

ASSESSMENT OF NATIONAL SYSTEMS

TUVALU

November 2018 Update

Final Report

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Acronyms and Abbreviations

ADB	Asian Development Bank
ANS	Assessment of National Systems
CCMU	Central Contracts Management Unit
CEO	Chief Executive Officer
CF	Consolidated Fund
CIF	Consolidated Investment Fund
CPA	Commonwealth Parliamentary Association
CPU	Central Procurement Unit (of MFED)
DBT	Development Bank of Tuvalu
DCC	Development Coordination Committee
DFA	Direct Funding Arrangement, or Direct Funding Agreement
DFAT	Department of Foreign Affairs and Trade (Australia)
DP	Development Partner
DSA	Debt Sustainability Analysis (IMF)
ECU	Evaluation and Coordination Unit (of Office of Prime Minister)
EEZ	Exclusive Economic Zone
FMIS	Financial Management Information System
FMR	Financial Management Reporting
FY	Financial Year
GDP	Gross Domestic Product
GL	General Ledger
GoT	Government of Tuvalu
IAU	Internal Audit Unit (of MFED)
IMF	International Monetary Fund
KRA	Key Result Area
LM	Line Ministry
MCE	Management Control Environment
MEYS	Ministry of Education, Youth and Sports
MFED	Ministry of Finance and Economic Development
MoH	Ministry of Health
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
NBT	National Bank of Tuvalu
NAFICOT	National Fishing Corporation of Tuvalu
OAG	Office of the Auditor General
OPM	Office of the Prime Minister
PAABC	Public Accounts, Audit and Budget Committee (proposed)
PAC	Public Accounts Committee
PBAC	Planning, Budget and Aid Coordination (division of MFED)

PE	Public Enterprise
PERMU	Public Enterprise Reform and Monitoring Unit
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFTAC	Pacific Financial Technical Assistance Centre
PGS	Partner Government Systems
PO	Purchase Order
SDE	Special Development Expenditure
TA	Technical Assistance
TDF	Tuvalu Development Fund
TEC	Tuvalu Electricity Corporation
TESP	Tuvalu Education Sector Plan
THRS	Tuvalu Health Reform Strategy
TMTS	Tuvalu Medical Treatment Scheme
TTC	Tuvalu Telecommunications Corporation
TTF	Tuvalu Trust Fund
WB	World Bank

Executive Summary

1.1 Overall Ratings for Fiduciary Risk and Corruption Risk

1.1.1 2018 Assessment of National Systems (ANS) Update – Overall Updated Ratings

This 2018 ANS update assesses the pre-mitigation or inherent fiduciary risks in using downstream¹ systems in delivering the aid program as **medium**, apart from Procurement where a **medium-high** level of risk has been assessed. After existing controls and proposed treatments, the target fiduciary risk level for downstream systems is assessed as **low-medium**, apart from the procurement system where the target risk level is **medium**.

The inherent risks of using upstream planning, budgeting and parliament systems is assessed as **medium** which recognises that the Department of Foreign Affairs and Trade (DFAT) Australia provides budget support to Tuvalu. Weaknesses in upstream planning, budgeting and parliamentary scrutiny create a risk that the right national and sector priority programs may not be identified, or that limited govt budget funds may not be allocated to the highest priority programs. Any donor funds that rely on these upstream systems for allocative effectiveness and efficiency will be subject to the same risks. DFAT's general budget support would be subject to these upstream risks. Where a donor agrees with government to use the government's downstream budget execution systems to target an agreed and targeted program in a specific sector, e.g. through a project or a cash grant for an agreed program and sector, that risk from upstream systems is greatly reduced. Australia's aid to Tuvalu has included a general budget support component for many years, including contributions to the Tuvalu Trust Fund (TTF) since its establishment in 1987. Various treatments have been recommended for all upstream systems. After existing controls and proposed treatments, the target fiduciary risk level for upstream systems is assessed as **medium**

This 2018 ANS update assesses the overall level of corruption risk as **medium** (i.e. unchanged from the 2015 ANS update).

1.1.2 2012 ANS and 2015 ANS Update

The first ANS for Tuvalu was completed in 2012 (the 2012 ANS). The 2012 ANS concluded that there was an overall **medium to high** inherent level of fiduciary risk for using upstream and downstream systems, and a **medium** level of corruption risk. The 2012 ANS concluded that DFAT (then AusAID) should continue to use upstream and downstream systems subject to the implementation of key reforms or control measures in most public financial management (PFM) components, apart from On Plan and On Parliament.

The 2015 ANS update concluded that there was an overall **medium** inherent level of fiduciary and corruption risk associated with using both upstream and downstream systems, apart from procurement where the 2015 ANS update concluded that there was a **high** level of risk, largely based on the absence of a procurement regulatory framework, clear rules and processes and lack of transparency. After application of recommended risk treatments, the target level of risk for On Procurement in 2015 was assessed as **medium**.

The 2015 ANS update assessed the level of corruption risk as **medium** (unchanged from 2012).

¹ In public finance 'upstream' and 'downstream' generally refer to the equivalent planning and execution components of partner government financial systems. 'Upstream' is comprised of the planning, budgeting and parliament budget scrutiny components, and 'downstream' is comprised of the treasury, accounting, procurement, reporting and audit (including public accounts committee scrutiny) components. The corresponding 'On Plan', 'On Budget' etc terms are used where external or donor financing uses those respective components of the partner government systems

1.2 Key Factors Contributing to Overall Risk Ratings

1.2.1 Key Factors Contributing to Overall Fiduciary Risk Rating

The Ministry of Finance & Economic Development (MFED) in Tuvalu is implementing an ambitious PFM reform program given the limited resources available in MFED, and especially in the Planning, Budget and Aid Coordination (PBAC) division of MFED. In other small Pacific island countries, the planning, budgeting and aid coordination functions would each have their own departments within MFED, with significantly higher level of resources to implement, monitor and evaluate PFM reforms. The MFED management team have a good understanding of what is required, and have strong ownership and commitment to the PFM roadmap. Good progress has been made in some areas. The establishment of an internal audit unit (IAU) in MFED is a significant step forward for MFED and Government of Tuvalu (GoT) in the identification and management of risks and internal control weaknesses. There has been enhanced monitoring of and support for public enterprises (PEs). Several of these have significantly improved their operations and profitability, reducing the risk of the PEs requiring bail-out by government. The medium term fiscal framework (MTFF) has been institutionalised within MFED and the annual budget cycle, and is published together with the National Budget.

In other areas, several of the reforms being implemented at the time of the 2015 ANS have either not been sustained in 2018 or are still being implemented with periodic support from short term advisers. In assessing inherent risk and target risk after mitigation measures, this 2018 ANS update has recognised the unique challenges faced by GoT and the MFED management team, i.e. a dedicated but small team of officials where staff turnover and key-person risk are very real constraints. Limited resources, isolation and key-person exposure have been factors in arriving at the overall risk ratings above. Other risks from various components of GoT PFM systems that contributed to the overall risk ratings include the following.

On Plan

Only a few key ministries have strategic plans, but these are not costed, and the program or key result area (KRA) structures do not map easily to the National Budget program structure. The monitoring and evaluation frameworks for the health and education sector plans need to be strengthened to help ensure delivery of improvements to health or education outcomes or evaluation of organisation performance.

On Budget

Health and education sector medium term expenditure frameworks (MTEFs) piloted in 2010 to 2015 were not sustained through to 2018, weakening the links between strategic planning and budgeting. Also, some expenditures such as overseas travel and the Tuvalu Medical Treatment Scheme (TMST) are consistently and significantly under budgeted for, i.e. compared to current and prior year levels of actual spending. Virements from other service delivery programs, and Supplementary Budgets are routinely used to increase budget allocations beyond those approved by Parliament in the original National Budget.

High exemption thresholds for the major sources of taxation reduces levels of tax collections below their potential, thereby reducing funding available for core services such as health and education. Similarly, the revenue yield from long term commercial contracts (e.g. for use of airspace, dot.tv domain, fishing licencing etc) is most likely below its potential because Tuvalu has not sourced short-term specialised technical services to negotiate these contracts and monitor counterparty performance. The MFED Central Contracts Management Unit (CCMU) is best placed to identify and source the necessary technical support on a contract by contract basis.

On Parliament

The role of the Public Accounts Committee (PAC) should be expanded to include scrutiny of the annual estimates and Appropriation Bills, and the powers of the PAC should be improved to allow them to summon and question senior government officials on spending plans and on the performance of their ministries. The expansion of the role and powers of the PAC could be achieved either through legislation (already drafted) or through changes to the rules of parliament – but GoT should decide which approach is preferable.

On Treasury

There has been no recent audit of the payroll system and human resource management controls, and there are delays notifying MFED Treasury of public servants who have gone on extended leave or who have abandoned their posts, resulting in overpayments that are difficult to recover. There have also been cases of bank accounts being opened by government officials where those bank accounts are not under the control of MoF Treasury.

On Accounting

Current procedures for recording or journalising project related expenditures in the Tuvalu Development Fund (TDF) (i.e. for donor funded development projects) allow negative balances to be recorded on ACCPAC for many projects. This creates a risk that funds for some projects may be used to subsidise other overspent projects, for different donors. ACCPAC needs to be configured to prevent spending for any given project from ever exceeding bank deposits for that project over the life of that project, and also to prevent spending in excess of warrant in any given single year.

Also, bank balances for the main Consolidated Fund (CF) bank account have not been properly reconciled to general ledger (GL) balances on ACCPAC (based on the 2016 report of the Auditor General).

On Procurement

Non-compliance with the procurement regulations, including the requirement for major procurements to be handled by the Central Procurement Unit (CPU) of MFED and utilisation of non-competitive procurement methods without appropriate justification means an ongoing risk of procurements that represent poor value for money (based on the CPU reports for 2016 and 2017 and the Auditor General procurement audit of 2017).

Line Ministries (LMs) are not preparing annual procurement plans as required by the Finance Instructions, and the CPU of MFED is unable to aggregate common use items into single contracts or framework contracts to maximise economies of scale. There is limited use of framework contracts which places unnecessary demands on the limited resources of the CPU. For multi year government funded infrastructure projects or other large procurements, LMs delay preparation of specifications until too late in the financial year (FY), leaving CPU little time to complete the procurement processes before year end. MFED's plan to introduce multi-year appropriations through a Special Fund should reduce these time pressures for infrastructure projects, provided sufficient procedural controls are put in place to prevent negative project balances or warrant overspends.

On Report

The Public Finance Act is not clear on which set of international financial reporting standards have been adopted by GoT, and therefore should be used by MFED Treasury. The notes to the Financial Statements prepared by MFED Treasury say the financial statements are prepared on a full accrual basis, which allows the Auditor General to give a disclaimer opinion because there are many instances of accruals not being used. MFED should amend the Public Finance Act to allow financial

reporting standards to be incorporated into the Financial Instructions, thereby allowing the standards to be progressively amended as GoT implements a well sequenced strategy to move from modified accruals to full accruals, or to make clear which parts of the international financial reporting standards have been adopted and which have not. This will allow the Auditor General to audit the financial statements against the requirements of the Financial Instructions and not against a non-defined set of 'generally accepted accounting principles'.

In-year financial management reporting (FMR) – LMs are still dependent on Excel based vote registers to track spending against budget by program, and they have difficulty reconciling these to ACCPAC transaction listings. ACCPAC is not yet² configured to provide monthly commitment and expenditure reports to LMs against warrant and budget, and as a result LMs may inadvertently overspend or overcommit. This creates a risk that DFAT funds may not be used for their intended purposes or may not be properly accounted for.

On Audit

The Office of the Auditor General (OAG) has sufficient resources to audit whole of government financial statements and government ministries, but not to audit all Kaupules (i.e. the 8 island councils) every year. Also, there is no systematic follow up of audit recommendations by MFED or the PAC. The performance audit function is at its infancy stage and staff have little or no experience in performance audit. This creates a risk of funds not being used in an efficient or effective manner if government programs or organisations are not subject to independent examination and areas for improvement identified.

1.2.2 Key Factors Contributing to Overall Corruption Risk Rating

This 2018 ANS update maintains an overall corruption risk rating of medium. The 2015 ANS update assessed the overall level of corruption risk as medium, i.e. unchanged from 2012. In 2015 (as in 2012), no cases of corruption or fraud had been detected, and the assessment was based more on the difficulty of detecting fraud, especially in procurement and in management of the exclusive economic zone (EEZ), but also in payroll management. In 2015, the difficulty of detecting fraud was evidenced by the lack of an internal audit function, and the delays in audit of Kaupule accounts. In 2018 there is now an internal audit function led by MFED, and the audits of Kaupules are now largely up to date.

Since the 2015 ANS update there has been one case of fraud reported to the DFAT Fraud Control Section, and this case is still active. This case raises similar issues or risks to those covered elsewhere in this 2018 ANS update such as non compliance with procurement regulations and establishment of bank accounts that are not under the control of the MFED Treasury (see Auditor General's report on the 2016 financial statements).

The 2016 report of the Auditor General noted that a finance circular covering a "Fraud, Misuse and Loss Policy" had been approved and issued by the Secretary for Finance. However, in 2016 the Auditor General also carried out a management control environment (MCE) assessment of the GoT and concluded that the MCE is "Ineffective". The Auditor General also noted delays in bank reconciliation of both expenditure and revenue bank accounts, and that this makes it more difficult for MFED and auditors to detect instances of fraud. Finally, the Auditor General noted that staff from Fisheries were not maintaining minutes or records of negotiations with other companies or nations, and were using their personal email addresses to pursue these negotiations, making the

² At the time of the ANS, MFED Treasury were attempting to modify ACCPAC to incorporate vote control

process susceptible to fraud and making any fraud difficult to detect (because auditors have authority to access government email servers, but cannot access private Gmail etc accounts).

The establishment of an internal audit function in 2016 and a whole of government audit committee in 2018 are very encouraging and positive developments for PFM in Tuvalu, and for the management of risk across government. Nevertheless, it is too early to say whether these functions will be empowered by and sustained by government. The level of ownership by government and the government’s willingness to act on findings and recommendations of the IAU is yet to be seen. As discussed earlier, there is currently no systematic approach to recording, acting on and monitoring of recommendations or findings of the OAG or the PAC. This should be high on the agenda for the newly established Audit Committee.

This 2018 ANS update maintains the assessed level of risk for corruption as **medium**.

1.3 ANS Update Summary Table (‘Table 1’)

A summary table (Table 1 below) is attached to the end of this Executive Summary showing trajectory of change in inherent risk ratings for each PFM component from the 2015 ANS update. The table also shows existing controls and proposed risk treatments. Further details on the inherent risk ratings, existing control measures, recommended treatments and target risk ratings are provided in the ANS Risk Register in Annex 2.

Figure 1 immediately below compares the both the inherent and target risk ratings for the 2012 ANS, the 2015 ANS update and this 2018 ANS update for each of the main components of the GoT PFM systems. The risk ratings for On Plan have shown a negative trajectory from 2015 to 2018. GoT has struggled to develop sector plans beyond a few key ministries, and these few have not been costed and have under-developed monitoring and evaluation arrangements. A pilot of MTEFs in health and education from 2010 and 2015 was not sustained through to 2018.

The inherent risk rating for On Parliament also shows a negative trajectory, from Low in 2015 to Medium in 2018. There is no dedicated parliamentary estimates committee, and parliament sitting as a committee-of-the-whole is only give 1 to 2 days to scrutinise the estimates and the Appropriation Bills. Parliament does not have adequate research capacity in the Clerk’s office to support private members or government members who may want to scrutinise the estimates more closely. The fact that estimates for overseas travel and TMTS have been consistently underestimated for many years, when much higher actual spending levels are shown for earlier years suggests that Chief Executive Officers (CEOs) are not being held accountable for consistently preparing budgets that lack credibility.

Figure 1 Comparison of ANS inherent and target risk ratings – 2012 to 2018

Component	2012 Risk Ratings		2015 Risk Ratings		2018 Risk Ratings	
	Inherent	Target	Inherent	Target	Inherent	Target
Upstream						
On Plan	Low	Low	Low	Low	Medium	Low-Medium
On Budget	Medium	Medium	Medium	Medium	Medium	Low-Medium
On Parliament	Medium	Medium	Low	Low	Medium	Low
Downstream						
On Treasury	Medium	Medium	Medium	Medium	Medium	Medium
On Accounting	Medium	Medium	Medium	Medium	Medium	Low-Medium
On Procurement	Very High	Very High	High	Medium	Medium High	Medium
On Report	High	High	Medium	Low	Medium	Low-Medium
On Audit	Medium	Medium	Low	Low	Low	Low

1.4 Whether Appropriate to Continue Use of Partner Government Systems

This 2018 ANS update concludes that there is a **low to medium** level of target risk associated with using both upstream and downstream systems, apart from procurement systems, where the 2018 ANS update assesses a medium level of target reach. The 2018 ANS update concludes that there is medium level of corruption risk in Tuvalu. The recommendation of this 2018 ANS update is that DFAT considers the continued use of upstream and downstream partner government systems (PGS) subject to the implementation of additional treatments. The risks, their likely impacts, existing and proposed controls or treatments are summarised in Table 1 below. The additional treatments, and their performance benchmark and monitoring arrangements, are summarised in the ANS Risk Register (Annex 2).

1.5 Acknowledgements

The review team would like to acknowledge the direct interest and support provided by the CEO of MFED Talavai Iona, and the Director, PBAC Niuatui Niuatui. During a busy time of year for MFED and PBAC, they generously made available their time at the beginning, during and at the end of the mission, and have since also promptly responded to emails or requests for further documentation. It is clear that the entire MFED management team want to identify priority reforms necessary to further strengthen government accountability systems. The review team would also like to thank the assistance provided by the DFAT Senior Program Manager, Tuvalu, Lily-Anne Homasi in both organising the Assessment, and accompanying the team to key meetings with senior officials from other ministries, with the Auditor General, and with the PAC.

Table 1 ANS Risk Ratings by PFM Component, from 2015 to 2018

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
Upstream components							
<p>On Plan - Aid funds are incorporated into partner government spending agencies' strategic plans and into the supporting documentation for the policy intentions behind their budget requests.</p>	<p>2015 Update: Lack of forward capital estimates in the budget may affect future budget financing.</p> <p>2018 Update: Only a few key ministries have strategic plans, but these are not costed, and the program or KRA structures are not mapped well to the National Budget program structures. Weak links between plans and budgets can result in unrealistic sector plans, and create a risk that DFAT funds may not achieve their investment objectives</p> <p>M&E frameworks are under developed and there is no Education Management Information System or Health Management Information System to support M&E. The lack of credible M&E framework makes it difficult to monitor achievement of objectives or improvements in services, creating a risk that DFAT funds may not achieve their investment objectives</p>	<p>Medium</p> <p>(2015 Update rating: Low)</p> <p>(2012 ANS rating: Low)</p>	<p>Negative</p>	<p>Yes</p>	<p>Yes</p>	<p>One-off Special Development Expenditure (SDE) estimates and infrastructure projects estimates are now integrated into Program estimates of each LM in the National Budget, but only for a single year and not for the outyears</p>	<p>MFED PBAC and Office of the Prime Minister (OPM) Evaluation & Coordination Unit (ECU) should cooperate to develop clear sector planning guidelines and templates to guide key sector on plan preparation, costing and links to annual budgets, and credible M&E frameworks. Work with TA in key sectors to pilot and improve these before expanding to other sectors</p> <p>Target risk: Low to medium</p>

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
<p>On Budget - Aid funds and their intended use are incorporated into the partner government's budgeting processes and reflected in its budget documentation.</p>	<p>2012 ANS: Lack of sustainability of the MTEF pilot may reduce effectiveness of government expenditure.</p> <p>2015 Update: - Lack of monitoring and consolidation of fiscal risks from PEs present financial risks on future budgets. - The high level of non-performing debt of government owned financial institutions presents risks of future bail outs.</p> <p>2018 Update Consistent under estimation of some expenditures means that original budgets lack credibility. TMTS and overseas travel are consistently under estimated compared to final actual expenditure. This leads to a significant level of virements from other programs that may have better cost/benefit effectiveness. This creates a risk that DFAT funds fail to achieve investment objectives, with adverse impacts on service delivery or beneficiaries.</p> <p>2018 International monetary Fund (IMF) Article IV reports suggests significant revenues are forgone through tax exemptions, mainly because thresholds for company income tax, personal income tax and consumption tax have been increased</p>	<p>Medium (2015 Update rating: Medium) (2012 ANS rating: Medium)</p>	<p>No change</p>	<p>Yes</p>	<p>Yes</p>	<p>Administration of the PE Act continues with the assistance of an Asian Development Bank (ADB) funded adviser in the Public Enterprise Reform and Monitoring Unit (PERMU) who visits the country a few times a year.</p>	<p>MFED should consider amending the PF Act to place limits on virements into and out of programs within the same head (ministry), e.g. maximum of 10% per program; with similar limits on virements to or from subheads, e.g. maximum of 20% (but not to or from Staff Payroll)</p> <p>With technical assistance (TA), MFED should lead a review of the cost of tax exemption thresholds, and provide options to the Development Coordination Committee (DCC) and Cabinet for increasing revenue yield through reductions to current thresholds</p>

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
	<p>in recent years. This reduces government funding available for core services and creates a risk that DFAT funds fail to achieve investment objectives, with adverse impacts on service delivery or beneficiaries.</p> <p>A 2018 independent report on management of PEs identifies some remaining risks to the budget from PEs, including utility arrears owing to the PEs by government LMs, and arrears of taxes owed by the PEs to government. This creates inefficiency in resource allocation and overuse of utility services. This creates a risk that DFAT funds may also be allocated inefficiently and not achieve value for money</p> <p>Long term international commercial contracts could likely yield higher returns if specialised technical advice is sourced to review and support negotiation of terms of new contracts, and to support monitoring of performance under those contracts. Current passive management of these contracts reduces revenues available for core services and creates a risk that DFAT funds fail to achieve investment objectives, with adverse impacts on service delivery or beneficiaries</p>						<p>MFED PE Reform Monitoring Unit should review the report of the independent consultant, develop a response strategy and obtain approval from the MFED CEO to proceed with implementation of the strategy.</p> <p>The MFED CCMU should develop and implement a medium term plan to identify and source the necessary technical advice required for the renewal or renegotiation of each contract. CCMU should develop a reliable database of all of these contracts to support ongoing monitoring of contract performance</p> <p>Target risk: Low to medium</p>

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
<p>On Parliament - Aid funds are included in the appropriation bills approved by the parliament of the partner country.</p>	<p>2015 Update: - Inadequate parliament scrutiny of budget (and audit reports – see On Audit below) increases the risk of ineffectiveness of budget allocation and accountability of use of public resources including donor funding.</p>	<p>Medium (2015 Update rating: Low) (2012 ANS rating: Medium)</p>	<p>Negative</p>	<p>Yes</p>	<p>No</p>	<p>There is good scrutiny by the DCC, and PBAC also now provides a budget briefing to private members after the Estimates are tabled. There is a draft Bill to combine the roles of the PAC and Parliamentary scrutiny of the Estimates into a new Public Accounts, Audit and Budget Committee (PAABC), and to increase the powers of the new committee to require explanations from CEOs and other officials. The Speaker would prefer this is done through changes to Rules of Parliament</p>	<p>Whether through the proposed legislation or changes to Rules of Parliament, GoT should expand the remit of the PAC to also cover scrutiny of the annual Estimates and Appropriation Bills, and increase the powers of the PAC to summon and question government officials. Target risk: Low</p>
Downstream components							
<p>On Treasury - Aid funds are disbursed into the partner government's main revenue funds (or accounts), typically a treasury account, and then managed according to the government's regular systems for</p>	<p>2018 Update: HR and payroll internal controls – procedures for removing staff from payroll when they take extended leave, abandoned post, deaths etc are not clear or tight enough to ensure MFED Treasury are informed in good time or at all. This results in overpayments of salaries and allowances, and creates a risk that DFAT funds will not achieve</p>	<p>Medium (2015 Update rating: Medium) (2012 ANS rating: Medium)</p>	<p>No change (Note: commitments and arrears are now covered in On-Report below)</p>	<p>Yes</p>	<p>Yes</p>	<p>Current guidelines require that LMs notify MFED Treasury of extended absences or abandoned posts, but these are too slow or do not happen</p>	<p>In consultation with MFED Treasury, OPM HRM should revised the HRM manual and other guidelines to require LMs, island schools, health centres etc to urgently notify MFED Treasury of cases where payroll should be stopped or adjusted. The notification procedures should make provision for use of email or telephone or radio to back up any requirements for written notification.</p>

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
disbursement and financial control.	<p>investment objectives or will not achieve value for money</p> <p>There have been cases of bank accounts being opened by government officials which are not under the control of MFED Treasury, including for the use of donor funds. This allows donor funds to be used outside of the normal government internal controls and procurement arrangements. This creates a risk that DFAT funds may not be properly accounted for, may not achieve value for money, or may be subject to fraud.</p>						<p>MFED should work with National Bank of Tuvalu (NBT) and Development Bank of Tuvalu (DBT) to ensure that no bank accounts can be opened without the approval of the MFED Chief Accountant. If necessary the Public Finance Act should be amended to make it an offence for any government official to open a bank account without the authority of the MFED Chief Accountant.</p> <p>Target risk: Medium</p>
<p>On Accounting - Aid funds are recorded and accounting for in the partner government's accounting system, in line with its own classification system.</p>	<p>2018 Update:</p> <p>The TDF allows donor funded projects to record negative project balances (33 projects in 2016 had –'ve balances). This can arise through mis-postings or journals, but they have not been corrected when the accounts are closed. This creates a risk that DFAT funds deposited to the TDF to finance DFAT projects may be used to subsidise overspent projects of other donors, and therefore may not achieve their investment objectives</p> <p>From 2014 to 2016 the bank reconciliation for the CF did not reconcile (2017 financial reports and audit not available). In year and end of year financial reports are not reliable, and this creates a risk that</p>	<p>Medium (2015 Update rating: Medium) (2012 ANS rating: Medium) (Internal audit weaknesses shifted to On-Audit below)</p>	No change	Yes	Yes	<p>Vote books should not allow an individual project to be overspent in a single year, but it is not clear if similar controls apply on the actual ACCPAC record for these projects, where journals or mis postings may still cause overspends.</p>	<p>The new Treasury Adviser should support MFED Treasury to implement procedures on ACCPAC to ensure that expenditure for each project cannot exceed bank deposits for the same project over the life of the project, and that the expenditure in a given year, cannot exceed the value of the warrants for that year</p> <p>The new Treasury Adviser should support MFED Treasury to establish reasons for non reconciliation, and institute procedures to reconcile the account on a weekly or monthly basis. Separate procedures should be developed to investigate unmatched</p>

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
	DFAT funds may not be properly accounted for and may not achieve investment objectives						items from reconciliations of earlier years. Target risk: Low to medium
On Procurement - Aid funded procurements follow the partner government's procurement procedures.	2018 ANS Update LMs are not preparing annual procurement plans and submitting them to MFED with their budget submissions. The lack of procurement plans makes it more difficult for CPU to aggregate common use items from all ministries into larger packages to maximise economies of scale. This creates a risk of poor value for money LMs are delaying the preparation of specifications until late in the FY before submitting their procurement requests to CPU. This leaves little time for CPU to complete the procurement process and delivery of goods, works or services within the budget year, and creates a risk that investment objectives will not be achieved and a risk of poor value for money There is limited use of framework contracts which places unnecessary demands on the limited resources of CPU, and can result in higher prices or poor delivery performance by suppliers. This causes delays in	Medium-High (2015 Update rating: High) (2012 ANS rating: Very High)	Positive	Yes	Yes	For government financed infrastructure projects, MFED are planning for the implementation of multi year Appropriations from the CF to a new Special Fund, where the Appropriation will not lapse at year end, but new Warrants will be required in each new FY	PBAC should consider making release of Warrant conditional on LMs submitting procurement plans after Parliament approves the Budget It is recommended that if MFED proceeds with its proposal to implement multi year Appropriations for infrastructure projects using a Special Fund, then additional procedures should be put in place for regular update of project cash flow requirements by LM project managers (i.e. depending on physical progress of the project), and to ensure that Warrant releases are limited to total Appropriations to date from any year for <u>each</u> project, <u>and</u> for the prevention of negative project balances for any given project (i.e. where expenditure exceeds bank deposits for a single project over multiple years for the life of the project). It is recommended that MFED CPU continue to work on expansion of the use of framework agreements, including for common use items, which facilitate

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
	<p>procurement, delays the achievement of investment objectives, and creates a risk of poor value for money.</p> <p>Non-compliance with the procurement regulations, including the requirement for major procurements to be handled by the CPU of MFED and utilisation of non-competitive procurement methods without appropriate justification means an ongoing risk of procurements that represent poor value for money (based on the CPU reports for 2016 and 2017 and Auditor General procurement audit of 2017).</p>						<p>timely procurement and can create savings. If necessary, CPU could obtain technical advice on development of the framework contracts.</p> <p>It is recommended that MFED CPU, through the MFED CEO, should notify both the OPM HRM unit responsible for CEO performance contracts, and the Auditor General, of these instances of non compliance with the procurement regulations by the relevant CEOs, i.e. a breach of section 6 of the Public Finance Act; MFED CEO should also use the DCC to make other CEOs aware of the requirements of the Procurement Regulations and that non compliance will be reported in writing to OPM HRM, including cases of direct contracting that are not first approved by the Minister.</p> <p>Target risk: Medium</p>
<p>On Report - Aid funds are included in the financial and non-financial reports that monitor and report on the partner government's expenditure.</p>	<p>2015 Update: Debt reports are not regular and not made public which raises the risk of higher debt and unsustainable servicing.</p> <p>2018 Update The Public Finance Act is not clear on which international financial reporting standards should be used for annual accounts. Notes to the annual accounts say they are prepared on a full accrual basis, but the report of the Auditor General regularly highlights</p>	<p>Medium</p> <p>(2015 Update rating: Medium)</p> <p>(2012 ANS rating: High)</p>	<p>No change</p>	<p>Yes</p>	<p>Yes</p>		<p>MFED should explore through Pacific Financial Technical Assistance Centre (PFTAC) obtaining CS-DRMS or other software that can monitor and report on loans in multiple currencies with multiple maturity dates.</p> <p>The PF Act should be amended to make it clear that financial statements should be prepared in a format consistent with a recognised public sector reporting standard approved by the International Federation of Accountants (IFAC) and in a format consistent with the requirements of the Financial</p>

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	<p>where accruals are not being used, and he gives a disclaimer opinion. This means that the financial statements may not be reliable, and creates a risk that DFAT funds may not be properly accounted for.</p> <p>In-year FMR – LMs are still dependent on Excel based vote registers to track spending against budget by program, and they have difficulty reconciling these to ACCPAC transaction listings. ACCPAC is not yet configured to provide monthly commitment and expenditure reports to LMs against warrant and budget. LMs may inadvertently overspend or overcommit. This creates a risk that DFAT funds may not be used for their intended purposes, or may not be properly accounted for</p>					<p>Enhancements continue to be made to ACCPAC by MFED Treasury to allow monitoring and reporting of commitments without the need for parallel Excel based vote registers as well as manual vote registers; there are also plans for ACCPAC to be networked to LMs</p>	<p>Instructions approved by the Minister. The Financial Instructions can then be regularly updated to support GoT's and MFED's planned transition from modified accrual to full accrual over the medium term.</p> <p>MFED Treasury, with support from the new Treasury Adviser, to continue with work to configure ACCPAC module for commitment control, and in year FMR that includes commitments, and to network this to LMs through a GoT intranet or web interface. Depending on timing of ACCPAC improvements, evaluate whether short term improvements can be made to the Excel vote registers to improve their security and the range of reports that can be generated from the Excel vote registers</p> <p>Target risk: Low to medium</p>
<p>On Audit - Aid funds are audited by the partner government's internal and external auditing systems.</p>	<p>2018 Update</p> <p>- Lack of systematic follow up of implementation of audit recommendations raises the risks that misuse of funds goes unaddressed. This creates a risk for DFAT funds that fraud may go undetected, or they may not be used for their intended purposes, or they may not be properly accounted for</p>	<p>Low</p> <p>(2015 Update rating: Low)</p> <p>(2012 ANS rating: Medium)</p>	<p>No change</p>	<p>Yes</p>	<p>Yes</p>	<p>Audit Committee charter gives Audit Committee responsibility to monitor implementation of both internal and external audit recommendations, with IAU providing secretariat services to the Audit Committee</p> <p>GOT is considering introducing legislation to strengthen authority of the PAC to follow up on</p>	<p>It is recommended that the MFED IAU, in consultation with the Auditor General and the Audit Committee, prepares procedures and develop a database to ensure that all audit recommendations are properly registered, tracked and reported on regularly</p>

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
	<p>- Annual audits of the DFAT funded Funafuti School Construction Project have not been carried out because MEYS has not requested the audit. This means that non compliance with the Direct Funding Arrangement (DFA) may not be detected, or that financial reports for the project may not be accurate. This creates a risk that DFAT funds are not used for intended purposes, not properly accounted for and/or do not achieve value for money. Fraud threatens the effectiveness of key investment objectives and/or services.</p> <p>- If LMs do not request the Auditor General to carry out audits of DFAT funded projects, then there is no independent audit of compliance of the project with GoT financial management and procurement rules, and no audit of project financial statements. This creates a risk for DFAT funds that fraud may go undetected, or they may not be used for their intended purposes, or they may not be properly accounted for</p> <p>- Performance audit function is in its infancy with limited staff capacity, no manual for performance audit and the OAG has not conducted a performance audit on its own. This creates a risk of DFAT funds not being used in an</p>					audit report recommendations.	<p>Where DFAT is directly financing a project under a DFA, DFAT should engage closely with the implementing LM and with MFED PBAC to ensure that the required audits by the Office of the Auditor General are in fact carried out annually.</p> <p>It is recommended that DFAT post consults with MFED PBAC for all projects funded under DFAT funding agreements to ensure that the Auditor General is requested to carry out compliance and financial statement audits annually. The TOR for these audits should include a requirement that a copy of the audit report, the management letter and the management response be provided to PBAC, and that PBAC will provide a copy of these to DFAT within 14 days of receipt by PBAC.</p> <p>DFAT funded Performance Audit Adviser to assist with the establishment of a performance audit division in the OAG, development of a performance audit manual and annual work plan and build capacity of staff.</p>

Component	Weaknesses and risks (Brief summary only, for each component. For each risk, show when identified, e.g. current ANS Update, previous ANS or Update. For each risk show clearly the risk source, risk event and risk impact)	Risk rating – before any controls (L/M/H/VH, also include risk rating from the most recent ANS/update)	Trajectory of change since last ANS (Positive/negative/no change)	Further consider using? (Y/N)	Additional treatments needed? (Y/N)	Existing risk controls (What reform programs are underway to help address each risk? What controls and/or capacity development measures are in place)	Proposed strategy & target risk rating (Brief summary only. If no further treatment required/available, explain why. Include expected timing and responsibility for implementation of the strategy. Provide target risk rating (L/M/H/VH) after treatment in place)
	efficient or effective manner if government programs or organisations are not subject to independent examination and areas for improvement identified.						Target risk: Low

2 Introduction, Background and Approach

There have been two previous ANSs for Tuvalu. The first ANS was approved by DFAT in late 2012 and the 2015 ANS update was approved by DFAT in late 2015. The legislative framework remains largely as described in the 2012 ANS and the 2015 ANS update, with some minor amendments (see section 3.1 below).

The approach to this ANS update assessment involved a review of key documentation, followed by in-country (6-13 November 2018) technical discussions with officials in MFED (including Inland Revenue), Auditor General's office, PAC, Office of Prime Minister, Ministry of Education, Youth and Sports (MEYS), Ministry of Health (MoH) and Ministry of Home Affairs, as well as with various technical advisers and the ADB and World Bank (WB) in-country representative. These discussions focused on developments since the 2015 ANS update and on progress against risk treatments recommended in the 2015 update. Further documentation was provided to the review team during the Assessment, as well as after the conclusion of the in-country component of the assessment.

Following the conclusion of the field work and consultations, the ANS update team provided a briefing to the CEO of MFED. The ANS update team also provided the CEO with a discussion paper on preliminary findings from the field work, showing progress against recommendations from the 2015 ANS update, and discussing issues arising during the 2018 ANS update, i.e. without drawing any conclusions on new risks or risk measures. This 2018 ANS update assessment report has been based on the fieldwork, consultations, and an analysis of the available documentation. The review team also made reference to earlier Public Expenditure and Financial Accountability (PEFA) assessment reports.

There have been three PEFA assessments for Tuvalu – in 2007, 2011 and 2015. The 2007 and 2011 assessments were carried out with support from ADB, but before the “PEFA Check” assurance was available from the PEFA secretariat. The 2007 report has not been publicly released. The 2015 assessment was a Tuvalu self assessment, and has not been PEFA checked.

3 Changes to Governance and Institutional Context

3.1 Regulatory Framework Changes

The GoT governance and regulatory framework is set out in section 2 of the 2012 ANS. The 2015 ANS update recorded no changes to the regulatory framework.

The most significant change to the governance context since 2015 is the establishment of an internal audit function and unit in MFED in August 2016. This appears to have the strong interest and support of the MFED CEO, and the newly established IAU benefitted from 6 months of technical advisory support provided through the Pacific Islands Forum Secretariat using GIZ funding (see the discussion of the internal audit function in section 6.3.2.8 below). A new chapter 18 was added to the Financial Instructions to support the internal audit function.

Around the same time, a new Financial Instruction 17 was issued dealing with “Fraud, Misuse and Loss”, and this was supported by the issue of a Circular on fraud policy by the then Secretary, MFED. The Financial Instruction and Circular were issued under the Public Finance Act, although the Public Finance Act itself does not deal with fraud or corruption.

The supreme audit or Auditor General function is now governed by the provisions of the Audit Act 2016. This Act significantly increased the statutory independence of the Office of the Auditor General including its financial independence and being able to independently manage staff. There is some consideration being given to providing for a fixed term for the Auditor General, but this would require an amendment to the Constitution, which is currently being reviewed.

A new Bill has also been drafted to expand the role and powers of the PAC. This will include giving the Committee the responsibility to also scrutinise the Estimates after they are tabled in Parliament. However, there is still some discussion within government about whether the new legislation is necessary, and whether improved scrutiny of the Estimates could be achieved through amendments to the Rules of Parliament.

On procurement, since the 2015 ANS update there have been several new policy documents prepared. The first deals with Procurement Complaints and Appeals Procedures. The second deals with Procurement Suspension and Debarment Procedures. A draft Procurement Manual has also been prepared. However, it is not clear whether any of these policy and procedure documents have been implemented. It is understood that the Complaints procedures and the Debarment procedures have recently been approved by the Minister, but the lack of a functioning website for MFED means that these documents are not widely available to the public.

3.2 Changes in Economic and Fiscal Context

In the most recent IMF Article IV mission report (July 2018), the Fund confirmed that Tuvalu has maintained macroeconomic stability, with Gross Domestic Product (GDP) growth estimated to have risen to 3.2 percent in 2017 from 3.0 percent in 2016. Large infrastructure and housing projects for the Polynesian Leaders’ Summit in 2018 and the Pacific Forum Secretariat Summit in 2019 have contributed to this growth. Higher food and transportation prices pushed inflation to 4.4 percent in 2017. There is 9 months coverage for foreign reserves equivalent to 9 months of imports. The overall fiscal balance turned into a deficit of 4 percent of GDP in 2017 with lower fishing revenues and higher capital expenditures by government in preparation for the two regional summits.

The medium term macro-economic outlook is positive with growth expected to accelerate to 4.3 percent in 2018 and then remain robust at around 4% based on the implementation of development partner (DP) funded infrastructure projects, including those funded through the Green Climate Fund. The fiscal balance is expected to return to a surplus of 6 percent of GDP in 2018, with improved revenues from fishing.

The IMF noted that the Tuvalu economy remains susceptible to downside risk from climate change, natural disasters, volatile fishing revenues, reliance on external grants, weak PEs and limited financial supervision of the finance sector. The Fund emphasised the importance of strengthening the MTFE to maintain economic stability, and encouraged the government to undertake fiscal consolidation measures to contain fiscal and debt pressures, and build fiscal buffers. In particular the Fund encouraged GoT to mobilise tax revenues, eliminate tax exemptions (through lowering thresholds) and contain recurrent spending. The Article IV report also encouraged the government to accelerating reforms of PEs, including raising electricity tariffs and linking them to oil price changes. Oversight of the financial sector is needed to tackle the high non-performing loans of the DBT and the NBT.

4 DFAT's use of PGS

The aim of an ANS is to determine the risks of channelling external donor financing through PGS. Therefore, the relevant risks are those that are directly connected to the external funding modality/ies used by DFAT in the country in question. Where this assistance is delivered through program and project financing, the risks are expected to be concentrated downstream particularly in treasury, procurement, reports and audit with peripheral risks in upstream planning and budgeting systems. Where the assistance is delivered through budget support, as is the case in much of Australia's assistance to Tuvalu, the risks of the whole PFM system come into play, and in addition to downstream risks, aid funds are exposed to upstream risks associated with weaknesses in planning, budgeting and parliament systems.

Since the 2015 ANS update, and consistent with DFAT's Aid Investment Plan for Tuvalu 2016/17 – 2019/20, the main funding entering GoT systems has related to general budget support payments as part of the Policy Reform Matrix (\$1.5 million in 2016-17 and another \$1.5 million due in 2018-19) and to the TTF with payments totalling \$5.8 million. DFAT has also contributed \$4.1 million towards the cost of the Funafuti Classroom Building Project.

The ANS update team did not assess the TTF or the Consolidated Investment Fund (CIF), the operations of which are covered under Chapter 14 of the GoT Financial Instructions. The TTF is subject to its own review and audit arrangements. However, in the context of this assessment it should be noted that distributions from the TTF are deposited into the CIF which comprises part of the CF of Tuvalu, and is subject to same oversight and scrutiny of Parliament and the same budgetary processes as the general transactional accounts of the CF. At the beginning of a FY, where CIF balance is forecast above the target for the CIF savings balance, excess funds are available for inclusion as part of the National Budget process and subject to the appropriation of Parliament.

The ANS update team was advised that funding for the Funafuti Classroom Building Project was paid into the TDF in accordance with the GoT Financial Instructions. Financial reporting is being provided to DFAT on a monthly basis through the Project Manager contracted by MEYS, however that reporting only appears to cover the costs of construction work. Expenditure related to the contract with the Project Manager is not included in the reporting to give a complete picture of project finances. It was also noted that no audits had been completed for this project. Construction work is now underway and it is important that DFAT request MEYS to arrange with the Office of the Auditor General for the completion of an annual audit in accordance with the provisions of the DFA between the two governments.

There have been important lessons for DFAT in the use of GoT systems during the early stages of the Funafuti Classroom Building Project. Considerable delays were experienced with CPU, MEYS, and indeed the Project Design and Management consultant, all contributing to the overall delay in the project at some point. This experience highlights the importance of assessing the risks associated with the use of GoT systems, and in particular GoT procurement systems, for DFAT funded infrastructure projects on this scale. This risk assessment process should be completed as part of DFAT's own project/program design/preparation process. It also points to the importance of consideration, on a case by case basis, as to whether use of government systems for such a project represents the most appropriate delivery modality.

5 Credibility of Existing PFM Reform Program

5.1 PFM Reforms

MFED in Tuvalu is leading the implementing of an ambitious PFM reform program given the limited resources available in MFED, and especially in the PBAC division of MFED. In other small pacific island countries, the planning, budgeting and aid coordination functions would each have their own departments within MFED, with significantly higher level of resources to implement, monitor and evaluate PFM reforms. The MFED management team have a good understanding of what is required, and have strong ownership and commitment to the PFM reform agenda. MFED have developed a PFM Reform Roadmap 2017-2021, and good progress has been made in several areas since the 2015 ANS update.

The establishment of an IAU in MFED, with its own charter, is a significant step forward for MoF and GoT in the identification and management of risks and internal control weaknesses. Similarly for the establishment of a government audit committee, also with its own charter. If the IAU of MFED and the Audit Committee are supported and empowered by the most senior levels of government, i.e. CEOs, the DCC and Cabinet, this will provide a significant level of assurance to donors who are considering channelling their support through GoT's own systems.

There has been enhanced monitoring of and support for public enterprises (PEs). Several of these have significantly improved their operations and profitability, reducing the risk of the PEs requiring bail-out by government. The MTFE has been institutionalised within MFED and the annual budget cycle, and is now published together with the National Budget. Transparency of budgeting has been improved through the integration of SDEs (i.e. government financed special projects) and infrastructure projects into the program budget breakdown for each ministry, as well as by an Annex in the Estimates.

The recruitment of a new DFAT funded Treasury adviser towards the end of 2018 should provide additional impetus and resources to other planned PFM reforms, including those in the Policy Reform Matrix.

5.2 PFM Reform Governance Arrangements

The PFM reform process for GoT is managed from within the framework of the PFM Reform Roadmap 2017-2021. The reform priorities identified in the Roadmap were based upon the earlier 2015 PEFA self assessment, the 2015 ANS update and other analysis carried out by the PBAC division of MFED. The Roadmap was endorsed by Cabinet in June 2017, as was the establishment of a PFM Taskforce chaired by the MFED CEO, with other members drawn from various MFED divisions and key ministries such as health and education. Technical advisers to MFED also act as technical advisers to the Taskforce. The Taskforce has met twice since it was established.

The introduction to the Roadmap acknowledges the challenge that MFED faces, i.e. it is a small ministry relative to its regional counterparts, but is faced with the same scope of reform challenges. The Roadmap also acknowledged that staff turnover in MFED or key person risk was an additional challenge. The Roadmap seeks to identify and implement appropriate reforms rather than best practice reforms, i.e. reforms that are appropriate to GoT's needs and capacity.

The Roadmap envisaged that another PEFA assessment would be carried out in 2019.

Although the Roadmap envisages the collection of data to monitor performance of the Roadmap, there is no formal monitoring or evaluation process set out. The Roadmap could be strengthened by requiring that the Taskforce carries out or leads an annual review of progress, including annual consultations with key stakeholders, followed by the submission of an annual progress report to the DCC³.

5.3 The Policy Reform Matrix

As mentioned above, Australia has provided budget support to GoT for many years. Since 2012, Australia and other budget support partners⁴ have linked their budget support disbursements to a Policy Reform Matrix (PRM). The PRM has progressed through four phases. Phase III ended in June 2016, and Phase IV covers the period 2017 to 2020. The GoT leads the program through the MFED. The GoT and its budget support partners meet twice per year in Tuvalu and/or in Fiji to discuss progress, any risks associated with reform actions, mitigation measures and the coordination and sequencing of technical inputs to achieve the reforms.

The policy actions are negotiated jointly by the partners, and different partners may attach their disbursements to different policy actions drawn from their own operations or programs in Tuvalu. Some of these policy actions may involve PFM reforms, and may be based upon priorities already identified in the PFM Roadmap. Disbursements by the various DPs are based upon their own assessments of whether there has been satisfactory progress, and there is no formula based approach based on degree of difficulty or other criteria. A review of the multi-donor PRM modality in 2016 also noted that the different internal procedures for different DPs means that there are at least three different monitoring processes for the PRM. This seems excessive for a country the size of Tuvalu, but it is understood this is still the situation in 2018.

The policy actions in PRM Phase IV are described as “Possible Reforms” for 2017 and 2018, and as “To Be Confirmed” for 2019-2020. In theory the policy actions in the matrix can be refined or revised annually, based on monitoring of progress, and then agreed to by GoT and its partners. At the time of this 2018 ANS update, GoT and its budget support partners are still operating from the PRM Phase IV document prepared late in 2016. As at early November 2018, there has been no agreement yet to update the 2018 policy actions. Proposed prior actions from the WB Fourth Development Policy Operation (August 2018) were not yet reflected in any updated policy actions in the PRM as at end of November 2018.

5.4 Reform on Management of Fraud and Corruption

The 2012 ANS (in Annex C) set out the legislative framework relevant to control of fraud and corruption. It covered various provisions of the Penal Code 1965 dealing with Corruption and Abuse of Office (Part X), Fraud and Breaches of Trust by public servants (Part XIV) and Secret Commissions and Corrupt Practices (Part XXXVIII).

The Public Finance Act has no provisions dealing directly with fraud or corruption. In Part II of the Act the Minister is given responsibility for ensuring that control of public finances is in accord with ‘international accounting practices’, but these are not defined. In 2016, a new Financial Instruction 17 was issued dealing with “Fraud, Misuse and Loss”, and this was supported by the issue of a

³ The DCC comprises all Permanent Secretaries, Secretary to Government, Director of PBAC, Director of Public Works, Commissioner for Police and the Attorney General. It is chaired by the Secretary to Government. A key role of the DCC is to review budget submissions from LMs in the context of the recommendations made by PBAC as to availability of funding and relevant prioritisation of expenditure against program performance and government policy priorities.

⁴ The Budget Support partners are Australia, Asian Development Bank, European Union, New Zealand and the World Bank

Circular on fraud policy by the then Secretary, MFED. The Instruction and the Circular placed a responsibility on all public officials to report cases of suspected fraud to MFED, and for the MFED CEO to provide details of the suspected fraud case to the Ombudsman, the Head of Internal Audit and the Auditor General within 48 hours of the receipt of the report. The 2016 report of the Auditor General noted that a finance circular covering a “Fraud, Misuse and Loss Policy” had been approved and issued by the Secretary for Finance. However, in 2016 the Auditor General also carried out a MCE assessment of the GoT and concluded that the MCE is “Ineffective”.

The Public Procurement Act of 2013 includes a provision in section 16 whereby any public officer who wilfully engages in corrupt practices in relation to a procurement proceeding will be subject to prosecution under Part X and section 367 of the Penal Code and in addition to any penalty provided under the Penal Code shall upon conviction be liable to a fine of \$10,000. The Procurement Regulations 67 to 71 contain extensive provisions dealing with fraud, corruption and conflicts of interest, and covers government officials, bidders, consultants and government procurement officers. The annual procurement reports required under the Regulations also contain a section detailing any instances of fraud or corruption.

Referring to the World Bank’s Worldwide Governance Indicators (see Annex 4), Tuvalu scores well on Voice and Accountability, Political Stability and Rule of Law. However, its score and percentile rankings for Government Effectiveness, Regulatory Quality and Control of Corruption are significantly lower. This is consistent with earlier ANS assessments, and with other parts of this 2018 ANS update.

6 PFM System Performance and Risks

6.1 Recent Assessments

There has not been any further PEFA assessment since the 2015 ANS update. The 2015 ANS update was conducted jointly with a PEFA self-assessment, the PEFA findings were incorporated into the 2015 ANS update. The 2015 ANS update cautioned that 2015 PEFA self-assessment used a less formal assessment process than a standard PEFA assessment and that its results may not have been fully supported by evidence and may change in the next full PEFA assessment.

There have been no formal reviews of GoT procurement systems since the 2015 ANS update. The 2015 PEFA self assessment included a review of the procurement function. The 2015 PEFA self assessment noted some significant improvements, but also acknowledged that significant weaknesses remained, and maintained the score at D+.

The 2012 ANS included a “preliminary MAPS” assessment, and it seems that the 2012 ANS and the 2010 PEFA provided the basis for the adoption by Cabinet of a Public Procurement Policy in 2012. These documents then formed the basis for subsequent procurement reforms, including the new Public Procurement Act of 2013 and the Public Procurement Regulation of 2014. These reforms have been supported by intermittent short term technical support from ADB.

Also, the CPU in MFED does prepare annual procurement reports as required by the Public Procurement Regulation of 2014, and these are of a good standard. In addition to providing useful statistics on procurements, volumes and values, these annual reports have a chapter dealing with outstanding matters, including policy and procedural matters.

The Auditor General carried out a compliance audit on procurement in 2017 to test the level of compliance with the relatively new Public Procurement Act of 2013. His report was provided to the Parliament in September 2017. He found significant levels of non compliance, as follows:

- No procurement plans for any LM.
- Majority of procurement not following the required procurement procedures and processes.
- CPU unable to provide bidding documents and evaluation forms for major procurements.
- Lack of monitoring of projects by CPU and LMs.
- Missing information and contracts from Procurement Register.
- Direct contract procurement occurring before Minister of Finance approval.
- Monthly reports of minor procurement not submitted to CPU.
- No documentations of Bid Evaluation Committees decisions.

The Auditor General’s report made a significant number of recommendations relating to the types of non compliance issues raised.

6.2 The Proposed 2019 PEFA Assessment

MFED have indicated that they plan to carry out another PEFA assessment in 2019. However, there have been significant changes to the PEFA framework since 2015. In 2016 the PEFA Secretariat introduced a new framework to replace the previous 2011 framework. The 2016 PEFA indicators and dimensions (sub-indicators) have changed significantly from the 2011 PEFA framework⁵.

⁵ Refer to <https://pefa.org/tracking-change-performance-based-previous-versions-pefa>

Approximately 40 percent of PEFA 2016 dimensions are either directly or indirectly comparable to dimensions in PEFA 2011, one-third of the dimensions are new or different from PEFA 2011, and the remaining quarter have the same subject as PEFA 2011 indicators but are measured differently. Significantly, in the 2016 PEFA framework there is no longer a separate assessment of donor performance, with all of the old donor indicators D-1 to D-3 no longer in place. Various dimensions of the donor indicators under the old 2011 PEFA framework (D-1 and D-2 specifically) have now been absorbed into the indicators of government performance under the 2016 PEFA framework.

It is recommended that MFED establish a PEFA oversight team and assessment manager reporting to the PFM Roadmap Taskforce, and that this oversight team receives thorough training in the new PEFA methodology before attempting to carry out either a self assessment, or an external assessment.

6.3 Performance of PFM System Components and Risk

6.3.1 Brief Update on the Risk and Control Measures from the 2015 ANS Update

The table below provides an update on progress against the risk measures recommended in the 2015 ANS update, including any carryover or incomplete actions from the 2012 ANS.

Table 2 ANS Risk Treatments and Progress Since 2015

Risk identified in 2015 ANS update as not then being addressed (if any)	Recommended risk treatment as per the 2015 ANS update	Situation in 2018
Upstream Components of GoT Systems		
On Plan		
2015 - Lack of integration of recurrent and capital budget poses downstream risks to financing. - No sectoral plans to guide resource allocation. - Linkages of the budget to planning and strategies are weak which can lead to ineffective allocation. - Lack of forward capital estimates in the budget may affect future budget financing	Existing. The Budget and Planning adviser funded by DFAT maintains the MTFF as a medium term planning tool. Training on MTFF by the adviser will continue with the aim of getting the staff to fully maintain the MTFF when her term expires in 2015 Proposed - DFAT to ensure the adviser trains local staff to take over maintenance and updating of the MTFF. - No strategy proposed. - No strategy proposed. - DFAT to advocate for GOT to identify significant capital spending in forward estimates of the MTFF. Target risk: Low	One-off SDE estimates, infrastructure projects estimates are now integrated into the main Program estimates of each LM in the national Budget. Donor funded projects are included only by Ministry – not by Program Sector plans (corporate plans) only available for a few ministries, and still weak links to budgets. ECU of OPM are now responsible for the M&E function in all sectors The MTFF is now maintained by PBAC without adviser support. See 2017 & 2018 Estimates. Significant one off projects are now shown as SDE, and infrastructure projects shown as infrastructure projects in the attachments to the MTFF in the Estimates – but MTFF outyears are proxies or best estimates.
On Budget		
2012 - Failure to adjust policies to budget and vice versa lead to risk	Existing measures	

<p>of sub-optimal reallocation of government expenditure not in line with policies.</p> <ul style="list-style-type: none"> - Failures to disclose all budgetary activities including donor funded projects increase risk of misuse of funds. - Weak oversight of Kaupules and control of their debt may result in future bail out by government, although Kaupule budgets are relatively small and borrowing requires approval of the responsible Minister. <p>- Weak administration and accountability for collecting government fees and charges risk increasing budget deficit.</p> <p>- Lack of sustainability of the MTEF may reduce effectiveness of government expenditure.</p> <p>2015</p> <ul style="list-style-type: none"> - Lack of monitoring and consolidation of fiscal risks from PEs present financial risks on future budgets. - The high level of non-performing debt of government owned financial institutions presents risks of future bail outs 	<ul style="list-style-type: none"> - GOT has introduced a fishing license stabilisation measure in the 2015 budget. - Improvements to budget documentation are ongoing. The implementation of the PEs Act will continue with the assistance of an ADB funded adviser in the PERMU who visits the country a few times a year <p>Proposed</p> <ul style="list-style-type: none"> - Efforts should be made by the GOT to speed up the implementation of the PE Act by filling vacant positions in PERMU <p>- GOT should consider measures to improve the comprehensiveness and quality of data on tax arrears</p> <p>- The MTEF should be reviewed to facilitate extension to other ministries outside health and education.</p> <p>- The PERMU should monitor and report regularly on fiscal risks of the PEs.</p> <p>- GOT should consider reform of the financial sector.</p> <p>Target risk: Moderate</p>	<p>Further improvements to budget documentation have been made. There could be more transparency around TXs on behalf of the government, i.e. for each Program, and description of what are these are for</p> <p>PERMU – still only two positions filled as per 2018 Budget</p> <p>Audit Report on 2016 Financial Statements says Tax debtors not reconciled to accounts receivable sub ledger; accounts receivable could not be verified. Inland revenue arrears are shown in the Financial Statements as 971,647 in 2016, but no further breakdown.</p> <p>Still only a few sectors do corporate plans, i.e. health and education. (OAG to develop Perf. Audit capacity)</p> <p>Report prepared by Consultant in April 2018. All 6 trading PEs have +’ve equity, and Financial Statements are up to date. Equity ratios are adequate except for TTC.</p> <p>Consultant report – overheads of 2 banks are high, and merger should be considered. But both have sufficient equity ratios. Both banks are more prudent with lending, and taking steps to improve loan recovery, but DBT made a loss in 2017. Consultant recommended against a govt. loan guarantee scheme for DBT, and recommended a grant scheme conditional on loan repayments</p>
<p>On Parliament</p>		
<p>2015 Update:</p> <ul style="list-style-type: none"> - Inadequate parliament scrutiny of budget and audit reports increases the risk of effectiveness of budget allocation and accountability of use of public resources including donor funding. 	<p>Existing</p> <ul style="list-style-type: none"> - There has been limited improvement to the parliament scrutiny of the budget and the audit reports, and the time allowed for parliamentary review of budget has improved. There is some discussion of strengthening 	<p>Draft PAABC still with Attorney General’s office to strengthen capacity of parliament to scrutinise budget and public accounts. The Speaker would prefer that this be dealt with through Parliaments own rules. Further internal government discussions are required.</p>

<p>- Lack of parliamentary appropriation of all government spending risks diversion and misuse of funds, although this risk is low given donor funding is reported in the budget documentation.</p>	<p>the power of PAC through legislation which is being drafted</p> <p>Proposed</p> <p>- GOT should consider what assistance is needed to build capacity in the parliament office including finalisation of the legislation to give PAC the authority to demand explanations from Secretaries and CEOs on audit reports and budgets, including follow up on audit recommendations.</p> <p>Target risk: Low</p>	<p>Some PAC members have participated in overseas workshops by Commonwealth Parliamentary Association (CPA) etc, but no formal capacity building program for PAC members or Parliamentary Clerk's office</p>
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Downstream Components of GoT Systems

<p>On Treasury</p>		
<p>2012 ANS:</p> <p>- The weak monitoring and management of expenditure payment arrears may divert funds from intended purpose (placed under Budget in the 2012 ANS).</p> <p>- Reliability of data on tax and revenue arrears is still weak.</p> <p>- Weakness in ensuring that tax liabilities are assessed and collected still leads to risk of higher financing requirements.</p> <p>2015 Update:</p> <p>- Lack of in-year reporting on expenditure commitments raises the risk of higher deficit.</p>	<p>Existing</p> <p>- Commitments are being monitored and the Financial Management Information System (FMIS) will be adjusted to allow reporting of commitments.</p> <p>-The Adviser on Treasury and Income Revenue will continue training. More regular transfer of revenue is being planned as agencies are all in one building.</p> <p>- The advisor in the Inland Revenue division is supporting efforts to improve tax audits and compliance.</p> <p>- Purchase Orders (POs) for goods and services cannot be raised if the budget is exceeded.</p> <p>Proposed</p> <p>- Overarching: The FMIS adviser needs to continue to consolidate the gains that have been achieved in building local capacity in treasury.</p> <p>- The tax adviser will need to continue the reforms required to improve the collection of taxes and other revenue arrears to ease the overall financing requirements on government and</p>	<p>FMR are not available to LMs from ACCPAC, other than transaction listings. LMs still rely on their own vote registers for up to date information on budget balances and spending, but these do not allow analysis or filtering of data to produce better quality reports, charts etc.</p> <p>Surplus funds from Inland Revenue bank account still only transferred twice per year when main operating account needs to be topped up.</p> <p>The adviser provided training to inland revenue in audit and compliance until he finished in 2015. Inland Revenue have requested further technical support from DFAT and PFTAC</p> <p>- Treasury adviser position has been advertised by Scope Global, but scope of TOR is not realistic for a 2 year assignment. Inception report and workplan will need to prioritise activities with realistic deliverables. A priority should be negative project balances in TDF as per Auditor General report for 2016, as this creates risk for DFAT funds in the TDF. DFAT will interview for this position by end of Nov 2018</p> <p>IMF Article IV 2018 - Tax revenue has declined due to high tax exemption thresholds and weak compliance. Arrears climbed to \$975,000 at end of 2016, before dropping back to around \$350,000 in November 2018</p>

	<p>lessen reliance on donor support in the medium term</p> <ul style="list-style-type: none"> - GOT should strengthen the process for the assessment and issuance of government guarantees. - GOT should make efforts to ensure all expenditure is raised using a PO. <p>Target risk: Moderate</p>	<ul style="list-style-type: none"> - Consultant report on PEs recommended that government avoid giving guarantees on fishing JVs, and use limited liability companies for JVs to limit GoT liability. Consultant also recommended against government guarantees for DBT loans to small or micro enterprise - Vote registers record POs and Payment Vouchers. But Excel vote registers are not structured by Program to show balance of budget available. Manual (paper based) registers do show this, but these are not suitable for reporting.
On Accounting		
<p>2012 ANS: Lack of internal audit function leads to delays in the detection of the misuse of funds.</p> <ul style="list-style-type: none"> - No payroll audit has been done since 2012. - Inadequate control of non-salary expenditure leads to poor expenditure application. <p>2015 Update</p>	<p>Existing</p> <ul style="list-style-type: none"> - Internal audit function is being established. - Annual payroll audit will be conducted by OAG. - Raising of purchasing orders is now centralised, leading to stronger expenditure control. <p>Proposed</p> <ul style="list-style-type: none"> - GOT plans to train government information technology staff to adjust reports and develop new ones to increase monitoring and reduce risk of unauthorised reallocation of funds. <p>Target risk: Moderate</p>	<p>IAU established. Also benefitted from 2 years TA, with Strategic Plan, 3 yr strategic workplan and annual workplan, internal audit charter in place. Currently 2 staff, possibly another from 2020. Audit Committee established, but has not met since June. New Chapter in Fin. Instructions to support Internal Audit Function, along with Internal Audit Charter and Audit Committee Charter</p> <p>No special audit of payroll, but OAG indicated it was looked at as part of audit of 2017 accounts and no issues arose. But there are still concerns around internal controls, e.g. staff still paid when on extended leave.</p> <p>LMs say that vote book reconciliation is still a problem for them, and that they must maintain both paper based & Excel based vote registers. Excel vote registers are not suitable for generating reports from, leaving on the paper based vote books as a source of FMR for LMs</p> <p>MFED Accounts staff are working themselves to configure ACCPAC to include a commitment control module, with occasional support from an ACCPAC specialist. Plan is to give LMs web based access to generate and filter their own reports. New DFAT Treasury TA may be able to support this</p>

On Procurement		
<p>2012 ANS: - Lack of robust public procurement system encourages corrupt and misuse of funds.</p> <p>2015 Update: - Poor compliance with the new procurement legislation and regulations still poses risks of misuse of funds.</p> <p>- Pharmaceutical procurement in Health and TDF transactions currently do not comply with the new requirements, which potentially reduces value for money</p>	<p>Existing In 2016, training will continue; a procedures manual will be prepared; independent complaints handling review body will be set up; annual procurement plans will be prepared; and a review of procurement business processes will be undertaken.</p> <p>Proposed - DFAT should engage with ADB to advocate for the current procurement adviser to spend more time in-country to help deliver the tasks planned for 2016.</p> <p>- The CPU should withdraw from contract management and focus on procurement.</p> <p>- GOT should progressively bring all procurement, including pharmaceuticals, in line with the new procurement law as capacity of the CPU expands.</p> <p>Target risk: Moderate</p>	<p>5 staff in CPU, but Head and Policy Officer now on long term study leave. Capacity building continues through short term TA. Annual procurement reports prepared for 2016 & 2017. Website is not operational which reduces transparency. CPU continues to do training for LMs. Draft Procurement Manual in August 2018. Debarment and complaints handling mechanisms developed but have not been made public – Review Panel will be appointed by Minister for each complaint not resolved.</p> <p>TA continues to be short term. CPU would prefer full time. Capacity supplementation or substitution – LT study leave to 2 CPU staff</p> <p>Contract management is done by LMs, but this may not be done well as the pharmaceuticals example suggests.</p> <p>CPU led procurement for pharmaceuticals and contract signed with IDA in February, but still no delivery at Nov. 2018. CPU should give consideration to a multi year framework contract arrangement</p> <p>Some LMs by-pass CPU and do their own procurements utilising non-competitive methods. OAG Audit of Procurement 2017 – LMs not following procedures; single source procurements without approval of Minister</p>
On Reporting		
<p>2012 ANS: No risks outstanding.</p> <p>2015 Update: Financial statements follow Tuvalu Generally Accepted Accounting Principles but are not fully compliant with International Public Sector Accounting Standards. - There are still gaps in inclusion of commitments which raises the risk of higher financing requirements. - There are qualifications of the financial statements by the Auditor General which may mask misuse of funds.</p>	<p>Existing - No measures</p> <p>- The monthly report template in the FMIS will be adjusted to include expenditure commitments. MFED staff are confident they can generate these reports in the absence of the advisers. Training will continue</p>	<p>This has not been done. LMs continue to rely only on their (paper based) vote books for FMR, i.e. after reconciliation with ACCPAC.</p>

<p>- Debt reports are not regular and not made public which raises the risk of higher debt and unsustainable servicing.</p>	<p>Proposed - Debt reports should be more regular and should be made publicly available.</p> <p>Target risk: Low</p>	<p>ACCPAC cannot produce good quality debt reports, as it does not have debt monitoring and reporting capacity for multi currency loans of varying maturities etc. MFED should explore through PFTAC obtaining CS-DRMS software. MFED does not have a website to publish such reports also.</p> <p>IMF Article IV debt forecasting shows debt/GDP falling from 47% in 2016 to 37% in 2017 and 28% in 2018 (including Naficot debt). But Debt Sustainability Analysis (DSA) still shows Tuvalu at high risk of debt distress. DSA – <i>‘Risks to debt sustainability remain high due to elevated current spending, a projected decline in fishing revenue and grants, and risks of natural disasters. A persistent fiscal deficit is projected to deplete fiscal buffers and cause the present value of debt-to-GDP to breach its indicative threshold in the long run’</i></p>
<p>On Audit</p>		
<p>2012 ANS: - Lengthy delays in Kaupule accounts being submitted and audited lead to risks that sub-optimal expenditure and corruption go undetected for some.</p> <p>- Weak implementation of audit recommendations raises the risks that misuse of funds goes unaddressed</p>	<p>Existing - OAG has adopted summarised procedures to clear the Kaupule audit backlog by December 2015.</p> <p>- GOT is considering introducing legislation to strengthen authority of the PAC to follow up on audit report recommendations</p> <p>Proposed - GOT should consider what assistance is needed to build</p>	<p>Audits of GoT financial statements are expected to be up to date with tabling of 2017 Audit Report expected before the end of 2018. Audits of PEs for 2017 are complete. Audits of Kaupules – OAG only has resources to do 2 or 3 per year, and appear to only be complete up to YE 2011. Audit of donor funded projects done on request of donor through GoT – currently relevant LM but might be better coordinated if done through Aid Coordination. Donors can access copies from PBAC.</p> <p>Draft PAABC still with Attorney General’s office to strengthen capacity of parliament to scrutinise budget and public accounts. But Speaker prefers to use Parliaments rules – issue to be discussed internally within Govt to resolve</p> <p>Need to avoid duplication of role of Audit Committee who also might keep track of audit recommendations and whether they have been addressed.</p> <p>Some PAC members have participated in overseas workshops</p>

	<p>capacity in the parliament office including finalisation of the legislation giving PAC authority to demand explanations from Secretaries and CEOs on audit reports and budgets including follow up on audit recommendations.</p> <p>Target risk: Low</p>	<p>by CPA etc, but no formal capacity building program for PAC members or Parliamentary Clerk's office</p>
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6.3.2 Detailed Analysis on the Performance of each of the PFM Components

6.3.2.1 On Plan

Only a few key ministries currently have strategic plans or corporate plans, including MEYS and MoH. These are not costed, and the program or KRA structures used in the strategic plans do not map easily to the National Budget program structure. There has been an earlier pilot of MTEFs for the health and education sectors from 2013 to 2015, but these are no longer maintained. This is not surprising as MTEFs are demanding on both the strategic planning and financial management capacity of the relevant ministries.

The sector plans for MEYS and MoH do not have strong monitoring and evaluation frameworks to support evaluation of improvements to health or education outcomes or evaluation of organisation performance. The Tuvalu Education Sector Plan 2016-2020 (TESP 3) has programs that are not clearly described and which do not match the programs show in the Budget Estimates, making it difficult to link plans and budgets. TESP 3 has over 80 indicators of performance, but there is no indication of what the source of data will be for each indicator. TESP 3 acknowledges the need for an education sector management information system, but does not outline a strategy for developing one.

The Tuvalu Health Reform Strategy 2016-2019 (THRS) discusses costs and also gaps in financing, but the programs and activities themselves are not costed. The THRS shows a forward budget using the Budget Estimates structure, but it does not map this budget program structure to the KRAs (each with a strategic objective) used in the THRS. There is no health information system to support monitoring and evaluation of the THRS.

Donor funded projects are shown in the National Budget by Ministry, but not by program, i.e. it is not clear to readers of the Budget what objectives or programs the donor projects are supporting.

Both MEYS and MoH are currently benefiting from technical advisory assistance being financed by DFAT, and it is expected the quality of the sector plans and the monitoring and evaluation frameworks will be improved. Realistically, sustainability of strategic planning improvements will continue to be a challenge unless the planning frameworks are kept simple. Responsibility for oversight of the strategic planning function in government currently rests with the OPM ECU. On the other hand, the responsibility for annual and medium term budgeting rests with MFED PBAC. Without clear guidelines, it will be difficult for LMs to develop and maintain clear links between their plans and budgets.

It is recommended MFED PBAC and OPM ECU should cooperate to develop clear sector planning guidelines and templates to guide key sectors on strategic plan preparation, costing and links to annual budgets, with credible M&E frameworks. Both of these agencies should take advantage of

the DFAT TA available in the health and education sectors to develop simple guidelines and templates.

DFAT may continue to use the GoT planning systems subject to the development of national guidelines on sector planning, monitoring and evaluation.

Target Risk Rating 2015 – Low

Target Risk Rating 2018 – Low to medium (refer to revised ANS Risk Register at Annex 2).

6.3.2.2 On Budget

Virements to Overseas Travel and TMTS

Some expenditures such as overseas travel and the TMTS are consistently and significantly under budgeted for, i.e. compared to current and prior year levels of actual spending. Virements from other service delivery programs, and Supplementary Budgets are routinely used to increase budget allocations beyond those approved by Parliament in the original National Budget. For some ministries, the CEOs spend considerable time identifying savings in other budget lines and processing virements to facilitate overseas travel. In GoT, there are no limits on the level of virements that can be processed, either for programs or for natural account codes. Combined with the lack of credible M&E framework mentioned above, this creates significant risk to the effectiveness of service delivery in key sectors such as health and education.

It is recommended that MFED consider facilitating amendments to the PF Act to place limits on virements into and out of programs within the same head (ministry), e.g. maximum of 10% per program; with similar limits on virements to or from line items, e.g. maximum of 20% (but not to or from Staff Payroll).

In the absence of such legal restrictions on virements, DFAT funds should where possible be budgeted for through the TDF, and not through the CF, and the DFA for projects in the TDF should make clear what is eligible and ineligible spending using DFAT funds.

Tax Exemption Thresholds

The most recently IMF Article IV report has identified that high exemption thresholds for the major sources of taxation reduces actual levels of tax collections below their potential, thereby reducing funding available for core services such as health and education.

It is recommended that MFED lead a review of the cost of these tax exemption thresholds, and provide options to the DCC and Cabinet for increasing revenue yield through reductions to current thresholds.

Fiscal Risk from Public Enterprises

An independent report on the performance of GoTs PEs (David Hutton, April 2018) suggests that the level of fiscal risk carried by GoT for its PEs has fallen since 2015. There have been significant reforms since 2015. All trading PEs now have corporate plans, and the National Fishing Corporation of Tuvalu (NAFICOT) is now incorporated and for the first time the directors have been appointed in accordance with the Public Enterprises Performance & Accountability Act. Trading enterprises other than NAFICOT have good quality financial statements and the 2016 financial statements were completed by April 2017. All trading enterprises have positive net equity for GoT. Several improvements were recommended including:

- Public beneficial bodies should also prepare corporate plans
- Community service obligations funding for Tuvalu Electricity Corporation (TEC) should be realistic to adequately compensate TEC for the non commercial activities it is required to undertake (which may help TEC pay its arrears of tax liabilities)
- Arrears of taxes by TEC and Tuvalu Telecommunications Corporation (TTC) should be cleared
- GoT ministries should pay their invoices to relevant PEs on time

It is recommended that MFED PE Reform Monitoring Unit reviews the report of the independent consultant, develops a response strategy and obtains approval from the MFED CEO to proceed with implementation of the strategy.

Central Contracts Management Unit

MFED has recently established a CCMU with responsibility for oversight of long term commercial contracts (e.g. for use of Tuvalu airspace, the dot.TV domain, fishing licences etc. The New Zealand Ministry of Foreign Affairs & Trade are financing a technical adviser to provide support to this unit. Until CCMU was created, responsibility for management of these contracts rested with relevant LMs. However, it is clear that these contracts have not been managed well, and some of the contracts can no longer be located. It is likely that the actual level of revenue yield to GoT from these long term commercial contracts is likely below its potential. MFED should be commended for establishing the CCMU, and for taking steps to centralise and bring more discipline to the management of these contracts. Each of these contracts deals with very technical subject areas and until now, Tuvalu has not sourced the necessary short-term specialised technical services to re-negotiate the contracts and to monitor counterparty performance. The MFED CCMU is best place to identify and source the necessary technical support on a contract by contract basis.

It is recommended that the MFED CCMU develops and implements a medium term plan to identify and source the necessary technical advice required for the renewal or renegotiation of each contract. CCMU should develop a reliable database of all of these contracts to support ongoing monitoring of contract performance.

DFAT may continue to use the GoT budget systems subject to the implementation of the risk mitigation measures recommended above.

Target Risk Rating 2015 – Medium

Target Risk Rating 2018 – Low to Medium (refer to revised ANS Risk Register at Annex 2).

6.3.2.3 On Parliament

There is no dedicated parliamentary estimates committee, and parliament sitting as a committee-of-the-whole is only give 1 to 2 days to scrutinise the estimates and the Appropriation Bills. Parliament does not have adequate research capacity in the Clerk's office to support private members or government members who may want to scrutinise the estimates more closely, or question government officials. There is good scrutiny of the draft Estimates by the DCC, but the DCC is comprised of heads of government ministries who would normally be expected themselves to account to a parliamentary estimates committee for the Estimates they have submitted to Cabinet and then to Parliament. The fact that estimates for overseas travel and TMTS have been consistently under-estimated for many years, when much higher actual spending levels are shown for earlier years suggests that CEOs are not being held accountable for consistently preparing budgets that lack credibility.

There seems to be agreement within government that the role of the PAC should be expanded to include scrutiny of the annual estimates and Appropriation Bills, and that the powers of the PAC should be improved to allow them to summon and question senior government officials on spending plans and on the performance of their ministries. There is still discussion within government as to whether this expansion in the role and powers of the PAC should be achieved through legislation (already drafted) or through changes to the rules of parliament – but GoT should decide which approach is preferable.

It is recommended that whether through the proposed legislation or changes to Rules of Parliament, GoT should expand the remit of the PAC to also cover scrutiny of the annual Estimates and Appropriation Bills, and increase the powers of the PAC to summon and question government officials.

The need for capacity building in the office of the Clerk of Parliament to provide better support to Parliament's oversight committee is discussed further below in On Audit.

It is recommended that DFAT may continue to use the GoT parliament system subject to the implementation of the recommendation above to give the Parliament greater capacity to scrutinise the Estimates.

Target Risk Rating 2015 – Low

Target Risk Rating 2018 – Low (refer to revised ANS Risk Register at Annex 2).

6.3.2.4 On Treasury

Payroll Controls

There is a weakness in internal control between human resource management decisions and payroll disbursements. The procedures for removing staff from payroll when they take extended leave, abandon their post etc are not clear or tight enough to ensure MFED Treasury are informed in good time or at all. This continues to result in overpayments of salaries and allowances, and creates a risk that DFAT funds will not achieve investment objectives or will not achieve value for money.

It is recommended that in consultation with MFED Treasury, OPM HRM should revise the HRM manual and other guidelines to require LMs, island schools, health centres etc to urgently notify MFED Treasury of cases where payroll should be stopped or adjusted. The notification procedures should make provision for use of email or telephone or radio to back up any requirements for written notification.

Unauthorised Bank Accounts

The 2016 report of the Auditor General reports that there have been cases of bank accounts being opened by government officials which are not under the control of MoF Treasury, including for the use of donor funds. This allows donor funds to be used outside of the normal government internal controls and procurement arrangements. This creates a risk that DFAT funds may not be properly accounted for, may not achieve value for money, or may be subject to fraud.

It is recommended that MFED should work with NBT and DBT to ensure that no bank accounts can be opened without the approval of the MFED Chief Accountant. If necessary the Public Finance Act should be amended to make it an offence for any government official to open a bank account without the authority of the MFED Chief Accountant.

It is recommended that DFAT may continue to use the GoT treasury system subject to the implementation of the risk treatments recommended above.

Target Risk Rating 2015 – Medium

Target Risk Rating 2018 – Medium (refer to revised ANS Risk Register at Annex 2).

6.3.2.5 On Accounting

Negative Project Balances

The TDF accounts in ACCPAC allows donor funded projects to record negative project balances (33 projects in 2016 had negative balances). This can arise through mis-postings or journals, but they have not been corrected when the accounts are closed. This creates a risk that DFAT funds deposited to the TDF to finance DFAT projects may be used to subsidise overspent projects of other donors, and therefore may not achieve their investment objectives.

It is recommended that MFED Treasury should implement control procedures on ACCPAC to ensure that expenditures for each project (in total, over multiple years) can never exceed bank deposits for the same project over the life of the project. Additional controls should be put in place to ensure that expenditure on a project in a single year cannot exceed the value of warrants for that project in the same year. The new DFAT funded treasury adviser should provide assistance to develop and implement these controls.

Reconciliation of Bank Accounts

The Auditor General's report for 2016 also reported that bank balances for the main CF bank account have not been properly reconciled to GL balances on ACCPAC. This creates a risk that in-year and end of year financial reports are not reliable, and this creates a risk that DFAT funds may not be properly accounted for and may not achieve investment objectives.

It is recommended that, with the support of the new DFAT funded Treasury Adviser MFED Treasury should establish the reasons for non reconciliation, and institute procedures to reconcile the account on a weekly or monthly basis. If necessary, separate procedures should be developed to investigate unmatched items from bank reconciliations of earlier years – however, the priority should be to keep bank reconciliations up to date for the current and future years.

It is recommended that DFAT may continue to use the GoT accounting system subject to the implementation of the risk treatments recommended above.

Target Risk Rating 2015 – Medium

Target Risk Rating 2018 – Low to medium (refer to revised ANS Risk Register at Annex 2).

6.3.2.6 On Procurement

Annual Procurement Plans

LMs are not preparing annual procurement plans and submitting them to MFED with their budget submissions as required by the Budget procedures. The lack of procurement plans makes it more difficult for CPU to aggregate common use items from all ministries into larger packages to maximise economies of scale. This creates a risk of poor value for money.

It is recommended that PBAC should consider making release of Warrants for all types of expenditure conditional on LMs submitting procurement plans after Parliament approves the Budget. The annual Budget circular and templates should make this clear.

Late Submission of Specifications to CPU

LMs are delaying the preparation of tender or bidding specifications until late in the FY before submitting their procurement requests to CPU. This leaves little time for CPU to complete the procurement process and delivery of goods, works or services within the budget year, and creates a risk that investment objectives will not be achieved and a risk of poor value for money. MFED are currently developing procedures for 'multi-year Appropriations' so that end of year lapses in

Appropriation and warrant do not create the need to start the procurement process again in a new FY. Whilst this will help avoid compression of the budget execution cycle arising from delayed procurements, there will still be a need for LMs to be more disciplined in their approach to procurement and project management.

It is recommended that if MFED proceeds with its proposal to implement multi year Appropriations for infrastructure projects using a Special Fund, then additional procedures should be put in place for regular update of project cash flow requirements by LM project managers (i.e. depending on physical progress of the project), and to ensure that Warrant releases are limited to total Appropriations to date from any year for each project, and for the prevention of negative project balances for any given project (i.e. where expenditure exceeds bank deposits for a single project over multiple years for the life of the project).

Non Competitive Procurement Methods

There is limited use of framework contracts which places unnecessary demands on the limited resources of CPU, and can result in higher prices or poor delivery performance by suppliers. This causes delays in procurement, delays the achievement of investment objectives, and creates a risk of poor value for money.

Based on the CPU annual reports for 2016 and 2017 and Auditor General procurement audit of 2017 there is significant non-compliance with the procurement regulations, including the requirement for major procurements to be handled by the CPU of MFED. There is also utilisation of non-competitive procurement methods by LMs without appropriate justification and this creates a risk that procurements will represent poor value for money where government or DFAT funds are used. Examples of non competitive procurement methods include direct contracting without first seeking the approval of the Minister.

It is recommended that MFED CPU continue to work on expansion of the use of framework agreements, including for common use items, which facilitate timely procurement and can create savings. If necessary, CPU could obtain technical advice on development of the framework contracts.

It is also recommended that MFED CPU, through the MFED CEO, should notify both the OPM HRM unit responsible for CEO performance contracts, and the Auditor General, of these instances of non compliance with the procurement regulations by the relevant CEOs, i.e. a breach of section 6 of the Public Finance Act; MFED CEO should also use the DCC to make other CEOs aware of the requirements of the Procurement Regulations and that non compliance will be reported in writing to OPM HRM, including cases of direct contracting that are not first approved by the Minister.

Contract Management

After award of contracts through CPU, the responsibility for management of the contracts rests with each LM. For some contracts, management of the contract can be quite demanding on the capacity of the LM. In the health sector, CPU led the procurement process and a contract was signed with the winning supplier in February 2018. However, in November 2018 there had still been no delivery of pharmaceuticals to MoH. CPU and MoH may need to consider the use of a multi-year framework contract arrangement in future for pharmaceutical supplies.

As discussed above in section 4 there have been significant delays with construction of the DFAT funded Funafuti Classroom Building Project. This again reflects on the capacity of MEYS to manage the contract and the contractor. Under the agreement for this project, there is meant to be an annual audit of the project by the Auditor General. However, it appears that MEYS has not requested such an audit.

It is recommended that where DFAT is directly financing a project under a Direct Financing Agreement, DFAT should engage closely with the implementing LM and with MFED PBAC to ensure that the required audits by the Office of the Auditor General are in fact carried out annually.

It is recommended that DFAT may continue to use the GoT procurement system subject to implementation of the risk treatments recommended above.

Target Risk Rating 2015 – Medium.

Target Risk Rating 2018 – Medium (refer to revised ANS Risk Register at Annex 2).

6.3.2.7 On Report

Debt reporting

Debt reports are not regular and not made public which raises the risk of higher debt and unsustainable servicing. ACCPAC (in common with other commercial-off-the-shelf accounting packages) is not designed to record loans in multiple currencies with varying maturity profiles and to produce good quality reports on foreign currency debt outstanding by currency, by maturity date, by donor etc.

It is recommended that MFED should explore through PFTAC obtaining CS-DRMS or other software that can monitor and report on loans in multiple currencies with multiple maturity dates.

Financial Reporting Standards

The Public Finance Act is not clear on which international financial reporting standards should be used for annual accounts. Notes to the annual accounts say they are prepared on a full accrual basis, but the reports of the Auditor General regularly highlight where accruals are not being used, and he therefore provides a disclaimer opinion. This means that the financial statements may not be reliable, and creates a risk that DFAT funds may not be properly accounted for.

It is recommended that the PF Act should be amended to make it clear that financial statements should be prepared in a format consistent with a set of public sector reporting standards approved by the International Federation of Accountants (IFAC) and in a format consistent with the requirements of the Financial Instructions approved by the Minister. The Financial Instructions can then be regularly updated to support GoT's and MFED's planned transition from modified accrual to full accrual over the medium term.

In-Year Financial Reporting

For in-year FMR LMs are still dependent on Excel based vote registers to track spending against budget by program, and they have difficulty reconciling these to ACCPAC transaction listings. ACCPAC is not yet configured to provide monthly commitment and expenditure reports to LMs against warrant and budget. (At the time of the writing of this 2018 ANS update, MFED Treasury were working on modifications to ACCPAC, with support from an ACCPAC developer, to allow vote control ledgers to be provided from within ACCPAC, rather than through parallel Excel registers). LMs may therefore inadvertently overspend or overcommit. This creates a risk that DFAT funds may not be used for their intended purposes, or may not be properly accounted for

It is recommended that MFED Treasury, with support from the new DFAT funded Treasury Adviser, continue with work to configure ACCPAC module for commitment control, and in year FMR that includes commitments, and to network this to LMs through a GoT intranet or web interface. Depending on the timing of these ACCPAC improvements, MFED Treasury should evaluate whether

short term improvements can be made to the Excel vote registers to improve their security and the range of reports that can be generated from the Excel vote registers.

It is recommended that DFAT may continue to use the GoT financial reporting system subject to implementation of the risk treatments recommended above.

Target Risk Rating 2015 – Low

Target Risk Rating 2018 – Low to Medium (refer to revised ANS Risk Register at Annex 2).

6.3.2.8 On Audit

Follow-Up of Audit Recommendations

There is currently no systematic tracking and follow up⁶ to recommendations of the Auditor General, other than when the Auditor General carries out the following year's audit and identifies many of the same or similar issues. Following the creation of the IAU in MFED (see discussion in section 3.1 above) there will be additional findings and recommendations that need to be systematically followed up, particularly where they identify weaknesses in internal controls or procedures that need to be strengthened. The recent creation of a whole of government audit committee may provide an opportunity for a more systematic approach to follow up of recommendations. The Audit Committee Charter includes the following as one of the roles of the Audit Committee:

“Review the progress of the Government of Tuvalu in the implementation of recommendations arising from:

- o The Internal Audit Unit's reports;
- o Office of the Auditor-General Audit Reports; and
- o Public Budget, Accounts and Audit Committee Reports.”

Responsibility for providing secretariat services to the Audit Committee rests with the MFED IAU. The MFED IAU will need to establish how it will help the Audit Committee to carry out its responsibility to systematically register, track and follow up on implementation of recommendations. A reliable database will be important. The database will need to identify the source and nature of each recommendation, and should also identify the name and position and contact details of the relevant LM officer responsible for implementing the recommendation. This kind of information will also assist the PAC to summon and question the responsible officials. Most audit recommendations will be public domain information, but there may be some internal audit recommendations arising from investigations of individuals where confidentiality will need to be maintained, whilst at the same time ensuring that prompt follow up of recommendations is achieved.

It is recommended that the MFED IAU, in consultation with the Auditor General and the Audit Committee, prepares procedures and develop a database to ensure that all audit recommendations are properly registered, tracked and reported on regularly.

External Audit Coverage

The Office of the Auditor General has sufficient capacity to carry out annual audits of the whole of government, including all budget funded entities. Audits of PEs are often outsourced but remain under the supervision of the Auditor General. However, the OAG does not have sufficient resources to audit all of the Kaupules every year. It only has sufficient resources to audit 2 to 3 Kaupule's per

⁶ After the completion of the fieldwork for the 2018 ANS Update, MFED advised that MFED, as a line ministry, would be piloting the incorporation of action items into their Annual Work Plan to address findings in audit reports.

year. Notwithstanding this, the audit of Kaupules appears to be largely up to date. For Funafuti Kaupule, the 2017 audit is complete, but the audit of the 2015 and 2016 years have been delayed until Funafuti corrects outstanding issues in their accounts. Also the audit of the Niutao Kaudule accounts for 2017 is not yet complete.

Audit of DFAT Projects

The Auditor General carries out audits of donor funded projects on request from the relevant LM. However, it is understood that for the DFAT funded Funafuti Classroom Building Project there has been no audit of the project as required by the funding agreement. It may not be sufficient therefore to rely on the relevant LM alone to request audits of DFAT funded projects. DFAT post should work with MFED PBAC to ensure that a request is submitted to the Auditor General annually to audit DFAT projects.

It is recommended that DFAT post consults with MFED PBAC for all projects funded under DFAT funding agreements to ensure that the Auditor General is requested to carry out compliance and financial statement audits annually. The TOR for these audits should include a requirement that a copy of the audit report, the management letter and the management response be provided to PBAC, and that PBAC will provide a copy of these to DFAT within 14 days of receipt by PBAC.

Capacity of the PAC and other Parliamentary Oversight Committees

The PAC itself has limited capacity to fulfil its current responsibility for review of the public accounts and the report of the Auditor General. The PAC currently relies on the Office of the Auditor General who do provide good support. Some PAC members have participated in overseas workshops by CPA etc, but there has been no formal capacity building program for PAC members or the Parliamentary Clerk's office. As discussed earlier, GoT is currently considering the merits of new legislation to combine the functions of the PAC and the parliamentary scrutiny of annual Estimates, and to increase the powers of both functions. Alternatively the same could be achieved by amending and strengthening the internal rules of Parliament.

Although there is a case for building capacity of the PAC or other oversight committees, the experience in other jurisdictions is that because of the turnover of PAC or committee membership at a political level, it can be more cost effective and sustainable to increase the capacity of the office of the Clerk of the Parliament, or the office of the Speaker, i.e. to allow these officers to provide support to oversight committees for effective committee work, financial scrutiny, research, reporting and communicating effectively with the media. This is not currently considered a priority until GoT is able to decide on what legislative or regulatory support is to be provided to the PAC and Estimates scrutiny functions. No further recommendation is made beyond that already made in section 6.3.2.3 above.

Performance Audit

Although the OAG is mandated to conduct performance audits, it has only participated in cooperative performance audits conducted together with other supreme audit institutions in the Pacific as part of a regional program coordinated by the Pacific Association of Supreme Audit Institutions. The OAG has not conducted a performance audit on its own and does not have a manual for performance audit. Staff have little or no experience in performance audit.

It is recommended the new DFAT funded Performance Audit Adviser assist with the establishment of a performance audit division in the OAG, development of a performance audit manual and annual work plan and build capacity of staff

It is recommended that DFAT may continue to use the GoT audit system subject to implementation of the risk treatments recommended above.

Target Risk Rating 2015 – Low

Target Risk Rating 2018 – Low (refer to revised ANS Risk Register at Annex 2).

6.4 Corruption Risk

This 2018 ANS update maintains an overall corruption risk rating of medium. The 2015 ANS update assessed the overall level of corruption risk as medium, i.e. unchanged from 2012. In 2015 (as in 2012), no cases of corruption or fraud had been detected, and the assessment was based more on the difficulty of detecting fraud, especially in procurement and in management of the EEZ, but also in payroll management. In 2015, the difficulty of detecting fraud was evidenced by the lack of an internal audit function, and the delays in audit of Kaupule accounts. The 2015 ANS update did note that EEZ monitoring and compliance had been enhanced, including the reconciliation of 2013 and 2014 revenues, and that the audit of public accounts for central government had been brought up to date. As already discussed, there is now an internal audit function, and the audits of Kaupule accounts are now largely up to date.

Since the 2015 ANS update there has been one case of fraud reported to the DFAT Fraud division, and this case is still active. This case raises similar issues or risks to those covered elsewhere in this 2018 ANS update such as non compliance with procurement regulations and establishment of bank accounts that are not under the control of the MoF Treasury (see Auditor General’s report on the 2016 financial statements).

The 2016 report of the Auditor General noted that a finance circular covering a “Fraud, Misuse and Loss Policy” had been approved and issued by the Secretary for Finance. However, in 2016 the Auditor General also carried out a MCE assessment of the GoT and concluded that the MCE is “Ineffective”. The Auditor General also noted delays in bank reconciliation of both expenditure and revenue bank accounts, and that this makes it more difficult for MFED and auditors to detect instances of fraud. Finally, the Auditor General noted that staff from Fisheries were not maintaining minutes or records of negotiations with other companies or nations, and were using their personal email addresses to pursue these negotiations, making the process susceptible to fraud and making any fraud difficult to detect (because auditors have authority to access government email servers, but cannot access private Gmail etc accounts).

The establishment of an internal audit function in 2016 and a whole of government audit committee in 2018 are very encouraging and positive developments for PFM in Tuvalu, and for the management of risk across government. Nevertheless, it is too early to say whether these functions will be empowered by and sustained by government. The level of ownership by government and the government’s willingness to act on findings and recommendations of the IAU is yet to be seen. As discussed earlier, there is currently no systematic approach to recording, acting on and monitoring of recommendations or findings of the OAG or the PAC. This should be high on the agenda for the newly established Audit Committee.

This 2018 ANS update maintains the assessed level of risk for corruption as **medium**.

7 Governance Arrangements for Ongoing Monitoring and Management of Risks

Earlier in this report it was acknowledged that GoT faces unique challenges because of its small size and remoteness. In many areas of governance and accountability GoT has the same level of demands placed upon it by the same number of multilateral agencies and bi lateral partners as countries which are much larger in size and which have access to a much larger pool of experience in governance, public administration and financial management. As and when GoT and MFED train and develop skilled officers, these officers can then be recruited away from government by multi laterals and bi-laterals, or they may emigrate to countries where their skills pay a higher reward.

The current MFED Roadmap is ambitious, given these limitations on GoT and MFED capacity. Inevitably there will be a greater need for TA in Tuvalu than for some of its larger regional neighbours. Some have suggested that a certain level of capacity supplementation and outsourcing may have to be accepted as a permanent feature of public administration in very small island states⁷. There is a responsibility on those who are designing or planning reforms to ensure that the reform programs are realistic, prioritised and suitable for the local context.

The nature of these ANS assessments and updates is to identify weaknesses and risks and to recommend suitable risk treatments. There is much that works well in GoT public finance, and as discussed earlier, significant reforms have been achieved since 2015. These provide a platform on which to build even stronger systems. The purpose of these ANS assessments is to help the partner government decide where the current gaps or risks in their systems are, and to recommend suitable risk mitigation measures. It remains for GoT and MFED to decide how best to prioritise, sequence, resource and implement these measures, using existing frameworks such as the PFM Roadmap and the PRM. Realistically, TA, outsourcing and making use of regional bodies such as PFTAC will each play an important role in supporting GoT and MFED to implement PFM reforms.

The PFM Roadmap and the joint GoT and budget support partners PRM framework remain the most reliable and credible arrangements for managing the risks identified in this ANS update, and for overseeing implementation of the recommended risk treatments. Most of the responsibility for managing these two frameworks and their demanding calendars for taskforce meetings, consultations etc falls upon MFED, and specifically upon the PBAC.

The Australian Government opened a new Australian High Commission in Tuvalu in November-December 2018. It is understood that the new AHC is currently recruiting permanent local staff. This provides a valuable opportunity for DFAT post to engage more regularly with PBAC, and to provide the targeted advice or assistance that may be required to ensure that PBAC can effectively facilitate the important PFM Roadmap and PRM frameworks. In Funafuti, where MFED and the new AHC are within 50 metres of each office, regular formal and informal consultations will both be important.

This 2018 ANS update will also provide a good opportunity for PBAC to review and update the PFM Roadmap, and to ensure that some of the higher priority reforms can be incentivised through the PRM budget support arrangements.

⁷ See Planning Public Financial Management Reforms in Pacific Island Countries, Guidance Note, World Bank, PFTAC, 2014

8 Annexes

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Annex 2 – ANS Risk Register

Refer to separate Excel file

Annex 3 – Comparative PEFA ratings – 2007, 2011 and 2015

1. Credibility of the budget (Indicators 1 – 4)

Indicator	Description	2007	2011	2015
1	Aggregate expenditure out-turn compared to original approved budget	B	A	A
2	<i>Composition of expenditure out-turn compared to original approved budget</i>	D	C+	C+
3	Aggregate revenue out-turn compared to original approved budget	C	C	C
4	Stock and Monitoring of Expenditure Arrears	NR	D+	D+

2. Comprehensiveness and transparency (Indicators 5 – 10)

Indicator	Description	2007	2011	2015
5	Classification of the budget	C	A	A
6	Comprehensiveness of information included	C	C	A
7	Extent of unreported government operations	D+	D+	C+
8	Transparency of inter-governmental fiscal relations	B	B	B
9	Oversight of aggregate fiscal risk from other public sector entities	D	D+	C+
10	Public access to key fiscal information	C	C	A

3. Policy-based budgeting (Indicators 11 & 12)

Indicator	Description	2007	2011	2015
11	Orderliness and participation in the annual budget process	B	B	A
12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	C+	B

4. Predictability and control in budget execution (Indicators 13 – 21)

Indicator	Description	2007	2011	2015
13	Transparency of taxpayer obligations and liabilities	NR	C+	C+
14	Effectiveness of measures for taxpayer registration and tax assessment	NR	D+	C
15	Effectiveness in collection of tax payments	NR	D+	C
16	Predictability in the availability of funds for commitment of expenditures	C	C+	C+
17	Recording and management of cash balances, debt and guarantees	D+	D+	C
18	Effectiveness of payroll controls	D+	D+	C
19	Transparency, competition and complaints mechanisms in procurement	NR	D	D+

Indicator	Description	2007	2011	2015
20	Effectiveness of internal controls for non-salary expenditure	D+	D+	B
21	<i>Effectiveness of internal audit</i>	<i>D</i>	<i>D</i>	<i>D</i>

5. Accounting, recording and reporting (Indicators 22 – 25)

Indicator	Description	2007	2011	2015
22	Timeliness and regularity of accounts reconciliation	D	C	B
23	Availability of information on resources received by service delivery units	D	C	C
24	<i>Quality and timeliness of in-year budget reports</i>	<i>D+</i>	<i>D</i>	<i>C+</i>
25	Quality and timeliness of annual financial statements	D+	D+	B+

6. External scrutiny and audit (Indicators 26 – 28)

Indicator	Description	2007	2011	2015
26	Scope, nature and follow-up of external audit	D+	B+	B+
27	Legislative scrutiny of the annual budget law	C+	C+	A+
28	Legislative scrutiny of external audit reports	D+	B	B

Annex 4 - Worldwide Governance Indicator time series data for Tuvalu - 2007 to 2017

Indicator	Country	Year	Number of Sources	Governance Score (-2.5 to +2.5)	Percentile Rank (0 to 100)	Standard Error
Voice and Accountability	Tuvalu	2007	3	0.75	71.15	0.23
		2012	3	0.66	68.08	0.25
		2017	1	1.08	83.74	0.25
Political Stability and Absence of Violence/Terrorism	Tuvalu	2007	2	1.34	98.55	0.35
		2012	2	1.29	94.79	0.32
		2017	2	1.27	94.29	0.30
Government Effectiveness	Tuvalu	2007	2	-0.45	39.32	0.38
		2012	3	-0.69	27.96	0.32
		2017	3	-0.74	21.15	0.35
Regulatory Quality	Tuvalu	2007	2	-0.82	21.84	0.34
		2012	3	-1.23	9.95	0.27
		2017	3	-0.79	22.12	0.31
Rule of Law	Tuvalu	2007	3	1.00	82.30	0.35
		2012	4	0.46	64.32	0.25
		2017	3	0.56	71.15	0.32
Control of Corruption	Tuvalu	2007	2	-0.24	50.97	0.39
		2012	3	-0.35	45.50	0.33
		2017	3	0.06	58.65	0.31

Note: Governance Score (-2.5 to +2.5): Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance. Percentile Rank (0-100): Indicates rank of country among all countries in the world. 0 corresponds to lowest rank and 100 corresponds to highest rank.

The Worldwide Governance Indicators are produced by the Natural Resource Governance Institute, the Brookings Institution and the World Bank Development Research Group.

Source: <http://info.worldbank.org/governance/wgi/#reports>

Annex 5 – Officials and other stakeholders consulted

Given Name	Family name	Position
Ministry of Finance & Economic Development		
Talavai	Iona	CEO
Niuatui	Niuatui	Director PBAC
Ministry of Finance - Treasury Department		
Sunema	Maheu	Government Accountant
George	Laupane	Financial Accountant
MFED Central Contracts Management Unit		
Caroline	Tupoulahi-Fusimalohi-TUFI	Consultant
MFED Central Procurement Unit		
Frank	Fiapati	Acting Head
MFED - Inland Revenue Department		
Skeeter	Lusama	Acting Director IRD
Line	Afega	Senior Debt Management Officer
Ministry of Education Youth & Sports		
Tufoua	Panapa	CEO
Pamela	Lysaght	Education Planning Adviser
Michael	Riach	Lead Education Adviser
Matilda	Quinn	Education M&E Adviser
Ministry of Health		
Lee	Moresi	CEO
Clare	Whelan	Health Planning & Management Adviser
Tuvalu Auditor General's Office		
Eli	Lopati	Auditor General
Public Enterprise Reform and Monitoring Unit (PERMU)		
David	Hutton	Consultant
Ministry of Home Affairs & Rural Development		
Iete	Avanitele	CEO
Asian Development Bank and World Bank - Tuvalu Office		
Letasi	Iulai	Country Coordination Officer
DFAT Tuvalu		
Lily-Anne	Homasi	Senior Program Manager
Office of the Prime Minister		
Tepaukie	Sotaga	Senior Assistant Secretary
Taiane	Amasone	Human Resource Officer
Public Accounts Committee		
Kausea	Natano	Chair, PAC
Isaia	Taape	MP and PAC Member
Afelee	Pita	MP and PAC Member
Andrew	Puga	Acting Clerk of Parliament