination and resignation have to be approved by the Commissions and the Payroll Section can only make changes to personnel data contained in Aurion on the basis of letters signed by the Commissions, the letters indicating the position, grade and salary level. The MPS has worked closely with Payroll Section in terms of data cleansing in terms of ironing out inconsistencies between the payroll records and the establishment list. This is usually due to the 'same names' problem, with more than one person assigned to a position. Each employee has a unique Treasury Personal File (TPF) number, but line ministries may forget to insert the TPF into the Salary Authorisation forms. The establishment list controlled by TSC is not up to date, as not all teachers have been assigned position numbers.

The Commissions are not yet linked with Aurion, except in terms of read-only access, as they have yet to purchase the Human Resource Management module of Aurion. The interface between Payroll Section and line ministries (which submit Salary Authority Forms to it if there are changes to personnel data) and the Commissions is therefore manual.

The Salary Authority form is the basic form that line ministries use to submit monthly changes (numbers of employees, promotions, overtime, leave) to Payroll Section for incorporation into the payroll. The preparation of the form is a manual process, completed through the signature of the Permanent Secretary. The number of payroll changes each month can reach into the thousands and have to be manually entered into Aurion by responsible officers in the Payroll Section. Processing of overtime and leave is cumbersome, as these elements are not yet incorporated into Aurion, and problems in recording deductions may arise, as noted by the Ministry of Police and Correctional Service to the assessment team. The Payroll Section may therefore return Salary Authorisation forms to line ministries for revisions.

Salaries are processed fortnightly, those for TSC and PCSC alternating with those under the PSC.

(ii) Timeliness of changes to personnel records and the payroll

Payroll Section's processing of Salary Authorisation forms is quick, as long as the forms do not contain errors and the signed approvals by the Commissions have been provided when appropriate (e.g. new recruitment, change to a different position, resignations, terminations). Changes are made by the following day, if the forms are filled in properly.

The main problem area (as emphasised by both Payroll Section and TSC) lies with teachers, who are located all over the country and frequently change schools. The TSC mentioned that it is difficult to track these changes. As a result, changes to personnel records may be made only after a substantial time lag. Teachers comprise about 50 percent of all civil servants and changes in their status are frequent, and therefore delays in incorporating these changes into the payroll significantly affect the overall timeliness of changes to the payroll.

The Payroll Section pointed out the problems of reconciling the payroll for teachers with personnel records and the establishment list. It recently eliminated 450 teachers who were unverifiable; the teacher establishment list maintained by TSC is not up to date, some teachers not having position numbers. The Payroll Section was still receiving hiring instructions back-dated to January. The problem partly arises from the long chain between the school, the provincial education office, TSC, Ministry of Education and Human Resources Development (MEHRD) and

MoFT. To address this problem, the MEHR is piloting the delegation of personnel control to the provincial education offices. The TSC also pointed out the issue of timing, when new appointees and promotions cross fiscal years and the draft budget is approved well after the beginning of the new fiscal year (PI-11).

As a result, Salary Authorisation forms submitted to Payroll Section based on new appointments and promotions and the yet un-approved budget may not be consistent with the budget contained in Aurion, leading to rejection and thus delays in the changes to be made (a way around this issue would be to create the position and seek the funding first and then recruit the new staff).

Changes to personnel records through resignations require approval and a manual change. For one reason or another, formally effecting this change may take time, during which the former employee is still being paid. The problem tends to be greater in the case of staff working in service delivery units all around the country, as it may take time for the change to be conveyed to the relevant commission, particularly the TSC. A mitigating factor is the requirement for staff to give three months' notice of resignation. The number of such resignations is greatest in MEHRD. Once the notice reaches the relevant Commission, notice of the acceptance is provided to Payroll Section, which can then incorporate the effective date of end of service into Aurion. Resignations tend to be fairly common due to the uncompetitive pay and working conditions.

(iii) Internal controls of changes to personnel records and the payroll

- Only authorised staff using confidential passwords can access Aurion.
- A system of super-user and sub-users is in place.
- Two compliance officers work in Payroll Section, both senior accountants.
- A unique TPF, that has been in place for several years.
- Authorising documents required from MPS
- Checks on Salary Authorisation forms (2 signatures, signed by the PS, accompanied by four specimen signatures, one of which is used (HR manager, Chief Administrative Officer or the Chief Accountant). The Salary Authorisations have carbon copies, and only the original goes to Payroll Section (the team was able to view a template).
- All pay changes made in Aurion have an electronically generated audit trail and carbon copies.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

The last full payroll audit was conducted in 2006 by the OAG audit. The OAG conducts partial payroll audits every year through two way testing: (i) check that staff listed in personnel records are on the payroll; and (ii) check that everyone who is on the payroll is listed in personnel records. The checks are made on a sample basis. These audits do not include head counts (are staff on the payroll actually working), due to the time consuming and expensive nature of these. Full head counts should be the responsibility of internal audit units, but the extent of these is limited (PI-21). Apart from MoFT, only MEHRD and Ministry of Health and Medical Services (MHMS) have internal audit units, which appear not to have conducted payroll audits. The OAG recently (July 2011) carried out a performance audit of teacher absenteeism in primary schools.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-18	**D+**	**C+**	**Performance has improved under dimensions (i) and (iii) mainly due to the introduction of Aurion. Timeliness of changes to the payroll of teachers remains an issue.**
(i)	D	B	**Performance has improved, mainly through the introduction in 2009 of the Aurion payroll control software package,** which is a significant improvement over Telepay. The payroll and personnel records (kept in line ministries and the Commission) are not directly linked, but monthly changes to personnel records are incorporated into Aurion each month, with full documentation and checked against the previous month's data.
(ii)	B	C	**Performance appears to have weakened, although the rating in the 2008 assessment may be too high.** Changes in employee circumstances may take some time to be reflected in personnel records and the conveyance of these changes to Payroll Section may also take time. This is particularly the case with teachers, who work all around the country and who tend to move frequently.
(iii)	C	B	**Performance has improved since the installation of Aurion.** The authority and basis for changes to personnel records and the payroll are clear. Entries in Aurion generate an electronic audit trail. Paper audit trails are generated at line ministry level. Strengthening of controls is still work-in-progress.
(iv)	B	C	**Performance has diminished, as the B rating in the 2008 PEFA is based on the full payroll audit conducted by OAG in 2006,** and which has not been repeated. The OAG conducts partial payroll audits every year as part of its overall audits of line ministries.

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

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programs and services by the government.

The dimensions for this indicator changed in January 2011 and therefore are not compatible for comparison purposes with the PEFA assessment in 2008.

Background

The legal system is robust with Financial Instructions (FIs) issued in July 2010 under Section 6 (2) of the PFAA (1978); these are available on the MoFT website. Chapter 7 of the FIs covers "Supply Chain Management" (i.e. procurement). The FIs of July 2010 make it mandatory for procurement entities (PE) to use open competitive tenders as the preferred method of procurement for procurements over $100,000 Table 10 on threshold limits for different procurement methods reproduces FI 7.9. FIs P7.20, P7.21, P7.25 and P7.26 are clear on the composition and separation of duties in respect of Ministerial Tender Boards (MTB), Central Tender Board (CTB) andTender and Evaluation committees. The FIs do not go into detail on the different types of procurement methods, but at times refer to a "Procurement Manual" which is non-existent; those manuals that are available (in some Ministries) are out-dated.

Internalannual procurement plans are not part of the budgeting process. They are produced in an ad hoc fashion and provided to MoFT only on a needs basis during the financial year, which in turn makes it difficult for SIG to produce meaningful cash flow projections.

The Auditor-General in his 2010 audit report (issued in 2011) contained a disclaimer of opinion on the 2009 Financial Statements but stated *"…there was again a significant improvement in the reliability of the figures and of the systems supporting the statements..."* One of the issues that resulted in the accounts being disclaimed for this period included: *"A significant proportion of original procurement documents was not able to be located and so OAG was not able to verify a large portion of expenditure"*.

This is not surprising as the "institutional memory" of the CTB seems to be vested in one Government Officer – who is extremely knowledgeable about the procurement system and procedures – but has no back- up staff to support him, and who has many other responsibilities. This type of situation is by no means unique to CTB.

Information provided by CTB since the assessment team's mission indicates a major improvement in document provision to OAG in connection with the 2010 Financial Statements. Improvements in filing processes resulted in 100 percent of documents being located during the audit.

The large improvement is the result of MoFT's procurement section establishing a compliance monitoring system with a series of compliance check lists, which if enforced would help OAG locate procurement documentation:

- Form C1: Per Diems International
- Form C2: Rentals
- Form C3: LPOs up to $100,000
- Form C4: Advance Purchases up to $100,000
- Form C5: Contracts Valued at more than $100,000 with multiple payment arrangements
- Form C6: Instalment payments on Contracts valued at more than $100,000
- Form C7: Contracts Valued at more than $100,000 with single payment

From these checklists the procurement section was able to identify the following (Sample only):

Ministry	Orders Started	Stuck	Passed after query	Passed first time	Pass Percentage
Ministry of Agriculture & Livestock Development	238	29	16	193	81.09%
Ministry of Education and HRD	702	45	8	649	92.45%
Ministry of Health & Medical Services	426	61	25	340	79.81%
Ministry of Forestry & Research	92	52	8	32	34.78%
Ministry of Police & National Security	281	37	24	220	78.29%
Ministry of Culture & Tourism	50	20	5	25	50.00%

While the extent of compliance errors is still significant in some cases, the development and implementation of these checklists and the fact the Government is now able to keep statistics on each Ministry is a significant step forward. These compliance checklists have standardized the documentation required in order to process a payment. The result of both line ministry and MoFT staff being trained in how to carry out compliance checks should be a more efficient process and fewer compliance failures.

The Solomon Islands Chamber of Commerce and Industry (SICCI), and Transparency Solomons International (TSI) to an extent indicated that SIG's procurement system has not improved in transparency in recent years, and has some way to go before it can match the transparency of development partner procurement systems. The tendering system is still not transparent to the general public and those who submit tenders. According to the FIs, tenders are required to be opened in public and opening times are supposed to be specified on the tendering documents. In practice, however, tenders are not opened in public but the tenderers are invited to view the results after SIG officials have already opened the tenders. Government personnel have been suspected of interfering with the bidding process. Tenders are advertised, but no announcement is made as to who wins the tender (the MoFT website contains this information to an extent, but it is unclear how comprehensive it is). The use of broadcasting on public TV and radio does not appear to have been explored enough.

The CTB has a different viewpoint, maintaining that tenders are opened in public (at the Leaf Hut in MoFT) and that the opening times are in fact shown on the tender documents. The CTB cannot vouch for the opening process in connection with Ministry Tender Board tenders, and it may well be the case that the transparency of the procurement process is lower than at CTB level.

Dimension (i) Transparency, comprehensiveness and competition in the legal and regulatory framework.

Table 9 indicates the extent that the legal and regulatory framework meets minimum requirements according to international best practice.

Table 9: Legal and regulatory framework for procurement

Minimum Requirements (M2)	Meet requirements? (Yes/No)	Explanation
(i) Be organized hierarchically and precedence is clearly established;	YES	Section 6(2) of PFAA gives the Government authority to create and publish Financial Instructions (FIs). The latest set of FIs was created in July 2010, and are posted on the MoFT website. Chapter 7 covers "Supply Chain Management" (Procurement).
(ii) Be freely and easily accessible to the public through appropriate means;	YES	Whilst the FIs are posted and freely available on the MoFT website, it appears that the general public has little knowledge or technical expertise or means to access this information.
(iii) Apply to all procurement undertaken using government funds;	YES	As indicated in the FIs, though in practice these may not always be complied with.

(iv) Make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;	YES	It is quite clear in the FIs P7 1, P7 2, P7 3, P7 4, P7 5, P7 6, P7 7, P7 8 and P7 9 the situations in which different purchasing methods should be employed.
(v) Provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	Partially	The MoFT contains information on Request for Expressions of Interest, Advertised Tenders and Completed Tenders and Results for 2010-2012.
(vi) Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	NO	There is no complaint handling mechanism.

Note on Requirement (i)

The assessment has stated that the legal framework is clear and the procurement financial instructions are backed by statute. However this should be qualified in that there are some clear deficiencies. The FIs refer to a "Procurement Manual" for clarifications, but such a manual is not in place. The Ministry of Infrastructure Development has a procurement manual, which according to reports, is widely used, but only relates to construction, and is out-dated, having being compiled in October 2006 and referencing out-dated sets of FIs, and the procurement systems of donor agencies.

Note on Requirement (ii)

Feedback from the private sector, through the CoC, suggests that the public is unaware of the MoFT website and that the Internet is not widely used by the general population or the traditional suppliers of goods and services to the SIG. In addition, the general public or participating bidders are never informed as to who wins or loses a tender and a procurement complaints mechanism is not in place.

Note on Requirement (iv)

Table 10 elaborates on the procurement thresholds and preferred methods, as stated in the FIs.

Table 10: Procurement thresholds

Purchasing Limits	Procurement Method
1. Up to $10,000	***Accountable Officer*** must approve the Sole Supplier based on previous experience. **Verbal** quotation or price confirmation must be obtained prior to completion of a requisition and recorded. Price confirmation for preferred supplier arrangements can be obtained from a current price list provided by the supplier.
2. More than $10,000 up to $20,000	***Accountable Officer*** must approve the Supplier based on three **Verbal** Quotations. Price confirmation for preferred supplier arrangements can be

	obtained from a current price list provided by the supplier.
3. More than $20,000 up to $100,000	***Accountable Officer*** must approve the Supplier based on three **Written** Quotations. Price confirmation for preferred supplier arrangements can be obtained from a current price list provided by the supplier.
4. More than $100,000 up to $500,000	***Ministerial Tender Board*** must approve the Supplier based on competitive Tender.
5. More than $500,000	***Central Tender Board*** must approve the Supplier based on competitive Tender.

Source: Section 7.9 of Financial Instructions (available on MoFT website)

Most, if not all, Government Officers interviewed refer to the current practice of obtaining 3 written quotes for all purchases, even those under SBD 20,000. They are aware that verbal quotations are acceptable, but prefer to obtain the quotes in writing; CTB/Procurement Section indicated that the FIs may be amended accordingly at some point .

(ii) Use of competitive procurement methods

This dimension is rated according to the degree to which appropriate justification is provided for awarding contracts using methods other than open competition, above the threshold for open competition.

FI P7.9 defines the level for competitive procurement over SBD 20,000. FIs P7.10, 14, 15 and 20 (3) define how and when preferred supplier arrangements should be entered into. Bid waivers forms are used and are starting to be enforced through increased compliance checking. No statistics are kept, however, on the use of waivers.

Records are not maintained that would indicate the extent of non-competitive procurement above the minimum threshold and the justification for this.

(iii) Public access to complete, reliable and timely procurement information

Procurement information comprises government procurement plans, bidding opportunities, contract awards and data on resolution of procurement complaints.

Internal procurement plans are not part of the budgeting process, are produced ad hoc and provided to MoFT only on a needs basis during the financial year, so any opportunity for public access is non-existent.

Bidding opportunities in relation to open tenders are posted on MoFT’s website and in national newspapers. The website currently shows tenders awarded by CTB. MoFT states that the website is not intended to show all SIG tenders. Under the current system of decentralized management of tenders at present it has not been possible as yet to implement a central website showing all SIG tenders, including those carried out under the auspices of Ministry Tender Boards.

Contract awards in relation to open tenders handled by CTB are indicated by periodic uploading of the CTB register onto MoFT’s website. It currently (as of September 2012) shows winning tenders awarded, for 2010, 2011 and up-to-date for 2012. The periodicity may be irregular at times, with the uploading taking place after only a few months. The CTB awarded 167 contracts in 2010, 278 contracts in 2011 and 133 to date in 2012.

The SICCI maintains that the winning bidders were not published, but this may be the case for MTB tenders only, as the records on MoFT's website appear fairly comprehensive in relation to CTB tenders. The SICCI suggests that the CTB and MTBs use radio and TV to inform the general public about their tender awards. Not all people have access to internet, so uploading of CTB tender awards on to MoFT's website may not be sufficient in terms of informing the public

Data on the resolution of procurement complaints are not available.

(iv) Existence of an independent administrative procurement complaints system

This dimension is scored according to whether a body reviewing complaints on procurement satisfies the following requirements:

(i) Is comprised of experienced professionals, including members drawn from outside government.

(ii) Is not involved in procurement transactions or in the process leading to contract award decisions;

(iii) Does not charge fees that prohibit access by concerned parties;

(iv) Follows processes for submission and resolution of complaints that are clearly defined and publicly available;

(v) Exercises the authority to suspend the procurement process;

(vi) Issues decisions within the timeframe specified in the rules/regulations; and

(vii) Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).

The SIG procurement system does not contain an impartial complaints system. Bidders can complain to the Ombudsman's Office, but the Ombudsman can only make recommendations. Bidders can also take up matters through the legal system – but there is no record of this happening.

Ongoing and planned activities

- Development partners are working with MoFT to support the production of a Procurement Manual and Standard Bidding Documents and Contract documents.
- The Compliance checklist system is being operationalized.
- Procurement Consultation Workshops scheduled with all SIG Procurement Stakeholders in October 2012
- Implementation of further Preferred Supplier Contracts for key supplies; such contracts have significantly lowered prices SIG is paying, sped up the procurement process and reduced opportunities for corruption.

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-19 (M-2)	D *(according to revised methodology)*	D+	**Performance has improved under dimension (iii) due to more information being available to the public, facilitated in part through the CTB's website. Transparency remains low in terms of justification for not using open competition and the lack of an appeals mechanism.**

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
(i)	C *(according to revised methodology)*	B	**Performance has improved.** The legal framework meets 4 of the 6 listed requirements (Table 9).
(ii)	D *(according to revised methodology)*	D	**Performance is unchanged.** Reliable data are not available. Dimension (ii) under the previous methodology was rated C, but would score D under the revised methodology, indicating no change. Significant improvements have been made during 2012 due to the new compliance checking framework and Bid Waiver system, and are expected to continue, but this assessment covers only to December 2011.
(iii)	D *(according to revised methodology)*	C	**Performance has improved.** The CTB website has enabled strengthened access by the public to procurement information. Bidding opportunities and contract awards made by CTB are available for public viewing, but government procurement plans and data on resolution of procurement complaints are not available. MTB awards are not made available to the public.. No information is available on the value of procurements passing through this system as compared to the value of all SIG procurement. .
(iv)	D *(according to both old and revised methodology)*	D	**Performance unchanged.** An independent procurement complaints review body was not in place at the time of the 2008 assessment and is still not in place.

3.5.3.3. PI-20: Effectiveness of internal controls for non-salary expenditure

Controls concerning payroll, debt and revenue management have been discussed under PIs 14-15, and PIs 17-18.

An effective internal control system is one that (a) is relevant (i.e. based on an assessment of risks and the controls required to manage the risks), (b) incorporates a comprehensive and cost effective set of controls (which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), (c) is widely understood and complied with, and (d) is circumvented only for genuine emergency reasons.

(i) Effectiveness of expenditure commitment controls

Expenditure commitments are entered into through Local Purchase Order (LPO) and contracts.

During the last PEFA assessment and until December 31, 2011 the FMIS system was "Maximise" which had in-built expenditure commitment controls. The controls checked whether there were sufficient appropriation balances left in the budget, before a commitment could be made. However, those controls were only partially effective, as they could be overridden.

During 2008-2011 line ministries were in the habit of not budgeting for utility payments as the MoFT would simply override the control system and make the payments on their behalf without going through the proper purchasing procedures.

MoFT, however, mainstreamed a new FMIS called Axapta (AX) on January 1, 2012. It ran in parallel with the General Ledger for 6 months to June 2011, before other modules were operationalized and piloted in three line ministries during the second half of 2011. Under Axapta, the in-built expenditure control systems cannot be overridden which has resulted in a problem for those ministries that have not budgeted for their utility payments. They now have to make virements from other budgeted line items that may then be under-spent to accommodate the utility payment.

(ii) Comprehensiveness, relevance and understanding of other internal controls and processes

Staff are familiar with the comprehensive Financial Instructions (FI) and General Orders (for personnel), the former supported by widely distributed Financial Circulars. New staff are required to attend induction courses put on by the Institute of Public Administration and Management (IPAM), which falls under MPS. In addition, staff with financial management responsibilities are required to attend financial management courses and workshops conducted by MoFT and IPAM. Offices contain hard copies of the FI and General Orders.

(iii) Degree of compliance with rules for processing and recording transactions

OAG has noted that most of the ministries have gradually improved in their performance in attempting to comply with the legislation, FIs and General Orders as compared to past audits. Nevertheless, non-compliance is still an issue. In his 2010 annual report, the Auditor General issued a disclaimer of opinion on the 2009 Financial Statements citing:

"Internal controls within the expenditure and revenue processes still do not provide sufficient assurance as to the veracity of recording of transactions for both the line Ministries and the Ministry of Finance and Treasury".

Previous OAG reports indicate that compliance with the regulations governing the acquittal of imprest accounts has been an issue. Imprest accounts consist of two types: (i) Standing imprest, and (ii) Special imprest.

Control over the standing imprest accounts seems straightforward with ministries utilizing the system according to their needs for example: the Ministry of Police, National Security and Correctional Service (MPNSCS) has $50,000, Ministry of Education and Human Resource Development (MEHRD) has $100,000 and Ministry of Agriculture and Livestock Development (MALD) has $30,000. However, the turnover rates of these imprest accounts would suggest a high utilization – MEHRD twice a week and MALD once every two weeks. Line ministries are supposed to account for the imprests at the end of the year prior to applying for renewal, but, as indicated in Table 11, this does not always happen.

The balance on special imprest account – used for travel advances and other allowances for government officials and special events – was SBD 68,251,627.38 at the end of July 2012, with a carried forward balance of SBD 70,114,803.94 from 2011. From a control perspective this amount appears to be very high for advances of this nature and it seems the problem of acquittals still exists.

Table 11: Unretired Standing Imprests as at March 2012

274	Ministry of Foreign Affairs – *2011 imprest*
275	Office of the Governor General – *not retired since 2008*
276	Health & Medical Services - MHMS HQ – *operated imprest in 2008 and was fully retired*
279	National Parliament – *not retired imprest since 2007*
280	Ministry of Forest – *not retired since 2008*
283	Police & Correctional Services – Police Operations – *2011 imprest*
283	Police & Correctional Services – Commissioner of Police – *2011 imprest*
291	Ministry of Public Service - Public Service St/Imp – *operated in 2008 and was fully retired*
291	Ministry of Public Service - Public Service Commission – *2011 imprest*
294	Ministry of National Unity &Recon – TRC Standing Imprest –*not retired since 2009*
295	Ministry of Mines & Energy – *not retired since 2009*
297	Ministry of Women – *2011 imprest*
299	Ministry of Environment – *2011 imprest*

In April 2012 the PS of MoFT issued a directive to line ministries regarding the above outstanding accounts:

"We are concerned that low value payments for goods and services are still being directed through the Treasury Division, rather than being paid through Standing Imprests. Often these payments are directed through Treasury due to standing imprests that have not been retired by imprest holders. A list of ministries with unretired Standing Imprests is attached.

The processing of making payments for low value items slows down the whole Procurement and Payments function of Government. Standing Imprests should therefore be used for any purchase of goods and services below $2,000 such as: office expenses, minor repairs and maintenance, fuel, minor spare parts, touring allowance (local), hire of transport, venue hire, accommodation while on tour (local), seafare or airfares (only for local touring and not annual leave fares) and any other minor payments.

Standing imprests should not be used for payroll or payroll related allowances, rental, leave fares or overseas travel related costs.

Payments for goods and services in excess of $2,000 are subject to quotation/tendering processes and should be paid through the normal LPO/PV payment process through the Treasury".

So 11 of the 27 ministries (40%) are behind in their acquittals and requests for replenishment on Standing Imprests and have reverted to using LPOs for their small purchases.

The 2010 OAG report also indicates other areas of non-compliance: Bank reconciliations not performed, or performed with lack of evidence of separation of preparation and reviewing functions; cash books not properly maintained; lack of records and documents; lack of proper filing systems; required tender processes not followed (pointing towards low ratings for PI-19 (ii)); lack of verification of daily revenue collection; and, in general, a lack of division of responsibility in key institutional functions and controls. These weaknesses did not apply to all ministries, but were common and significant enough that the Auditor General was unable to form an opinion on the 2009 Financial Statements.

Internal audit reports also indicate areas of non-compliance in the education and health sectors, as elaborated on under PI-23, the areas being similar in some respects to the ones identified in the OAG reports.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-20	D+	C+	**Performance unchanged** (the rating for dimension ii appears too low)**.**The internal control system is still in a state of transition. It is clear improvements are being made and will be implemented during 2012-2013, but, for the period under review the system still has clear weaknesses.
(i)	C	C▲	**Performance unchanged, but the trend is towards strengthening.** The FMIS used until December 31, 2011 had in-built expenditure commitment controls that permitted commitments only if covered by sufficient remaining appropriations balances, These controls, however, could be overruled, and were to an extent. The new system in place since the beginning of 2012 (AX) following piloting during 2011 does not permit overruling. Combined with strengthening cash flow management (PI-16), performance is improving during 2012.
(ii)	D	B	**Performance unchanged: the rating in the 2008 assessment is implausible, as it implies that understanding is worse than compliance.** Staff generally have a good understanding of the control systems, supported by induction courses and other training, along with the Financial Instructions and General Orders generally available in hard copy in offices.
(iii)	C	C	**Performance unchanged.** As noted in OAG reports, insufficient compliance with rules and procedures remains a significant issue.

3.5.3.4. PI-21: Effectiveness of internal audit

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function).

(i) Coverage and quality of the internal audit function

Internal audit has two levels – a central MoFT Internal Audit Division (IAD) and Internal Audit Divisions based in the 2 largest ministries: MEHRD and MHMS. The IAD has one Director and 2 senior internal audit staff, with 7 intermediate staff; the IAD supports the internal audit units in line ministries, which are significantly under staffed, staff tending to be ex-MoFT.[23] Two internal auditors in MHMS report to the Ministry's Audit Committee. Four internal auditors work in MEHRD, also reporting to the Ministry's Audit Committee.

[23] Subsequent to the field work, the Director sadly passed away.

Internal auditors are encouraged to join the Association of Internal Auditors in the Solomon Islands (AIASI), which is closely aligned with the Internal Audit Association of Australia on which the IAD bases its operations. The IAD reports directly to the PS.

In 2011, the IAD was able to complete 4 Audits and investigate 10 cases referred to them from the PS Finance. Reports are sent to the PS Finance, Public Service Commission, OAG and the Accountant General.

Systems audits are being done to the extent possible (around 20 percent of time spent as reported by IAD, the percentage having increased since the 2008 PEFA assessment) and IAD, taking into account its limited resources, is now introducing a Risk Matrix system in order to concentrate on the high-risk areas.

(ii) Frequency and distribution of reports

The relationship between the IAD and the OAG is significant and is captured formally in "Internal Audit Division Ministry of Finance and Treasury and Office of Auditor General Cooperation Protocol". The protocol covers the sharing of documents, including the audit reports prepared by IAD), communications and coordination of audits, planning and scope of audits and other issues.

The IAD issues reports regularly for most government ministries and State Own Enterprises (SOEs) and distributes these to the audited entity in the form of an "Audit Review", "Consultation" or "Special Investigation"

(iii)Extent of management response to internal audit findings

According to IAD, auditees tend to respond to audit recommendations with a significant delay. However in general they are acted upon and in the case of staff disciplinary cases action is taken quite quickly.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-21	D	C+	**Performance has improved.** Evidence indicates that the Internal Audit function is improving, but insufficient resources are a serious constraint. A move to systems review and risk matrix audit sequencing signals a better use of resources.
(i)	D	C	**Performance improved.** The function is operational for at least the most important central government entities and is increasingly undertaking systems review and moving towards professional standards.
(ii)	D	B	**Performance improved.** Reports are issued regularly for most audited entities and distributed to the audited entity, the MoFT and the OAG.
(iii)	D	C	**Performance improved.** A fair degree of action is taken by many managers on major issues but often with delay, as evidenced by repeat observations in audit reports. However, IAD states that eventually action is taken on every point.

3.6 Accounting, recording and reporting

Summary of assessment

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-22: Accounts reconciliation (M2)	**D+**	**C+**	**Performance unchanged, with acquittal/retirement of imprests remaining an issue.** The rating in 2008 for dimension (ii) appears to have been too low, as evidence suggests that records are kept and reconciled, but are not acquitted in a timely manner.
PI-23: Information on resources received by service delivery units (M1)	**D**	**D**	**Performance unchanged.** No comprehensive data collection on resources to service delivery units in any major sector and in particular the largest ones of health and education has been collected and processed within the last 3 years
PI-24: In-year budget reports (M1)	**C+**	C▲	**Performance unchanged, but the trend is towards strengthening**. The OAG reports indicate concerns over the accuracy of data and thus of budget performance reports but also highlight that MoFT is making progress in enhancing accounting and reporting processes within ministries. Data issues are not highlighted in reports, but line ministries indicated to the team the inconsistencies between their reports and the FAR reports. These should be ironed out over time as AX becomes embedded in line ministries.
PI-25: Annual financial statements (M1)	**D+**	**B**	**Performance improved**: Consolidated government statements are prepared annually and on time. They are still qualified by OAG but improvements are recognized.

3.6.1. PI-22: Timeliness and regularity of accounts reconciliation

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants – this is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability.

(i) Regularity of bank reconciliations

Bank reconciliations are under taken and controlled by the Financial Management Services Section (FMSS) of Treasury Division in MoFT. Reconciliations in some cases are done daily whilst others are done on a monthly basis, according to the frequency of transactions.

FMSS centrally manages and reconciles 52 bank accounts: 23 SIG funds accounts (13 with CBSI and 10 with commercial banks) and 29 donor funds accounts (19 with CBSI and 10 with commercial banks. 39 bank accounts are reconciled monthly, 9 are reconciled daily and 4 annually. The 4 annually reconciled accounts hold running balances but no operating transactions.

The following is the position as at June 30, 2012.

Account Name	Bank	Currency	Reconciliation	Last Reconciled
Solomon Islands Airport Service Charge	ANZ	SBD	Monthly	March 4, 2012
SIG Creditors	ANZ	SBD	Daily	June 6, 2012
SI Integrated Framework for Trade	ANZ	SBD	Monthly	June 2, 2012
ADB Budget Support	ANZ	SBD	Monthly	December 31, 2012
AUSAID Budget Support	ANZ	SBD	Monthly	December 31, 2012
Mekem Strong Solomon Islands Fisheries	ANZ	SBD	Monthly	May 2, 2012
ANZ - National Transport Fund	ANZ	SBD	Daily	June 4, 2012
NZ Aid Budget Support	ANZ	SBD	Daily	June 3, 2012
Payroll Bank Account	ANZ	SBD	Daily	April 8, 2012
CBSI AUSAID Budget Support	CBSI	SBD	Monthly	December 31, 2012
Australia Customs Budget Support	CBSI	SBD	Annual	Annual
CBSI - Call Account	CBSI	SBD	Annual	Annual
CBSI - Goldridge Transfers	CBSI	SBD	Monthly	March 5, 2012
SI IFFTR Technical Assistance	CBSI	SBD	Monthly	December 31, 2012
Mekem Strong Solomon Islands Fisheries	CBSI	SBD	Monthly	December 31, 2012
CBSI - National Transport Fund	CBSI	SBD	Monthly	December 31, 2012
NZAID Budget Support	CBSI	SBD	Monthly	April 9, 2012
Rural Development Special A/C	CBSI	SBD	Monthly	June 2, 2012
Disaster Relief Special Fund	CBSI	SBD	Monthly	June 2, 2012
Renewable Energy Development Trust Fund	CBSI	SBD	Monthly	June 2, 2012
Education Recovery & Rehabilitation SF	CBSI	SBD	Monthly	June 30, 2012
EU SI Economic Recovery	CBSI	SBD	Monthly	June 2, 2012
EU Structural Adjustment Account	CBSI	SBD	Annual	Annual
Provincial Revenue Holding Account - GIZ	BSP	SBD	Daily	March 10, 2012
HSSP Development Swap – AUD	BSP	AUD	Daily	March 10, 2012
CBSI - Interest Due	CBSI	SBD	Monthly	June 30, 2012
CBSI - Interest Suspense - SIG Loans	CBSI	SBD	Monthly	June 30, 2012
SIG - Inland Revenue Account	BSP	SBD	Daily	May 7, 2012
MFMR Observer Account	BSP	SBD	Monthly	March 8, 2012
MOHMS Dev. Partners	BSP	SBD	Monthly	December 31, 2012
Development Partners Term Deposit	BSP	AUD	Annual	Annual
CBSI - SIG Noro Fuel Depot	CBSI	SBD	Monthly	December 31, 2012
New Treasury Building Bank Account	CBSI	SBD	Monthly	June 2, 2012
ProvGovt SP UNCDDF Deposit	CBSI	SBD	Monthly	May 4, 2012
CBSI - Infrastructure Rehabilitation	CBSI	SBD	Monthly	May 6, 2012

Account Name	Bank	Currency	Reconciliation	Last Reconciled
Solomon Islands Recovery Support Prog	CBSI	SBD	Monthly	June 30, 2012
CBSI Aluta Basin Oil Palm Project	CBSI	SBD	Monthly	June 30, 2012
SIG Consolidated Deposit Account	CBSI	SBD	Monthly	June 30, 2012
CBSI - SIG Debt Servicing Account	CBSI	SBD	Monthly	May 6, 2012
SIG Funded Development Project Account	CBSI	SBD	Monthly	June 6, 2012
CBSI - SIG Monetary Operation	CBSI	SBD	Monthly	May 6, 2012
CBSI - SIG Revenue Account	CBSI	SBD	Daily	May 5, 2012
STL Compensation Special Fund	ANZ	SBD	Monthly	December 31, 2012
Sub Treasury Bank A/c Auki	BSP	SBD	Daily	May 7, 2012
Sub Treasury Bank A/c Gizo	BSP	SBD	Daily	December 31, 2012
Health SWAP Account	CBSI	SBD	Monthly	December 31, 2012
CBSI: SIG Temporary Advances	CBSI	SBD	Monthly	May 4, 2012
Renewable Energy Development (Turkey) Fund	CBSI	SBD	Monthly	June 6, 2012
Vector Borne Disease Control Program	CBSI	SBD	Monthly	June 6, 2012

In general reconciliations are up to date and reconciled within the last two months. There are some exceptions because *"…transactional data issues continue to prevent closing of final period reconciliation"* (FMSS).

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Advance accounts are covered by 2 types of imprest accounts (i) standing imprest, and (ii) special imprest. Issues continue with special and standing imprest reconciliation due largely to the non-acquittal of these accounts by the due dates. FMSS has been able to produce reconciled accounts with up-to-date transactions, but clearance is of major concern with some advances stretching back a number of years.

Suspense accounts are being cleared regularly as part of the bank reconciliation process. With the implementation of the new FMIS (AX) suspense transactions are being reduced because of the daily ledger postings.

PI (M2)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-22	D+	C+	**Performance unchanged, with acquittal/retirement of imprests remaining an issue.** The rating in 2008 for dimension (ii) appears to have been too low, as evidence suggests that records are kept and reconciled, but are not acquitted in a timely manner.
(i)	B	B	**Performance unchanged.** Bank reconciliation for all Treasury managed bank accounts takes place at least monthly, usually within 4 weeks from end of month.
(ii)	D	C	**Performance unchanged.** Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have un-cleared balances brought forward.

3.6.2. PI-23: Availability of information on resources received by service delivery units

Problems can arise in front-line service delivery units in obtaining resources that were intended for their use. The indicator covers primary education and health care service delivery units that are under the responsibility of SIG.

Internal Audit, in MoFT or in MEHRD and MHMS is unable to provide assurance on internal controls that would ensure funds are spent on the intended purpose. This means that funds are highly fungible, can be diverted or spent in an uneconomic and ineffective manner which has the effect of reducing the effectiveness of service delivery units.

In the health sector development partners are supporting a Sector Wide Approach (SWAp). It operates with safeguards, such as the separation of bank accounts so that funds are identifiable and manageable. The SWAp funding agreements cover some recurrent costs of service delivery with a focus on capacity building and strengthening national health systems.

In the education sector, development partners have earmarked their funds for specific activities, such as school grants and school equipment. As with the health sector, donor funding activities include a SWAp arrangement. The Ministry of Education meets regularly every year with development partners and other stakeholders (other Ministries, Education authorities in the provinces, NGOs, teachers, students and community members) in a sector wide dialogue on policy issues, strategies and funding.

RAMSI operates Accountable Cash Grants with separate bank accounts and a requirement for "No Objection Letters" (NOL) for proposed expenditure.

However, Internal Audit Reports in 2009-2011 with regard to the education sector highlight PFM deficiencies that potentially pose the risk that basic service delivery units do not receive the resources that they are supposed to receive according to approved budgets and funding arrangements with development partners. The deficiencies indicate non-compliance with Financial Instructions, supporting the findings of the OAG in its annual reports (as indicated under PI-20).

- No assets registers – assets purchased cannot be located
- Missing payment vouchers
- School grants (from AusAID funds under the SWAp agreement) – confusion of school bank account number resulted in some schools being overpaid
- Collusion with stationery and book suppliers
- Certification that goods were delivered when they were not delivered
- Donor funds not properly recorded
- Lack of compliance with School Grants Manual, and some grant funds used for unauthorized purposes, e.g. teacher housing or to fund Education Authority operating expenditures
- Purchases over SBD 100,000 not submitted to tender
- Lack of control over issue and retirement of imprests
- Missing authority forms to authorise teachers' salaries
- Teacher absenteeism, inadequate systems to monitor and enforce teacher attendance
- School bank accounts – lack of bank reconciliation and authority for payments
- Missing cash books, and school fees deposited irregularly into MoFT bank accounts

These deficiencies mainly apply to SIG's PFM systems, rather than the systems used by donors, including through the SWAps. The effectiveness of the aid provided by donors in the education and health sectors is likely to be significantly diminished by deficiencies in SIG systems. The MEHRD has assured stakeholders that the items mentioned above have been addressed to ensure long term controls are in place. Reports that can be reviewed by management, the legislature or the public that indicate the actual financial and physical resources received by primary education and health service delivery units relative to plans have not yet been prepared.

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-23 (i)	D	D	**Performance unchanged.** No comprehensive data collection on resources to service delivery units in any major sector and in particular the largest ones of health and education has been undertaken and processed within the last 3 years

3.6.3. PI-24: Quality and timeliness of in year budget reports

The ability to "bring in" the budget requires timely and regular information on actual budget performance to be available both to MoFT and Cabinet, in order to monitor performance and if necessary to identify new actions to get the budget back on track, and to line ministries for managing the affairs for which they are accountable.

(i) Scope of reports in terms of coverage and compatibility with budget estimates

MoFT has been providing a Funds Available Report (FAR) once a month, or on request, to all ministries for operations since 2009, most recently through AX. Standard and customized reports produced in the future by the AX system will show the budgeted, committed and actual expenditures for all cost centres, programmes and activities. MoFT has also been providing General Ledger (GL) Transaction Reports for ministries every month since January 2012. The line ministries have been finding it hard, however, to reconcile this report with their commitment records because the reports do not have the field for LPO and PV references. The ministries use these references to track or identify their payments.MoFT also produces monthly media releases showing budget versus actual, highlighting main areas of significant revenue and expenditure performance:the latest report was for 2012.

Line ministries also prepare budget performance reports, known as Vote Control Reports.The ministries track their budgets by keeping commitment records either on manual commitment cards, or through use of Excel or Access. The reports do not exactly match the FARs prepared by MoFT as field sizes and definitions tend to be different, particularly since the beginning of 2012. For example, starting in 2012, expenditure commitment contract instalments are reserved for a whole year in AX and therefore viring out is not possible. Line ministries on the other hand record commitments on a monthly or quarterly basis and they can therefore vire out of budget lines with unappropriated and uncommitted balances. Likewise, in relation to rental agreements (as noted by MID), AX registers these as a commitment for the whole year and line ministries cannot therefore vire out of the relevant budget line in future quarters. But line ministries register four quarterly commitments and can therefore vire out for future quarters. The Ministry of Agriculture also indicated these inconsistencies.

A request has been submitted by FMSS to the ICT Support Unit to investigate this issue.

(ii) Timeliness of the issue of the reports

User reports can be generated at any time. Reports are available after the end of the month and issued on request immediately to all Ministries. Under AX, ledger postings are conducted daily, thus facilitating more regular updating of financial information.

(iii) Quality of information

Miscoding and minimal supporting documents as well as system errors raise concerns about the accuracy of information provided. Efforts are being taken to reduce these issues and ensure data issues are highlighted in the reports and do not compromise overall quality and consistency.

The comments of the Auditor General in his 2010 Annual Report state: *"Internal controls within the expenditure and revenue processes still do not provide sufficient assurance as to the veracity of recording of transactions for both the line Ministries and the Ministry of Finance and Treasury"… "It is encouraging to note, however, that MOFT continues to enhance and improve the financial accounting and reporting processes within the ministries".*

Nevertheless, errors detected in in-year monthly reports may, if corrected and reconciled, enhance the reliability of year-end reports.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-24	C+	C+▲	**Performance is unchanged, but MoFT is endeavouring to provide financial management data to line ministries and other users on an improved quality and timely basis.** The reports of the Auditor General raise concerns about the quality of data, but he is encouraged by enhancements to the financial accounting and reporting systems in MoFT. The new AX system is supporting these. The frequency of in-year budget reports may highlight discrepancies in quality early which should result in a better quality year-end product.
(i)	B	A	**Performance improved.** Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. The introduction of Funds Available Reports (FAR) and General Ledger Transaction Reports in 2009 was a big improvement on 2008 as line ministries were enabled to plan their financial management more effectively.
(ii)	A	A	**Performance unchanged.** Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period
(iii)	C	C▲	**Performance unchanged, but the trend is towards strengthening.** The OAG reports indicate concerns over the accuracy of data and thus of budget performance reports but also highlight that MoFT is making progress in enhancing accounting and reporting processes within ministries. Thus improvements are being made but are not effective as yet. Data issues are not highlighted in reports, but line ministries indicated to the team the inconsistencies between their reports and the FAR reports. These should be ironed out over time as AX becomes embedded in line ministries.

3.6.4. PI-25: Quality and timeliness of annual financial statements

(i) Completeness of the financial statements

Annual financial statements include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities. The main difference between the 2008 and 2012 assessments is generally the comments of the OAG who has noted an improvement in internal controls, but still provides a qualified audit. The introduction of AX at the beginning of 2012 is helping to speed up the generation of annual financial statements, as also acknowledged by the OAG.

As in other areas of government, the MoFT accounting function is affected by capacity constraints. Accountants who are successfully trained tend to be poached by other organizations. No accounting manual is in place to help new recruits. A shortage of managers leads to staff tending to be promoted to managerial positions before they are ready and without any management training, the availability of which is limited,

(ii) Timeliness of the submission of the annual financial statements (AFS)

The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year. In practice the deadline is 6-months, which as confirmed by OAG was achieved for 2009 and 2010, but was only missed by days for 2011. The reports covered by the 2008 PEFA were on average 15-months overdue.

(iii) Accounting standards used

IPSAS or corresponding national standards have been applied since 2009. The 2009 and 2010 Statements attempted to include SOE financial statements, but this was not done in the 2011 Statements. No standards were applied before 2008.

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-25	D+	B	**Performance improved**: Consolidated government statements are prepared annually and on time, but they are still qualified by OAG, though improvements are recognized.
(i)	C	B	**Performance improved.** Annual financial statements include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities. The main difference between the 2008 and 2012 assessments is generally the comments of the OAG who has noted an improvement in internal controls, but still provides a qualified audit.
(ii)	D	B	**Performance improved.** The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year. In practice the deadline is 6-months, which as confirmed by OAG was achieved for 2009 and 2010, but was only missed by days for 2011. The reports covered by the 2008 PEFA were on average 15-months overdue.
(iii)	D	B	**Performance improved.** IPSAS or corresponding national standards have been applied since 2009. The 2009 and 2010 Statements attempted to include SOE financial statements, but this was not done in the 2011 Statements. No standards were applied before 2008.

3.7. External oversight and legislative scrutiny

This set of indicators looks at the quality and timeliness of external scrutiny of the government's budget estimates as well as the public accounts.

Summary of assessment

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-26: External audit (M1)	C+	D+	*Performance diminished.* The scope and nature of audits has improved, but performance is let down by the submission of the audited National Accounts of SIG to the legislature more than 12-months after year-end and to the insufficient follow-up by the management of audited entities to the recommendations of OAG.
PI-27: Legislative scrutiny of budget (M1)	D+	D+	*No change in performance overall***,** *but the scope of parliamentary scrutiny and adherence to procedures has improved.*
PI-28: Legislative scrutiny of audit reports (M1)	C+	D	*Performance has diminished as the PAC has not been functional.*

3.7.1. PI-26: The scope, nature and follow up of external audit

A high quality external audit is an essential requirement for creating transparency in the use of public funds.

(i) Scope and nature of audit

The Constitution was adopted in 1978 and is the supreme law of Solomon Islands. Chapter 10, clause 108 states: *"There shall be an Auditor-General whose office shall be a public office and The Auditor-General shall be appointed by the Governor-General, acting in accordance with the advice of the Public Service Commission".*

OAG has continued to build upon its re-establishment as a fully functioning Supreme Audit Institution [SAI] adhering to the standards and functionality expected of it by the International Organisation of SAIs [INTOSAI].

Assurance and financial statement audits for 2009 and 2010 were conducted on 100percent of SIG National Accounts – both on the centralised accounts prepared by MoFT, as well as within each of the 26 Ministries, 9 Provincial Governments, 1 City Council, 8 State Owned Enterprises [SOEs] and 5 Statutory Authorities. In addition, OAG audits 12 donor-funded projects.

The financial statements for 2011 were only just being received at the time of the PEFA Review except for 4 SOEs, for which 2 audit opinions had been issued; and 3 SAs for which 1 audit opinion had been issued.

For the 2011 SIG National Accounts, the auditing methodology will be changed to one of selecting material and high risk Ministries for annual assurance audit, with the balance of Ministries being selected on a 3-4 yearly rotation. This revised strategy will still result in coverage of at least 75% of revenue and expenditure.

SIG still does not produce statements of Assets & Liabilities, but does provide statements on National Debt which require audit scrutiny.

OAG is now also conducting performance audits having established a new Performance Branch. For the financial periods 2009 to 2011, OAG has completed 2 reports; is finalising a further 2 audits; and currently undertaking 1 major audit.

Each year MoFT provides the budget to OAG for information.

A Payroll audit is completed each year – integrity is checked by "2 way audit" (PI-18). OAG carries out testing in all ministries including education, health, police and provinces.

A "Provincial audit field plan" is produced every year.

OAG does not conduct system audits, due to lack of capacity, but prepares two Performance Audit reports a year, a full range of financial audits, and compliance audits

(ii) Timeliness of submission of audit reports to legislature

"The Auditor-General shall submit his reports to the Speaker who shall cause them to be laid before Parliament; and he shall also send a copy of each report to the Minister of Finance and the Minister concerned'– Constitution.

The audit opinion on the 2009 SIG National Accounts was finalized and transmitted more than 12 months [by 5 days] from receipt of the financial statements. The audit opinion on the 2010 SIG National Accounts is currently being finalized and will be transmitted more than 12 months from receipt of the financial statements.

The audit of the 2011 SIG National Accounts is being planned for completion within 8 months of receipt of the financial statements, utilizing an alternative audit methodology as described above in section 26(i).

Audit opinions on Provincial Governments are completed within 4 months of the receipt of signed financial statements. Audit opinions on SOEs, Statutory Authorities and Projects are all completed and transmitted within 4 months of receipt of the signed financial statements.

Timeliness of Submission of summary Financial Statements

Budget Year	Consolidated (Summary) Financial Statements Received by OAG	Audit Report Submitted to Parliament
2009	7/1/2012	25/7/2011
2010	7/6/2011	
2011	30/6/2012	

(iii)Evidence of follow up on audit recommendations

Although more often than not OAG receives positive management responses to recommendations; and although improvements in record-keeping and cash management are being noted; it is a fact that effective monitoring by Auditee managements to ensure that OAG recommendations are implemented is limited. This is evidenced by the repetition of the same audit observations and recommendations for each of the years under review.

OAG makes reference to previous recommendations in subsequent audit reports, but monitoring arrangements of management responses to audit recommendations initially established through the Parliamentary Public Accounts Committee [PAC] have ceased operating since the decline in PAC meetings to review audit reports. No such meetings have been held since the end of 2009.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-26	C+	D+	**Performance diminished.** Whilst the scope and nature of audits has improved the performance is let down by the submission of the audited National Accounts of SIG to the legislature more than 12-months after year-end and to the insufficient follow-up by the management of audited entities to the recommendations of OAG. The repetitive nature of audit observations and recommendations clearly indicate that management is lagging in terms of implementing remedies and solutions.
(i)	B	B	**Performance unchanged.** Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits is performed and generally adheres to auditing standards, focusing on significant and systemic issues.
(ii)	C	D	**Performance diminished.** Audit reports are submitted to legislature more than 12 months from the end of period covered (for audit of financial statements from their receipt by the auditors).
(iii)	B	C	**Performance diminished.** A formal response is made by the management of audited entities, though delayed or not very thorough, but there is little evidence of any implementation of OAG recommendations.

3.7.2. PI-27: Legislative scrutiny of the annual budget law

The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the budget law.

(i) Scope of the Legislature's Scrutiny

The legislature is only involved in the review of revenue and expenditure estimates at the end of the budgeting process. In order to carry out this function, the Public Accounts Committee (PAC) under Standing Order 69 (2) is required to examine and report to Parliament on the draft estimates supporting the annual appropriation bill and supplementary appropriations bill(s).

In 2011 fiscal policies and strategies relating to the 2012 appropriation bill were discussed by the PAC. Assumptions made in the budget documents were scrutinized by the committee in detail. The PAC undertook a midterm review into the implementation of Appropriation Acts for the first time in relation to the 2011 Appropriations Act.

Retention of members is an issue as continuous turnover requires on-going training and provision of advice to new members. Proper scrutiny of the budget is then not properly conducted.PAC members and supporting staff have been on a number of external training courses to learn about PAC processes in other jurisdictions. A twinning program has been established with the New South Wales Parliament in Australia.

The PAC has recommended the establishment of a Parliamentary Budget Office to assist in analysing budget papers.

(ii) Extent to which the legislature's procedures are well-established and respected

Standing Orders which empower the PAC to scrutinise the budget and other supporting documents have been in place since the 1980s. The processes as laid down in standing orders were well respected and followed by the legislature in the years under review. Issues of concern were negotiated between the Chairman of PAC and the Speaker or the Prime Minister.

A Parliamentary Strengthening Project financed by UNDP has been strengthening the capacity of Parliament during the period since the last PEFA assessment was carried out.

(iii) Adequacy of time for the legislature to provide a response to budget proposals

The timing of the submission of budget papers to the PAC is still a problem. There is no provision in Standing Orders that requires the executive to submit the Appropriations Bill under a particular timeframe.

The PAC reports for 2009-2011 have recommended that the annual budget should be submitted to the committee at least one month in advance but this recommendation has not been followed. In most cases the timeframe given to the PAC to review the budget has been one week at the most, when Parliament was already in session. Adequate time was not available to Parliamentarians to debate the PAC report on the annual or supplementary appropriation bill(s). Debates tend to be lively and involve the majority of MPs. In the future, MoFT aims to provide draft budgets to Parliament three weeks in advance of its sitting.

(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

A number of contingency warrants (CW) and advance warrants were approved in the years under assessment. The PAC in its reports for 2009 to 2011 claimed that some of these CWs were not for the purposes as provided for in the Constitution and the PFAA. These warrants usually cover unforeseen and urgent expenditures that were not budgeted for at the beginning of the financial year. Funds for such warrants were provided for in the 2011 and 2012 budgets. Regardless of how the funds were provided, the issue is whether the expenditures financed by the warrants were urgent and unforeseen. The PAC reports on Supplementary Appropriations Bills indicate concerns about inadequate justification for the use of these warrants. MoFT has recently put in place measures to control the issuing of CWs.

Ongoing and planned activities

.A new Standing Order is expected to be tabled in Parliament during the next sitting. Parliament created a new committee known as the Public Expenditure Committee (PEC) earlier in 2012. The PEC will be responsible for budget scrutiny while PAC will deal with audited financial statements. The Parliamentary Committees Secretariat informed the assessment team that the PEC is yet to be given terms of reference and members have yet to be appointed.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-27	D+	D+	**No change in performance overall, but the scope of parliamentary**

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
			scrutiny and adherence to procedures has improved.
(i)	C	B	**Performance has improved.** Starting in 2011, PAC is fully analysing budget submissions including budget strategies and fiscal policies.
(ii)	B	A	**Performance has improved.** Clearer rules and processes are in place as a result of the Parliamentary Strengthening Project that has helped to strengthen the capacity of PAC. Further improvement is expected as a result of the recently created PEC.
(iii)	D	D	**No change in performance.** The amount of time allowed for Parliament to review the budget remains limited.
(iv)	C	C	**No change in performance.** Rules for use of contingency warrants exist, but they continue to be used under circumstances that are not necessarily urgent and unforeseeable.

3.7.3. PI-28: Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved.

(i) Timeliness of examination of audit reports by the legislature

All audit reports tabled by the Office of the Auditor General since 2008 have yet to be scrutinized by the Public Accounts Committee.

The continuous change in the chairmanship and high turnover of membership of the committee affected the ability of the committee to examine the audit reports. Political interests or interests and conflict of interest also prevented the PAC from undertaking the hearings.

Table 12: Status of PAC review of OAG reports

Financial year	Date Auditor –General report tabled	Date of PAC Consideration
2008	Annual report 2007 – Sep 2008[24] Status of Audits as at 30th June 2008 – August 2008 Insight into corruption – October 2007 Status of Audits as at 30th June 2007 – August 2007	
2009	Status of Audits of Solomon Islands Government Entities as at 30 June 2009 – 14/12/2009	
2010	No reports were tabled	
2011	Special Audit Report into the National Cattle Rehabilitation Project for the Ministry of Agriculture and Livestock Development - 23/11/2011 Performance Audit Report – Teacher Absenteeism in Solomon Islands Primary Schools - 13/4/2011	

[24]The annual OAG reports include the audit of the annual financial statements.

	Performance Audit Report - Management of the Government Motor Vehicle Fleet - 30/3/2011 Special Audit Report -Tsunami and Earthquake Relief Fund - 28/3/2011	

(ii) Extent of hearings on key findings undertaken by the legislature

The PAC has not held any hearing on the audit reports tabled by the Audit General since 2008.

(iii) Issuance of recommended actions by the legislature and implementation by the executive

No recommendations were issued

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
PI-28	C+	D	**Performance has diminished as the PAC has not been functional in its scrutiny of OAG reports.**
(i)	C	D	No examination of the audits took place since the last assessment. PAC is no longer active in reviewing audit reports.
(ii)	B	D	Hearings on key findings are yet to take place
(iii)	B	D	No recommendations were issued, because no audit reports have been reviewed.

3.8. Donor practices

This section assesses donor practices, which impact upon the performance of a country PFM system. These practices are the exclusive responsibility of the donors and are primarily outside the authority of the Government of Solomon Islands.

Summary of assessment

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
D-1: Budget support	N/A	D	*EU agreed to provide GBS in 2010 and 2011 but the estimates were not included in the 2010 Budget and the wrong amount was included in the 2011.budget. The 2010 disbursement took place and the 2011 disbursement was delayed to 2012.*
D-2: Financial information provided by donors (M1)	D+ (i) C (ii) D	C+ (i) B (ii) C	*Performance is improving.* The DAD system has been implemented since 2010. Donors provided quarterly reports.
D-3: Use of country systems	D	D	*No change in performance.*

3.8.1. D-1: Predictability of Direct Budget Support

(i) Deviation of actual budget support from the forecasts and (ii) In-year timeliness of donor disbursements

Total aid received by Solomon Islands from its development partners is composed of general budget support and non-budget support components that are appropriated through the SIG budget plus the donor-funding of a large number of development projects (around SBD 1.0 billion each year), which are implemented outside the SIG budgetary mechanism.

Only that part of donor assistance which is channeled through the SIG financial system is treated as appropriated funds in the SIG budget and recorded in the SIG accounting system. Donor funding under this arrangement accounts for, on the average, a quarter of the aggregate funds disbursed by the major development partners. The funds provided by the following donors are not general budget support or sector budget support using the OECD DAC definition. RoC support is appropriated through the Development Budget for specific projects. NZAID, AusAid, and ADB assistance are appropriated through the recurrent budget. These funds are earmarked for specific projects and specific purposes within the education, health, and rural development sectors; such earmarking therefore disqualifies the funds from being categorized as sector budget support. AusAID through RAMSI also provides Accountable Cash Grants (ACG). Separate bank accounts are maintained in the CBSI and commercial banks to hold these funds. The whole SIG financial system is used to manage these funds. AusAId and NZAId assistance to the health and education sectors are disbursed on a quarterly basis into the relevant project accounts in the CBSI and the ANZ bank.

The European Union (EU) is the only donor currently providing general budget support (GBS) as per the OECD DAC definition. The support is not earmarked but contains sector policy related conditionalities. The EU provided two GBS programs in 2010 and 2011, following SIGqualification for these in the third quarter of 2009 (criteria for qualification included demonstration of a macro-fiscal framework that supported macroeconomic stability and demonstration that it was implementing a PFM reform program).

Due to uncertainty and lack of understanding at the time by SIG, the first budget support program known as Solomon Islands Economic Recovery Assistance (SIERA) Programme was not included in the 2010 budget. The financing agreement provided for one fixed tranche disbursement of 15 million Euros in the third quarter of 2010. The SBD equivalent (SBD 157 million) was disbursed and received by MoFT in December 2010.

The second budget support program known as Solomon Islands Climate Change Assistance Programme (SICAP) is for 2.8 million Euros. The financing agreement provided for two tranche disbursements of 1.3 million Euros in third quarter of 2011 and 1.5 million Euros in third quarter of 2012. The whole amount was budgeted for in the 2011 SIG budget instead of reflecting the two tranches in two separate years. The request for disbursement of the first tranche was submitted in the last quarter of 2011 and the funding was received by MoFT in 2012.

A World Bank budget support grant was approved and disbursed in Q2 2012 and is reflected in the 2012 Supplementary Budget.

On-going and planned activities

MDPAC is continuing to link up with the donors and the ministries to harmonise budget preparation and reporting of donor assistance to Solomon Islands. UNPD is providing assistance to enable MDPAC and other ministries to properly monitor aid.

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
D-1	**NA**	**D**	SIG qualified for General Budget Support (GBS) and sector budget support for the first time in 2010. Only EU is currently providing GBS and no donors are providing sector budget support according to the OECD-DAC definition (the support is not earmarked for specific projects and purposes, but contains sector policy-related conditionalities). The inclusion of the agreed budgeted amount in the SIG Budget and the timing of disbursement of the tranches still need to be addressed.
(i)	NA	D	
(ii)	NA	D	

3.8.2: D-2: Financial information provided by donors for budgeting and reporting on project and programme aid

(i) Completeness and timeliness of budget estimates by donors for project support

The major development partners each year provide information on projects that they are going to fund to MDPAC during the SIG budgeting period. At least 150 projects that are implemented by them through almost all the SIG Ministries are outside the SIG budgetary mechanism. These projects account for, on the average, 65 percent of the total (SIG-funded plus donor-funded) development expenditures of the country in recent years.

This segment of donor funding (around SBD 1.0 billion each year) is not fully integrated into the country's overall planning and budgeting processes. The estimated and actual donor disbursements for these projects are not currently recorded in the SIG accounting system. At the time of budget preparation each year, all donor-funded projects are included in the SIG Approved Development Estimates as non-appropriated funds based on information provided by donors. MDPAC obtained the data from development partners during the SIG budget process (June to October) and the figures were incorporated into the SIG Development Budget for each year.

Existence of such a large number of donor-funded projects and lack of availability of updated and comprehensive data on these projects has posed challenges to enhancing country ownership and aligning these projects to the national development priorities and processes. In response, SIG has implemented the Development Assistance Database (DAD Solomon Islands) in order to record all donor-funded programs, projects and activities in a central database. The DAD Solomon Islands was formally launched on 4 March 2011 by the Honorable Deputy Prime Minister of the Solomon Islands Government. Information on donor funded projects from 2010 and onwards is included in the database. This is an ongoing process and therefore not all donor projects will be captured until the data cleansing process is completed in 2012.

Development partners have been entering and updating funding data and descriptive information on their projects into the DAD system, and these data and information are being validated and acknowledged by SIG Ministries, in which these projects are located. Donors are required to review and update data/information on their projects quarterly. MDPAC has informed the assessment team that the data for the major donors have been captured and validated since 2010.

Some donors' funds such as ROC (Development Projects), NZAID (Education) and AusAID (Health) are channeled through the SIG financial system and therefore follow the SIG budget process and reporting requirements.

As part of the budgetary reforms program, the SIG has adopted strategies for aligning donor-funded projects to the overall framework of relevant Ministries, and recording these projects in the national accounting system.

Table 10 shows planned and actual disbursements shown in budget documentation and as provided by MDPAC, particularly in terms of actual disbursements.

Table 10: Planned and actual disbursements shown in budget documentation (SBD millions)

Donor	2009			2010			2011		
	Budget	Actual	% Deviation	Budget	Actual	% Deviation	Budget	Actual	% Deviation
ADB	54	73	34	276	41	-85	88	102	17
Aus	176	152	-14	223	151	-33	377	358	-5
EU	162	40	-75	551	242	-56	64	34	-46
Japan	150	46	-69	222	129	-42	161	166	3
NZ	124	128	3	205	123	-40	187	124	-34
RAMSI	492	270	-45	219	53	-76	468	469	0
ROC	120	69	-42	182	119	-34	67	67	0
UN	43	34	-21	39	27	-31	84	49	-42
WB	26	9	-64	39	17	-56	52	45	-9
Total	**1,347**	**822**	**-39**	**1,957**	**903**	**-54**	**1,547**	**1,414**	**-9**

Source: MDPAC, Development Budget 2009, 2010, 2011.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

Development partners have been entering and updating funding data and descriptive information on their projects into the DAD system, and these data and information are being validated and acknowledged by SIG Ministries, in which these projects are located. Donors are required to review and update data/information on their projects quarterly. Information provided by donors is also reflected on an annual basis in the Development Budget. MDPAC has shown the assessment team copies of letters of reminders to those donors who fail to provide the required data in a timely manner.

NZAID (Education), AusAID (Health & Accountable Cash Grants), ADB (Education, Health & MID) and RoC use SIG systems for reporting. The reporting is on a monthly basis.

On-going and planned activities

Quarterly meetings are held between donors and SIG to align donor funding to SIG policies and priorities. The DAD system is used to keep track of donor funding. UNDP has provided assistance to MDPAC to improve donor coordination. MDPAC has established a Development Focal Persons network of all Ministries of the Solomon Islands Government to coordinate development projects. The BERT system, a budget database currently being used by MoFT to prepare the recurrent budget, will be used soon to compile the Development Budget.

PI (M1)	Score 2008 PEFA	Score 2012 PEFA	Assessment
D-2	D+	**C+**	**Performance is improving through the installation of the DAD system.**
(i)	C	B	DAD system has been installed and is tracking key donors.
(ii)	D	C	Since the introduction of the DAD system the major donors have been providing information to the MDPAC on a quarterly basis. Work is progressing to fine tune this reporting requirement.

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

The dimension to be assessed is the overall proportion of aid funds to the national government that are managed through national procedures (banking, authorization, procurement, accounting, audit, disbursement and reporting).

Total aid received by Solomon Islands from its development partners is composed of the budget support component plus the donor-funding of a large number of development projects, which are implemented by the donors through almost all SIG Ministries.

A quarter of the total funds disbursed by the country's major development partners goes through part or all of the national systems/procedures and government's administrative mechanisms. A major portion of the donor funded projects (at least 150 projects worth around SBD 1.0 billion each year) does not use the national systems.

Table 11 indicates amounts of donor funds that used some of the national systems in 2010.

USE OF PFM SYSTEMS (USD millions)					
Donor	**National budget execution**	**National financial reporting**	**National auditing**	**All three PFM**	**National procurement**
ADB	5.0	5.0	12.8	5.0	7.8
Aust	19.7	17.2	19.7	4.9	12.6
EU	19.9	19.9	19.9	19.9	19.9
NZ	4.9	5.2	5.6	4.9	14.7
RAMSI	0.0	0.0	0.0	0.0	0.1
ROC	10.0	10.0	10.0	10.0	10.0
UN	6.7	5.6	1.0	0.8	0.7
WB	0.0	0.0	1.2	0.0	2.1
TOTAL	**66.2**	**63.0**	**70.2**	**45.5**	**67.9**

Source: MDPAC, MoFT

PI	Score 2008 PEFA	Score 2012 PEFA	Assessment
D3 (i)	**D**	**D**	No change from 2008. The SIG still has capacity issues in terms of properly managing large amounts of donor funds. Donors are still reluctant to use SIG PFM systems.

4. Government reform process

4.1 Recent and on-going reforms

In March 2009 the Solomon Islands Government established the Core Economic Working Group (CEWG) to improve coordination and dialogue between SIG and its development partners to meet the economic and fiscal challenges facing the country. SIG reform priorities were focused on three areas: (i) strengthening public financial management; (ii) promoting priority structural reforms; and (iii) giving priority to the needs of the most vulnerable members of the community. In terms of (i) the Economic and Financial Reform Program (EFRP) was developed, with 49 reform targets articulated in the EFRP matrix for 2009/2010. The EFRP is based around three themes: (i) strengthening SIG's budget preparation and planning systems; (ii) improving the quality of budget execution and reporting; and (iii) improving the environment for private sector investment. The development partners subsequently provided support to assist SIG to achieve the objectives of the matrix[25] The number of reform targets has subsequently risen to 77.

Progress has been made in the following areas:

- The achievement of fiscal stability and a stronger external position that met the IMF programme's quantitative and structural benchmarks;
- The adoption of the National Development Strategy which provides the framework for Solomon Islands longer term development;
- SIG's revenue base has been strengthened through more effective Inland Revenue Division (IRD) administration, a new focus on integrity in collecting import and export duties at Customs, and the design of a new natural resource framework. The Customs Act is in the process of being modernized with the drafting of a new Customs and Excise Act which should go before Parliament late in 2012 or early 2013. Customs is also implementing ASYCUDA, a customs database to replace PC Trade in order to harmonize trade with other countries especially the MSG countries. Customs and IRD drafted a combined Exemption Act to move the powers of exemptions from the Minister to a committee;
- Improving the budget preparation process by deeper engagement with line ministries and consultations with civil society organizations and provincial governments. Consultation takes place between MoFT, MDPAC, MPS and line ministries on annual budget submissions. The recurrent budget is compiled using BERT budget system while the MDPAC is in the process of using BERT to compile the next development budget;
- Ongoing improvements in budget transparency through greater use of press releases and MoFT's website to share information on government finances;
- Greater control over government expenditure through improved cash management, and ongoing development of public financial management systems including payroll, commitment tracking, financial reporting, and internal audit. There was substantial upgrading of the financial management system since 2009 with the replacement of the Maximise and Telepay. The payroll is now run on Aurion while the financial system uses AX;

[25] Report of the Economic & Financial Reform Program Third Annual Joint Review

- Improved management and oversight of SOEs through improvement in their financial reporting and development of a Community Service Obligation policy. The resolution of the solvency and debt issues surrounding key state owned utilities took place during 2011.
- A Debt Management Strategy came into effect in May 2012. This will enable SIG to manage its debt and be able to have access to concessional financing in the future;
- The new Financial Instructions came into effect in 2010. The Public Finance and Audit Act is currently being reviewed;
- The Procurement Section has been strengthened with an increase in its establishment size. A plan is in place to merge the Central Tender Board with the Procurement Section of Treasury;
- There are improvements in the private sector investment climate as evidenced in the 2012 World Bank *Doing Business* report.

RAMSI has provided support to the Office of the Auditor General (OAG) with technical assistance and the funding of a graduate scheme. This has enabled the OAG to undertake performance and financial audits. Proposed legislation to enhance the independence of the OAG was drafted in 2008. SIG is still reviewing the legislation.

With the support of technical assistance, the internal audit function has improved through adopting auditing processes based on international standards with focus on risk areas and risk ministries.

The Solomon Islands Parliamentary Strengthening Project focused on strengthening the Parliamentary Secretariat in its capacity to serve MPs especially the needs of committees. The Public Accounts Committee's processes and capacity have been enhanced through this project.

Donors have been providing support to health, education, law and justice, provincial government and infrastructure sectors in capacity development to improve their financial management capabilities.

4.2. Institutional factors supporting reform planning and implementation

Government leadership and ownership

The continuing success of the CEWG and PFM reforms reflects the strong leadership of the Minister of Finance and the Permanent Secretary of Finance with the strong on-going support of the other members. There is also strong support from the Prime Minister, other ministers and senior government officials. There is also strong commitment from the donors to support the reforms undertaken by the SIG. Implementers of these reforms are also committed and have ownership of these reforms.

Parliament through the Public Accounts Committee continues to provide oversight scrutiny of the annual and supplementary appropriation bills. This indicates that Members of Parliament are interested in the credibility of the budget process and the financial management system.

The undertaking of the PEFA self assessment, and the participation and the coordination role taken by the MoFT and other stakeholders during the PEFA assessment shows that there is broad support for public financial management reforms within the Solomon Islands Government.

Coordination across governments

The Core Economic Working Group will continue to play a leading role in the PFM reforms. The CEWG continues to be a success model for joint government donor dialogue for the advancement of key economic and financial policy reforms and public financial management reforms.

Challenges

The following issues can affect the phase of PFM reforms within the context of an EFRP matrix with a large number of reform areas (77).

- The capacity in the public sector to absorb reforms is still a problem especially when retention of experienced and qualified officers is an issue in the public service. Retaining these officers can be difficult in the face of competing financially attractive options available to them. The capacity constraints need to be addressed if PFM reforms are to be successful. The capacity constraints also imply the need for careful prioritizing and logical sequencing for PFM reforms. As appears to have been acknowledged by the JRM mission, the 77 reform areas are perhaps too ambitious in light of the capacity constraints and streamlining is required. The issues of capacity constraints and PFM reform sequencing are elaborated on below.
- Political support for PFM reforms is crucial. PAC continues to undertake oversight scrutiny of budgets but audit reports have not been scrutinized due to other political considerations.
- SIG does not provide enough resources to enable some agencies to undertake PFM reforms. For example OAG and Internal Audit Section are not provided with the required resources in terms of human resources and funding to undertake their mandated roles in PFM reforms.
- Some agencies rely heavily on donor support to continue with PFM reforms. The end of the current RAMSI support in July 2013 and its expected transition to bilateral aid programmes will be a delicate aspect in order to maintain an appropriate level of advisors support. Because of the efforts of current RAMSI advisors, much has been achieved in terms of PFM reform. Success in building capacity has, however, been more limited, as acknowledged in the Mid-Term Review (April 2012) of the Financial and Economic Management Support Programme (FEMSP) under which the RAMSI advisors are operating.
- Some PFM reforms require enabling legislation (e.g. Exemptions Act is required in order to streamline the exemptions system for taxes and customs duties). Parliamentary approval is therefore required before the reforms can go ahead.

Elaboration of capacity constraint issues

On several occasions during the PEFA assessment consultation process those interviewed indicated a keen awareness of the limiting effect that capacity constraints have on furthering the PFM reform agenda. The scarcity of appropriate skills and qualifications in the labour force is one of the major capacity constraints affecting the achievable pace of change. Recruiting and retaining skilled local staff constitutes an on-going challenge (in both the public and private sectors), particularly in regard to accounting and audit skills.

Capacity constraints are also in the form of institutional and administrative constraints: success may be achieved in developing skills in individuals, but this may all come to nought if the institutional and administrative setting is such that the newly skilled individuals cannot be effective. Institutional capacity constraints may include cumbersome, tedious and slow business processes, or may reflect insufficient facilitation (e.g. computers, office furniture). PFM reform is unlikely to be effective if such slow processes are not reformed and if sufficient facilitation is not provided.

Nonetheless, incremental improvements are observable. Various government agencies now support training programs focused on skills development and the attainment of qualifications instead of focusing solely on recruiting 'ready-to-go' staff. A variety of key ministries and the OAG have also taken on a number of graduate positions. Some agencies are also considering switching to a 'flow-through' recruitment and training model. This would replace the current 'retention' model. A flow-through model would still aim to achieve sustainable capacity levels within an organisation, but recognises that attrition of highly marketable staff will occur. It therefore maintains an on-going (rather than ad hoc) program of recruitment and training. This model acknowledges the role of some agencies in actively supporting overall capacity improvements in the public service through staff movement.

Elaboration of sequencing issues

Many of those interviewed were also aware of the critical importance of having a PFM reform plan that correctly sequences reforms so that the more fundamental reforms (core capability) can support the delivery of more advanced reforms. Interviewees identified that a key risk factor for the Government is rushing the implementation of more complex reforms in advance of capacity or before completing or embedding related prior reforms. Managing this risk can be a challenge for the Government with a crowded reform timetable and different reform priorities holding greater or lesser importance to different development partners. This is reflected, as referred to above, in the very large amount of key policy actions in the current EFRP matrix (77 individual policy actions, including 14 direct triggers for budget support).

The sustainable sequencing (and rationalising) of reform initiatives will require on-going dialogue between the Government and development partners through the CEWG to ensure a realistic and achievable timetable of future reforms is agreed. The third Joint Review Mission[26] (JRM) report on the current (2011/14) EFRP has recommended the development of a comprehensive PFM reform roadmap as part of the next (2012/15) EFRP. This roadmap would identify, prioritise and sequence PFM reforms consistent with SIG capacity and capacity strengthening plans, and commitments of assistance from donors; the number of policy actions would probably be reduced from the current 77. The process of strengthening capacity – both human resource and administrative/institutional - would have to be completely integrated with the process of PFM reform, so that capacity can develop at the same pace as PFM reform. The JRM report acknowledges that embedding existing reforms should be a key part of developing any sequencing planning.

Notwithstanding the capacity and sequencing challenges to maintaining reform momentum, there was no evidence of reform fatigue from those interviewed. Overall findings indicate that the reforms implemented to-date are sustainable and have been incorporated into a 'business as usual'

[26] The Joint Review Mission performs the periodic reviews of the EFRP on behalf of the CEWG partners.

attitude, assuming civil strife on a level like that of 1999-2003 continues to be avoided. The achievements in improved public administration since 2003 (as reflected in this report) indicate few reversals and overall progress. These achievements should form the basis of a good foundation for the continued delivery of further increases in Government capability.

Annex A: Budget performance tables

MDA: 2009	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	%
72 Education & Human Resources Dev.	419674107	395489673	382537423	12952250	12952250	3.4%
76 Health and Medical Services	222457504	221683375	202772387	18910988	18910988	9.3%
83 Police and National Security	130401947	115498780	118862765	-3363985	3363985	2.8%
73 Finance and Treasury	105777676	106120188	96417479	9702709	9702709	10.1%
77 Infrastructure Development	80197597	66956857	73100965	-6144108	6144108	8.4%
84 Prov. Government &Instit. Strength.	65930974	57883073	60096786	-2213713	2213713	3.7%
70 Agriculture & Livestock Development	65725292	35983739	59909304	-23925566	23925566	39.9%
98 Rural Development	62953075	62437126	57382399	5054727	5054727	8.8%
81 Office of the PM & Cabinet	61077171	62362354	55672493	6689861	6689861	12.0%
89 Communication and Civil Aviation	37359264	38024503	34053367	3971135	3971135	11.7%
88 Commerce Industry &Employment	32220345	20238511	29369188	-9130677	9130677	31.1%
80 Forestry and Research	32161395	31413622	29315454	2098167	2098167	7.2%
74 Foreign Affairs and External Trade	30886377	33749134	28153262	5595872	5595872	19.9%
79 National Parliament	24509832	32992223	22340973	10651249	10651249	47.7%
90 Fisheries and Marine Resources	24335809	16282910	22182349	-5899440	5899440	24.2%
91 Public Service	23626017	15669925	21535366	-5865441	5865441	24.8%
93 Home Affairs	23260345	29974708	21202052	8772656	8772656	37.7%
92 Justice and Legal Affairs	22197488	13504278	20233247	-6728969	6728969	30.3%
85 Lands Housing and Survey	19819254	12749145	18065461	-5316317	5316317	26.8%
95 Mines Energy &Rural Electrification	18059639	30061152	16461554	13599599	13599599	75.3%
Heads 96, 99, 87, 94, 97,82, 86, 71, 75	100870674	62533696	91944695	-29410999	29410999	29.2%
Total expenditure, excl. contingency	1603501782	1461608971	1461608971	0	195998428	
Contingency	0	0				
Total expenditure, incl. contingency	1603501782	1461608971				
Overall (PI-1) variance						8.8%
composition (PI-2) variance						13.4%
contingency share of budget						0.0%

MDA 2010	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	%
72 Education & Human Resources Dev.	394363378	443562689	408852257	34710432	34710432	8.5%
76 Health and Medical Services	240062274	236193176	248882143	-12688967	12688967	5.1%
83 Police and National Security	135397290	127152945	140371776	-13218831	13218831	9.4%
73 Finance and Treasury	84172684	72053919	87265182	-15211263	15211263	17.4%
77 Infrastructure Development	79222029	76975328	82132640	-5157312	5157312	6.3%
84 Prov. Government &Inst.Strength.	75470144	91540076	78242911	13297165	13297165	17.0%
70 Agriculture & Livestock Development	65628703	72959205	68039896	4919309	4919309	7.2%
98 Rural Development	59604279	81660794	61794135	19866659	19866659	32.1%
81 Office of the PM& Cabinet	58669854	60098725	60825380	-726655	726655	1.2%
89 Communication and Civil Aviation	57237881	39454953	59340796	-19885843	19885843	33.5%
88 Commerce Industry & Employment	50879649	77928851	52748963	25179888	25179888	47.7%
80 Forestry and Research	44556404	32258937	46193403	-13934466	13934466	30.2%
74 Foreign Affairs and External Trade	37551978	57925929	38931635	18994294	18994294	48.8%
79 National Parliament	32223752	35086075	33407650	1678425	1678425	5.0%
90 Fisheries and Marine Resources	32221356	36068951	33405166	2663785	2663785	8.3%
91 Public Service	31731241	18249060	32897044	-14647984	14647984	46.2%
93 Home Affairs	29069826	45786440	30137849	15648591	15648591	53.8%
92 Justice and Legal Affairs	23063380	21771046	23910727	-2139681	2139681	9.3%
85 Lands Housing and Survey	21898894	19915194	22703458	-2788264	2788264	12.7%
95 Mines Energy & Rural Electrification	18608046	16450954	19291704	-2840750	2840750	15.3%
Heads 96, 99, 87, 94, 97,82, 86, 71, 75	110368154	80704538	114423071	-33718533	33718533	30.6%
Total expenditure, excl. contingency	1682001196	1743797785	1743797785	0	273917095	
Contingency	0	0				
Total expenditure, incl. contingency	1682001196	1743797785				
Overall (PI-1) variance						3.7%
composition (PI-2) variance						15.7%
contingency share of budget						0.0%

MDA: 2011	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	%
72 Education & Human Resources Dev.	474670627	523421787	500931708	22490079	22490079	4.5%
76 Health and Medical Services	243287698	291723947	256747553	34976394	34976394	13.6%
83 Police and National Security	136673379	129641026	144234813	-14593787	14593787	10.1%
73 Finance and Treasury	104578596	84155591	110364391	-26208800	26208800	23.7%
77 Infrastructure Development	92568067	79551810	97689381	-18137571	18137571	18.6%
84 Prov. Government &Inst.Strength.	85480248	88248136	90209430	-1961294	1961294	2.2%
70 Agriculture & Livestock Development	81784260	118543560	86308962	32234598	32234598	37.3%
98 Rural Development	63535812	65680284	67050921	-1370637	1370637	2.0%
81 Office of PM& Cabinet	62547353	52202838	66007776	-13804938	13804938	20.9%
89 Communication and Civil Aviation	62488018	94606418	65945158	28661260	28661260	43.5%
88 Commerce Industry & Employment	46934610	43539626	49531260	-5991635	5991635	12.1%
80 Forestry and Research	42134318	40090800	44465393	-4374593	4374593	9.8%
74 Foreign Affairs and External Trade	38306339	46418346	40425631	5992714	5992714	14.8%
79 National Parliament	37665188	43215002	39749009	3465993	3465993	8.7%
90 Fisheries and Marine Resources	34823094	29101104	36749676	-7648573	7648573	22.0%
91 Public Service	34304386	37661195	36202271	1458924	1458924	4.3%
93 Home Affairs	31337686	35952620	33071439	2881181	2881181	9.2%
92 Justice and Legal Affairs	28155595	23115661	29713299	-6597638	6597638	23.4%
85 Lands Housing and Survey	25286315	16580560	26685277	-10104717	10104717	40.0%
95 Mines Energy & Rural Electrification	23638748	23639545	24946558	-1307013	1307013	5.5%
Heads 96, 99, 87, 94, 97,82, 86, 71, 75	112773941	98953196	119013142	-20059946	20059946	17.8%
Total expenditure, excl. contingency	1862974278	1966043051	1966043051	0	264322285	
Contingency	0	0				
Total expenditure, incl. contingency	1862974278	1966043051				
Overall (PI-1) variance						5.5%
composition (PI-2) variance						13.4%
contingency share of budget						0.0%

Annex B: Documents list

Legislative and Regulatory Framework

- Solomon Islands Constitution
- Public Finance and Audit Act (1978)
- Financial Instructions (2010)
- Customs and Excise Department Corporate Plan 2012 – 2013
- Customs Valuation Act 2009
- Customs and Excise Amendment Bill 2012
- National Transport Fund Act 2009
- National Transport Fund Regulations 2010
- Consultation papers on revision of 1978 PFAA, (2012).
- SOE Act (2007) and Regulations (2010).

Planning and Budgeting

- National Development Strategy 2010 – 2020
- National Coalition for Reform and Advancement, Government Policy Paper, October 2010.
- Medium Term Fiscal Strategy 2010 – 2015
- Debt Management Strategy May 2012
- Part of a minute of a meeting discussing borrowing limits.
- 2009- 2011 Budget Strategy and Outlook papers, MoFT
- 2009-2012 Recurrent Budget and Development Budgets, MoFT
- 2009 Supplementary Budget (Nos. & 2), & 2010 Supplementary Budget, MoFT
- 2010-2012 Budget Timelines, MoFT
- 2010-2011 Budget Speeches, MoFT
- 2011 Appropriation Act
- National Transport Fund Guidelines 2011
- Presentations by MoFT, MDPAC and MPS at 2013 Budget Launch, June 2012;
- Budget preparation forms for 2012 budget and checklist for assessing new bid;
- 2013 Budget Strategy Launch Cabinet Paper, May 2012;
- Table of actual 2011 expenditure figures by MDA to be used for preparation of 2013 baseline budgets.
- MoFT Corporate Plans for 2010-12, 2011-13, and 2012-14;
- MoFT Annual Reports for 2009 and 2010;
- BERT (Budget Entry Reporting Tool) Manual, 2011, prepared by ISIDORE Pty. Ltd.
- National Education Action Plan, 2010-12, MEHRD, 2010;
- MHMS draft MTEF, November 2011;
- Guadacanal Province Recurrent and Development Budgets, 2012 and 2013.

Budget execution, accounting and reporting

- 2009-11 Annual Accounts (2009 audited), MoFT
- Budget execution documents: Budget reservation example, 2010 (Health); Accounting warrants (Agriculture, Health); approved virements, 2009-12; forms for payments voucher, requisitions voucher, LPO, general adjustments voucher; imprests warrant; Funds Available Form; asset procurement form; list of unpaid PVs (2011); SIG cash

position, August 24, 2012; cash flow forecasting update, minute of a Cash Coordination Committee meeting, and cash sheet, May 2012; bid waiver form; verbal quotation form; compliance check lists (e.g. application for advance purchases, per diems); various Finance Circulars; application for employment; salary authority form; chart of accounts maintenance form.

- Outstanding LPOs and PVs at end of 2009-2011;
- List of suspense accounts and imprests outstanding, August 2012.
- Sample, payroll and other charges ledger report.
- Government Debt Statistical Bulletin - June Quarter 2012, MoFT
- Solomon Islands Debt 30 June 2012, MoFT
- Sample, media release reports on budget performance.
- PFM manual for MEHRD;
- Example of Vote Control Report and Commitment Card, MEHRD;
- Examples of bank reconciliation reports.
- List of MEHRD biannual grants to primary and secondary schools in 2011.
- Customs and Excise Division (CED), Revenue Collection Strategic Goals, 2011;
- CED, How to Use Guide for Customs Electronic Clearance;
- Registration Form for Goods Tax and New Taxpayers (IRD);
- Guadacanal Province, Alternative 2010 Financial Statements.
- Annex 4 of Performance Assessment Manual, Guadacanal Province, May 2012.
- Provincial Governments Assessment Forms, September 2009.

Audit and legislative oversight

- 2009 & 2010 Annual Reports of the Auditor General
- 2010 Audit Report – School Computer Laboratories Project
- 2010 Audit Report – Tsunami and Earthquake Relief Fund
- 2010 Audit Report – National cattle Rehabilitation Project
- 2010 Audit Report – Ministry of Police National Security and Correctional Services
- 2011 Performance Audit Report – Management of the Government Motor Vehicle Fleet
- 2011 SIG National Accounts 2009 Audit Opinion
- 2011 Audit Report – Ministry of Agriculture and Livestock Development
- 2011 Performance Audit Report – Teacher Absenteeism in SI Primary Schools
- 2012 Performance Audit Report – Managing Sustainable Fisheries in Solomon Islands
- Standing Orders 69
- Consolidated Summary of Audit Reports on Education Sector, MEHRD, July 2012.
- PAC Reports – 2009-2012 Appropriation Bills
- PAC Reports – 2009-2011 Supplementary Appropriation Bills
- PAC Report – Midterm Performance Review of 2011 Expenditure
- Parliamentary Strengthening Project 3rd Tri-annual Report 2011-2012

Donor-related documents

- 2010-2012 JRM Reports;
- 2012 FEMSP Report- Mid Term Review Final Draft;
- IMF Article IV Consultation Report on Solomon Islands and 3rd Program Review under the SCF, December 2011;
- IMF Program Review under SCF, June 2012;
- MDPAC paper on establishing a Development Assistance Database (DAD);

Other

- SOE reforms in Solomon Islands, Forum Economic Ministers' Meeting, Tarawa, Kiribati, 2-4 July, 2012.
- Guadalcanal Province Recurrent and Development Budgets, 2012 and 2013.
- Community Service Obligation (CSO) Policy Framework in relation to SOE reforms.
- Example of acknowledgement by Minister of Finance of receipt of annual financial statements from an SOE.

Annex C: List of Stakeholders Visited

Name	Position	Area	Date
Harry Kuma	Under Secretary	MOFT	23-Aug
Eoghan Walsh	EU Charge' D'Affaires	EU	23-Aug
Juan Carlos Hinojosa	EU Social Sector and Governance Advisor	EU	23-Aug
Anna McNicol	Senior Development Program Specialist	AusAID	23-Aug
Mark Ramsden	High Commissioner	NZ High Commission	23-Aug
Taiatu Ataata	ADB Development Coordinator	ADB	23-Aug
Pelion Buare	Financial Controller	Office of Prime Minister and Cabinet	23-Aug
Leliana Firisua	Director	SMEC	23-Aug
Mose Saitala	Director	CPGF	23-Aug
Joseph Dokekana	Assistant Deputy Commissioner	MOFT – IRD	23-Aug
George A. Tapo	Deputy Commissioner	MOFT – IRD	23-Aug
Theresa Way		Embassy of ROC	23-Aug
Douglas Sade	Chief Accountant	MOFT – FMSS	23-Aug
Travis Ziku	Planning Officer	MDPAC	23-Aug
Paul Wakio	Chief Accountant	MOFT – FMSS	23-Aug
Loveson John	Chief Accountant	MOFT – FMSS	23-Aug
Jack Kogua	Senior Accountant	MOFT – Payroll Section	23-Aug
Tahisihaka Andrew	Chief Accountant	MEHRD	23-Aug
Silas Vau	Budget Officer	MOFT – Budget Unit	23-Aug
Ron Hackett	Public Financial Management Adviser	IMF/PFTAC	23-Aug
Cid Mateo	Budget Policy Adviser	MOFT – Budget Unit	23-Aug
Lyall Patovaki	Chief Accountant	MOFT – Payroll Section	23-Aug
Steven Jude		MOFT	23-Aug
Levite Luciano		SMEC	23-Aug
Bradley Lenga	Senior Internal Auditor	MOFT – IAD	23-Aug
Celsus Talifilu	Director of Committees	National Parliament	23-Aug
Matthew Pitavato	Acting Director	MOFT – FEDU	23-Aug
Norman Hiropuhi	Director	MOFT – Budget unit	23-Aug
Greg Moores	Senior Budget Adviser	MOFT – Budget unit	23-Aug
Tim Bulman	Country Economist	World Bank	23-Aug
Douglas Sade	Chief Accountant	MOFT - FMSS	24-Aug
Paul Wakio	Chief Accountant	MOFT - FMSS	24-Aug
Silas Vau	Budget Officer	MOFT – Budget Unit	24-Aug

Name	Position	Area	Date
Theresa Kia-Paikai	Budget Officer	MOFT – Budget Unit	24-Aug
Sam Watson	Budget Officer	MOFT – Budget Unit	24-Aug
Agnes Palmer	Budget Officer	MOFT – Budget Unit	24-Aug
Vaishali Pathak	Budget Adviser	MOFT – Budget Unit	24-Aug
John Masa	Chief Accountant (Ag)	MOFT – Procurement Section	24-Aug
Simon Whitehead	Procurement & Payment Adviser	MOFT – Procurement Section	24-Aug
Dinah Hansman	Debt Management Adviser	MOFT - DMU	24-Aug
Donald Mamura	Senior Finance Officer	MOFT - DMU	24-Aug
Lyall Patovaki	Chief Accountant - Payroll	MOFT - Payroll Section	27-Aug
Jack Kogua	Senior Accountant - Payroll	MOFT - Payroll Section	27-Aug
Anna McNicol	Senior Development Program Specialist	AusAID	27-Aug
Samantha Vildam	Program Officer	RAMSI	27-Aug
Dick Oli	Secretary CTB	MOFT - Procurement Section	27-Aug
Bill Monks	Financial Information System Advisor	MOFT - Treasury Division	27-Aug
SZM Shariful Islam	UNOP Project Manager	MDPAC	28-Aug
Travis Ziku	Planning Officer	MDPAC	28-Aug
Samuel Wara	Chief Planning Officer	MDPAC	28-Aug
Bradley Lenga	Senior Internal Audit	MOFT - IAD	28-Aug
Julia Twumasi	Director Finance (ag) - CSSI	MPNSCS	29-Sep
Eric Notere	Finance Advisor - CSSI	MPNSCS	29-Sep
Paul Kapakeni	Financial Controller - HQ	MPNSCS	29-Aug
Jan Katene	Tax Admin Policy Advisor	MOFT - IRD	29-Aug
Mark Bell	Commissioner IR	MOFT - IRD	29-Aug
George H. Tapo	DC (Deputy Commissioner)	MOFT - IRD	29-Aug
Joseph Dokekana	ADC (Assistant Deputy Commissioner)	MOFT - IRD	29-Aug
John Loveson	Chief Accountant	MOFT - FMSS	29-Aug
Allen Ziuna	Senior Accountant	MOFT - IMPREST	29-Aug
Paul Wakio	Chief Accountant	MOFT - FMSS	29-Aug
Joseph Nelmah	Policy Analyst	MOFT - ERU	29-Aug
Katherine Tuck	Senior Advisor	MOFT - ERU	29-Aug
Donna Hargreaves	Accountant General	MOFT – Treasury Division	29-Aug
Celsus Talifilu	Director of Committees	National Parliament	30-Aug
James Taeburi	Provincial Secretary	Guadalcanal Province	30-Aug
Edward Ronia	Auditor General	OAG	30-Aug

Name	Position	Area	Date
Robert Cohen	Deputy Auditor General	OAG	30-Aug
Doreen Lae	Supervisor Debt Unit	CBSI	31-Aug
Judy Anii	Supervisor Banking Unit	CBSI	31-Aug
Modesta Namokari	Chief Accountant	MID	31-Aug
Kjeld Elkjaer	Advisor PFM	MEHRD	31-Aug
Andrew Tahisihaka	Chief Accountant	MEHRD	31-Aug
Christopher Mae	Chief Administration Office – Teaching Service	MEHRD	31-Aug
Aseri Yalangono	Under Secretary Professional	MEHRD	31-Aug
Sokeni Johnson	Financial Controller	MEHRD	31-Aug
Ning Gabrino	Board Member	SICCI	31-Aug
Nancy Kuatea	SICCI Advocacy Officer	SICCI	31-Aug
Greg Sojnocki	Chamber Representative	SICCI	31-Aug
Austin Holmes	President	SICCI	31-Aug
Benjamin Manau	Financial Controller	MALD	1-Sep
Georgina Ariki	Manager/Human Resources	MOFT - Customs	3-Sep
Richard Brennan	Deputy Comptroller of Customs	MOFT - Customs	3-Sep
Sascha Piggott	Human Resources Advisor	MOFT - Customs	3-Sep
Shepherd Lapo	Legal Officer	TSI	3-Sep
Ben McNair	Communications Officer	TSI	3-Sep
Bob Pollard	Board Member	TSI	3-Sep
Robert Cohen	Deputy Auditor General	OAG	5-Sep
Douglas Sade	Chief Accountant - FMSS	MOFT – Treasury Division	5-Sep
Cid Mateo	Budget Advisor	MOFT – Budget Unit	5-Sep
Norman Hiropuhi	Director - PEAS	MOFT – Budget Unit	5-Sep
Bradley Lenga	Senior Internal Auditor	MOFT - IAD	5-Sep
Sokeni Johnson	Financial Controller	MEHRD	5-Sep
Katherine Tuck	Senior Advisor	MOFT - ERU	5-Sep
Colin Johnson	FEMSP Team Leader	MOFT	5-Sep
Harry Kuma	Under Secretary	MOFT	5-Sep
Jane Lake	RAMSI Development Coordinator	RAMSI	5-Sep
Anna McNicol	Senior Development Program Specialist	AusAID	5-Sep
Mark Ramsden	NZ High Commissioner	NZHC	5-Sep
Juan Carlos Hinojosa	Governance Advisor	EU	5-Sep
Shadrach Fanega	Permanent Secretary	MOFT	5-Sep
Taiatu Ataata	ADB Development Coordinator	ADB	5-Sep

Annex D: Quality Assurance Mechanism (PEFA Check)

PEFA Assessment Management Organization

Oversight Team

The Oversight Team (OT) is responsible for the quality assurance aspects of the PEFA assessment process. It was established on 15th May 2012 following consultations with CEWG members and PFTAC. The OT held its next meeting on 8th June to validate the draft Terms of Reference. The OT held its third meeting (start-up meeting) with the assessment team on 21st August to discuss: (i) the self-assessment that had been conducted by MoFT staff; (ii) working arrangements (e.g. working space in MoFT); and (iii) the timeline for the assessment, including the date of the de-briefing meeting. Its members are:

<u>Chair:</u>
Mr Shadrach Fanega, Permanent Secretary, MoFT

<u>Members:</u>
Mr Harry Kuma, Under Secretary, MoFT
Mr Matthew Pitavato, Acting Director, Financial and Economic Development Unit, MoFT
Mr Ron Hackett, Public Financial Management Advisor, PFTAC/IMF
Mr Tim Bulman, Country Economist, World Bank
Ms Anna McNicol, Senior Development Program Specialist, AusAID
Mr Eoghan Walsh, Charge d'Affaires, EU Delegation to Solomon Islands
Mr Juan Carlos Hinojosa, Governance Adviser, EU Delegation to Solomon Islands

Assessment Manager: The assessment manager is the overall manager of the PEFA preparation process and is the main point of contact between the development partners in the CEWG and the Government. He is Mr. Juan Carlos Hinojosa.

Assessment Team Members

<u>Team Leader: Peter Fairman</u>
<u>Team Members: Terry O’Donnell, Peter Lokay, Charles Broughton.</u>

***Review of Concept Note/Terms of Reference*:** This took place on 15th May, 2012. Invited reviewers were the PEFA Secretariat (Mr. Phil Sinnett), the Oversight Team, and Ms Anneli Hildeman, Policy Officer, EuropeAid A2, European Commission. The TOR were finalised on 14th June 2012.

Review of the Assessment Report: Mr. Ron Hackett and Mr. Greg Moores (OT members) provided comments on the preliminary draft report submitted to Juan Carlos Hinojosa on 4th September. The full first draft submitted on 23rd September 2012 was reviewed by PEFA Secretariat (Helena Ramos), all members of the Oversight Team, MoFT staff, Ms. Anneli Hildeman, and Mr. H.E. Mark Ramsden, High Commissioner, New Zealand High Commission, Honiara.