

# GOVERNMENT OF TUVALU



## PUBLIC FINANCIAL MANAGEMENT REFORM ROADMAP 2017-2021

MAY 2017

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## PFM Taskforce Working Group Statement of Commitment and Responsibility

We, members of the PFM Roadmap Taskforce and Working Group are committed to facilitating and improving the current financial management systems of government to ultimately ensure effective and efficient service delivery to the people of Tuvalu. As agents of improvements to our PFM systems we commit to:

- improving our performance ratings for PFM systems to be measured as part of the:
  - Public Expenditure and Financial Accountability (PEFA) Assessment due in 2019;
  - undertaking actions identified in the Roadmap effectively within the context of Tuvalu;
- being advocates of this Roadmap;
  - incorporating these actions into our Annual Program Plans and Corporate Plans (to be developed and updated for all ministries) and updated in 2017 for PFM Roadmap 2017-2021;
  - within the utilisation of the recently established PFM Taskforce Committee;
  - monitoring and reviewing the PFM Roadmap at regular basis during the roadmap's lifetime; and
- facilitating capacity development training and up-skilling programs to improve the financial service capacity of all departments to ensure long-term sustainability of Tuvalu's public sector.

We commit to include this plan of specific actions into our annual program plans and Corporate Plans and associated documents to deliver on these agreed actions over the five years of the plan.

### Cabinet Endorsement Decision

Cabinet endorsement as per Cabinet Decision – **M177-17; Meeting 23/17; 21<sup>st</sup> June 2017.**

Signed by Deputy Prime Minister and Minister for Finance & Economic Development



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Dated:

07/07/17

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## Endorsements

### Targeted dates

- (i) DCC - First Information Paper with PPP presented on the **9<sup>th</sup> June 2017.**
  
- (ii) DCC Endorsement of the PFM Roadmap on the **16<sup>th</sup> of June 2017.**
  
- (iii) Submitted to CABINET Endorsement on the **21<sup>st</sup> of June 2017.**

### PFM Taskforce Team Members

- (i) Mr. Vavau Fatuuga – Secretary of Finance and Economic Development - Chairman
- (ii) Mr. Niuatui Niuatui – Director, Planning, Budget and AID Coordination – Deputy Chair
- (iii) Ms. Kelena Tapa – Senior Budget Adviser – Secretariat & Committee Member
- (iv) Ms. Salai Sualo – Budget Adviser – Committee Member
- (v) Ms Elizabeth Goodman – Budget Technical Adviser – TA to PFM Taskforce
- (vi) Mr. Manatu Siose – Internal Auditor and Committee Member
- (vii) Treasury Representative – Government Accountant – Committee Member
- (viii) IRD Representative – Committee Member
- (ix) Customs Representative – Committee Member
- (x) CPU Representative – Committee Member
- (xi) Director DRD – Committee Member
- (xii) PERMU – Representative – Committee Member
- (xiii) Senior Economic Adviser – Committee Member
- (xiv) Senior AID Adviser – Committee Member
- (xv) ECU Representative – Committee Member
- (xvi) MNR Representative – Committee Member
- (xvii) Assistant Secretary for Health – Committee Member
- (xviii) Assistant Secretary for MEYS – Committee Member

Cabinet endorsement as per Cabinet Decision – **M177-17; Meeting 23/17; 21<sup>st</sup> June 2017.**

## ACRONYMS AND ABBREVIATIONS

ACCPAC	The Accounting Software of Tuvalu (SAGE 300)
AGA's	Autonomous Government Agency's
ANS	Assessment of National Systems (of Tuvalu)
CPU	Central Procurement Unit
DFAT	Department of Foreign Affairs and Trade (Previous AusAID)
DCC	Development Coordinating Committee
ECU	Evaluation Coordination Unit (previously M&E)
EU	European Union
FMIS	Financial Management and Information System
GA	General Account
GAAP	Generally Accepted Accounting Principals
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoT	Government of Tuvalu
HEO	Higher Executive Officer
HQs	Finance Headquarters
HRM	Human Resource Management (previously P&T)
ICT	Information & Communication Technology
IMF	International Monetary Fund
IPs	Inward Payments
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department
MFED	Ministry Finance and Economic Development
MTBF	Medium - Term Budgeting Framework
MTEF	Medium Term Fiscal Framework
MTR	Mid-Term Review
NGO	Non-Government Organisation
OAG	Office of the Auditor General
OP	Operational Plans
PAC	Public Accounts Committee
PBACD	Planning Budget & Aid Coordination Department
PEFA	Public Expenditure and Financial Accountability
PEFASAR	PEFA Self-Assessment Report 2015
PEs	Public Entreprises
PERMU	Public Enterprise Reform & Monitoring Unit
PFM	Public Financial Management
PRM	Policy Reform Matrix
SDEs	Special Development Expenditures
SEs	State Enterprises
TAs	Technical Advisers
TK II	Te Kakeega II
TK III	Te Kakeega III
TTFAC	Tuvalu Trust Fund Audit Committee

# 1. Introduction

Sustainably improving the Tuvaluan PFM system remains a core ongoing principle for the Government, demonstrated through tangible PFM improvements being progressed in recent times, and inclusion in key national strategic documents and policies including the TKII, TKIII and TTFAC reports. The ANS report highlighted major fiduciary risks which were addressed in the PEFA reviews and are crucial for the PFM reforms to address and improve on. As a small country, Tuvalu will continue to face challenges that naturally result from a lack of scale in undertaking ongoing improvements in its PFM systems. In the simplest terms, there are too few people to complete all the functions required of a full PFM system. Available staff are stretched across a wide range of functions. The Ministry of Finance and Economic Development (MFED) has and continues to receive a significant amount of capacity supplementation, with several technical advisors (TAs) assisting in various areas across the Ministry.

This cohort of advisors has enabled Tuvalu to achieve a significant amount of improvement over a short period. There is also a significant number of staff turnover in MFED, driven by firstly, by the significant competition for human resources from donors and NGOs, both locally and overseas, and secondly, and simultaneously, the need to send people away for full time studies. Whilst this is a positive outcome for the individual and possibly to the government of Tuvalu to a certain degree, it does undermine the continuing effort to build and sustain capacity. Since 2011 the Ministry of Finance has lost over fifty per cent of staff who have gone on to new roles. This highlights the challenge of balancing sustainable capacity building and supplementing capacity.

Future efforts to improve the Tuvaluan PFM system need to focus on sustainability and investing in a system which is appropriate for Tuvaluan circumstances, as opposed to what is appropriate for a larger country with greater human, financial and system resources. Aiming for further broad and ambitious reform efforts may be counterproductive. Efforts need to focus on locking in past gains and ensuring the elements of a well-functioning PFM system are in place and should be the key moving forward. Extending beyond this will see scarce PFM capacity taken away from areas that are more important for service delivery and macroeconomic and fiscal stability.

The 2015 public expenditure and financial accountability (PEFA) self-assessment made 39 worthy recommendation to improve the Tuvaluan PFM system. This is reflected in **Annexures B and C**. An environment of constrained financial and human resources consideration forces the need to focus on those actions which lead to sustainable longevity. The updated PFM roadmap recognises the resource and capacity constraints and emphasises a PFM system which is “good enough” as opposed to “best practice” and targets functionality in areas of PFM which are likely to have the greatest development impact:

- maintaining a functional budget formulation framework;
- improving budget execution;
- improving fiscal reporting; and
- strengthening audit mechanisms.

Considering priorities has required an assessment based on whether the activity:

- adds value to the core PFM system;
- can be undertaken with existing system and human resources; and
- add significantly to overall economic and social welfare over the medium term.

Tuvalu has been guided by a note issued by the PEFA Secretariat, the EU and IMF on establishing core PFM functions, which include:

- realistic budgeting;
- in year control over spending;
- timely account and reporting;

- central control over cash;
- adequate internal control procedures;
- adequate external control procedures; and
- supporting legal and regulatory framework, that is adequately enforced.

The updated PFM reform roadmap will cover the five-year period 2017 to 2021.

Consistent with past practice the updated PFM Roadmap will be a public document, following DCC and Cabinet endorsement and tabling in Parliament. The updated roadmap will:

- outline for Cabinet's information those activities which are operational in nature and which are really a matter of improving business processes; and
- seek Cabinet endorsement for those activities which are a change in policy or seek legislative change.

Ongoing management commitment and coordination of the implementation of the updated PFM roadmap is critical with the prioritisation and sequencing determined by the DCC, guided by the advice from the PFM Taskforce. Utilising the established DCC<sup>1</sup> processes consisting of the Secretary to Government who is also the Chairman plus all Secretaries of Ministries (x 9); Directors of departments (x 2) and Secretariat of ECU (reporting on TKIII), Commissioner of Police and the Attorney General who meet every Friday will be to:

- review progress reports from the PFM Working Group;
- advise on policy issues, problems and constraints raised by the Task Force;
- review recommendations from external consultants;
- commission independent reviews such as the PEFA assessment;
- approve amendments and future phases of the PFM Roadmap;
- provide guidance and support to the Task Force to enable achievement of the Roadmap objectives;
- assist in identifying additional resources for implementation as required;
- ensure the reform work is clearly integrated into and supportive of any restructuring and reform programs of government; and
- progress PFM recommendations to Cabinet.

The Secretary of MFED will lead a Taskforce-Working Group responsible for managing the implementation of the PFM Roadmap. It will consist of heads and their technical advisors from the MFED HQ's, P&B, Internal Audit, IRD, Customs, Treasury, CPU and DRD. This Taskforce Committee was established in May 2017 and chaired by the Secretary of MFED<sup>2</sup>. They will meet monthly to discuss progress on the PFM Monitoring and Reporting Matrix<sup>3</sup>, including:

- defining the actions required for implementation of the PFM Roadmap;
- maintaining work plans and schedules;
- coordinating access to resources;
- evaluating the work of consultants;
- organising training workshops as required;
- disseminating information to all stakeholders regarding the Roadmap;
- monitor progress by implementing agencies and advise on action to overcome problems;
- collecting data to monitor performance of the Roadmap;
- ensuring cohesion and consistency between various initiatives and the effective use of external support to the Roadmap process;
- reporting through the DCC level matters for addressing and improving in PFM areas of concern; and
- update and workshop areas of concern stemming from PFM through respective

<sup>1</sup> See PFM Management Structure in Annex F through DCC established structure

<sup>2</sup> Draft Minutes have been prepared and forms part of this report as Annex G

<sup>3</sup> This PFM Monitoring & Reporting Matrix has since been developed by PBAC in draft stages dated 31<sup>st</sup> May 2017 for finalisation.

ministries and departments will be responsible for providing quarterly reports on the progress of their reform actions using a simple and standard reporting matrix identifying the reform, action to be undertaken, timeframes, progress and any problems which require addressing. Ministries and Departments will be responsible for acting on constraints identified as well as compilation of annual reports on progress achieved.

- Suggest the next PEFA Assessment to take place. Next suggested tentative PEFA Assessment is in 2019.

Updating the Roadmap has required both the bottom-up and top-down approach. The bottom-up approach required respective departments within MFED to analyse their main weaknesses, underlying causes, including determining whether these issues were under their control or outside their control, assessing capacity to address the issues, prioritizing and sequencing the actions, policy actions, and the risks associated in achieving their planned outputs. Summary of the self-review which were regarded as very vital are;

- MTFP Planning Tool and forward capital and revenue estimates systems strengthened and sustained (PI 3 and 12)
- ACCPAC FMIS and Licencing transferred to the GOT

The top-down approach involved the assessment of closeness of all PFM weaknesses to TKII and later the TK III, PRM, other Government priorities, linkages to other PFM areas, and special emphasis on low PEFA scores of C, D+ or D in those areas which are pertinent to a functional PFM system.



## 2. PFM Context - Strengths and Weaknesses

The 2015 PEFA self-assessment and assessment of national systems (ANS) conducted by the Australian Department of Foreign Affairs and Trade (DFAT) (which confirmed most risk mitigation measures previously recommended being progressed) provided the basis for a stakeholder analysis and assessment as to what extent there was sufficient capacity available as well as any other issues to address relevant weaknesses. Major reforms contributing to the improvements included:

- introduction of the Public Enterprise Reporting and Monitoring legislation and PERMU Unit;
- introduction of the Procurement Legislation and creation of the Central Processing Unit;
- enactment of Customs Act in 2014;
- improvements to the within year budget reporting (monthly dashboard);
- improvements to the Budget documentation;
- introduction of tax audit program;
- improvements to the dissemination of information to stakeholders;
- consistency and timeliness of preparing Whole of Government Financial reports;
- regularity of reconciliation of whole of government bank accounts;
- introduction of purchase orders; and
- completion of Public Enterprise audits.

Primary strengths identified in 2011 were maintained and additional improvements including:

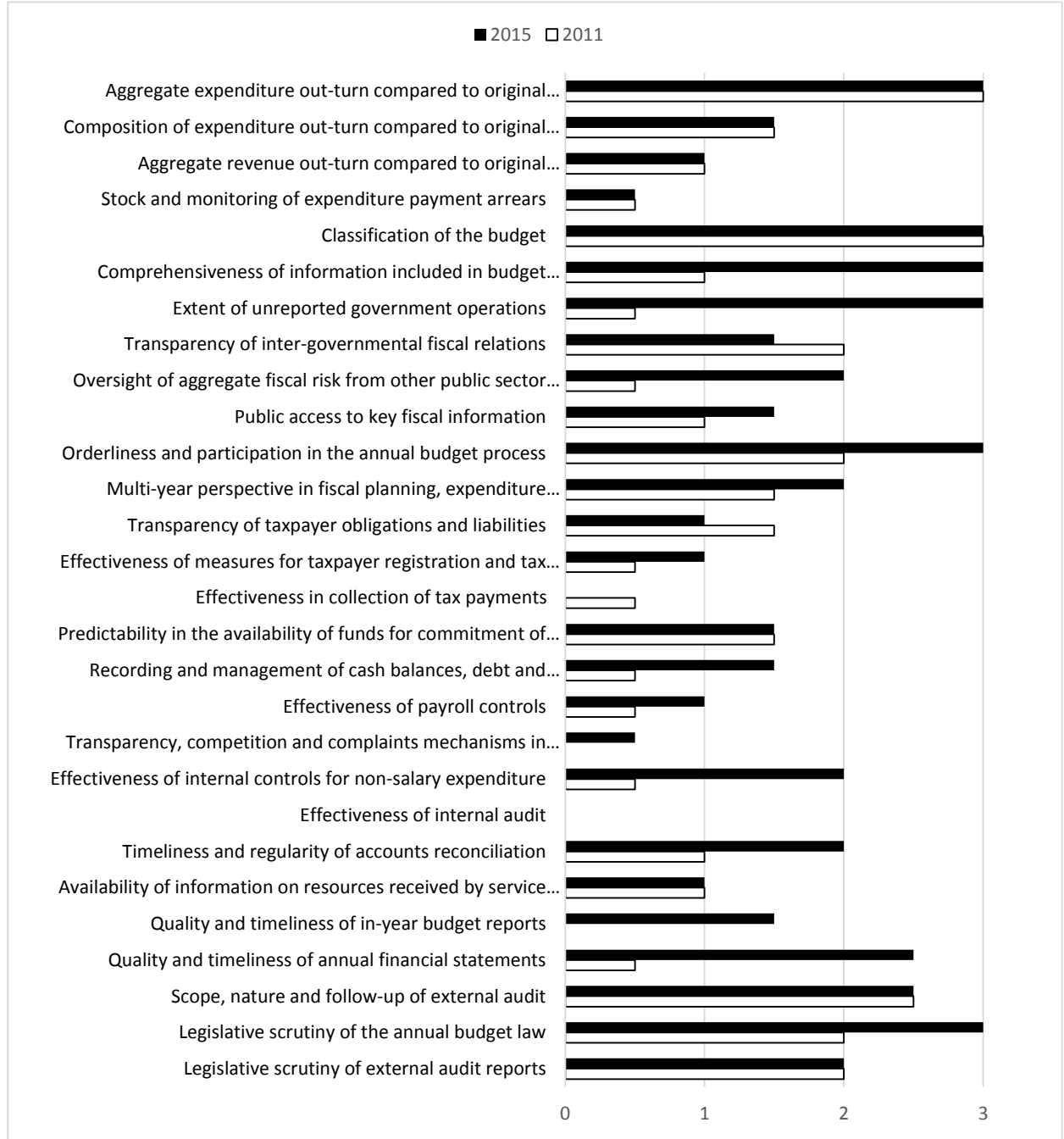
- adherence to budget discipline at the aggregate level;
- a medium-term fiscal framework presented as part of the Budget;
- a process of communicating Cabinet-approved ceilings to line departments at the beginning of the budget process and legislature review of budget well in advance prior to finalisation of the budget;
- predictable amounts of direct budget support provided by external development partners;
- timeliness in the preparation of Financial Statements and improving public access to information;
- timely reconciliations of accounts; and
- taxpayers understanding tax liabilities improved significantly.

Several ongoing operational activities (where improvements are required) are underway or are required to commence including:

- better managing the input of budget data improving the ability of staff to produce the budget independently (ACCPAC and excel templates);
- establishing routines to ensure more timely ledger postings by line departments;
- improving the continuity and timeliness of updating bank reconciliation records;
- instituting new routines to ensure better and more timely information from line departments to Treasury on their revenues and expenditures;
- reinitiating initial monthly budget execution report being prepared;
- addressing non-timely issuance of in-year budget execution reports and annual financial statements and the consequential effect on timeliness of annual audits;
- improving timeliness in reconciling accounts;
- addressing weaknesses in payroll and other internal expenditure controls;
- improving the follow-up by audited entities to audit and PAC recommendations;
- fully establishing internal audit functions to discharge governance functions;
- implementing a co-ordinated procurement process;
- improving the capacity and systems to manage multiyear budgets for Special Development Expenditures (SDE) and infrastructure projects; and
- finalising the aid database.

Cabinet interventions will be required for updating the aid policy and introducing and approving a PAC Act which is yet to be progressed.

**Figure 1 – Tuvalu Comparative PEFA Assessment 2011 to 2015**



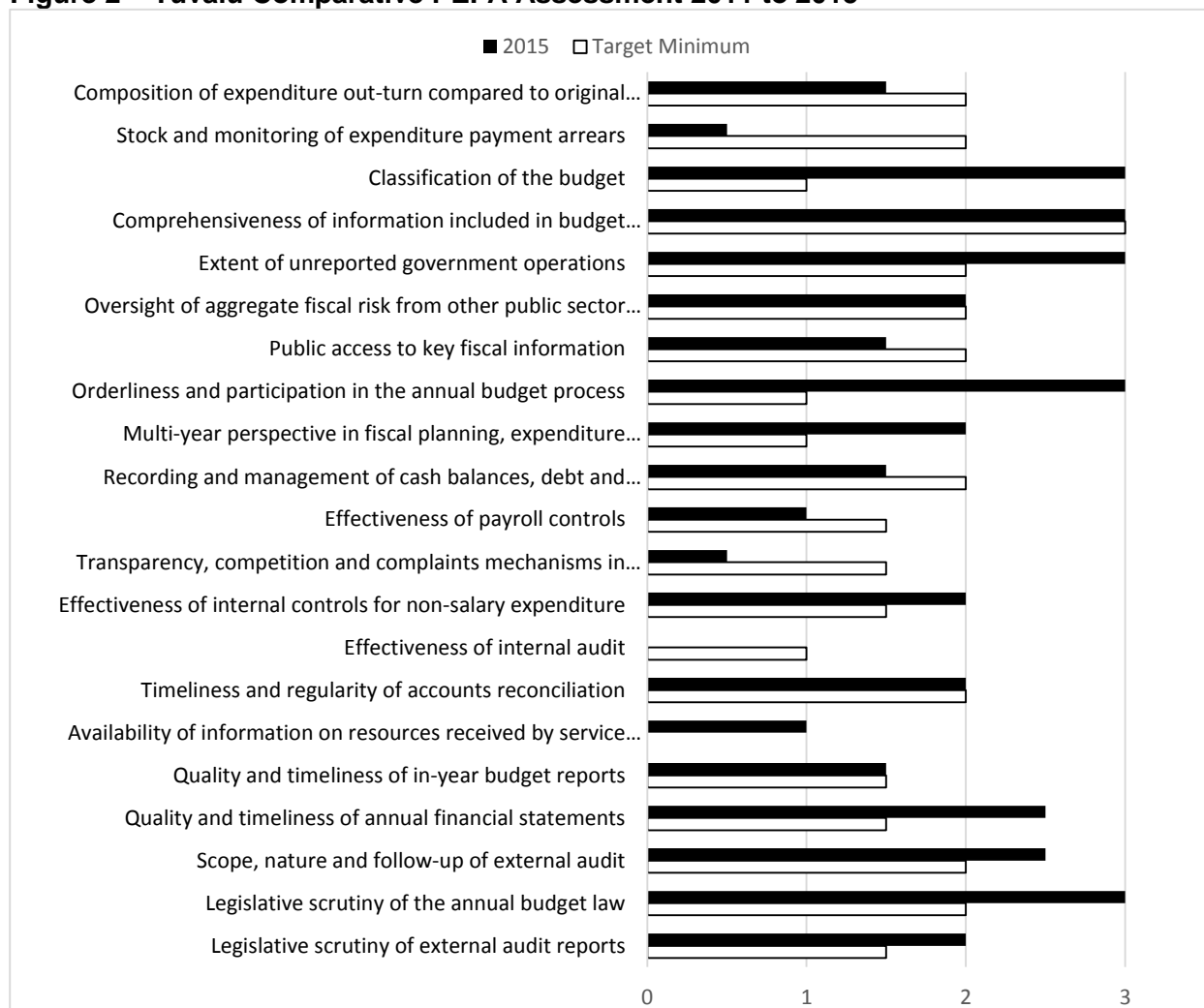
Based on the 2015 PEFA self-assessment Tuvalu exceeds many of the core minimum level targets outlined in the guidance note referred to earlier and as shown in Figure 1. The tables at **Appendix A** (Tables 1 to 7), make a detailed comparison of Tuvalu with these core areas, it should be noted that the PEFA Self-Assessment was conducted at a time when there were specific PFM advisors in the functional areas of Treasury and the Budget, who have now left with only one being recently replaced. There are concerns at slippage in some areas and these are noted.

Figure 2 illustrates how Tuvalu compares against the minimum core targets established in the PEFA guidance notes. In most areas, Tuvalu exceeds the minimum target areas, but the areas

which require improvement are;

- effectiveness of payroll controls;
- recording and management of cash balances, debt and guarantees;
- public access to key fiscal information;
- stock and monitoring of expenditure payment arrears;
- composition of expenditure out-turn compared to original approved budget;
- effectiveness of internal audit;

**Figure 2 – Tuvalu Comparative PEFA Assessment 2011 to 2015**



Actions which were highlighted in the previous PFM roadmap covered some long-term actions to be undertaken beyond the final year of that plan which included:

- a review of PFM legislation and regulations – no action undertaken;
- establishing debt and arrears recording and reporting – not undertaken;
- improving aid management and reporting – not undertaken;
- appropriate procurement process developed, coordinated and respected - A procurement Act was passed in 2014 of which a Procurement unit has since been established. A TA is overseeing all its functions, systems and processes on an intermittent basis and is required to sustain these areas on a full-time basis;
- establishment of an up to date asset register – not undertaken;
- enabling the effectiveness of the Public Accounts Committee – not undertaken
- establishing a feedback mechanism of information through budget and cabinet processes (ANS)–not undertaken;

- establishing a complaints mechanism – not undertaken
- establishing the independence of audit office – not undertaken;
- public involvement and scrutiny of PFM – not undertaken; and
- supplementary budget processes – needs revising

The above key areas which are yet to be achieved or needs revising will be progressed accordingly with key strategic outputs developed whilst utilising the already existing resources bases and improving on reforms as required. Several key areas for review and reform progressing are;

- (i) ACCPAC Accounting Systems revised and ownership of licensing be handed over to the Government of Tuvalu
- (ii) exploring the ability to capitalise on the existing budget module and reporting mechanisms in the SAGE 300 in ACCPAC.
- (iii) Improved SDE, Infrastructure and multi-year projects development projects- IPSAS multi-year cash budgeting
- (iv) Reviewed and improved MTFF and documented capacity building strategies for cashflow forecasting and fiscal expenditures management and reporting
- (v) Established reporting matrix on the PFM and dissemination of information to the WOG and the people of Tuvalu

Several tax administration matters were also highlighted in the PEFA Assessment Report, whilst are not PFM as per IMF definition, they have been included in the roadmap **Annex C** for managing, implementation, monitoring and reporting as separate works are being done on tax issues of GoT.

### 3. Focus of 2017-2021

Several items have been taken into consideration regarding the future PFM roadmap and the ultimate vision of the Government for a PFM system which is sustainable and delivers on core objectives, these include:

- the scale of the Tuvaluan administration;
- defining the core PFM business and systems which underlie it;
- reducing the potential for conflicting reforms;
- future capacity supplementation and capacity building, how they should be balanced; and
- appropriate assessment of risk which arises from a less than perfect PFM system.

The major consideration is accepting what is an acceptable level of core PFM functions which should be implemented in Tuvalu. Aiming for the equivalent of A and B scores across the whole range of PEFA indicators are aspirational and noble but would be costly, particularly when consideration is given to the size of Tuvalu's administration and the opportunity cost that would arise as resources go towards systems and processes which have relatively marginal (if any) value-adding outcomes in achieving the desired results and outcomes. In addition, whilst the achievement of the 39 recommendations would be ideal, realistically and as stated above due to lack of resources, the 39 recommendations have been classified under 5 major areas and reflected in **Annex B & C**,

- (i) capacity building, documentation system and knowledge management
- (ii) long-term operational changes in government
- (iii) capacity building required
- (iv) capacity supplementation required
- (v) supporting legal and regulatory frameworks

**Annex B** reflects the results from 2011-2015 PEFA indicators whilst **Annex C** reflects progress in the scores and sequences when these reforms and improvements are likely to be achieved with immediate (2017) to medium-term (2018-2019) and long-term (2020 and beyond). The outputs from these scores will be monitored and managed by the PFM Taskforce (**Annex G**). Within the above 5 key areas you will note in **Annex B** some activities and reforms-action items and indicators are marked with an **asterisk \***. This means the reforms are critical and urgent and that appropriate measures and strategies will be developed and implemented to mitigate these risks and implement reforms as deemed necessary to reduce risks based on available and planned resources mostly with capacity building techniques by the existing technical advisers being imperative and first point of contact to strengthen institutions on the PFM reforms.

The above major areas were also highlighted in the ANS which flagged the fiduciary risks with mitigations to these risks suggested in **Table 1 (pages 5-10)** of the ANS 's risk ratings by PFM components. The focus of the revised roadmap is based on ensuring that Tuvalu's PFM platform, has, as its basis, a credible financial management, accounting system and regulatory framework. This would include a financial management information system and an accounting system that can at least meet the International Public-Sector Accounting Standards (IPSAS) cash reporting standards for central government operations, and budget legislation that meets critical control standards which is then adequately enforced.

Efforts will also focus on ensuring that budget and planning processes are sufficient to enable

strong macro fiscal stability and sustainability through an ongoing medium-term fiscal and budget planning framework.

Sequencing and prioritisation of the roadmap has centred on ensuring no slippage in areas where Tuvalu met or exceeded core expectations (2015 PEFA and ANS) and in those areas where Tuvalu did not meet those expectations.

### **Reporting and monitoring of PFM**

The PFM Taskforce main role as discussed above will be to manage, monitor and report on the progress of PFM reforms outcomes and the whole of Government of Tuvalu and make recommendations through DCC and Cabinet where required. Annexures F and G reflects these structures and will be well documented for stakeholder reporting and dissemination of information. The DCC well-articulated during the presentation PFM information papers to the DCC on the 9<sup>th</sup> of June 2017 that they are taking full responsibility and ownership of the PFM and will continue with improving the PFM of the Government of Tuvalu.

## Annex A – Tuvalu Comparison with PEFA/IMF/EU/ANS Core Functional PFM Guidance Note.

	Target Min Core Scores	Tuvalu 2011	Tuvalu 2015	Comments
<p><b>Realistic Budgeting</b></p> <ul style="list-style-type: none"> <li>Revenue forecasts are realistic, based on detailed analysis of tax bases and macroeconomic developments</li> <li>Expenditures are fully costed, with adequate allowance for inflation, exchange rate movements, recurrent costs of completed investments</li> </ul> <p>(PEFA Indicator PI-5 Classification of the budget) (PEFA Indicator PI-11 Orderliness and participation in the annual budget process) (PEFA Indicator PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting)</p>	<p>PI- 5 (C) PI-11 (B) PI-12 (C)</p>	<p>PI- 5 (A) PI-11 (B) PI-12 (C+)</p>	<p>PI- 5 (A) PI-11 (A) PI-12 (B)</p>	<p>PI-5 - A in 2011 and 2015 in terms of Budget presented by program and sub-programs with the expenditures linking to MTFF in economic classifications. Whilst GFS standards are not used in the presentation, the standard used could be converted to produce consistent GFS reporting. PI-11 - B to A in terms of adhering with clear budget processes such as timely circulars and budget approval processes. PI-12 - C+ to B in terms of MTFF Budget Outputs.</p>
<p><b>In-year control over spending</b></p> <ul style="list-style-type: none"> <li>Commitments are controlled as well as cash</li> <li>Budget is comprehensive, and makes adequate provision for contingencies</li> </ul> <p>(PEFA Indicator PI-2 (i) Composition of expenditure out-turn compared to original approved budget) (PEFA Indicator PI-4 (ii) Availability of data for monitoring the stock of expenditure payment arrears) (PEFA Indicator PI-18 Effectiveness of Payroll Controls) (PEFA Indicator PI-6 Comprehensiveness of information included in budget documentation) (PEFA Indicator PI-7 Extent of unreported government operations.</p>	<p>PI-2-(ii) (B) PI-4-(ii) (B) PI-18 (C) PI-6 (A) PI-7 (B)</p>	<p>PI-2-(ii) (A) PI-4-(ii) (D) PI-18 (D+) PI-6 (A) PI-7 (D+)</p>	<p>PI-2-(ii) (A) PI-4-(ii) (D) PI-18 (C) PI-6 (A) PI-7 (A)</p>	<p>PI-2 - Maintained overall score of C+. Analysis of deviation from budget by Ministry exception in 2014, variance overall is less than 5%. In 2014 a large mini-budget was passed resulting in deviation of expenditure in ministry more than 5%. PI-4-(ii) – No improvement with D+ in 2015 assessment where “payment areas” were reviewed yearly however the introduction of Purchase Orders were expected to improve results after 2015 PEFA Results PI-18 - D+ to C whilst the integrity of the payroll continues PI-6 - C to A in 2015 in meeting timeliness of preparations and releasing of the financial statements of the GoT. PI-7 - D+ to C+ by maintaining strong performance in minimal expenditure fully reflected in fiscal reports.</p>

	Target Min Core Scores	Tuvalu 2011	Tuvalu 2015	Comments
<p><b>Timely accounting and reporting</b></p> <ul style="list-style-type: none"> <li>Accounting is comprehensive and timely</li> <li>Reliable and timely bank reconciliation in place</li> <li>Reports can be produced with minimal delay so budget execution can be tracked and public sector monitored</li> </ul> <p>(PEFA Indicator PI-22 Timeliness and regularity of accounts reconciliation)            (PEFA Indicator PI-24 Quality and timeliness of in-year budget reports)            (PEFA Indicator PI-25 Quality and timeliness of annual financial statements)            (PEFA Indicator PI-23 (i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resource base)            (PEFA Indicator PI-9 (i) Extent of central government monitoring of AGAs and PEs.</p>	PI-22 (B) PI-24 (C+) PI-25 (C+) PI-23(i) (D) PI-9(i) (B)	PI-22 (C) PI-24 (D+) PI-25 (D+) PI-23(i) (C) PI-9(i) (C)	PI-22 (B) PI-24 (C+) PI-25 (B+) PI-23(i) (C) PI-9(i) (B)	PI-22 - C to B as bank reconciliations are taking place. PI-24 - D+ to C+, scopes of reports in terms of coverage and compatibility with budget estimates whilst made available- incorporate PO's/commitments into monthly reporting. PI-25 - D+ to B+ in meeting timeliness of preparations and releasing of the financial statements of the GoT. PI-23(i) – No improvement remained as C as information is not made public by service delivery units. PI-9(i) - D+ to C+ in terms of new legislation ended in 2014 to improve oversight of AGA's & PEs, management of their fiscal risks which are not reported in the budget papers. Various improvement also includes Audits of Kaupela's and JV's fiscal positions.
<p><b>Central control over cash</b></p> <ul style="list-style-type: none"> <li>Use of a Treasury Single Account (or consolidated fund concept)</li> <li>Minimal use of bank accounts and cash transactions</li> </ul> <p>(PEFA Indicator PI-17 Recording and management of cash balances, debt and guarantees)</p>	PI-17 (B)	PI-17 (D+)	PI-17 (C)	PI-17 - D+ to C consolidation of gov't's cash balances for TDF and general account (GA) being reconciled daily. Debts are reconciled annually



	Target Min Core Scores	Tuvalu 2011	Tuvalu 2015	Comments
<p><b>Adequate internal control procedures</b></p> <ul style="list-style-type: none"> <li>Administrative internal controls in place in all government departments</li> <li>Procurement is transparent with well-defined regulations</li> <li>Internal audit functions adequately</li> </ul> <p>(PEFA Indicator PI-19 Transparency, competition and complaints mechanisms in procurement)            (PEFA Indicator PI-20 Effectiveness of internal controls for non-salary expenditure)            (PEFA Indicator PI-21 Effectiveness of internal audit)</p>	PI-19 (C+) PI-20 (C+) PI-21 (C)	PI-19 (D) PI-20 (D+) PI-21 (D)	PI-19 (D+) PI-20 (B) PI-21 (D)	<p>PI-19 - D to D+ overall.</p> <p>In terms of Transparency, comprehensiveness and competition in PI-19 D (i) legal regulatory FW meets 4/6 listed requirements PI-19 D (ii)- only 70% of procurement value were compliant. PI-19 D(iii) Legislation requires publication of contract awards however this is only done on notice boards and the overseas participants and bidders from outer Islands have no access and this area needs urgent improvement.</p> <p>PI-20 - D+ to B in 2015 PEFA SA Report for 2015 in areas of PO module working in ACCPAC enabling Commitment control, FI revised and simplified with Trainings provided in the FMIS and more improvement and compliance in processing and recording of transactions.</p> <p>PI-21 – Remained as D in 2015 however in 2017, an Internal Audit Branch was established with an Internal Auditor engaged in November 2017. As of 2017 an Audit Charter exists and some form of audit plan was sighted however TA support is urgently required to get this office fully functioning, staff trained, at least 2 more IA recruited, trained to discharged their responsibilities as Internal Auditors.</p>

	Target Min Core Scores	Tuvalu 2011	Tuvalu 2015	Comments
<b>Adequate external control procedures</b>	PI-26 (B)	PI-26 (B+)	PI-26 (B+)	PI-26 – Remained as B in terms of the external audits involves auditing the Whole of Govt including regional performance audit- climate change 2013 and Planned Govt Travel Performance audit in 2015. PI-27 - C to A+ as the legislature review of the budget is well in advance prior to finalisation of the Budget. It is envisaged this process is maintained. There will remain the issue of quality of the budget which requires careful consideration. PI-28 - Remained as a B in terms of PAC reviewing Audit report within 3 months and having interviews and receiving feedbacks. There appears to be limited responses from Executive Government surrounding PAC's recommendations. PI-10 - Improved from C to A with several websites established to disseminate information and data for public viewing such as: AG website which has Budget, Financial Accounts etc....All Govt's Fiscal reports are circulated to ALLSTAFF email.
<ul style="list-style-type: none"> <li>External audit addresses financial irregularities</li> <li>Legislative scrutiny of the annual budget law with timely reports to the legislature</li> </ul>	PI-27 (B)	PI-27 (B)	PI-27 (A)	
	PI-28 (C+)	PI-28 (B)	PI-28 (B)	
	PI-10 (B)	PI-10 (C)	PI-10 (C+)	
(PEFA Indicator PI-26 Strong legislative scrutiny and follow-up on audit reports) (PEFA Indicator PI-27 Scope, nature and follow-up of external audit) (PEFA Indicator PI-28 Legislative scrutiny of external audit reports)				
<b>Supporting legal and regulatory framework, that is adequately enforced</b>	Target Min Core Scores	Tuvalu 2011	Tuvalu 2015	Comments
<ul style="list-style-type: none"> <li>Development of PAC and establishment of a secretariat</li> <li>PAC Act to respond to Executive Government</li> </ul>				Parliament
D-2 & 3 AID policy 2011 not addressed in 2015 PEFA				PBACD - MFED

## Annex B – Summary of Proposed PFM Reforms from the 2015 PEFA Self-Assessment

NO#	NO# Re-Classified	Indicator and Core	Reform	Timing	Responsible
			<b>Capacity Building Documentation Sustain Knowledge</b>		
1	1	4 *	The full roll out of purchase orders across all expenditure types will ensure that the stock of payment arrears can be effectively monitored and measured.	2015	MFED (Treasury)
2	22	18 *	Clearly define roles and responsibilities of HRM and Treasury for payroll process	2016	OPM(PT) & MFED(Treasury)
3	23	18 *	Annual external audit of payroll to be introduced	2017	MFED(Treasury) & Audit
4	27	20 *	Full roll out of Purchase Orders to all expenditure items	2016	MFED(Treasury)
5	29	22	Review IBD and close inactive accounts	2016	MFED(Treasury)
6	30	23 *	Training to improve resource allocation reporting for service delivery units	2017	ME & MH
7	31	24 *	Incorporate Purchase Orders (commitments) into monthly reporting	2016	MFED(Treasury)
8	11	12	Improve linkages between sector planning and the budget process	2017	MFED(PBACD)
9	3	3 *	Continuing to improve revenue forecasting to reduce the variance between budget and actual revenue estimates	2015	MFED (PBACD)
			<b>Longer Term Operational Changes in Government</b>		
10	21	18 *	Regular reconciliation of Payroll data to be undertaken	2016	MFED(Treasury) & Audit
11	2	4 *	Reporting of outstanding purchase orders will improve monitoring of stock of payment arrears	2016	MFED (Treasury)
12	4	8	Improving the oversight and monitoring function with the Ministry of Home Affairs and Rural Development to more effectively report on the use of government grants by Kaupule.	2017	MHARD
13	18	17 *	Reconcile debt data on a quarterly basis	2016	MFED(Treasury)
14	19	17 *	Improve transparency for government guarantees by developing strategy with transparent criteria with fiscal target ceiling & guidelines in issuing guarantee	2017	MFED (PBACD) & AG
15	5	8	Reviewing the grant allocation methodology for Kaupule block grants to provide greater emphasis on the development impact of grant funding and linking the grant to the National Development Plan, rather than allocating funds equally to each Kaupule	2017	MHARD
			<b>Capacity Building Required</b>		
16	6	9 *	Improving government reporting of fiscal risks of Public Enterprises	2016	MFED (PERMU)
17	7	9 *	Review the <i>Borrowing and Guarantee Act</i> to ensure that Public Enterprise borrowing activity is captured within the Act	2017	MFED (PERMU) /Attorney General
18	8	10 *	A website is to be established for Public Procurement to improve stakeholder's access to information on government tenders and contract awards. Maintain updates information	2015	MFED (CPU)
19	9	12 *	Continue work to incorporate known costs in the forward years of the MTFF for planning purposes	2015&2016	MFED (PBACD)
20	10	12 *	Develop Deferred Maintenance Plan and associated asset maintenance plans to inform budget planning – needs revising and update	2015&2016	MFED(PBACD)

NO#	NO# Re-Classified	Indicator and Core	Reform	Timing	Responsible
21	12	13	Investigate ways to improve the way ACCPAC-SAGE 300 including Budgeting Module and the IR and Customs databases interface & strengthening ICT bases	2016	MFED (Treasury, IRD), Customs & ICT
22	13	13	Introduce appeals mechanism for taxpayers in accordance with the provisions of the Act	2017	MFED (IRD) & Custom
23	14	14	Improve bank regulations for Tax Identification Numbers (TIN) for all business account holders	2017	MFED (IRD) & AG
24	15	14	Transfer responsibility for issuing TIN to IRD	2016	MFED (IRD)
25	16	15	Introduce more regular reporting, budget information and reconciliation for tax assessments, collections and arrears	2016	MFED (Treasury, IRD) & Budgets & Customs
26	17	16	Improve forecasting methodology for Treasury Dashboard report	2016	MFED(Treasury)
27	20	18 *	Payroll system module to be implemented in ACCPAC and reporting processes strengthened	2016	MFED(Treasury)
			<b>Capacity Supplementation Required</b>		
28	24	19 *	Enhance capacity and training within the Central Procurement Unit (CPU)	2016	MFED(CPU)
29	25	19 *	Establish complaints committee for procurement	2016	MFED(CPU)
30	26	19 *	Establish contract award website for procurement	2015	MFED(CPU)
31	27	21 *	Establish Internal Audit function	2017	MFED(HQ)
32	32	25 *	In country training on transition to IPSAS reporting	2017	MFED(Treasury)
33	33	26 *	Continue to develop and refine audit processes, including performing additional working surrounding procurement and assets	2016	Audit
34	34	26 *	Continue to develop audit processes for Public Enterprises and Kaupule Audits	2016	Audit
35	35	26 *	Undertake mid-year review of progress of implementation of audit recommendations	2017	Audit
36	36	26 *	PAC to undertake mid-year review of progress of implementation of recommendations	2017	Parliament
37	37	27 *	Improve logistical challenges and the resourcing levels for the PAC	2017	Parliament
			<b>Supporting legal and regulatory framework</b>		
38	38	27 *	Further development of the PAC in terms of asking of interview questions, dedicated secretariat and financial independence would further strengthen the PAC.	2017	Parliament
39	39	27 *	Introduce PAC Act outlining the requirement for the Executive Government to respond to the PAC's recommendations (including progress), increasing the independence of the PAC, and furthering the ability of the PAC to hold hearings when they choose do so.	2017	Parliament
		D 2 & 3*	AID Policy	2017-2018	PBACD - MFED

## Annex C - PFM Roadmap Action Plan-Matrix

NO#	NO# Re-Classified	Indicator and Core <sup>4</sup>	Reform	Immediate 2017	Medium term-2018-2019	Long term – From 2020 and onwards	Responsible Ministries
			<b>Capacity Building Documentation Sustain Knowledge</b>				
1	1	4 *	The full roll out of purchase orders across all expenditure types will ensure that the stock of payment arrears can be effectively monitored and measured.				MFED (Treasury)
2	22	18 *	Clearly define roles and responsibilities of HRM and Treasury for payroll process				OPM (PT) & MFED (Treasury)
3	23	18 *	Annual external audit of payroll to be introduced				MFED (Treasury) & Audit
4	27	20 *	Full roll out of Purchase Orders to all expenditure items				MFED (Treasury)
5	29	22	Review IBD and close inactive accounts				MFED (Treasury)
6	30	23 *	Training to improve resource allocation reporting for service delivery units				ME & MH
7	31	24 *	Incorporate Purchase Orders (commitments) into monthly reporting				MFED (Treasury)
8	11	12	Improve linkages between sector planning and the budget process				MFED (PBACD)
9	3	3 *	Continuing to improve revenue forecasting to reduce the variance between budget and actual revenue estimates <sup>5</sup>				MFED (PBACD) – MNR
			<b>Longer Term Operational Changes in Government</b>				
10	21	18 *	Regular reconciliation of Payroll data to be undertaken				MFED (Treasury) & Audit
11	2	4 *	Reporting of outstanding purchase orders will improve monitoring of stock of payment arrears				MFED (Treasury)
12	4	8	Improving the oversight and monitoring function with the Ministry of Home Affairs and Rural Development to more effectively report on the use of government grants by Kaupule.				MHARD

<sup>4</sup> The Asterisks reflects the importance of activities in terms of high risk areas or uncompleted and carried forward from 2015 and are classified as long term oriented which are to be implemented and monitored and reported on. Also see p.13 of this report with further explanations.

<sup>5</sup> REVENUE ESTIMATE - FORECAST IMPROVED – MTFV VS FISCAL EXPENDITURES - FISHERIES

13	18	17 *	Reconcile debt data on a quarterly basis				MFED (Treasury)
14	19	17 *	Improve transparency for government guarantees by developing strategy with transparent criteria with fiscal target ceiling & guidelines in issuing guarantee				MFED (PBACD) & AG
15	5	8	Reviewing the grant allocation methodology for Kaupule block grants to provide greater emphasis on the development impact of grant funding and linking the grant to the National Development Plan, rather than allocating funds equally to each Kaupule				MHARD
			<b>Capacity Building Required</b>				
16	6	9 *	Improving government reporting of fiscal risks of Public Enterprises				MFED (PERMU)
17	7	9 *	Review the <i>Borrowing and Guarantee Act</i> to ensure that Public Enterprise borrowing activity is captured within the Act				MFED (PERMU) /Attorney General
18	8	10 *	A website is to be established for Public Procurement to improve stakeholders' access to information on government tenders and contract awards. Maintain updates information				MFED (CPU)
19	9	12 *	Continue work to incorporate known costs in the forward years estimates of the MTFE for planning purposes <sup>6</sup>				MFED (PBACD)
20	10	12 *	Develop Deferred Maintenance Plan and associated asset maintenance plans to inform budget planning – needs revising and update				MFED (PBACD) PWD & CPU
21	12	13	Investigate ways to improve the way ACCPAC and the IR and Customs databases interface				MFED (Treasury, IRD), Customs & ICT
22	13	13	Introduce appeals mechanism for taxpayers in accordance with the provisions of the Act				MFED (IRD) & Custom
23	14	14	Improve bank regulations for Tax Identification Numbers (TIN) for all business account holders				MFED (IRD) & AG
24	15	14	Transfer responsibility for issuing TIN to IRD				MFED (IRD)
25	16	15	Introduce more regular reporting, budget information and reconciliation for tax assessments, collections and arrears				MFED (Treasury, IRD) & Budgets & Customs
26	17	16	Improve forecasting methodology for Treasury Dashboard report				MFED(Treasury)
27	20	18 *	Payroll system module to be implemented in ACCPAC and reporting processes strengthened				MFED(Treasury)

<sup>6</sup> FISHERIES

<b>Capacity Supplementation Required</b>						
28	24	19 *	Enhance capacity and training within the Central Procurement Unit (CPU)			MFED (CPU)
29	25	19 *	Establish complaints committee for procurement			MFED (CPU)
30	26	19 *	Establish contract award website for procurement			MFED (CPU)
31	27	21 *	Establish Internal Audit function			MFED (HQ)
32	32	25 *	In country training on transition to IPSAS reporting			MFED (Treasury)
33	33	26 *	Continue to develop and refine audit processes, including performing additional working surrounding procurement and assets			Audit
34	34	26 *	Continue to develop audit processes for Public Enterprises and Kaupule Audits			Audit
35	35	26 *	Undertake mid-year review of progress of implementation of audit recommendations			Audit
36	36	26 *	PAC to undertake mid-year review of progress of implementation of recommendations			Parliament
37	37	27 *	Improve logistical challenges and the resourcing levels for the PAC			Parliament
			<b>Supporting legal and regulatory framework</b>			
38	38	27 *	Further development of the PAC in terms of asking of interview questions, dedicated secretariat and financial independence would further strengthen the PAC.			Parliament
39	39	27 *	Introduce PAC Act outlining the requirement for the Executive Government to respond to the PAC's recommendations (including progress), increasing the independence of the PAC, and furthering the ability of the PAC to hold hearings when they choose do so.			Parliament
		D 2 & 3 *	AID Policy – Review AID Policy			MFED-PBAC-Donor P

## Annex D – PEFA RESULTS ANALYSIS UPDATES 2015 (Stakeholder expanded notes)

#	Indicator	Reform	Timing	Responsible	Action-Comments
1	4	The full roll out of purchase orders across all expenditure types will ensure that the stock of payment arrears can be effectively monitored and measured.	2015	MFED (Treasury)	<b>Treasury Update:</b> All expenditure types are okay except for salaries expenditure. In June then we try to PO salaries for the whole of government.
2	4	Reporting of outstanding purchase orders will improve monitoring of stock of payment arrears	2016	MFED (Treasury)	<b>Treasury Update:</b> All expenditure types are okay except for salaries expenditure. In June then we try to PO salaries for the whole of government.
3	3	Continuing to improve revenue forecasting to reduce the variance between budget and actual revenue estimates	2015	MFED (PBACD)	<b>PBAC Update:</b> Issues still exist. Need to review and adopt any approach that results in improving revenue forecasting to be more accurate.
4	8	Improving the oversight and monitoring function with the Ministry of Home Affairs and Rural Development to more effectively report on the use of government grants by Kaupule.	2017	MHARD	<b>DRD Update:</b> First priority of the Ministry and in progress. The ongoing reform program for DRD includes the strengthening the capacity of DRD staff in term of Personal and knowledge skills, the ministry has also started capacity building of Kaupule staff in order to provide effective compliance
5	8	Reviewing the grant allocation methodology for Kaupule block grants to provide greater emphasis on the development impact of grant funding and linking the grant to the National Development Plan, rather than allocating funds equally to each Kaupule	2017	MHARD	<b>DRD Update:</b> Progressing slowly At the present time, we are trailing Locale as well as MoHARD reporting template in Monthly Account and Financial as well as project fiscal quarterly report.
6	9	Improving government reporting of fiscal risks of Public Enterprises	2016	MFED (PERMU)	<b>PERMU Update:</b> Slightly improved. This will have improved once we receive reports from PEs on time.
7	9	Review the <i>Borrowing and Guarantee Act</i> to ensure that Public Enterprise borrowing activity is captured within the Act	2017	MFED (PERMU) /Attorney General	<b>PERMU Update:</b> Not completed. To do.
8	10	A website is to be established for Public Procurement to improve stakeholders access to information on government tenders and contract awards. Maintain updates information	2015	MFED (CPU)	<b>CPU Update:</b> Established already-confirm



#	Indicator	Reform	Timing	Responsible	Action-Comments
9	12	Continue work to incorporate known costs in the forward years of the MTFF for planning purposes	2015 & 2016	MFED (PBACD)	<p><b>PBAC Update:</b> To assist in developing the MTFF and Budget Ceilings, Ministries are requested to advise of any changes that have occurred since the Budget 2017 the template designed to capture range of information – cabinet decision, changes to policy legislation, commitments related to development projects) that will have an impact on the recurrent budget of the Ministry in 2017,2018,2019.</p> <p><b>Challenges:</b> Lack of information from Ministries. Budget were unable to access to cabinet decision and cabinet papers to be fully aware on funding implications. This only available to all CEOs.</p>
10	12	Develop Deferred Maintenance Plan and associated asset maintenance plans to inform budget planning – needs revising and update	2015 & 2016	MFED(PBACD)	<p><b>PBAC Update:</b> Asset Management Framework has been developed, need to confirm whether it should be the same with the asset maintenance plans that required in the Deferred Maintenance Policy.</p>
11	12	Improve linkages between sector planning and the budget process	2017	MFED(PBACD)	<p><b>PBAC Update:</b> Unfortunately, PBAC were unable to access to sector plans to be fully aware on funding implication which is yet to be included in the budget.</p> <p><b>Approach</b> Strengthen line Ministries to provide copies preferably e-copies on updated corporate plans, sector plans to the PBAC.</p>
12	13	Investigate ways to improve the way ACCPAC-SAGE 300 including Budgeting Module and the IR and Customs databases interface & strengthening ICT bases	2016	MFED (Treasury, IRD), Customs & ICT	<p><b>IRD Update:</b> Investigate ways to improve the way ACCPAC-SAGE 300 including Budgeting Module and the IR and Customs databases interface &amp; strengthening ICT bases.</p> <p><b>Treasury Update:</b> Not yet done anything.</p>
13	13	Introduce appeals mechanism for taxpayers in accordance with the provisions of the Act	2017	MFED (IRD) & Custom	<p><b>IRD Update:</b> Introduced already. Strengthen capacity</p>
14	14	Improve bank regulations for Tax Identification Numbers (TIN) for all business account holders	2017	MFED (IRD) & AG	<p><b>IRD Update:</b> IRD do not issue TINs, this work is done by the Business Department.</p> <p><b>Business Update:</b> Still issuing TIN at the moment and work in collaboration with IRD. Currently the process that for any new business first consult with the Business Department and required to fill and complete a business registration form, and where in this form required what types of tax which payable to Government and requires to consult the IRD.</p>
15	14	Transfer responsibility for issuing TIN to IRD	2016	MFED (IRD)	<p><b>IRD Update:</b> Still issue TIN by the Business Department.</p>
16	15	Introduce more regular reporting, budget information and reconciliation for tax assessments, collections and arrears	2016	MFED (Treasury, IRD) & Budgets & Customs	<p><b>Treasury Update:</b> Monthly report of Cash flow was updated.</p>

#	Indicator	Reform	Timing	Responsible	Action-Comments
17	16	Improve forecasting methodology for Treasury Dashboard report	2016	MFED(Treasury)	<b>Treasury Update:</b> Financial Reporting Team & Budget need to work together.
18	17	Reconcile debt data on a quarterly basis	2016	MFED(Treasury)	<b>Treasury Update:</b> Not yet implemented.
19	17	Improve transparency for government guarantees by developing strategy with transparent criteria with fiscal target ceiling & guidelines in issuing guarantee	2017	MFED(PBACD) & AG	New area to be addressed and strengthen capacity. The issuance of guarantee governed by the Govt Borrowing & Guarantee Act needs to improve.
20	18	Payroll system module to be implemented in ACCPAC and reporting processes strengthened	2016	MFED(Treasury)	<b>Treasury Update:</b> Okay & updated.
21	18	Regular reconciliation of Payroll data to be undertaken	2016	MFED(Treasury) & Audit	<b>Treasury Update:</b> Okay & updated.  <b>Audit Update:</b> Implemented by treasury we will supervise.
22	18	Clearly define roles and responsibilities of P & T and Treasury for payroll process	2016	OPM(PT) & MFED(Treasury)	<b>Treasury Update:</b> TO DO Outstanding as staff turnover continues to increase.  <b>HRM Update:</b> HRM check pay with Treasury every fortnight, and liaise on allowances, GAO forms, TMTS.
23	18	Annual external audit of payroll to be introduced	2017	MFED(Treasury) & Audit	<b>Treasury Update:</b> None.  <b>Audit Update:</b> May result in duplication of audit work.
24	19	Enhance capacity and training within the Central Procurement Unit (CPU)	2016	MFED(CPU)	<b>CPU Update:</b> Ongoing - Two CPU staff just completed UNDP/CIPS Level 2 assessment formalities on 19 May 2017 after a week face to face training in Dubai from 7 <sup>th</sup> -10 <sup>th</sup> February 2017. Three CPU staff will attend level 3 later on during the year.
25	19	Establish complaints committee for procurement	2016	MFED(CPU)	<b>CPU Update:</b> In progress and estimated to be completed by Q3
26	19	Establish contract award website for procurement	2015	MFED(CPU)	<b>CPU Update:</b> Refer to indicator 10
27	20	Full roll out of Purchase Orders to all expenditure items	2016	MFED(Treasury)	<b>Treasury Update:</b> Yes except for salaries.
28	21	Establish Internal Audit function	2017	MFED(HQ)	As area of need- TA input needed.
29	22	Review IBD and close inactive accounts	2016	MFED(Treasury)	<b>Treasury update:</b> Yet to achieve
30	23	Training to improve resource allocation reporting for service delivery units	2017	ME & MH	(i) To improve reform to be specific in the next PEFA Assessment (ii) ME should be Evaluation & Coordination Unit (ECU) and remove MH (no clue what that is) (iii) Area of need sustain capacity in terms of support for monitoring and reporting on progress of TKIII implementation

#	Indicator	Reform	Timing	Responsible	Action-Comments
31	24	Incorporate Purchase Orders (commitments) into monthly reporting	2016	MFED(Treasury)	<b>Treasury update:</b> Yet to achieve
32	25	In country training on transition to IPSAS reporting	2017	MFED(Treasury)	<b>Treasury update:</b> Yet to achieve
33	26	Continue to develop and refine audit processes, including performing additional working surrounding procurement and assets	2016	Audit	<b>Audit update:</b> OAG currently finalizing compliance audit on procurement.  Audit staff annually assist treasury in conducting stock takes for Whole of government.
34	26	Continue to develop audit processes for Public Enterprises and Kaupule Audits	2016	Audit	<b>Audit update:</b> Audit process already in place for Kaupule Audits.
35	26	Undertake mid-year review of progress of implementation of audit recommendations	2017	Audit	<b>Audit update:</b> Currently awaiting recruitment of communication staff, follow up on recommendation are in its JD's.
36	26	PAC to undertake mid-year review of progress of implementation of recommendations	2017	Parliament	<b>Audit update:</b> Currently working on the new bill for the Public Account Audit and Budget Committee Act that will address these issues.
37	27	Improve logistical challenges and the resourcing levels for the PAC	2017	Parliament	<b>Audit update:</b> Currently working on the new bill for the Public Account Audit and Budget Committee Act that will address these issues.
38	27	Further development of the PAC in terms of asking of interview questions, dedicated secretariat and financial independence would further strengthen the PAC.	2017	Parliament	<b>Audit update:</b> Currently working on the new bill for the Public Account Committee and Budget Committee Act that will address these issues.
39	27	Introduce PAC Act outlining the requirement for the Executive Government to respond to the PAC's recommendations (including progress), increasing the independence of the PAC, and furthering the ability of the PAC to	2017	Parliament	<b>Audit update:</b> Currently working on the new bill for the Public Account Audit and Budget Committee Act that will address these issues.

## Annex E – PEFA RESULTS ANALYSIS 2011-2015 (with expanded notes)

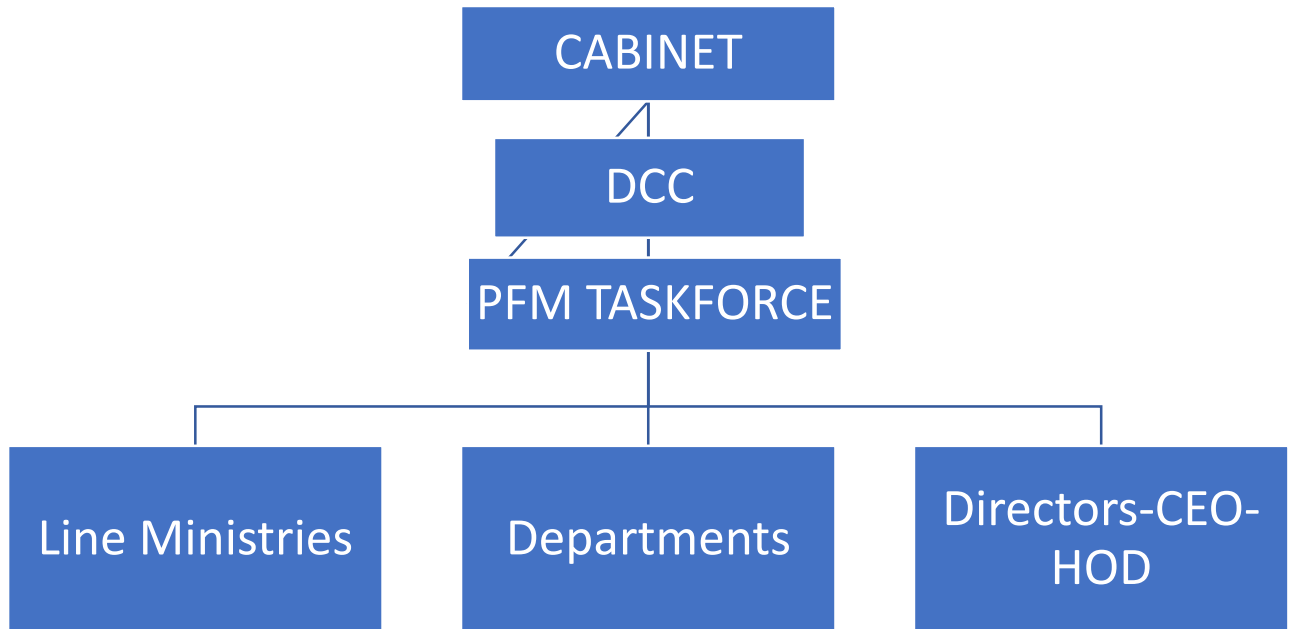
Overview 2011 PEFA Results	Overview 2015 PEFA Self-Assessment Results
The indicators that showed the <b>weakest PFM performance (score D, D+)</b> were:	
Stock and monitoring of expenditure payment arrears (PI-4)	The overall score did not improve and remained at D+ in 2015 assessment where “payment areas” were reviewed yearly however the introduction of Purchase Orders were expected to improve results after 2015 PEFA Results.
Transparency, competition and complaints mechanism in procurement (PI-19)	The scores for this PI revealed a D to D+ in terms of Transparency, comprehensiveness and competition in legal regulatory FW where only 70% of procurement value were compliant whilst legal FW meets four of the six listed requirements. Legislation requires publication of contract awards however this is only done on notice boards and the overseas participants and bidders from outer Islands have no access and this area needs urgent improvement.
Effectiveness of internal audit (PI-21)	This score remained the same as D in 2015 however in 2017, an Internal Audit Branch was established with an Internal Auditor engaged in November 2017. As of 2017 an Audit Charter exists and some form of audit plan was sighted however TA support is urgently required to get this office fully functioning, staff trained, at least 2 more IA recruited, trained to discharged their responsibilities as Internal Auditors.
Financial information provided by donors for budgeting and reporting on project and program aid (D-2)	This PI was not reviewed during the 2015 PEFA Self-Assessment Report nor reviewed in the previous PFM. The completeness and timeliness of estimates remained at D and the frequency and coverage of reporting remains on D as well.
Proportion of aid that is managed by use of national procedures (D-3)	This PI was not reviewed during the 2015 PEFA Self-Assessment Report and the score remained at D and would require certain attention in this area for improvement.
The indicators that indicated <b>weak PFM performance (score C, C+)</b> were:	
Composition of expenditure out-turn compared to original approved budget (PI-2)	Maintained the score of C+. In 2014 a large mini-budget was passed resulting in deviation of expenditure in ministry of finance was beyond 5%.
Aggregate revenue out-turn compared to original approved budget (PI-3)	Maintained the score of C. In 2014 a large mini-budget was passed resulting in deviation of expenditure in ministry of finance was beyond 5%.
Extent of unreported government operations (PI-7)	The score for this PI improved from D+ to C+ by maintaining strong performance in minimal expenditure fully reflected in fiscal reports. The TDF by project and external budget assistance were included as annexures, needs to be fully incorporated into the Ministry program estimates.
Oversight of aggregate fiscal risk from other public sector entities (PI-9)	This score improved from D+ to C+ in 2011 vs 2015 in terms of new legislation ended in 2014 to improve oversight of AGA's & PEs, management of their fiscal risks which are not reported in the budget papers. Various improvement also includes Audits of Kaupule's and JV's fiscal positions.

Transparency of taxpayer obligations and liabilities (PI-13)	This PI has remained as C+ on overall score however the sub indicators remained at B in terms of enactment of Customs Act in 2014 and Tax payers having easy access to user friendly information on tax liabilities... however, continued to score low on the Appeals Mechanisms for both IR and Customs. This area needs strengthening and room for improvement by current Tax TA.
Effectiveness of measures for taxpayer registration and tax assessment (PI-14)	This score improved from D+ to C due to establishments and linking taxpayers' registrations to database. The score was set to C because the Financial Sector do not require a TIN so the need exists to strengthen the Financial Sector regulations that they require TIN as part of new Business registration.
Effectiveness in collection of tax payments (PI-15)	The scores shifted from D+ to C only due to the following; no information was available for collection ratio for tax areas, consistency in reconciliations, though it was noted revenue is transferred to Treasury on a daily basis which received an A.
Predictability in the availability of funds for commitment of expenditures (PI-16)	This PI's score has not changed from C+ however there appears to be greater need in here to ensure the basis for cashflow projections in terms of income and expenditure needs to be realistic and based on actual receipts and spending (and forecast).
Recording and management of cash balances, debt and guarantees (PI-17)	This score improved from D+ to C in 2015 with consolidation of govt's cash balances for TDF and general acct being reconciled daily. Debts are reconciled annually and the issuance of guarantee governed by the Govt Borrowing & Guarantee Act needs to improve.
Effectiveness of payroll controls (PI-18)	The overall score only shifted from D+ to C whilst the integrity of the payroll continues to be significantly undermined as data is not reconciled. Whilst the advice on recruitment appears to have improved the P&T on retirement of officers are delayed. The authority for payroll management is clear however confusions exists in terms of changes with scores in 2011 should be C and not B.
Availability of information on resources received by service delivery units (PI-23)	This score did not improve from 2011 to 2015 and remained as C as information is not made public by service delivery units.
Quality and timeliness of in-year budget reports (PI-24)	Whilst this score has improved from D+ to C+, scopes of reports in terms of coverage and compatibility with budget estimates whilst made available, the PO's/commitments are not published. Furthermore, the forecasts are not revised for virements or supplementary.
<b>The indicators that were found as having above-average PFM performance (score B, B+) were:</b>	
Transparency of inter-governmental fiscal relations (PI-8)	This score was maintained as B from 2011 to 2015 in terms of transparent and rules based systems being followed when transferring funding from Government to Kaupule.
Multi-year perspective in fiscal planning, expenditure policy and budgeting (PI-12)	This score has improved from C+ to B in terms of MTFE Budget Outputs. Whilst the statement claims 2

	years as forward multi-year rolling annual basis, key elements are missing to ensure multi-year budgeting and forward planning is actually implemented in terms of SDE's, multi-year Infrastructure projects and contracts. IPSAS 24 is being considered in 2017 to improve this. Linking Health and Education Budgets and MTFE to incorporate forward estimates is critical in this PI and will be reviewed in 2017 ff.
Effectiveness of internal controls for non-salary expenditure (PI-20)	This score significantly improved from overall D+ in 2011 to B in 2015 PEFA SA Report for 2015 in areas of PO module working in ACCPAC enabling Commitment control, FI revised and simplified with Trainings provided in the FMIS and more improvement and compliance in processing and recording of transactions.
Timeliness and regularity of accounts reconciliation (PI-22)	This score has improved from C to B as bank reconciliations are taking place.
Quality and timeliness of annual financial statements (PI-25)	The score for this PI significantly improved from D+ to B+ in meeting timeliness of preparations and releasing of the financial statements of the GoT. This includes consolidated reports. The key element to evaluate is the maintenance and sustainability of this reporting processes and standards after the TA has departed.
Scope, nature and follow-up of audit (PI-26)	This score remained on B from 2011 to 2015 in terms of the external audits involves auditing the Whole of Govt including regional performance audit-climate change 2013 and Planned Govt Travel Performance audit in 2015. There appears to be limited works to address issues during the year so this is done in the next financial year. It is envisaged works done during the financial years to address outstanding issues raised from audit.
Legislative scrutiny of external audit reports (PI-28)	This score remained on B from 2011 to 2015 in terms of PAC reviewing Audit report within 3 months and having interviews and receiving feedbacks. There appears to be limited responses from Executive Government surrounding PAC's recommendations. It is imperative the Government implements recommendations from the Audit findings and progress monitored and reported to all stakeholders.
<b>The indicators that suggested the strongest PFM performance (score A) were:</b>	
Aggregate expenditure out-turn compared to original approved budget (PI-1)	The score of A was maintained from 2011 to 2015. That is a strong performance in terms of the differences between actual primary and originally budgeted expenditure maintaining lower deviations of less than 5% from 2012 to 2014 FYE.
Classification of the budget (PI-5)	This score maintained A in 2011 and 2015 in terms of Budget presented by program and sub-programs with the expenditures linking to MTFE in economic classifications. It was noted the GFS standards are not used in the presentation and there is room for reclassification IPSAS vs GFS).

Comprehensiveness of information included in budget documentation (PI-6)	The score for this PI has improved from C in 2011 to A in 2015 in meeting timeliness of preparations and releasing of the financial statements of the GoT.
Public access to key fiscal information (PI-10)	This score has improved from C to A with several websites established to disseminate information and data for public viewing such as: AG website which has Budget, Financial Accounts etc...All Govt's Fiscal reports are circulated to ALLSTAFF email.
Orderliness and participation in the annual budget process (PI-11)	This score has improved from B to A from 2011 to 2015 in terms of adhering with clear budget processes such as timely circulars and budget approval processes. It is noted here the development of 2018 Budget may encounter some problems due to staff capabilities to use the MTFF Template which the staff needs urgent training in advanced Excel.
Legislative scrutiny of the annual budget law (PI-27)	This score improved significantly from C to A+ as the legislature review of the budget is well in advance prior to finalisation of the Budget. It is envisaged this process is maintained. There will remain the issue of quality of the budget which requires careful consideration. There is recommendation for
Donor predictability of Direct Budget Support (D-1)	Whilst this PI was not reviewed nor included in the PEFA 2015 and past PFM, this score maintained an A.
There were no indicators which were shown as <b>Not Rated (N/R)</b> or <b>Not Applicable (N/A)</b> .	

## Annex F – PFM ROADMAP TASKFORCE COMMITTEE STRUCTURE





## ANNEX G: PFM TASKFORCE TERMS OF REFERENCE

### TERMS OF REFERENCE FOR PUBLIC FINANCIAL MANAGEMENT TASKFORCE COMMITTEE

#### **(a) BACKGROUND**

The Public Financial Management (PFM) Roadmap provides a program of action over the medium term to improve PFM systems in Tuvalu. The starting point for this analysis was the 2011 Public Expenditure and Financial Accountability (PEFA) study, followed by a PEFA Self-Assessment carried out in 2015. Simultaneously Australian Government conducted the Assessment of The National Systems (ANS) which highlighted major key fiduciary risks as identified and addressed in this PFM. These studies reviewed Government's PFM processes which revealed strengths and weaknesses of the PFM systems and providing a strategic way forward by (i) highlighting areas for improvement in the various reforms in the PRM and (ii) establishing a PFM Taskforce Committee who will report through the DCC and Cabinet structures of the Government of Tuvalu (**Annex F**) to monitor and manage and report on the PFM outcomes.

In early 2017, Ministry of Finance and Economic Development set a priority to complete the formulation of the new PFM roadmap and continue in facilitating and improving the current financial management systems of the government to ultimately ensure effective and efficient service delivery to the people of Tuvalu. The working group or the PFM Task Force Committee (**Annex G: e**) will achieve this goal to managing the implementation of the PFM roadmap.

#### **(b) OBJECTIVES**

The objective of the Public Financial Management Technical Group to facilitating and improving the current financial management systems of government to ultimately ensure effective and efficient service delivery to the people of Tuvalu. As agents of improvements to our PFM systems we commit to:

- Improving our performance ratings for PFM systems to be measured as part of the
  - Public Expenditure and Financial Accountability (PEFA) Assessment due in 2019;
  - Undertaking actions identified in the Roadmap effectively within the context of Tuvalu;
- Being advocates of this Roadmap;
  - Incorporating these actions into our Annual Program Descriptions – revised and updated in 2017 for PFM Roadmap 2017-2021;
  - Monitoring and reviewing the PFM Roadmap at regular basis during the roadmap's lifetime; and
- Facilitating development training and up-skilling programs to improve the financial service capacity of all departments to ensure long-term sustainability of Tuvalu's public sector.

#### **(c) PURPOSE**

The PFM Taskforce Committee is responsible to analyse their main weaknesses, underlying causes, including determining whether these issues were under their control or outside their control, assessing capacity to address the issues, prioritizing and sequencing the actions, policy actions, and the risks associated in achieving their planned outputs.

**(d) FREQUENCY and TIMING of MEETING**

The Committee shall meet once on monthly basis and shall determine its own procedures for the conduct of meetings by utilising both the bottom-up and top down approached required in the respective departments within MFED.

**(e) RESOURCES to the COMMITTEE**

The following are resources to the Committee:

No	Designation	Status
i	Secretary of Finance and Economic Development	Chair
ii	Director of Planning, Budget & Aid Coordination	Deputy Chair
iii	Senior Budget Adviser	Secretariat
iv	Budget Management Adviser	TA to the PFM Committee and Committee Member
vi	Head of Internal Audit	Committee Member
vii	Government Accountant	Committee Member
viii	Director of IRD	Committee Member
ix	Director of Customs	Committee Member
x	Head of CPU	Committee Member
xi	Director of DRD	Committee Member
xii	Head of PERMU	Committee Member
xiii	Senior Economic Adviser	Committee Member
xiv	Senior Aid Adviser	Committee Member
xv	ECU Coordinator	Committee Member
xvi	MNR representative	Committee Member
xvii	Assistant Secretary Health	Committee Member
xviii	Assistant Secretary MEYS	Committee Member

At any one time, the above committee members can nominate or delegate members of their team and staff to attend the PFM taskforce Meetings.

**(f) QUORUM**

The quorum shall be comprised of 4 members.

**(g) ROLES and RESPONSIBILITIES OF THE PFM TECHNICAL TASKFORCE as follows:**

The Committee shall have the power, duty and responsibility to:

- i) defining the actions required for implementation of the PFM Roadmap;
- ii) maintaining work plans and schedules;
- iii) coordinating access to resources;
- iv) evaluating the work of consultants;
- v) organising training workshops as required;
- vi) disseminating information to all stakeholders regarding the Roadmap;
- vii) monitor progress by implementing agencies and advise on action to overcome problems;
- viii) collecting data to monitor performance of the Roadmap;
- ix) ensuring cohesion and consistency between various initiatives and the effective use of external support to the Roadmap process;
- x) reporting through the DCC level matters for addressing and improving in PFM areas of concern; and

- xi) Update and workshop areas of concern stemming from PFM through respective ministries and departments will be responsible for providing quarterly reports on the progress of their reform actions using a simple and standard reporting matrix identifying the reform, action to be undertaken, timeframes, progress and any problems which require addressing. Ministries and Departments will be responsible for acting on constraints identified as well as compilation of annual reports on progress achieved.

**(h) Financial Implications of PFM:**

Costs identified here are costs related to PFM taskforce meetings and administrative costs and these will be reflected in the MFED and the ministries and departments affected by the PFM Reform from 2018 onwards.

Cabinet endorsement as per Cabinet Decision – **M177-17; Meeting 23/17; 21<sup>st</sup> June 2017.**

# ANNEX H: MINUTES OF FIRST PFM ROADMAP TASKFORCE MEETING

**Minutes of the 1<sup>st</sup> Meeting of the Public Financial Management Committee Held in Finance Tea Room**

**On Monday, 22<sup>nd</sup> May 2017 at 3.00-4pm.**

Present: Mr Vavau Fatuuga	Acting Secretary of Finance & Economic Development
Mr Niuatui Niuatui	Director of Planning, Budget and Aid Coordination Department
Ms. Kelena Tapa	Acting Senior Budget Adviser
Ms. Salai Sualo	Budget Adviser
Ms. Elizabeth Goodman	Budget Technical Adviser

## **1.0 Introductions and Welcome**

- 1.1 Internal discussion between Acting Secretary of Finance and Economic Development and staff of the Planning, Budget and Aid Coordination flagged that a PFM Committee should establish to monitor the implementation of various action items of the PFM roadmap.
- 1.2 The Director of PBAC welcomed the members to the first meeting and allowed the Budget TA to provide a brief overview of PFM roadmap and to outline the purpose of this meeting.
- 1.3 Budget TA provided the background information on the PFM roadmap and highlighted that the main purpose of the meeting was to establish a PFM Taskforce Committee to monitor the implementation of various action items of PFM and manage progress in the various reforms and improvements in the PFM Roadmap and report to DCC and Cabinet on progress.

## **2.0 Discussions**

- 2.1 Terms of Reference: The Acting Senior Budget Adviser mentioned that before setting up a Taskforce Committee, a Terms of Reference should be formulated to set clear roles and responsibilities of the Committee and submit for cabinet endorsement.

### ***Action Item:***

- a) *Acting Senior Budget Adviser and Budget TA will develop and provide a Terms of Reference for cabinet endorsement which will include addition of the rest of the committee members.*
- 2.2 Membership: The Committee discussed the membership and agreed that the PFM Committee should consist of:  
Chair: Secretary of Finance and Economic Development (MFED)  
Deputy Chair: Director of Planning, Budget and Aid Coordination

Budget TA  
Treasury rep  
OPM rep  
Internal Audit rep  
Inland Revenue rep  
PERMU rep  
Department of Rural Development rep  
Secretariat: Budget Adviser

2.3 Quorum: Director of Planning, Budget and Aid Coordination suggested that a quorum of the Committee shall consist of 4 members and supported by the Committee.

2.4 Frequency of Meetings: Budget TA suggested for the Committee shall meet once every month after cabinet endorsed the PFM roadmap. The Committee agreed and also noted that all issues could be adequately addressed.

2.5 Record Minutes: Budget TA flagged that results of the meeting should be in the minutes and kept with action items. In addition, a circular should be issued to key stakeholders to inform on their involvement into this Committee and run workshop and address Action Items where required.

**Action Item:**

- a) *Acting Senior Budget Adviser will be the secretariat of the Committee, and ensure that minutes are circulated to key stakeholders for review and comment and to ensure that it should always adopt and approved by the Committee.*
- b) *Budget TA and Acting Senior Budget Adviser will provide the circular to key stakeholders and will facilitate a workshop regarding the PFM roadmap.*
- c) *Include the PFM Taskforce Members for DCC approval and consideration. Tentative DCC meeting on the 9<sup>th</sup> June 2017 to present PFM Information Paper.*

**3.0 Next Meeting**

3.1 The next meeting would be called upon once the PFM roadmap and Terms of Reference has been endorsed.

**4.0 Closing**

4.1 The meeting adjourned at 4pm.