



GOVERNMENT OF KIRIBATI

GoK(12)DPF.2.2

DEVELOPMENT PARTNERS FORUM

Tarawa, Kiribati
25 – 27 June 2012

AGENDA ITEM 2.2: Public Finance Management (PFM)

Purpose

1. The purpose of this paper is two fold:
 - To provide progress of the key PFM activities since the last donor partners' meeting;
 - To highlight the gap(s) and to seek donor partners' commitment or interventions to address these gaps where appropriate.

Background

2. The 2009 Kiribati PEFA report demonstrated numerous PFM weaknesses which are grouped under seven key dimensions – **Table 1**.

During the last donor partners' meeting held in March 2010, the GoK confirmed its commitment to developing a PFMP that would guide future reform activities and which would provide the institutional basis for coordinating TA support towards priority areas indicated in the PEFA report.

Many donors and in particular the European Union (EU), ADB, World Bank, IMF, PFTAC, Ausaid and Commonwealth indicated their willingness to support improvement to Kiribati PFM.

During 2010/2011 the EU funded a TA to assist the MFED to develop the 2011–2014 Kiribati PFM Plan. The PFM Plan was presented to key donor partners for consideration in June 2011 and the report was well received by all donors. The final version of Kiribati 2011/2014 PFMP was completed in June 2011 and has now become the guiding framework for all PFM related activities.

There are five main strategic areas that have been identified and which have now formed the basis of Kiribati PFM Plan 2012-2014 which include:

- i) Exercise firm *expenditure control*;
- ii) Enhance *revenue management* systems and revenue flows;
- iii) Improve the standard of *internal and external financial reporting*;
- iv) Increase *donors' use of Kiribati PFM system*;
- v) Enhance *PFM regulatory framework*.

The underlying objective of the 2011-2014 PFMP is to *establish a basic overall level of PFM* by 31 December 2014 by addressing key weaknesses in expenditure control, budgeting, revenue management and financial reporting by 31 December 2012. Timely improvements in these areas will lay the foundations for achieving wider PFM improvements in 2013-14 that will be accompanied by enhancements to the present PFM regulatory framework.

Issues:

3. Progress to date of the PFM main strategic areas

A number of activities and assistances had been undertaken and provided by donors since the last donor partners' meeting to address aspects of the PFM strategic areas and include:

a. Expenditure control

- The Treasury's payment and commitment procedures have been analysed by Attaché experts with technical input from PFTAC with a view to automate "Fund Control" function within the current Attaché Accounting software system currently in use. Further work with regards to making this functional is still in progress.
- Few payroll additional features have been installed recently to allow automatic cessation of salary advance deductions and adjustment pay for inaccurate posting of salaries;
- The Treasury is currently providing a 12 months cash flow forecast which is done manually. The Treasury recognizes the need to automate forecasting in the Attaché system and so an Attaché technical support is required to conduct this exercise.
- Work is currently continuing to improve the current Chart of Account (COA) for the recurrent and development budgets which takes into consideration the need to align these new codes with GFS. Technical support from PFTAC and funding of Attaché experts by the EU Technical Cooperation Facility has made the initial ground work to start. Further work is in progress and the new COA aligned with GFS should be adopted in the 2013 budget.
- There has been on-going work undertaken under the ADB TA No.7166-KIR: Economic Management and Public Sector Reform that is providing ongoing assistance to the PFMP in the areas of implementing a medium term approach to fiscal planning and state owned enterprise (SOE) reform. (Refer to agenda item 2.3)

- AusAID has also further provided an additional US\$1,000,000 through ADB to respond to the priorities identified in the Government of Kiribati PFM Reform Plan relating to expenditure management (particularly in the context of improving the functionality of the Attaché system). The indicative activities that would be financed through this funding are in italics in Table 2 under subheads Accounting, Recording and Reporting and General.

b. Revenue management

- A study mission to Tonga, Samoa and Wellington to assess a possible Revenue Management System (RMS) was undertaken early this year by the Tax Commissioner, IT Manager, Comptroller of Customs and Tax expert from PFTAC with funding support from AusAID. The mission's recommendation is to adopt the Revenue Management System (RMS). The total estimated cost of the new system is \$2.3m.
- The position of the Tax Advisor with funding support from AusAID has also been advertised and the expert is expected to come to Tarawa before mid 2012. The Tax Advisor should be able to expedite the revenue management programs associated with improving tax systems for the MFED.
- An assessment on the PC Trade software currently used by the Customs division was undertaken in 2011 and completed in early 2012. The recommendation is to install the Customs Management System (CMS) and to do away with the PC Trade software. It is anticipated that the installation of the new software will commence in 2014 following the installation and full roll out of the RMS in the tax division. The total estimated cost is \$1.725m

c. Financial reporting

- Preliminary work has already started since 2011 in revising the current format of development budget to indicate the different types of donor flows. This is part of improving the current CoA which is provided by technical assistances from PFTAC and ADB and funding of short term Attaché experts through the EU TCF for Kiribati.
- The proposed change to Development Fund budgeting and reporting formats is currently in progress. Once the new reporting format is completed, it should assist donors in developing targets for the proportion of aid flows to be managed by the Kiribati PFM system. It is anticipated that the reconfiguration of the Development Fund budget should be completed by 31 December 2012 and reflected in the 2013 Development

budget while reporting of actual in-kind donor flows should commence thereafter.

- The application of appropriate expenditure commitment accounting procedures which is currently in progress as part of the technical assistance provided by PFTAC and ADB should further improve the quality of in-year budget reporting by 2013.
- The expanded use of the Attaché system has been very slow due lack of funding to engage an Attache specialist to work with staff within the Treasury division for several months. The additional financial support provided of US\$1 million by AusAID through ADB should assist to progress this milestone. Once this has been completed, the current accounting software package should be able to produce timely annual reconciliations of advance accounts and Telmos by the end of 2014.
- There are further enhancements to financial reporting which are proposed for 2013-14 following a number of technical missions undertaken by various technical experts during 2011-2012 and these include the implementation of the basic GFS classification system in financial reporting (currently in progress and supported by PFTAC), the commencement of reporting on fiscal risks arising from SOEs (also in progress and supported by ADB).
- There is little progress in addressing the Financial reporting reflecting fiscal risks from local government and the need to prepare consolidated financial statements to comply with the IPSAS cash accounting standard.

d. Donor's use of PFM system

- Following the development of 2011-2014 Kiribati PFM Plan, a number of donors have already indicated their interest to channel their funding support to Kiribati through a direct budget support and in particular the European Union.
- The planned reformatting of the Development Budget in 2012-13 should enable donors to set an initial target for the use of Kiribati PFM systems based on budgeted cash and in kind aid flows by 2013/2014.
- A number of donors have already provided information relating to the development budget support and disbursement on their aid to the GoK for the 2012 budget. We would still encourage all our donor partners to provide this information for our future budgetary preparation as it will improve the MFED's ability to coordinate aid flows in the short to medium term.

e. PFM regulatory framework

- The current Financial and Stores Regulations have been reviewed and will be submitted to Cabinet for endorsement. Thanks to the European Union

for providing a short term TA since 2011 to assist the MFED to prepare these regulations.

- The Public Finance, Control and Audit Act (PFCAA) (CAP 79) require revision/amendments which will necessitate further revisions to the prevailing financial regulations in due course.
- The Procurement Act 2002 also requires revision. Supporting procurement regulations should be introduced following the revision of the procurement legislation to replace the prevailing stores regulations.

f. Challenges / Problems

- **Table 2** which is part of the PFM Plan sets out estimates of external resourcing requirements. A total of more than AUD8 million is required. This clearly shows that significant donor support is required to facilitate the implementation of the PFMP and achievement of the 2014 specified performance targets.
- The reshuffling of key technical staff away from the MFED is one of the major challenges in the implementation of this PFM Plan. The Government is expected to support the implementation of the PFMP by ensuring that key MFED posts and in particular the Director of Planning is filled up immediately.
- Human resources capacity within the MFED and particularly the Accounting and IT division also poses greater challenges in the implementation of the PFM Plan.
- In addition to the human and financial challenges that the MFED is facing, there is also an issue associated with improving the current work environments and provision of latest hardwares and softwares that will make our current PFM Plan achievable.

4. Recommendations

- Donors are invited to note the progress and major challenges made so far on the 2011-2014 PFM Plan;

- Donors are further requested to study the financial resources required for the implementation of this PFM Plan;
- And if possible to indicate or make commitment to areas where they will be able to provide assistance.

Government of Kiribati
3 -4 April 2012

Table 1: Kiribati PMFP policy framework: Medium Term PFM Policy Goals and PFM Reform Priorities

PFM Dimensions	Current Status of PFM (2010 PFM-PR)	Medium Term PFM Policy Goals	Medium Term PFM Reform Priorities	PFM Indicator	PFM Indicator Score 2010	Target PFM Indicator Score 2014
1. Credibility of the Budget	Expenditure credibility good	Maintain credible expenditure budgets		PI-1	A	A
	Modest variation in expenditure composition	Achieve minimal variations in expenditure composition		PI-2	B	B
	Material deviations from revenue forecasts in first 2 years of period surveyed	Reduce deviations from budget revenue forecasts	Improve revenue forecasting ability	PI-3	D	B
	Expenditure payment arrears are not recorded	Commence recording of expenditure payment arrears	Record expenditure payment arrears. Ensure expenditure payment arrears stock is modest.	PI-4	D	B
2. Comprehensiveness and transparency	GFS/COFOG standards not used in classification of budget data	Implement an administrative, economic and functional classification using GFS/COFOG standards	Implement an administrative, economic and functional classification (using at least the 10 main COFOG functions) using GFS/COFOG standards	PI-5	D	B
	Three of the nine elements of budget documentation disclosed	Increase the number of elements of budget documentation included in the budget documentation	Include seven of the nine elements of budget documentation in the budget documentation	PI-6	C	A
	Poor reporting of project income and expenditure funded by donor cash contributions	Commence the disclosure of income/expenditure information for donor-funded projects where donors remit supporting cash resources to the government's No. 4 bank account	Complete income/expenditure information for 90% of the value of cash received from donors for donor-funded projects is included in fiscal reports	PI-7	D+	B
	No reporting of consolidated local government revenue and expenditure	Commence the disclosure of consolidated information for local government revenue and expenditure	Collect fiscal information for at least 75% of total local government revenue and expenditure	PI-8	B	B
	Poor oversight of PEs and local government	The Department of Finance commences preparing annually report(s) on the overall fiscal risks arising from PEs and local governments	The Department of Finance prepares annually reports on the overall fiscal risks arising from PEs and local governments	PI-9	D	B
	Only one of six key fiscal reports is readily available	Increase the number of fiscal reports made available to the public	Make available to the public four of the six listed types of fiscal reports.	PI-10	C	B
3. Policy Based Budgeting	Budget process was reasonable	Improve budget process	Improve budget preparation documentation	PI-11	C+	B

	No multi-year budget forecasts prepared	Improve preparation of multi-year budget forecasts	Prepare multi-year forecasts that are supported by sector strategies for five largest ministries. Ensure investment projects are strongly linked to sector strategies and the associated recurrent costs are included in multi-year budget forecasts.	PI-12	D+	B
4. Predictability and Control in Budget Execution	Reasonable transparency of taxpayer obligations and liabilities. Customs regulations and reorganisation of Inland Revenue Board required	Increase taxpayer's access to information on tax liabilities and administrative procedures	Achieve significant improvement in taxpayer's access to information on tax liabilities and administrative procedures following implementation of new tax IT system	PI-13	B	B
	No single TIN. Customs penalties require revision. Customs and tax risk audit capability underdeveloped	Introduce TIN system and more appropriate Customs penalties. Enhance Customs and tax risk audit capability.	Implement TIN system. Revise Customs penalties. Improve Customs and tax risk audit capability.	PI-14	C	B
	No tax arrears collection data available. No regular revenue reconciliations between Treasury and Customs and Tax	Commence monitoring of tax arrears collection data. No regular revenue reconciliations between Treasury and Customs and Tax	Achieve a tax arrears collection ratio of 75%. Undertake complete reconciliations of tax assessments, collections, arrears and transfers to Treasury at least quarterly within six weeks of end of quarter.	PI-15	D+	B+
	Minimal cash flow forecasting and monitoring	Commence regular cash flow forecasting and monitoring	Prepare revised cash flow forecasts at least monthly for all main government bank accounts	PI-16	C+	A
	Poor recording of debt and guarantees	Improve management of debt and guarantees	Establish policy frameworks for debt and guarantees that are approved by government. Improve recording of debt and guarantees	PI-17	D+	B
	Poor payroll controls. No regular reconciliation between payroll, personnel records and nominal roll. No payroll audits undertaken.	Revise payroll system and supporting controls. Commence regular reconciliation between payroll, personnel records and nominal roll and payroll audits.	Implement revised payroll system and update payroll controls. Undertake regular reconciliations between payroll, personnel records and nominal roll and at least one payroll audit.	PI-18	D+	B
	Procurement is significantly underdeveloped	Revise and update current procurement framework	Enhance procurement framework and implement necessary changes. Monitor use of open competition.	PI-19	D+	B
	Weak internal controls	Strengthen internal controls	Establish relevant internal controls (including expenditure commitment controls). Complete revision of PFM legislation, regulations and instructions. Improve compliance with	PI-20	D+	B

	Internal audit is significantly underdeveloped	Improve internal audit capability	rules.			
			Build internal audit operating capacity. Achieve greater coverage of government entities. Increase frequency of reporting and managerial responsiveness to internal audit reports.	PI-21	D+	C
5. Accounting and Financial Reporting	Significant backlog in bank reconciliations. Arrears in reconciliations of advances and Telmos.	Eliminate backlog in bank reconciliations. Reconcile and clear advances and Telmos.	Undertake all reconciliations within four weeks of the end of each month	PI-22	D	B+
	No reporting of receipts of goods by service delivery entities (clinics and schools)	Establish systems for reporting receipts of goods by service delivery entities (clinics and schools)	Implement extensive reporting of receipts of goods by service delivery entities (clinics and schools)	PI-23	D	B
	Poor quality in-year budget reports; commitments are not shown.	Incorporate commitments in in-year budget reports.	Prepare appropriate in-year budget reports with commitments shown.	PI-24	D+	A
	Completeness and timeliness of financial statements is reasonable. No accounting standards used.	Maintain completeness and timeliness of financial statements. Adopt cash accounting standard.	Implement cash accounting standard	PI-25	D+	C+
6. External Scrutiny and Audit	Limited auditing undertaken. Some improvement in follow-ups to audit reports occurring.	Improve audit coverage and level of follow-ups to audit reports.	Increase audit capacity to facilitate greater audit coverage.	PI-26	C+	B
	Legislative scrutiny is of budget satisfactory. It is not possible to allocate more time to consideration of the budget.			PI-27	D+	D+
	Legislative scrutiny is reasonable. PAC needs strengthening.	Provide assistance to PAC during hearings	Provide assistance to PAC during hearings	PI-28	B	B
7. Donor practices	Donor supply of budget and reporting information is poor	Encourage donors to provide timely advice on proposed aid flows and disbursements	Increased donor advice on proposed aid flows and disbursements	D-2	D	C
	Donors make little use of national PFM procedures	Encourage donors to make greater use of national PFM procedures	Improve Kiribati's PFM performance to encourage more donors to use national PFM procedures	D-3	D	C

Table 2: PFM Resource Estimate

PRELIMINARY ESTIMATE PFMP RESOURCE REQUIREMENTS – 27 MAY 2011	INDICATIVE DONOR	2011 1h	2011 2h	2012 1h	2012 2h	2013 1h	2013 2h	2014 1h	2014 2h	Total
Budgeting processes										
ADB TA: Economic Management & Public Sector Reform										
Implement basic GFS system in Statistics Division (6 months)						90,000	90,000			180,000
Budget execution										
Tax Advisor	Ausaid									
Tax IT upgrading –				800,000				300,000		1,100,000
Tax IT upgrading supporting TA (2 yrs)				240,000	240,000	240,000	240,000			960,000
Consumption tax preparation TA (6 months)								240,000		240,000
Customs IT upgrading plan			40,000							40,000
Customs IT upgrading					1,325,000					1,325,000
Customs IT upgrading supporting TA (3 months)					90,000					90,000
Customs TA - risk assessment TA (9 months)			180,000	90,000						270,000
RERF (TA needs currently being identified) (9 months guesstimate)										
			80,000	80,000	40,000	40,000	40,000	40,000	40,000	360,000
Government debt and guarantee policy TA (1 month)				40,000						40,000
Payroll audit (local contractors)								50,000		50,000
Revision of procurement legislation to enhance internal controls (15 person mths)	Commonwealth Secretariat			120,000	120,000	120,000	120,000	120,000		600,000
Internal audit training (4 weeks per yr)			60,000	60,000	60,000	60,000	60,000	60,000	60,000	420,000
Internal audit TA (2 weeks per yr)			15,000	15,000	15,000	15,000	15,000	15,000	15,000	105,000
Accounting, recording and reporting										

