

Kiribati

Public Financial
Management - Performance
Report

FINAL REPORT

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Abbreviations and Acronyms

ADB	Asian Development Bank
AMAK	<i>Aia Maea Ainen Kiribati</i> (Women Association)
AusAID	Australian Agency for International Development
BOP	Business Operational Plan
COFOG	Classification of Functions of Government
COGHS	Church of God
DSA	Debt Sustainability Analysis
EC	European Commission
EDF	European Development Fund
EU	European Union
FFA	Forum Fisheries Agency
FMIS	Financial Management Information System
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GoK	Government of Kiribati
HDI	Human Development Index
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
KAP	Kiribati Adaptation Project
KDP	Kiribati Development Plan
KNAO	Kiribati National Audit Office
KPA	Key Policy Area
MFED	Ministry of Finance and Economic Development
MFMRD	Ministry of Fisheries and Marine Resource Development
MEYS	Ministry of Education, Youth and Sport
MISA	Ministry of Internal and Social Affairs
MLPID	Ministry of Line and Phoenix Island Development
NDS	National Development Strategy
NEPO	National Economic Planning Office
NSO	National Statistics Office
NZAID	New Zealand Agency for International Development
OB	Office of the Beretitenti (President)
PAC	Public Accounts Committee
PACER	Pacific Agreement on Closer Economic Relations
PEFA	Public Expenditure and Financial Accountability
PFTAC	Pacific Financial and Technical Assistance Centre
PFM PMF	Public Finance Management Performance Measurement Framework
PI	Performance Indicator
PSC	Public Services Commission
PSO	Public Service Office
PUB	Public Utilities Board
RERF	Revenue Equalisation Reserve Fund

RBC	Remittance between chests
RoC	Republic of China (Taiwan)
SAI	Supreme Audit Institution
SDA	Seventh Day Adventist
SIDS	Small Island Developing States
SPASAI	South Pacific Association of Supreme Audit Institutions
SPC	Secretariat of the South Pacific Commission
SPREP	South Pacific Regional Environment Programme
TA	Technical Assistance
TIN	Tax Identification Number
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
WHO	World Health Organisation

Financial Year in Kiribati = 1st January to 31st December

Currency = Australian Dollar

Summary Assessment

Assessment of performance

This assessment of Public Financial Management (PFM) in the Republic of Kiribati is based on the PFM Performance Measurement Framework (PMF), and was carried out by external consultants at the request of the Government of Kiribati (GoK). The framework was developed by the Public Expenditure and Financial Accountability (PEFA) partners¹ as a tool that can provide reliable information on the performance of PFM systems, processes and institutions over time. It does not assess government policies or capacity. The analysis has been carried out for the period 2006 to 2009. Calculation of differences between original appropriated budget and actual audited expenditure is based on the financial years 2006 – 2008. The findings are based on a review of a wide range of internal and external documentation, three workshops, and meetings with a large number of stakeholders. The overall results of the analysis are set out in table 1 below, with more detailed justification and information sources provided in Annex A.

Table 1 Summary of overall results							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B				B
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	D				D
PI-4	Stock and monitoring of expenditure payment arrears	M1	N/R	D			N/R
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	D				D
PI-6	Comprehensiveness of information included in budget documentation	M1	C				C
PI-7	Extent of unreported government operations	M1	B	D			D+
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	D		B
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	D			D
PI-10	Public access to key fiscal information	M1	C				C
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	C	B		C+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	N/A	C	D	D+
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	C	B		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		C
PI-15	Effectiveness in collection of tax payments	M1	N/R	A	D		D+

¹ PEFA partners are the World Bank, EC, IMF, French Ministry of Foreign Affairs, DFID, the Royal Norwegian Ministry of Foreign Affairs and the Swiss State Secretariat for Economic Affairs.

Table 1 Summary of overall results							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C	A	A		C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	D	C	C		D+
PI-18	Effectiveness of payroll controls	M1	D	B	C	D	D+
PI-19	Competition, value for money and controls in procurement	M2	D	D	C		D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D	D	C		D+
PI-21	Effectiveness of internal audit	M1	D	B	D		D+
C (iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	D	D			D
PI-23	Availability of information on resources received by service delivery units	M1	D				D
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	D		D+
PI-25	Quality and timeliness of annual financial statements	M1	C	A	D		D+
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	C	B	C↑		C+
PI-27	Legislative scrutiny of the annual budget law	M1	C	C	D	C	D+
PI-28	Legislative scrutiny of external audit reports	M1	B	B	B		B
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	N/A	N/A			N/A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

Overall assessment

In the last couple of years, GoK with support from its partners has been able to progressively improve its management of public finances by: (i) eliminating the backlog of central government financial statements, (ii) enabling more up to date audits of these statements, (iii) reducing the backlog of financial statements and audit of public enterprises, and (iv) strengthening and starting to modernise its tax and customs administration. Reforms are ongoing or in the pipeline to improve further, audit, tax and customs administration capabilities as well as the introduction of medium-term budgeting and the reform of the state owned enterprise sector. Assistance is to be provided in early 2010 to develop a more sustainable strategy for the use of the country's revenue equalisation reserve fund (RERF). The assessment team recognises these reform endeavours; however, the scores in this report only reflect the current situation. This is to enable a baseline to be established, against which existing reform efforts can be monitored, as well as to help identify other areas of weakness. All stakeholders recognise that significant challenges remain, particularly given the difficult economic environment, which will seriously constrain government revenues.

Credibility of the budget

For the period 2006 – 2008, based on the original approved estimates and the actual recurrent expenditure shown in the financial statements, the budget appears to have been a reasonably credible indicator of actual expenditure. For recurrent expenditure aggregate variance in 2006 was 1.2% and in 2008, 9.6%. Development fund expenditure in the period was funded solely by donors and has therefore been excluded from the calculation, as the government has limited control and information. At an administrative level, composition of overall expenditure has also not deviated significantly.

However, caution is required in interpreting these results, because as shown below, the quality and completeness of the financial statements is of concern. The stock of expenditure payment arrears is not known, arrears are not monitored, and advances have not been routinely retired. Revenue forecasts have been considerably greater than actual receipts. Historically this is partly because of the high dependence on revenue from fishing licences, where accurate forecasting has been particularly difficult; however improvements are being made both in negotiating and forecasting fishing related revenue.

Comprehensiveness and transparency

A number of special funds exist, but transactions are relatively small with the exception of the development fund. In the period under review, all development fund expenditure was funded by donors and reporting on donors' cash programmes is very limited. Information contained in the budget documentation is quite comprehensive. Annual monitoring of public enterprises (PEs) is constrained by lack of up to date and accurate financial information, combined with unwillingness of some PEs to submit data. The government's exposure to fiscal risk is unclear. At the local government level, the transparency of inter-governmental fiscal relations is reasonable; a formula based on population is used and historically has remained unchanged for a number of years. Proactive supply of user-friendly information is limited, although KNAO reports are now available on line.

Policy-based budgeting

In recent years, the budget process has followed a fairly consistent timetable and budgets have been approved prior to the start of the fiscal year, but because of late approval of budget ceilings by cabinet, the time available for budget submissions has been limited. In 2010, time available was particularly short because of changes to the timetable of parliamentary sessions. In 2005, a medium-term perspective was developed, but rejected by Cabinet and the link between recurrent cost implications and capital investments is weak. New ADB funded technical assistance is planning to provide support to the MFED to develop a medium-term perspective.

Predictability and control in budget execution

Spending agencies are provided with a full year's allocation, an annual cash flow forecast is prepared by MFED but is only updated on an ad hoc basis. Cash balances for the main treasury-managed accounts are calculated daily, but not consolidated. Tax legislation and procedures are considered to be reasonable, although further enhancements are planned, penalties are considered too low to deter traders. The number of external loans is relatively small and there are no active loans, nevertheless accurate reconciled records do not exist particularly about on-lent loans and guarantees.

Although payroll related costs account for more than 50% of total recurrent expenditure, there has been no recent audit or survey of employees, regular reconciliation between payroll, personnel records and nominal roll does not take place, and the audit report notes that there has been several overpayments. In terms of procurement practices, there is no systematic mechanism for collecting data on the use of open competition, no public disclosure of contracts awarded and lack of procurement regulations, although the relevant legislation exists.

The use of expenditure commitment controls varies between ministries, but is generally insufficient. Although financial laws and regulations have been updated periodically since their original enactment in the mid seventies, there are still concerns that they do not reflect current business practices or modern PFM, understanding and compliance with existing regulations is also noted to be weak. Internal audit is weak; it does not have its own mandate and is not actively involved in systems

monitoring, partly due to limited capacity and partly because of a general lack of understanding of its importance in the overall internal control framework.

Accounting, recording and reporting

Although work is ongoing to improve the timeliness of bank reconciliations and retirement of advances, there is a significant backlog for the main government accounts. In-year budget reports (for recurrent expenditure) are prepared monthly, but there are major concerns over the reliability of the data. Many ministries maintain their own systems and reconciliations between MFED and line ministry data is a problem. A massive effort has taken place to bring central government financial statements up to date. They are prepared in accordance with the legislation (1976 Public Finance (Control and Audit) Act), but there are no national accounting standards in Kiribati, and they are not compliant with international public sector accounting standards (IPSAS). The Auditor General has issued a qualified opinion on all government's recent financial statements.

External scrutiny and audit

In the last four years, there has been a major effort by the KNAO to audit the central government's accounts and begin a rigorous auditing regime, according to international auditing standards. The Office's independence is established in the Constitution, although some issues remain on independence over personnel recruitment and financial resources. Parliament reviews the estimates, although it has only had limited time for scrutiny and at a relatively late stage in the budgeting process. The PAC review the auditor general's reports, conducts widespread hearings and produce reports with recommendations. In the last couple of years, there has been a marked improvement in management response to their recommendations.

Donor practices

There is no direct budget support in Kiribati, although in the past, Taiwan has assisted with the payment of some recurrent expenses, e.g. medical supplies, or the charter cost of the Air Pacific to Kiritimati, but only at the government's specific request. Complete information on the value of donor assistance to Kiribati is not known. The provision of information on both estimates and disbursements is limited to a few of the major donors, and this tends to be on an ad hoc basis. Some donors understate their technical assistance (TA) and other non-cash assistance. In some cases, projections and actual expenditure for global and regional funds appears to be held at line ministries, rather than with the aid coordination unit in the MFED.

Impact of strengths and weaknesses on budgetary outcomes

Strengths and weaknesses in PFM have a direct impact on the budgetary outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. Important system weaknesses remain in effectively controlling aggregate expenditure despite the A rating obtained on indicator PI-1. Lack of bank reconciliations, non-retirement of advances and lack of reconciliation between MFED and ministry data result in low quality reporting. Poor data quality, lack of effective expenditure commitment controls as well as outdated legislation and regulations all combine potentially to undermine *aggregate fiscal discipline*. The unknown fiscal risk from its PEs and sub-national government, highlighted by PI-9, also has the potential to undermine the achievement of aggregate fiscal discipline, and thus Government's fiscal position, in the future. In contrast improvements achieved and ongoing in revenue forecasting means that they are now more realistic despite a D rating for PI-3.

The Assessment (PI 12) shows that GoK's *strategic allocation of resources* is weakened by lack of medium-term fiscal forecasts and poor links between capital investments and recurrent cost implications. The current low quality of GoK's in-year and end of year information makes it more difficult to make informed decisions.

GoK's recent improvements in the timeliness of its audits means that the accounting and use of funds is subject to more detailed scrutiny, which can help to improve the effectiveness of *service delivery*. Its lack of sound procurement regulations and practices may limit the efficiency of service delivery by increasing costs or lowering the quality of goods and services provided. Improved access to the financial information available, particularly at the community level would assist in improved financial management and efficient service delivery, particularly in more remote areas.

Prospects for reform planning and implementation

Over the years, Kiribati has received significant levels of assistance from donors to help improve its PFM systems. For various reasons, several of these initiatives have proved ineffective, inappropriate and/or unsustainable. Reformers (and potential reformers) in government face a number of challenges. The recent inception report for the economic management and public sector reform project clearly shows that based on past experience there are a number of risks to PFM reforms including insufficient political support for the imposition of fiscal discipline, public opposition, legislative delays, public service inertia and staffing constraints. Consequently, the development of new reforms are taking a more considered approach, aimed at improving the work environment and technical capacity, and building long-term sustainable rather than state of the art systems. The ability of the reforms to demonstrate their impact on service delivery will be an important means of gaining wider support. Sustainable change will also only take place with full participation of all those affected and appropriate incentive schemes.

1 Introduction

1.1 Objective of the Public Financial Management (PFM)-Performance Report (PR)

The overall objective of the report is to provide all stakeholders with an assessment of Public Financial Management (PFM) in Kiribati using the Public Expenditure and Financial Accountability (PEFA) methodology. This methodology allows measurement of country PFM performance over time and is an important element of the strengthened approach to PFM, which recognises the need for strong government ownership. It assesses the status of current systems and procedures and does not assess policy or capacity issues. Although recognising the ongoing reforms, the scores reflect the existing situation and therefore act as a baseline against which these reforms can be monitored.

This assignment carried out at the request of the Government of Kiribati (GoK) is designed specifically to provide: (i) an overview of the current situation; (ii) assistance with prioritisation and sequencing of reforms; (iii) a baseline against which ongoing and planned reforms can be monitored; and (iv) relevant information to orient dialogue between the government and main donors on PFM and to help facilitate improved donor co-ordination. Original terms of reference for the assignment are included as Annex B².

1.2 Process of preparing the PFM-PR

Methodology

At the request of the Government of Kiribati (GoK), the Asian Development Bank (ADB) agreed to lead an assessment based on the PEFA methodology. Resident and non-resident donors including Australia, NZAID, IMF (through the Pacific Financial and Technical Assistance Centre), EC and UN participated in workshops, were consulted in person or by email, and provided comments on the draft report³. Comments were also received from the PEFA Secretariat.

The main field phase of the Mission was conducted between 29th October and 24th November 2009. The team funded by the ADB consisted of one national (Mr Iete Rouatu) and one international consultant (Mrs Carole Pretorius) and was based in the Ministry of Finance and Economic Development (MFED). They met key stakeholders from MFED, line ministries, resident donors, Parliament, Kiribati National Audit Office (KNAO), private sector representatives and civil society organisations. A list of people interviewed and attending workshops is attached at Annex C. As shown in Annex D, a wide variety of documents was also reviewed. These include PFM related legislation and regulations, financial statements, budget formulation and execution documents, policy documents, Auditor General and internal audit reports, donor and sector reports.

An introductory workshop opened by the Deputy Secretary of Finance was held on the 5th November. During the workshop the PEFA methodology, based on the training material produced by the PEFA Secretariat was explained. Two group discussion sessions were held on PI-10 Public Access to

² The original terms of reference anticipated an earlier start date.

³³ The anticipated oversight team did not function according to the terms of reference due to the timing change, but key members attended workshops.

Information in Kiribati and PI-11 on Orderliness and Participation in Kiribati's budget process. A separate session was also held on the Kiribati PEFA process.

The second workshop was held on the 18th November and consisted of a discussion on the preliminary findings. The workshop was well attended by line ministry representatives and included lively debate on a number of issues. The Deputy Secretary of Finance, who had attended the PEFA workshop in Vanuatu assisted with the scoring and the facilitation of the workshops and meetings. The final workshop on the 23rd November presented the preliminary scores and initial findings. The same presentation of the preliminary scores was also made to non-resident donors on the 25th November in Suva, Fiji. Following the workshops, the national consultant obtained further evidence on a few outstanding issues.

The team would like to thank everyone who has participated in the preparation of this report. They recognise that external missions place significant strain on already limited resources, and also that officials were particularly busy with the finalisation of the budget. Consequently, they would like to express their sincere appreciation to the Minister and Permanent Secretary of Finance and their team at the Ministry for their hospitality and assistance. Our particular thanks are also due to the Deputy Secretary of Finance for facilitating the whole process.

Scope of the assessment

This assessment covers central government revenue and expenditure. However, intergovernmental relations and reporting structures as well as the government's oversight of fiscal risk with respect to public enterprises and local government are covered in Performance Indicator (PI) 8 and 9. Central government expenditure includes statutory expenditure and ministerial discretionary expenditure. Ministerial discretionary expenditure is further broken down by program's operating expenditure and transfers. Revenue includes both tax and non-tax revenues.

Consolidated information on the size of the public sector in Kiribati is not available. Public enterprises are present in a variety of sectors, both commercial and non-commercial. Up to date information on their expenditure levels is not available. The latest statistical reports indicate that for 2007⁴, central government's recurrent expenditure was A\$80.4 million and for the same year, local government expenditure was A\$4 million. Budgeted development expenditure was A\$86 million of which A\$52 million was funded. A conservative estimate would indicate that central government expenditure represents at least 80% of overall public expenditure.

⁴ Information on local government was not available for 2008 and therefore 2007 has been used.

2 Country background information

2.1 Description of country economic situation

Country context

The Republic of Kiribati is a small island developing state (SIDS) located in the central tropical Pacific Ocean straddling the equator, and bordering the International Date Line to the East. It is composed of 32 atolls (20 of which are inhabited) and one raised coral island and is spread over 3,500,000 km² (1,351,000 square miles) stretching 5,000 km from west to east and 2,000 km from north to south. Kiribati became independent on 12th July 1979. It was formerly a part of the territory known as the Gilbert and Ellice Islands, and was colonised by the British in 1892. The Ellice Islands broke away in 1975 and later became the independent state of Tuvalu. The country now is divided into three island groups (Gilbert, Line, Phoenix). The Line Islands are essentially uninhabited and contain the largest marine park in the world. The Phoenix Islands include Kiritimati and Fanning islands, where tourism potential is the greatest.

The economy is dependent on fluctuating prices for copra and fish, interest from overseas investments, remittances from I-Kiribati working abroad, licence fees for foreign-owned fishing vessels and foreign development assistance. Regional free trade agreements will also reduce import duty revenue in the next few years. Apart from copra, there are no major externally marketable land-based resources. Banaba (or Ocean Island), a raised-coral island was once a rich source of phosphates, but commercially viable phosphate deposits were exhausted at the time of independence. The rest of the land in Kiribati consists of the sand and reef rock islets of atolls or coral islands, which are just a few metres above sea level. Climate change is recognised to be a real and growing threat. The soil is thin and calcareous, making agriculture very difficult. Copra, seaweed and fish now represent the bulk of production and exports and much of the population (particularly on outer islands) lives a subsistence lifestyle. The country's remoteness and vast distances represent significant development challenges, but also potential opportunities as Kiribati does have a large exclusive economic zone (3.5 million square kilometres) and is rich in marine resources.

Kiribati is categorised by the United Nations as a least developed country. The human development status of Kiribati is relatively weak and has showed little improvement; between 1998 and 2008 the Pacific Human Development Index⁵ (HDI) for Kiribati improved only slightly from 0.515 to 0.606, pushing the country down one position to 12th behind Vanuatu, with only Solomon Islands and PNG having a worse HDI. On the Pacific Human Poverty Index (HPI)⁶ Kiribati fared even worse with its position falling three places. Thus over recent years Kiribati has fallen behind in both the human development and human poverty indices.

In 2007, Kiribati produced its first national Millennium Development Goal (MDG) Report. This report showed mixed progress towards achieving the eight goals. Positive gains were being achieved in levels of primary education enrolment, in gender equity in education and in some of the health indicators, it was estimated that overall the country was off-track in its progress towards five of the

⁵ A composite index of GDP per capita, life expectancy at birth, adult literacy and school enrolment levels.

⁶ A composite index of the HDI plus indicators of access to safe water, access to health services, primary enrolment levels, the chance of not surviving past forty years and the proportion of underweight children.

eight goals. Although, it is understood that net enrolment rates have declined from 93% in 2008 to 87% in 2009⁷. Primary education is free and compulsory for the first six years, now being extended to nine years. However, the country is unlikely to halve its high level of poverty or meet all health, water and sanitation targets. Between 38 and 50 % of Kiribati households are considered to be living below the poverty line, though abject poverty is not present in Kiribati. In 2007, Gross National Income (GNI) per capita was estimated to be A\$2,148 and Gross National Disposable Income (GNDI) was A\$2,718. On a household level those working for government and private businesses would earn, on average, A\$200 a fortnight, while the lower paid employees would receive around A\$100. The people on the outer islands could get cash income from cutting copra or selling marine and handicraft products. Unemployment, particularly among young people, is high.

Rapid population growth and urban migration has left Kiribati with overcrowded urban areas, and its most pressing development challenges are social and environmental concerns, including the impacts of climate change, access to clean water and sanitation, and the spread of HIV/AIDS. According to the latest population census (2005)⁸, the total population was 92,533 with annual population growth of approximately 1.8%. The two urban centres accounted for about 50% of the total, with South Tarawa comprising 44% and Kiritimati almost 6%. The population density in South Tarawa, at 2,558/km² in the 2005 census, was about 20 times the national average of 127.

Kiribati is a highly egalitarian society. The public sector dominates the economy, accounting for more than half of estimated gross domestic product (GDP). Private sector is small but growing, churches play an important and influential social and cultural role, however NGOs are few and underdeveloped. Kiribati consumes far more than it produces and imports far more than it exports, paying for the difference with foreign income. Government finances have been supplemented by receipts from a Revenue Equalization and Reserve Fund (RERF), built up by pre-independence taxation of phosphate mining and successful investment overseas. Kiribati has also attracted substantial external aid from bilateral and multilateral sources, particularly Australia, the Republic of China (Taiwan), NZAID, ADB, Japan, UN agencies, EC and the World Bank. Official development assistance to Kiribati from all donors was an estimated \$50 million in 2007 (excluding loans), equivalent to 68 % of GDP.

According to the latest IMF report issued in June 2009, following several years of stagnant or negative growth, growth picked up in 2008 to 3.5 %, mainly reflecting growth in agricultural and public sector activity. Inflation reached 19% by the end of 2008, with the lagged pass through of global food prices. The fiscal deficit declined to 13.3% of GDP in 2008 (from 16% in 2007), reflecting higher fishing license fees (in A\$ terms) and some expenditure constraint. However, the strain on public finances and the economy of the large and poorly performing public enterprises is widely documented.

The main impacts from the global financial crisis and slowdown have, so far, been through global asset price declines and the depreciation of the Australian dollar (A\$). The RERF and the Kiribati Provident Fund (KPF) declined by respectively 12 % and 20 % during 2008 (or 31 % and 37 % in U.S. dollar terms).

Overall government reform program

The Government policy statement was delivered during the second session of the 9th parliament in December 2007. Its focus is Kiribati's main asset, its people, and how their lives can be improved

⁷ Ministry of Education Digest 2009

⁸ The next population census is to be carried out in 2010

through further development of the economy. This policy statement is the guiding principle for the Kiribati Development Plan (KDP) 2008 – 2011, the eighth development plan since the country's independence. The theme of the development plan is enhancing economic growth for sustainable development, which encompasses the thrust of the government policy and the vision 'a vibrant economy for the people of Kiribati'.

The KDP is divided into six Key Policy Areas (KPAs), against which ministries' strategic and operational plans are monitored. These are: (i) human resource development; (ii) economic growth and poverty reduction; (iii) health; (iv) environment; (v) governance; and (vi) infrastructure. Under KPA 2 – economic growth and poverty reduction, from a financial management perspective the main issue to be addressed is improving government fiscal position. Under Governance, two issues are highlighted improving auditing work, and updating and improving legal frameworks and enforcement.

Rationale for PFM reforms

As discussed below, in recent years government expenditure has been significantly higher than domestic revenue leading to budgetary deficits, with the resulting gap filled by drawdowns from the RERF. As discussed below and in section 3.8, drawdowns between 2001 and 2008 increased significantly leading to concerns over the sustainability of the fund. Large and expensive overdrafts with the ANZ Bank (Kiribati) Limited were also a concern. A review of the National Development Strategy (NDS) for the period 2004 – 2007 noted that monitoring of budget implementation continues to be a challenge and that the financial management information system (FMIS) was not working as envisaged. In order to address these issues, President Anote Tong, in the December 2007 policy statement identified financial management as a focal area, highlighting the need for strengthening revenue collection, improving spending discipline, improving management of the RERF, reviewing the role of public enterprises (PEs) and improving the investment climate.

2.2 Description of budgetary outcomes

Fiscal performance

Fiscal performance in recent years is characterized by a growing deficit, which has been financed by the drawdown of the RERF. The marked increase in the budget deficit has led to larger drawdowns from the RERF, in 2004 the government withdrew A\$25 million to balance the budget, an increase of \$20 million from the previous year. In 2007, draw-downs reached \$45 million, of which about half this amount was to clear the government overdraft with the ANZ Bank (Kiribati) Limited. In 2008 the budget deficit was \$28 million and this was funded by a \$25 million drawdown from the RERF, and \$3 million from the Consolidated Fund. Whilst the government has tried to curb its expenditures in recent years, the total revenue collected is still far below the level of expenditures. For instance, in 2008 the initial estimated revenue was \$61 million against the budgeted expenditure of \$82.7 million. As it turned out the actual revenue collected was \$67 million and the total expenditure was \$91 million. In 2009, the total budget was set at \$88.4 million while the total revenue was estimated at \$62 million. Development fund expenditure for 2008 was A\$75 million of which A\$52 million was funded.

Table 2: Summary of recurrent budget 2007—2009 (A\$'000)						
	Actual figures 2006	Original budget 2007	Revised budget 2007	Original budget 2008	Actual9 figures 2008	Budget 2009
Tax revenue	28,643	30,950	28,859	29,829	29,643	31,450
Non-tax revenue	28,465	30,788	29,228	28,592	33,854	27,469
Ministries revenue	2,918	3,126	2,842	3,420	3,806	3,175
Total revenue	60,026	64,864	60,928	61,841	67,304	62,094
Personal emoluments	41,531	41,084	41,084	42,427	45,031	43,798
Operating expenses	28,872	29,024	29,034	28,863	31,070	31,307
Debt servicing	296	2,284	2,284	657	657	920
Grants and subsidies	11,321	12,928	13,068	10,913	13,836	12,344
Contrib to Dev Fund					571	30
Total operating expenditure	82,020	85,320	85,470	82,680	91,164	88,399
Surplus/deficit	21,995	20,456	24,542	20,839	31,405	26,305
Drawdown from RERF	33,500	20,456	45,000	20,839	25,000	26,305

Source: Budget reports 2008, 2009, and 2010¹⁰

Allocation of resources

In terms of sector allocation, the two largest ministries are the ministries of education and health. In 2008, the recurrent budget for the ministry of education stood at \$20 million or 25% of the total government budget. The ministry of health, on the other hand, had a budget of \$13 million or 16% of total budget. The allocation for subsidies was set at \$4.9 million, but the revised figure amounted to \$7.8 million, mainly towards support for the copra industry. The debt servicing is around a \$1 million a year but this will increase in the future when the grace period for the loans (mostly loans from ADB) is over. The budget for the primary or productive sector, consisting of the ministry of environment and agriculture, and the ministry of fisheries, is just over \$4 million or 5% of total budget. In terms of the budget composition, the amount budgeted for personal emoluments has increased over the years, and in 2008 it stood at about 50% of the total budget. The maintenance budget, on the other hand, has been considerably reduced over the years and now only \$500,000 is set aside for maintenance of government buildings and infrastructure¹¹.

Table 3: Government expenditure by ministry/statutory body: 2006 - 2008 (A\$'000)				
	Actual figures 2006	Budget 2007	Revised budget 2007	Budget 2008
Office of the <i>Beretitenti</i>	1,094	1,079	1,079	1,083
Public Service Office	1,021	1,047	1,047	1,052
Judiciary	1,330	1,348	1,358	1,361
Police and Prison	6,688	6,573	6,573	6,627
Public Service Commission	222	214	214	214
Ministry of Foreign Affairs	973	1,109	1,109	1,104
Ministry of Internal and Social Affairs	2,581	2,569	2,706	2,729
Ministry of Environment, Lands,	2,691	2,664	2,664	2,686
Maneaba ni Maungatabu (Parliament)	1,551	1,939	1,939	2,167
Ministry of Commerce, Industry,	1,080	1,080	1,080	1,100

⁹ Actual figures are outturns.

¹⁰ It is recognised that some of the figures contained in the budget do not match those in the annual accounts.

¹¹ The new causeway has a special fund.

Table 3: Government expenditure by ministry/statutory body: 2006 - 2008 (A\$'000)				
	Actual figures 2006	Budget 2007	Revised budget 2007	Budget 2008
Kiribati National Audit Office	566	585	585	591
Office of the Attorney-General	413	454	454	457
Ministry of Fisheries and Marine	1,881	1,876	1,876	1,890
Ministry of Health	13,202	13,028	13,028	13,105
Ministry of Education	22,031	20,491	20,355	20,533
Ministry of Communication,	3,413	3,161	3,161	3,176
Ministry of Finance	2,501	2,451	2,451	2,473
Ministry of Public Works and Utilities	2,738	2,727	2,727	2,748
Ministry of Labour	2,112	2,785	2,785	3,071
Ministry of Line and Phoenix	2,305	2,918	2,918	2,934
Debt Servicing	295	2284	2284	656
Subsidies, Grants, and other commitments	11,321	12,928	13,068	10,913
Total	82,020	85,320	85,470	82,679

Source: Budget reports 2007 - 2009

2.3 Description of the legal and institutional framework for PFM

The legal framework for PFM

The current legal framework for PFM is set out below.

Description of Act/Regulations	
Public Finance	Chapter XIII of the Constitution sets out the provisions with respect to the Consolidated Fund, Special Fund and the authorisation of expenditure. The 1976 Public Finance (Control and Audit) Act (plus amendments) provides for the control and management of the consolidated fund and public finances of Kiribati, for the collection, issue and payment of public moneys. Finance and stores regulations are also in place but are outdated (1976) and do not reflect current business practices.
Audit	Section 114 (1) of the Constitution establishes the office of the Auditor General. Duties and powers of the Aud Gen in the audit and examination of public accounts and of the accounts of statutory bodies are further detailed in the Public Finance (Control and Audit) Ordinance 1976 (Parts V-VIII)
Legislative Scrutiny	The PAC is established under the Constitution (S 115 (1)), proceedings of the national assembly are set out in the rules and procedures of parliament.
Procurement	The Procurement Act 2002 specifies the methods of procurement and their conditions for use, tendering procedures, principal methods for the procurement of services. It applies to all central government bodies, statutory corporations and government owned companies, but does not apply to procurement for purposes of national defence and security, procurement excluded by the plant and quarantine act and any other exclusions established by the procurement regulations. The regulations are not yet in place.
Revenue Administration	The Income Tax Act 1990 (plus amendments) and its supporting regulations provide the basis for personal and corporation tax. The Inland Revenue Board Act (1990) specifies the people who should be on the Board and outlines the power and the functions of this Board. The Customs Act (2004) provides for the establishment of the Kiribati Customs Service, the powers of its officers, customs control, the movement of goods into/out of Kiribati and the 'management' of import duties. There are no customs regulations.
Other	Anti-money laundering legislation has been passed for the establishment of a Financial Intelligence Unit under the Police. Local government is regulated by the local government act and associated regulations. There is no Freedom of Information Act or leadership code of

Description of Act/Regulations	
	ethics. Public Enterprises are governed by the Companies Act or their own enabling legislation. There is no over riding legislation on state owned enterprises.

A National Audit Bill (2004) has been drafted providing the KNAO with a broader mandate and greater independence in terms of the recruitment of personnel and its finances, as well as the appointment of the Auditor General. According to the Attorney General, the Bill cannot be considered by Parliament until revised PFM legislation is drafted and enacted. A technical review of the legislation was carried out by a consultant, funded by the Australian Government’s Aid Program, but at the time the GoK took no further action, and no revised legislation was drafted by the Attorney General’s Office.

A Financial Institutions Bill was also drafted in 2004 with assistance from PFTAC to regulate the financial services sector including the state owned Development Bank of Kiribati (DBK) and Kiribati Insurance Company, but the Bill was not passed.

Although, not specific to financial management, the National Conditions of Service are also relevant in the context of the overall management of the public service. GoK with assistance provided by the Australian Government’s Aid Programme is working on the development of a new Public Service Act.

The institutional framework for PFM

Structure of Government

The country now is divided into three island groups (Gilbert, Line, Phoenix) which have no administrative function. The seat of government is based in the capital Tarawa in the atoll of the same name. The Government of Kiribati is comprised of the Office of the Berititenti (President) (OB), four constitutional offices (Office of the Attorney General, KNAO, Judiciary, Public Service Commission (PSC), a Public Service Office, Police and Prison Service, Maneaba ni Maungatabu (parliament) and 12 ministries. The Ministry for the Line and Phoenix Islands Development (MLPID) is based in Kiritimati (Christmas Island). All other ministries and departments have their headquarters in Tarawa, with branches and/or service delivery units in the outlying islands.

Local Government is run by Island Councils, which since the 2006 amendment to the Local Government Act now directly elect Chief Councillors. Each inhabited island has its own council with three councils on Tarawa (Betio, South-Tarawa, North-Tarawa) and two councils on Tabiteuea.

There are 25 public enterprises, more correctly termed state owned enterprises, two of which the Plant and Vehicle Unit (PVU) and Kiribati Copra Cooperative Society (KCCS) have recently been defined by the Attorney General as part of the ministry.

Legislative

Kiribati has formal political parties but their organisation is quite informal. Ad hoc opposition groups tend to coalesce around specific issues. The main parties are the Boutokaan te Koaua Party, Maneaban te Mauri Party, Maurin Kiribati Party and Tabomoa Party. There is universal suffrage at age 18. The legislative branch is the unicameral Maneaba Ni Maungatabu (House of Assembly). The Maneaba ni Maungatabu is a 46-member unicameral parliament, comprising 46 members elected for a four-year term by adult universal suffrage. By constitutional mandate a seat is reserved for a representative of the Banaban people in Fiji (Rabi Island, former Ocean Islanders), and for the attorney general, who serves as an ex-officio member. Legislators serve for a four-year term. The Speaker is elected to office by members of parliament but is not a member of parliament.

The Maneaba ni Maungatabu sits for three periods or approximately six weeks each year. The Public Accounts Committee (PAC) is a standing committee of Parliament and consists of three members (two government and one opposition) elected by Parliament. Members, who may not be ministers serve a two-year term.

Executive

The executive branch consists of the president (Te Beretitenti), the vice president and the cabinet. The President is both head of state and head of government. Under the constitution, the President, nominated from among the elected legislators, is elected by popular vote and is limited to three 4-year terms. The cabinet is composed of the president, vice president and ten ministers (appointed by the president) who are members of the House of Assembly. The Attorney General also attends cabinet meetings.

Judiciary

The Judicial branch is made up of the High Court (in Betio), the Court of Appeal and 26 magistrates courts. The president appoints the presiding judges. There are no specialised commercial courts.

Auditor General

The Kiribati National Audit Office (KNAO) is the country's supreme audit institution and Section 114 (2) of the Constitution requires the Auditor General to audit the public accounts of Kiribati and of all departments, offices, courts and authorities of the Government, including statutory corporations and government owned companies. The mandate of the KNAO follows the Anglophone system of reporting to the PAC. The Auditor General's reports are submitted to the Speaker, who ensures they are tabled before Parliament.

Business of Government

The Ministry of Finance and Economic Development (MFED) is responsible for overall management of the public finances. It is organised into the National Economic Planning Office (NEPO), Statistics, Internal Audit, Accounts, Tax and Customs divisions. NEPO consists of aid co-ordination, investment, budget and policy sections. An organisation structure is provided in Annex E

Under the Public Finance (Control and Audit Act) Accounting Officers in line ministries (who are permanent secretaries) must obey all regulations and directives as issued by the Accountant-General. They are supported by accountants seconded from the MFED (accounts section) and in some ministries by economists or planning officers¹².

Other

There is no reserve or central bank in Kiribati, the government's banker is the ANZ Bank (Kiribati) Limited, the only commercial bank, 25% government owned and 75 % owned by ANZ.

The key features of the PFM system

The financial year for central and local government in Kiribati is from January to December. Kiribati uses the cash basis of accounting. From the mid-nineties, computer based planning, budgeting and financial management systems (PEBAM and Attaché) were installed, but since 2006 PEBAM has been abandoned and budgets are prepared using Excel. The central Attaché system is used for accounting, payments and payroll. Access to the system is reported to be available from ministries, but most only use the read-only facility to monitor their performance, and appear unaware of their

¹² These are recruited and based in the line ministries and not seconded from NEPO.

ability to enter some data at source. For various reasons, e.g. access difficulties, delays in updating transactions by MFED, many ministries have set up their own systems (e.g. Access or Excel based) to monitor their own budgets.

In 1995, the government adopted the output-based budgeting approach, the idea being to focus more on outputs rather than on inputs, as was traditionally the case. According to the Government, this resulted initially in the creation of a large number of outputs. This led to difficulties in keeping track of the expenditures under the various outputs, and in some cases, ministries would hide their expenses by distributing them over several outputs. While recognising that the output-based approach has merits in its structure and purpose, the GoK has reverted to a program¹³-based budget, which can be budgeted and monitored easily.

There are limited banking facilities on the outlying islands. The government operates a RBC (remittance between chests) system whereby MFED sends out to the islands a fixed amount of cash by registered mail. The cash goes to the Treasurer working in the island council office and is intended for on-island transactions. In order to avoid shortage of cash on the islands, councils have passed by laws requiring the payment of floating suppliers (businessmen on ships) through the telegraphic money order (TELMO) system.

¹³ Programs vary but reflect ministerial functions e.g. radiology, judicial services

3 Assessment of the PFM systems, processes and institutions

3.1 Budget Credibility

The indicators in this group assess to what extent the budget is realistic and implemented as intended, firstly by comparing the actual revenues and expenditures with original approved ones, and then by analysing the composition of expenditure out-turn. “Hidden” expenditure is also assessed by reviewing the stock and level of monitoring of expenditure arrears.

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

Assessment 2009

The budget is the central mechanism for controlling expenditure in accordance with amounts appropriated by parliament. The ability to implement the budgeted expenditure is an important factor in supporting the government’s ability to deliver agreed public services as expressed in policy statements.

The deviation for central government expenditure has been calculated based on the information provided in the audited financial statements for 2006 and 2007 and the un audited statement for 2008. The figure for total actual expenditure includes discretionary recurrent expenditure appropriated to line ministries and statutory expenditure. Debt service payments are excluded from the calculations, as in principle the government cannot alter these during the year, while they may change due to interest and exchange rate movements. Currently the government receives no budget support and for the period under review, all development expenditure was donor funded. As the government does not have full control over donor funded project expenditure, all development expenditure is therefore excluded from the calculations. The resulting analysis¹⁴ (see Annex F for detailed calculations) for 2006 – 2008 shows that at the aggregate level, actual primary expenditure deviated from original budgeted primary expenditure by 1.2%, 0.6% and 9.6% respectively.

Expenditure	2006		2007		2008	
	Original budget A\$ Million	Actual expenditure A\$ Million	Original budget A\$ Million	Actual expenditure A\$ Million	Original budget A\$ Million	Actual expenditure A\$ Million
Total expenditure	83.1	84.2	85.3	85.8	82.7	98.1
- of which debt service	0.2	0.3	2.3	2.3	0.7	8.2 ¹⁵
Total primary expenditure	82.9	83.9	83.0	83.5	82.0	89.9
Deviation (%)	1.2 ⁰ %		0.6 ⁰ %		9.6 ⁰ %	

Source: Annual Accounts 2006 - 2008

The resulting variance is only more than 5% in one year, which would give an *A score*¹⁶; however, some caution is required in the interpretation of these scores. As indicated in PI 25, the Auditor

¹⁴ There are small differences between the figures noted in table 2 and those in this analysis, the former being sourced from budget documentation and the latter from the annual accounts.

¹⁵ The figure shown in the unaudited accounts relates to both debt servicing for the year and also a prior year adjustment, which technically should not be considered a payment.

General has issued a qualified opinion on the accounts for 2006 and 2007, and as noted above the 2008 figures are extracted from the un-audited statements¹⁷. In particular, the Auditor General has been unable to satisfy himself as to the correctness of the 2007 and 2006 financial statements because of various issues including missing payment vouchers totalling \$8.35 million; incorrect cash at bank balances for 2007 and 2006 of \$6,913,508.24 and (\$6,975,945.17) respectively; and incorrect cash in transit balances for 2006 and 2007 of \$2,458,878.54 and \$2,505,366.81 respectively.

Furthermore, as discussed in PI 22, account reconciliations were not up to date and significant un-retired advances mean that actual expenditure could be understated. Lack of information on expenditure payment arrears (see PI 4) also means that there may be some ‘hidden’ expenditure, resulting in an understatement of actual expenditure. At the same time, the financial system does not facilitate the recording of expenditure to the correct financial year (e.g. through the operation of a thirteenth month).

There is also an apparent inconsistency between the results for PI 1 and those for PI 3 *Aggregate revenue out-turn compared to original approved budget*, which appear to show that for two of the three years, actual revenue received was considerably less than original forecasts. The resulting shortfall is addressed by a drawdown from the Revenue Equalisation Reserve Fund (RERF) greater than appropriated by Parliament. Given the importance of the RERF in Kiribati and the need for its sustainable management, it is discussed in more detail in section 3.8 country specific issues.

Dimension	Score	Justification and cardinal data
i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)	A	For the period 2006 – 2008, variance at an aggregate level is 1.2%, 0.6% and 9.6% (does not exceed 5% in more than one year.) and therefore on this basis justifies an A score. <i>Source: Annual Accounts and Budgets for 2006 – 2008</i>

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

Assessment 2009

Where the composition of the budget varies considerably from the original budget, the budget will not be a useful indicator of intent. The second indicator assesses the extent to which there is a re-allocation of expenditure between administrative heads above overall deviation in aggregate expenditure as defined in PI 1. As shown in Annex F at a disaggregated (ministry) level, ministerial variances are greater than overall variance by more than 5% in only one year. This would give a *B Score*.

Table 4 Deviations and Variations			
Year	Total exp. deviation (PI-1)	Total expenditure. Variance	Variance in excess of total deviation (PI-2)
2006	1.2%	6.6%	5.4%
2007	0.6%	5.5%	4.9%
2008	9.6%	12.0%	2.4%

¹⁶ The variances identified in the recent ADB TA inception report are higher as these figures include both debt servicing and development expenditure.

¹⁷ It should be noted that the PEFA methodology allows the use of unaudited statements, reliance on the figures will depend on the extent to which audited accounts have differed from unaudited accounts in previous years. In Kiribati, all recent accounts have been qualified so it is suggested that the 2008 figures are treated as preliminary.

As noted in PI 1 caution is required in the interpretation of this result for the reasons cited above. In addition, the variance does not show the extent to which there are internal transfers or virements within a Ministry and it is understood that personnel emoluments in some ministries have traditionally been ‘overbudgeted’ as they included vacancies that have remained unfilled for several years.

Dimension	Score	Justification and cardinal data
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI 1) during the last three years.	B	The disaggregated variance for 2006 – 2008 = 5.4%, 4.9% and 2.4%. This means that the ministerial variances are greater than overall variance by more than 5% in only one year. <i>Source: Annual Accounts for 2006 – 2008</i>

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

Assessment 2009

This indicator assesses the quality of revenue forecasting by comparing domestic revenue estimates in the original approved budget to actual domestic revenue collection based on tax and non tax recurrent revenues.

The main sources of revenue in Kiribati are import duty, company and personal taxation and fishing licences. The latter revenue source, in particular, is recognised to be particularly volatile, although according to the annual accounts the Fishing License, Import Duty, NASDA and Cruise Line have not reached or fall short of the budgeted figure in 2006 and 2007. Revenue from company tax, dividend and personal tax has been exceeding the estimated amount. The precise reason for this over optimism is not clear, although it would appear to be due to incorrect assumptions in the forecasts about the magnitude of tax and non-tax revenue, rather than institutional issues within the tax or customs departments.

As noted under PI 1, the shortfall was met by increased draw downs from the RERF. Revenue arrears are also reported to be a major problem. Revenue arrears are not recorded in the accounts for 2003 – 2008, but for the period 1972 – 2002 amounted to A\$11 million and the Auditor General has recommended that these be written off. In a recent audit, the KNAO also identified several million outstanding on Christmas Island for fees and charges such as water and electricity¹⁸.

Estimates in 2008 were more realistic and new negotiation procedures have been introduced for fishing licences, which will enable a more predictable revenue stream. Although, observers noted the need for more effective monitoring, control and surveillance to combat illegal, unreported and unregulated fishing. As can be seen from table 5, the estimated revenue figures in the annual accounts do not match those in the final estimates for 2006 (A\$68.1million) and 2007 (A\$ 64.8million)¹⁹. Nevertheless, actual revenue received remained below 92% of forecasts, and therefore a D score is appropriate.

¹⁸ Note on Christmas Island these services are provided by the Ministry not the PUB.

¹⁹ Further work is ongoing to clarify the situation.

Table 5 Analysis of Revenue (A\$)									
Revenue	2006 estimate	2006 actual	2006 %	2007 estimate	2007 Actual	2007 %	2008 estimate	2008 actual	2008 %
Import duty	38,572,000	16,572,349	43%	38,572,000	17,993,481	47%	18,229,000	16,078,000	88%
Company tax	7,600,000	5,105,090	67%	7,850,000	4,613,145	59%	4,500,000	5,892,000	131%
Hotel taxation	220,000	68,065	31%	160,000	59,631	37%	50,000	42,000	84%
Personal taxation	11,600,000	6,918,353	60%	12,250,000	7,234,913	59%	7,050,000	7,631,000	108%
Fishing licence	57,000,000	25,825,463	45%	53,000,000	25,419,845	48%	25,061,000	31,240,000	125%
Nasda	3,646,000	410,926	11%	3,578,922	987,231	28%	1,573,000	1,133,000	72%
Cruise line fees	1,484,000	337,448	23%	1,504,869	543,601	36%	989,000	207,000	21%
Air space usage	350,000	667,750	191%	466,850	-	0%	217,000	-	0%
Interest	75,000	53,768	72%	75,000	-	0%	-	48,000	
Dividends	1,000,000	1,234,138	123%	1,700,000	1,762,937	104%	752,000	1,028,000	137%
Miscellaneous		30,411			3,300		3,420,000	4,052,000	118%
Total revenue	121,547,000	57,223,761	47%	119,157,641	58,618,084	49%	61,841,000	67,351,000	109%

Source Annual accounts 2006 – 2008

The resulting score for this indicator is shown below.

Dimension	Score	Justification and cardinal data
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget	D	In two or more years, actual revenue was less than 92% of forecast revenue. <i>Source: Annual Accounts and Budgets for 2006 – 2008</i>

Ongoing activities

The Ministry of Fisheries and Marine Resource Development (MFMRD) with the support of the Forum Fisheries Agency (FFA) is carrying out research to improve the accuracy of forecasting revenue from fishing licenses.

Australia is also assisting the MFMRD under the Kiribati Fisheries Performance Incentives Initiative in the following areas:

- To amend Offences and Penalties under the Fisheries Ordinance Act to increase compliance with fisheries management requirements, include coastal fisheries-related offences and penalties and make provision for offences and penalties that are effective deterrents in modern commercial fishing.
- An Independent review of access, licensing, joint venture and other cooperative arrangements, including those for coastal fisheries and potential targets for revenue generation.
- Development of clear policy and operational guidelines and procedures for administration of access and licensing and joint venture arrangements by MFMRD.

PI-4 Stock and monitoring of expenditure payment arrears

Assessment 2009

The presence of expenditure payment arrears constitutes a form of non-transparent financing that affects the credibility of the budget. A credible, and prudent, budget requires that the government is well informed on the size of its payment arrears and that the stock of arrears is low compared to total expenditures. This indicator considers to what extent stock of arrears is a concern, as well as to what extent it is addressed and consequently controlled.

Dimension (i) There is no standard definition of an expenditure payment arrear in Kiribati, consequently this assessment assumes the default i.e. for supplies of goods and services, and an unpaid claim becomes an arrear within thirty days from receipt of supplier invoice/claim. However, non-payment of payroll and debt interest on the due date becomes an immediate arrear. For various reasons (slow processing of payment orders, difficulties in the reconciliation of telegraphic money orders²⁰), timely payment of suppliers is reported to be a problem by the private sector and some ministries. Some suppliers insist on payment prior to delivery and will not accept Local Purchase Orders (LPOs). However, a value cannot be assigned due to the lack of concrete data. In the past, it is reported that delayed payment of utilities was particularly problematic, but the Public Utilities Board (PUB) now adopt a stricter policy on disconnections. The Board report that this has reduced outstanding debt.

Delays in payment of employees, particularly teachers (see PI 18) and some delays in the payment of employer contributions to the Kiribati Provident Fund (KPF) were also reported, but the value is not known.

Dimension (ii) As noted in indicator PI 20, expenditure commitment controls have not been functioning well in all ministries. Reliable data is also not readily available (see PIs 22, 24 and 25) for monitoring purposes. In the last few years, the Government has not carried out any exercise to identify the amount of money owed by the Government to its suppliers,

Dimension	Score		Justification
(i) Stock of expenditure payment arrears (as a % of total exp for the corresponding fiscal year) and recent change in stock	N/R	N/R	The value of arrears is not known.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D		Data for monitoring the stock of expenditure payment arrears is not generated either on a regular or ad hoc basis.

3.2 Comprehensiveness and transparency

The indicators in this group assess to what extent the budget and the fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public.

PI-5 Classification of the budget

Assessment 2009

A robust classification system which is used consistently for the formulation, execution and reporting of the central government's budget is an important element of fiscal transparency. In Kiribati, the classification recurrent budget is broken down as follows:

XX = Ministry (e.g. Ministry of Health)

XX = Program (e.g. radiology)

XX = Economic (e.g. 40 – local purchases, 45 - overseas purchases)

²⁰ Telegraphic money orders (TELMOs) are the means of payment for suppliers providing goods and services to government departments in the outlying islands.

However, the classification is not compatible with the international classification system known as the Government Finance Statistics (GFS) or with the accepted classification of government functions (COFOG), which are important for policy and analysis purposes. No bridging table is currently used and staff from the Statistics Division have to retype and re-enter all the accounting information²¹ into their own computers in order to derive GFS because there is no bridging table maintained by the Attaché computer system used by the Accounts Section.

Dimension	Score	Justification and cardinal data
(i) The classification system used for formulation, execution and reporting of the central government's budget.	D	The budget formulation and execution is based on administrative, program and economic classification, but without revision/analysis/re-submission cannot produce consistent documentation according to GFS/COFOG standards. <i>Source: Annual Accounts and Budgets for 2006 – 2008, Interviews Statistics Office</i>

Planned activities

In informal discussions, the GoK noted their intention of reviewing the use of GFS compatible classifications.

PI-6 Comprehensiveness of information included in budget documentation

Assessment 2009

Annual budget documentation (the annual budget and supporting documents) submitted to the legislature for scrutiny and approval should provide a complete picture of the government's fiscal forecasts budget proposals and previous year's outturns.

There is one budget document presented to members of Parliament in the November or December parliamentary session. The discretionary element of the recurrent budget is for appropriation by Parliament, but the statutory expenditure and the development budget are for information purposes only. As indicated below, this budget document includes both the recurrent and development budget for the budget year and the positions of some special funds kept separately from the Consolidated Fund. It shows also the original and revised budget as well as the actual figures (un-audited) for the previous year. As indicated in PI 5, the recurrent budget is classified by administrative head and programme and the budget documentation shows for each ministry/office/service, the outcomes sought.

In addition, Table 1 shows a summary of recurrent budget (for three years). Table 2 shows discretionary and statutory budget for the budget year. Table 3 shows recurrent and development budget for the budget year by ministry. Table 4 shows a comparative statement for ministries expenditure for three years. Table 5 shows budgeted input by ministries for the budget year. Table 6 shows a comparative summary of inputs for three years. Table 7 shows revenue inputs by ministry for three years. Table 8 shows debt servicing for three years. Table 9 shows subsidies, grants and other contributions for three years. For the development budget only the project names are shown, their total approved costs, actual annual expenditure for current and prior year, original and revised budget for current year, supplementary and budget for year), their funding sources and whether they are funded or not (for 2010 only funded projects are to be included in the budget documentation). In other words, the breakdown of the total cost into factors of

²¹ The Statistics staff use the audited government annual accounts to produce the GFS but in case the audited accounts are not available, the Accounts Section annual management report would be used.

production or into other transactions are not shown, such as labour cost, materials, transport cost, etc.

Elements of budget documentation	Availability	Notes
1. Macro-economic assumptions , incl. at least estimates of aggregate growth, inflation and exchange rate	No	<i>Although some macro-economic issues are mentioned, in practice the formulation of the budget depends entirely on the amount of revenue that can be collected and also on the budget submissions of the government ministries but the former is a more important consideration. Macro-economic assumptions are not used in the budget process.</i>
2. Fiscal deficit , defined according to GFS or other internationally recognised standard	No	<i>The budget classification does not follow GFS however there is a fiscal deficit figure shown which is essentially the difference between the total revenue and the total expenditure and this is usually financed by the drawdown of the reserve fund RERF.</i>
3. Deficit financing , describing anticipated composition	Yes	<i>The government deficit, as defined above,</i>
4. Debt stock , incl. details at least for the beginning of the current year	Yes	<i>Appendix 4 contains details of public debt (although as noted in PI 17 its accuracy and completeness is an issue, particularly with respect to guaranteed loans).</i>
5. Financial assets , incl. details at least for the beginning of the current year	No	<i>There is no consolidated balance sheet shown except the reserve fund RERF account, which is included as an annex to the annual budget report.</i>
6. Prior year's budget out-turn , presented in the same format as the budget proposal	Partial	<i>In the budget document the budget for next year is shown as well as the original and the revised budget for the current year as well as the actual (outturn) figures for last year (un-audited). Information on prior year is not provided at program or divisional level (which is understood to be the level for appropriation)</i>
7. Current year's budget (revised budget or estimated out-turn) , presented in the same format as the budget proposal	Partial	<i>See above. Information at program or divisional level relates only to original current year budget.</i>
8. Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	Yes	<i>There are pages in the front of the budget report that shows budget summaries for both revenue and expenditure.</i>
9. Explanation of budget implications of new policy initiatives , with ests of the budgetary impact of all major revenue policy changes and/or some major changes to exp programs	No.	<i>In the past, there is generally no analysis done for policies that may have budget implications²².</i>

The resulting indicator score is shown below.

Dimension	Score	Justification and cardinal data
i) Listed information (see above) available in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met.	C	Three of the listed elements are clearly shown in the budget documentation; however although prior year outturns and current year revised budgets are shown at various summary levels, this is not the case for the individual ministry budgets broken down by program/division and it is understood that

²² During the team's visit, the tax commissioner was preparing some information for the 2010 budget speech..

		appropriations take place at this level. <i>Source: Budgets and budget speeches for 2007 - 2009</i>
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PI-7 Extent of unreported government operations

Assessment 2009

The extent of unreported government operations is assessed against two dimensions: i) unreported extra-budgetary expenditure, and ii) income/expenditure information on donor-funded projects, which is included in fiscal reports.

Dimension (i) In Kiribati, there are a number of special funds as defined by section 107(2) and (3) of the Constitution, these include the development fund (see below), RERF (see section 3.8) Leper Trust Fund, Dai Nippon Causeway Fund, the Import Levy Fund and the Stabex Fund. Opening and closing balances, and receipts and payments are recorded in the budget documentation. Only the Import Levy Fund²³ has significant transactions (A\$ 2 million in 2008). Contributions to the RERF have not been made since the mid seventies. Draw downs (actual and budgeted) from the RERF are detailed in the budget, alongside market value, interest, dividends etc.

All revenue should be remitted to the Consolidated Fund and expenditure reported against it. According to the 2007 audit report, there have been some instances where revenue collected has been spent rather than remitted to the Consolidated Fund (e.g. import duties in Kiribati), but these are not material.

Dimension (ii) There are currently no active loans in Kiribati. All donor funding is grant based. The purpose of the development fund is to finance development projects. Unlike the recurrent budget, the development fund budget does not need to be appropriated by Parliament, i.e. its level and composition is entirely dependent on the number of approved projects, and on the availability of funds. The establishment and purpose of the fund is governed by Section 10 of the Public Finance (Control and Audit) Act. The rules for its operation are laid down in Schedule 2 of the Act. The Fund consists of cash and `in - kind` aid provided by donor agencies. The Kiribati government in some years contributed to this fund but since 2006 there has been no budgeted contribution. The Annual accounts reflect only the cash element of the Development Fund, in - kind aid is not included (see D 2). The cash element is also understated, as the Government No' 4 (development fund) account is being used as a transit account, and actual expenditure is not always reported back by the project implementation units²⁴. Correct acquittal of funds received is also noted to be a problem by both MFED and implementing ministries. Other aid received (cash and in-kind) is also outside the development fund e.g. the Global Health Fund²⁵

Dimension	Score		Justification and cardinal data
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports	B	D+	Combining transactions on the import levy and dai Nippon causeway funds means that approximately A\$2.2 million is underreported. Assuming total (funded) expenditure of 140 million, this equates to approximately 1.5%.

²³ It is understood that this relates to transfers from the Kiribati Copra Mills to the Kiribati Copra Co-operative Society.

²⁴ For example, the Kiribati Adaptation Project

²⁵ The precise value of the Global Health Fund has yet to be determined.

(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.	D	There are no loan financed projects and the information maintained on cash received is deficient due to funds being held outside the development fund, problems with acquittals of development fund money and the use of the dev fund as a transit account.
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PI-8 Transparency of inter-governmental fiscal relations

Assessment 2009

This indicator assesses the transparency of inter-governmental fiscal relations in terms of: i) transparency and objectivity in the horizontal allocation among SN governments; ii) timeliness of reliable information to SN governments on their allocation; and iii) extent of consolidation of fiscal data for general government according to sectoral strategies. As noted earlier, Kiribati has a number of island councils established and regulated under the Local Government Act and Local Government regulations. In Tarawa, the urban councils are able to raise their own revenues through car licences and other revenue sources; however, the island councils are dependent on central government funding.

Dimension (i) The grants to island councils for recurrent expenditure are based on population. Given that the last census was in 2005, the population figures used may be out of date, but the process is fairly transparent and objective. With regard to funding of development projects, communities are required to submit proposals and therefore there may be a greater degree of discretion, although there are a set of rules to be followed when applying for project assistance.

Dimension (ii) Island councils prepare their own budgets, which are then approved by the Minister for Internal and Social Affairs. Budgeted assistance from central government has remained unchanged for many years and therefore based on previous years funding levels, the councils are generally aware of their expected assistance. It is understood that these funding levels have been generally honoured, but the audit of island councils remains a work in progress, and therefore this could not be verified. In terms of funding for development projects, as noted above this is not so predictable and depends on fund availability (as for central government).

Dimension (iii) Generally, there is very little work done on trying to integrate and consolidate all government transactions including those incurred by the urban or island councils. The Statistics Division do prepare a consolidated statement as part of their annual reporting. In 2009, this included FY 2007, but this is not done according to sectoral categories.

Dimension	Score	Justification and cardinal data
(i) Transparency and objectivity in the horizontal allocation among SN governments	A	Recurrent grants are based on population for island councils, urban councils receive no additional support. Development Project assistance follows a set of rules, although there is more discretion involved. As most support is for recurrent costs, the indicator has been assessed as an A. <i>Source: Interviews MISA, Development grant rules.</i>
(ii) Timeliness of reliable information to SN governments on their allocations	B	Information on recurrent funding levels is based on previous budgets (which has remained unchanged) and therefore is known to the councils. As they share the same financial calendar changes may not be received before the start of their detailed budgeting process, and therefore a B score has been assigned. <i>Source: Interviews MISA.</i>
(iii) Extent of consolidation of fiscal data for general government according	D	The statistics section produce an annual report on general government expenditure (in 2009 this included

to sectoral categories			data to 2007), but it is acknowledged that this may be incomplete and is not , a D score has therefore been assigned. <i>Source: Interviews statistics + statistics report 2008.</i>
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Ongoing Activities

NZaid support to the Sustainable Town Programme (STP) is assisting the urban councils (two councils in Tarawa and one in Kiritimati) to improve their financial management and reporting.

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

Assessment 2009

This indicator assesses the extent to which central government has a formal role in relation to the oversight of other public sector entities. It is assessed against two dimensions: i) extent of central government monitoring of Autonomous Govt Agencies (AGAs) and PEs and ii) extent of central government monitoring of SN governments' fiscal position.

Dimension (i) In 2009, there has been an improvement in the submission of business operational plans (BOPs) from PEs to MFED. However, there is no consolidated overview and MFED still have difficulty in obtaining financial information from PEs (on the grounds of confidentiality), despite the fact that Permanent Secretaries are represented on many of the Boards. As shown in Annex G, there has also been an improvement in the timeliness of financial statements from the major PEs, but many are still not up to date and/or remain qualified.

Dimension (ii) For island councils, reporting to MISA on use of recurrent and development expenditure (and cash book) takes place but not on outstanding payments. Urban councils are not in receipt of central government funding and therefore do not report to MISA in the same way.

Dimension	Score	Justification
(i) Extent of central government monitoring of AGAs and PEs	D	D Monitoring of PEs is constrained by the lack of up to date, unqualified financial statements, their reluctance to provide information to MFED. Central government receives reports from island councils (not urban councils), but these do not show the fiscal position of the councils (e.g. extent of unpaid liabilities).
(ii) Extent of central government monitoring of SN government's fiscal position	D	

Ongoing Activities

ADB funded TA support to the MFED is assisting with the reform of the SoE sector.

PI-10 Public access to key fiscal information

Assessment 2009

Transparency will depend on whether information on fiscal plans, position and performance of the government is easily accessible to the general public or at least interested groups.

As shown in the table below, availability of key fiscal information in Kiribati is limited, although, this is not totally a supply issue, as in the past there has also been limited demand.

Required documentation	Availability	Comments
Annual budget documentation when submitted to the legislature	Possible	In theory, people can get copies of the annual budget if they ask MFED but in reality there are not enough

		hard copies are not enough and sometimes e-copies are difficult to get.
In-year budget execution reports within one month of their completion	No	These are not routinely published and provided to the public. Although it is noted that they are available if requested.
Year-end financial statements within 6 months of completed audit	No	These are not routinely published and provided to the public. Although it is noted that they are available if requested.
External audit reports within 6 months of completed audit	Yes	Since 2008 the audit report for central government have been posted on the audit office website.
Contract awards (app. USD 100,000 equiv.) published at least quarterly	No	No information is published on contracts awarded,
Resources available to primary service unit at least annually	No	

In addition to the above, the proceedings of Parliament (including the budget speech and debate) are broadcast live over Radio Kiribati. Since Independence, the Hansard Report has been produced in the Kiribati language. Given the vast distances between the two main population centres, the form of access to information is a key issue. Since 2008, the Audit office has used the internet to post their reports, which is a significant advancement. However, access to the internet is limited and download times slow.

Dimension	Score	Justification and cardinal data
(i) No ^o of the listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification must be met.	C	Only one of the key fiscal reports is readily available. Other reports can be made available e.g. estimates and financial statements but this is not widely known.

3.3 Policy-based budgeting

The indicators in this group assess to what extent the budget is prepared with due regard to government policy.

PI-11 Orderliness and participation in the annual budget process

Assessment 2009

This indicator shows the quality of the budget preparation process as well as the involvement of budget end users in the process. There are 3 dimensions to assess: i) existence of and adherence to a fixed budget calendar; ii) clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent); iii) timely budget approval by the legislature (within the last three years);

Dimension (i) There is a budget calendar kept and used by the Budget unit within the Planning Office but this is not circulated to other ministries and government agencies. For 2010, the process was condensed as the parliamentary session was brought forward. The September circular dated 21st September (see below) containing budget ceilings requested completion of the draft recurrent budget and submission to NEPO by Friday, 16 October 2009. Technically this allowed ministries only 23 days. In prior years, it is understood that ministries have been given a longer time, but some officials from line ministries said that the budget notices were provided late. Many ministries, in anticipation of the commencement of the annual budget process, begin the budgeting process prior to the receipt of the ceilings. Large ministries such as education felt that they had insufficient time to consult all their divisions again once they had received the budget ceilings.

Dimension (ii) In May a budget circular is issued out to all ministries and government agencies to provide their revenue estimate for the following year because the budget ceiling will depend on the amount of revenue collected. Ministries are expected to report these by 30 June. In September, a second circular is issued, which includes the budget ceiling that has been agreed to in principle by Cabinet.²⁶ The basic guidelines provided in the circular focus on the need for nominal rolls to be updated. The ministries and agencies are asked to contain their expenditures within the assigned budget ceiling. In October further discussions on the budget with individual ministries is undertaken. Some ministries complained that their efforts in preparing a detailed and realistic budget are wasted because the government just focuses on the budget ceiling, which is derived from the total revenue and on past budget details, i.e. there is no need to come up with new or extra workload because the government will not entertain the new expenditure items. Although conversely some observers noted that the Cabinet had sometimes been persuaded to increase ceilings. There are no members of Parliament (see PI 27) involved in the budget preparation apart from the ministers themselves.

Dimension (iii) The Constitution requires that the Minister of Finance shall cause to be prepared and laid before the Maneaba ni Maungatabu before or not later than 60 days after the commencement of each financial year estimates of the revenues and expenditure of the Government for that year. In practice for the period 2007 - 2009, the budget was approved before the start of the fiscal year, except for 2007, when the budget was gazetted in January 2007.

Dimension	Score	Justification and cardinal data
(i) Existence of and adherence to a fixed budget calendar	C	A budget calendar exists and is generally adhered to, the time for ministries to complete their submissions in 2010 was less than 4 weeks and larger ministries generally believed the time (after the receipt of budget ceilings) to be too limited for meaningful discussion. A C score is therefore assigned.
(ii) Clarity/comprehensiveness of and political involvement in the guidance and preparation of budget submissions (budget circular or equivalent)	C	C+ The main budget circular contains ceilings, which have been approved in principle by Cabinet for individual ministries. Guidelines for the preparation of the budget are however quite limited and some ministries view it as an academic exercise, reflecting perhaps the need for greater guidance on budget preparation and prioritisation of activities. A B or higher score requires that a comprehensive and clear budget circular is required, therefore although the Cabinet approves the ceiling a C score has been assigned.
(iii) Timely budget approval by the legislature or similar mandated body (within the last three years)	B	The budget was approved as follows 2007 – January 2007; 2008 - 20/12/07; 2009 – 9/12/2008

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

Assessment 2009

Expenditure policy decisions have multi-year implications and must be aligned with the availability of resources in the medium term perspective. Therefore, multi-year forecasts including debt sustainability analysis should be the basis of policy changes. The indicator is assessed against four dimensions: i) preparation of multi-year fiscal forecasts and functional allocations; ii) scope and frequency of debt sustainability analysis; iii) existence of sector strategies with multi-year costings of recurrent and investment expenditure and iv) linkages between investment budgets and forward expenditure estimates.

²⁶ Some ministries have reportedly received more than their ceilings in previous years.

Dimension (i) The concept of multi-year budgeting was considered in 2005 for the 2006 budget, but was rejected by the Cabinet. Currently the government does not prepare multi-year budgets or multi-year fiscal forecasts.

Dimension (ii) A debt sustainability analysis (DSA) has not been carried out in recent years. It is understood that given the low level of debt in Kiribati, the IMF did not carry out a DSA as part of their 2007²⁷ or 2009 Article IV consultations.

Dimension (iii) In support of the KDP, ministries prepare annual ministerial operations plans (MOPS), while public enterprises are required to prepare business operational plans (BOPS). From 2009, BOPs are presented separately to the overall ministry plan. Some ministries or sectors e.g. ministries of education, internal and social affairs have also prepare costed sector strategies. However, the relationship between the costed strategies and the budget is recognised to be extremely weak. Costed strategies are not prepared in accordance with the multi-year fiscal forecasts as these are not prepared. The quality of the MOPs and individual ministry's adherence to the requirements varies considerably with the Ministry of Public Works and Utilities preparing the most detailed and thorough analysis.

Dimension (iv) There is no clear linkage between the recurrent budget and the investment or development budget (currently funded exclusively by donor agencies). The Planning Office does consider recurrent cost implications of development projects, as part of the project appraisal process, but this is not reflected in the annual budget reports nor in the individual MOPs. Although the KDP spans four years, the cost implications of the projects supporting it are not analysed and taken into account when formulating the recurrent budget.

Dimension	Score	Justification and cardinal data
(i) Preparation of multi-year fiscal forecasts and functional allocations	D	D+
(ii) Scope and frequency of debt sustainability analysis	N/A	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	C	
(iv) Linkages between investment budgets and forward expenditure estimates.	D	

Ongoing Activities

ADB funded TA support to the MFED is to assist with the development of multi-year fiscal forecasts over the next five years²⁸.

²⁷ The team were unable to locate a copy of the 2007 report and therefore have not yet been able to verify this finding.

²⁸ See section 4 for further details

3.4 Predictability and control in budget execution

This set of indicators reviews the predictability of funds for budget execution, and the internal controls and measures in place to ensure that the budget is executed in an accountable manner.

PI-13 Transparency of taxpayer obligations and liabilities

Assessment 2009

Effective assessment of tax is very dependent on the direct involvement and co-operation of taxpayers from the individual and corporate private sector. This indicator therefore assesses i) the clarity and comprehensiveness of tax liabilities; ii) taxpayer access to information on tax liabilities and administrative procedures and iii) existence and functioning of a tax appeals mechanism.

Dimension (i) There are three main tax related laws, the Income Tax Act 1990 (amended 2009) and its supporting regulations, the Inland Revenue Board Act 1990 and the 2004 Customs Act, for which there are currently no accompanying regulations. Recent amendments to the Income Tax Act have limited the ability of Ministers (ries) to issue exemptions. Although, it is understood that there are some inconsistencies with the Foreign Investment Act. The Customs Act is currently being revised to reduce anomalies with other acts e.g. the Kiribati Ports Authority Act. Valuation of goods for import duty purposes is set out in the Act and require that the valuation provisions of the WTO agreement are to apply in Kiribati.

Dimension (ii) Legislation can be purchased from the Attorney General's Office. There is limited availability/access to information on tax liabilities and administrative procedures. A tax awareness/education programme has recently taken place to promote the introduction of the PAYE Final. Generally, however, there is limited information for prospective investors and this is an area which the tax division is particularly keen to improve, and which is particularly challenging given the large distance and poor communication network between the two main centres of population.

Dimension (iii) For import duty related appeals, the Customs Act sets out the review process through the Comptroller, the Inland Revenue Board and finally the High Court. Board members include representatives from MFED (Permanent Secretary, Director NEPO). A similar process exists for income tax through the Commissioner, the Inland Revenue Board and the Court system.

Dimension	Score	Justification and cardinal data
(i) Clarity and comprehensiveness of tax liabilities	B	Changes to the Income Tax Act have recently limited discretionary powers and the Customs Tax Act is clear on how goods are to be valued for import duty purposes. However as there are no supporting regulations yet, this indicator has been assessed as a B A recent tax education programme took place for the introduction of the PAYE final; however access to user friendly, comprehensive information is limited and difficult because of distances/poor communication. For both customs and income tax, there is a set of procedures for appeals against assessments. These include in the first instance, the head of the division and then the Inland Revenue Board. As the Board is involved in a number of management/policy decisions and the tribunal is not operational, the level of independence from the tax/customs divisions is rather limited and therefore a B has been assigned.
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	C	
(iii) Existence and functioning of a tax appeals mechanism	B	

Ongoing Activities

The Tax division is receiving support from PFTAC in assessing the potential scope and cost of improvements in revenue administration/ changes in tax policy.

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

Assessment 2009

The effectiveness of taxpayer registration and tax assessment is assessed by reviewing: i) controls in taxpayer registration; ii) effectiveness of penalties for non-compliance with registration and declaration obligations and iii) planning and monitoring of tax audit and fraud investigation programmes.

Dimension (i) Customs and Income tax have separate databases and there is no single tax identification number. Currently there are also some restrictions in the sharing of information between the two divisions. Information maintained by other registration/licensing functions e.g. urban councils is very weak. Given the small size of the island/community, new businesses are identified on an ad hoc basis.

Dimension (ii) Penalties exist for both import duties and income tax. In recent years, it is reported that penalties have been more consistently applied. However, penalties for import duties are not considered by management to be high enough and penalties for infringements of income tax do not cover all eventualities.

Dimension (iii) The introduction of the PAYE final is allowing an increased focus on compliance issues and the use of risk based audits, rather than a more random programme of audits. The tax division recently received assistance²⁹ in the development of these risk-based audits, but implementation is at its early stages. Customs has also adopted a risk-based approach to its audit programme, but this is in its early stages of development.

Dimension	Score	Justification and cardinal data
(i) Controls in taxpayer registration	C	C There is no single TIN and some restrictions on the sharing of information between tax and customs divisions. Information maintained by other registration functions is very poor. Given the small size of the island/community, new businesses are identified on an ad hoc basis. A C score has therefore been assigned. Penalties exist in most areas and have been applied more consistently in recent years, but according to the management the level is insufficient to act as a deterrent for import duty related offences. A programme of audits is operational and one based on an assessment of risk is in the process of being introduced in customs and income tax, but it is not yet fully operational and therefore a C has been assigned.
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration.	C	
(iii) Planning and monitoring of tax audit programmes.	C	

²⁹ Australian support to the tax division finished in April 2009.

PI-15 Effectiveness in collection of tax payments

Assessment 2009

The effectiveness in collection of tax payments is assessed based on the following criteria: i) debt collection ratios for the past two years; ii) effectiveness of transfer of tax collection to the Treasury and iii) frequency of complete accounts reconciliation.

Dimension (i) Although the information to calculate debt collection ratios is technically maintained. The data is not analysed on a regular basis, and information only produced on an ad hoc basis.

Dimension (ii) Tax is paid into revenue collection offices in the MFED. In terms of timely deposit of funds, all tax revenue is deposited into treasury managed accounts on a daily basis.

Dimension (iii) There are no links between the tax systems and the Attaché system, complete reconciliation between data held by the accounts section and information maintained by the tax or customs divisions (tax assessment, arrears, collections and transfers/deposits) is currently not done on a regular basis.

Dimension	Score	Justification and cardinal data
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two years).	N/R	The collection ratio for gross tax arrears was not available.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	A	D+
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	
		All revenue is deposited in treasury-managed accounts. Revenue should be deposited on a daily basis.
		Complete reconciliation between data held by the accounts section and the tax and customs divisions is currently not done on a regular basis.

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

Assessment 2009

The effective execution of the budget, in accordance with work plans, requires that the spending ministries, departments and agencies receive reliable information on the availability of funds within which they can commit expenditure for recurrent and capital inputs.

Dimension (i) The line ministries do not prepare cash flow forecasts. The accounting section of the MFED prepares an annual cash flow projection. Revenue figures are obtained from the relevant departments e.g. the Ministry of Fisheries and Marine Resource Development (MFMRD) provides forecasts of anticipated revenue from the fishing licences, and expenditure is based on historical trends. However, this cash flow projection is only updated on an ad hoc basis during the year.

Dimension (ii) Warrants (authorisation for release of funds) for recurrent expenditure are provided for the full financial year. In general, the line ministries can spend or incur expenditures according to their workplan, provided of course that there is enough budget provision in their votebook. One problem noted is that the vote or ledger balances kept by the line ministries are often different from the ones kept by the Accounts Section in the Ministry of Finance (see PI 20), which leads to potential overspending. Warrants for the release of funds for development expenditure are provided on a request basis and require the acquittal of previously released funds. Line ministries, MFED and donors both noted difficulties in relation to the timely and accurate acquittal of funds.

Dimension (iii) The Minister of Finance’s approval is required for transfers between outputs/programs/sections (see also PI 27) but within programs the accounting officers can do the transfers. All these transfers are tabled in Parliament for information purposes, and recorded in the MOP progress reports. There are no known instances whereby money has been moved from one ministry to another.

Dimension	Score	Justification and cardinal data
(i) Extent to which cash flows are forecast and monitored.	C	C+
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	A	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	A	

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

Assessment 2009

Proper recording and management of cash balances, debt and guarantees is an important component of PFM. Poor management of debt and guarantees can create high debt service costs and significant fiscal risks. The maintenance of a sound debt data system and regular reporting are critical for ensuring data integrity, accurate debt service budgeting and timely service payments.

Dimension (i) GoK has only six loans (central government and on lent), with a total outstanding amount of A\$ 14 million and no active loans. The ADB loan for the Sanitation, Public Health and Environment (SAPHE) Project closed in 2008³⁰. Information on the loans is maintained by NEPO and by the accounts section, but the two lists are not the same and the loan information is not regularly reconciled with the lenders. No in-year reports on debt servicing costs are produced. Information on loan guarantees (contingent liabilities) is understood to be incomplete and because of late production of financial statements by the PEs is not reconciled for the purposes of the government’s annual accounts (see PI 22). Records are not maintained on guarantees of overdraft facilities.

Dimension (ii) There are four main treasury managed accounts, No’ 1 account is the main operational account; No’ 4 account is for the development fund; No’ 5 account is the account used for cash inflows and outflows on Kiritimati; and No’ 6 account is the Stabex account used for Copra subsidies. Cash balances on the main accounts are calculated daily. Some donor project accounts remain outside the system as do accounts for some of the special funds e.g. Dai Nippon Causeway Fund. The facility to consolidate bank balances to improve government’s overall cash management and avoid the need for expensive overdrafts is not in place, although in the past non-operational funds have reportedly been borrowed temporarily for cash management purposes.

Dimension (iii) There is no debt management policy in Kiribati³¹. Historically, GoK has had a conservative approach to debt, relying more on drawdowns from the RERF. It is understood that some debate has taken place on whether overdrafts should be included in any debt management policy.

³⁰ The loan closed in terms of further drawdowns, liability for repayment remains.

³¹ Policy with respect to the RERF is discussed in section 3.8.

Although not set out in the legislation³², in practice, loans can only be negotiated by the Minister of Finance and require approval by the Cabinet. It is reported that in 2008, there was a marked increase in the issuance of guarantees for BoK loans/overdraft facilities to the public enterprises. This replaces earlier transfers of funds by central government. Overdraft guarantees for public enterprises are provided by the Minister of Finance. If Island councils require overdraft facilities and guarantees are required by the BoK, the guarantee is provided by the Minister of Internal and Social Affairs. Default on any payment is deducted from their grant. Loans and guarantees are not approved based on any targets or specific criteria.

Dimension	Score	Justification and cardinal data
(i) Quality of debt data recording and reporting	D	D+ Although there is only a limited amount of debt, records are not reconciled frequently and accurate information on guaranteed loans /overdrafts is not available. Cash balances are calculated daily but not consolidated. Central government's contracting of loans and issuance of loan guarantees are done by the Minister of Finance with approval from Cabinet, but they are not done against clear guidelines, criteria or overall ceilings.
(ii) Extent of the consolidation of the government's cash balances	C	
(iii) Systems for contracting loans and issuance of guarantees	C	

PI-18 Effectiveness of payroll controls

Assessment 2009

The assessment of the effectiveness of payroll controls are based on the following criteria: (i) degree of integration and reconciliation between personnel records and payroll data, (ii) timeliness of changes to personnel records and the payroll, (iii) internal controls of changes to personnel records and the payroll, and (iv) existence of payroll audits to identify control weaknesses and/or ghost workers.

All permanent and temporary contract employees (approx 4,500) are paid via the payroll module of the Attaché system. Payments are made on a fortnightly basis and payments are made either in cash, through bank accounts, or by TELMOs for those working on the outer islands and on Christmas Island. The process for recruitment includes formal submission of the job specifications and requirements to the Ministry of Labour, which then announces the vacancies over the radio. The applicants are then screened out by the same ministry using the required criteria given. The names of those eligible are then provided to the recruiting ministry for further scrutiny and for the interview. Following assent by the President of the chosen candidate, an appointment letter is issued by the PSC. This process is reported to be quite lengthy and so temporary employees are frequently recruited.

Dimension (i) The personnel database or nominal roll (list of staff to be paid) and personnel records are maintained manually/semi-automated by the PSO and the line ministries. Establishment lists are maintained separately. The payroll is maintained by the accounts section. There is no regular reconciliation of the three lists (payroll, nominal roll, personnel records).

Dimension (ii) Procedural delays in the line ministries/Public Service Office (PSO) are reported and this results in delays in personnel being included (removed) from the payroll. KNAO report for 2004 notes that the 'high incidence of overpayments can be obviated by an improvement in communication between the Public Service Office, accounting sections of Ministries and the salary section of the

³² The team were unable to find any reference in the legislation.

Accounting Division'. It is understood that there have been some improvements but some overpayments continue (MEYS). Delays (less than three months) in the payment of new teachers (up to 100) on outlying islands is also noted as a concern by MEYS. Overpayments (more than 3 months delay) in 2007 are recorded as approximately \$15,000 for MEYS, which is a comparatively small amount on MEYS's total personnel budget of \$12.8 million.

Dimension (iii) There is no payroll manual, although controls exist, they do not appear to be adequate to ensure full integrity of data. The 2007 audit report notes for example that overtime dockets are incomplete and therefore payments cannot be justified.

Dimension (iv) No complete payroll audit and physical count of personnel has been conducted.

Dimension	Score	Justification and cardinal data
(i) Degree of integration and reconciliation between personnel records and payroll data	D	D+ There is no regular reconciliation between the payroll, personnel records and nominal roll. There is some delay in payment of new teachers but these are generally for less than 3 months. Although improvements have occurred and most overpayments relate to pre 2001, the problem still continues for retirees. Some of these delays can be for longer than 3 months but are relatively small in value terms. A B has therefore been assigned. Controls exist but are not adequate to ensure full integrity of data. No complete payroll audit and/or physical count of personnel has been conducted.
(ii) Timeliness of changes to personnel records and the payroll	B	
(iii) Internal controls of changes to personnel records and the payroll	C	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	D	

Ongoing activities

The Ministry of Education has recently recruited a consultant firstly to reconcile records held by the Ministry with those held by the Public Service Office and then with the payroll.

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

Assessment 2009

This indicator looks at whether there is: (i) evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contracts awards that are above the threshold); (ii) extent of justification for use of less competitive procurement methods; and (iii) existence and operation of a procurement complaints mechanism. It does not assess procurement controls, which are assessed in PI -20.

Dimension (i) Minutes of ministerial procurement committees and the central procurement review committee are maintained but these are not analysed, nor is there a requirement in the law for the use of open competition to be monitored.

Dimension (ii) Although the law indicates that open competition is one method, several alternatives are provided, and the implication that open competition is the preferred method is not clear. Reporting on the rationale for the use of less competitive methods does not take place.

Dimension (iii) Under the Procurement Act, prior to a contract coming into force, complaints for purchases above A\$50,000 are sent to the Minister of Finance, and for purchases below A\$50,000 to

the chief procurement officer of the procuring entity. Unless directed to the Court of Appeal, the decision of the Minister is final. The decision of the chief procurement officer can be reviewed by the Minister. However, in practice procurement regulations are not in place, in many ministries including MFED, there is a lack of designated procurement officers, decisions are not available for public scrutiny, and the private sector question its effectiveness.

Dimension	Score	Justification and cardinal data
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (% of the no' of contract awards that are above the threshold)	D	D+
(ii) Extent of justification for use of less competitive methods	D	
(iii) Existence and operations of a procurement complaints mechanism	C	
		There is no monitoring on the use of open competition or requirement in the law for the production of the data.
		Preferred use of open competition is not clear from the legislation and no analysis of actual practices is produced.
		A process is set out in the legislation for the review of complaints by either the Minister of Finance or the chief procurement officer of the procuring entity. However, procurement regulations are not in place and the private sector question its effectiveness, a C score has therefore been assigned.

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

Assessment 2009

This indicator assesses the effectiveness of the internal control framework and looks at the effectiveness of expenditure commitment controls, the comprehensiveness, relevance and understanding of other internal control rules/ procedures and the degree of compliance with rules for processing and recording transactions.

Dimension (i) Although manual commitment control procedures should be in place, whereby ministries check their available budget balances before committing to additional expenditure, in practice, there are a number of problems. Some ministries e.g. MPWU record commitments in their own system; however, this is not done by all ministries (the auditor general notes overspending without proper authority as an issue). As noted in PI 16, ministries vote books are not reconciled with the data maintained by the accounts section in the Ministry of Finance, in addition there are delays in processing payments and although, according to the accounts section, ministries now have the ability to enter commitments into the Attache system themselves, this does not appear to be widely known.

Dimension (ii) The need to review the existing Financial and Stores Regulations remains an issue. Developed in the mid seventies prior to independence, they do not reflect current business practices. PAC noted that the regulations governing Public Stores and Funds are currently outdated and urgently require up dating. The KNAO has also noted that there are sections of the regulations that are inconsistent with the Public Finance (Control and Audit) Act and the Constitution. As noted earlier, procurement regulations are not in place and despite the existence of procurement guidelines in the MFED, specified personnel e.g. chief procurement officers have not been appointed. Understanding of the procurement legislation varies considerably between ministries, and some ministries note that committee membership is ad hoc and at a junior level.

Dimension (iii) The level of compliance with transaction procedures (expenditure and revenue) is noted in external audit reports as a source of concern. Problems highlighted include overspending without proper authority, missing payment vouchers, misposting and improper budgeting

Dimension	Score	Justification and cardinal data
(i) Effectiveness of expenditure commitment controls	D	D+
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	D	
(iii) Degree of compliance with rules for processing and recording transactions	C	

Ongoing activities

The Accounts section is preparing user manuals for a number of areas e.g. payroll, bank reconciliations etc.

PI-21 Effectiveness of internal audit

Assessment 2009

Internal control mechanisms can be improved through the effective use by management of internal audit. The indicator assesses the coverage, quality of the internal audit function; the frequency and distribution of reports; and extent of management response.

Dimension (i) There is a small internal audit unit (five staff) in MFED whose task is to undertake investigation of the ministries and government offices at least once a year. The investigations concentrate on irregularities in the use of public funds, if there are frauds committed, as well as stock verification. Auditing concentrates more on transactions e.g. checking of cashbooks; inspection of vehicle logs, than on systems. There is no internal audit charter and international internal auditing standards are not followed.

Dimension (ii) Reports on the investigations are produced and given to the Secretary of Finance and to the concerned ministry, as well as the KNAO. However, the latter does not use the reports as part of their audit programme.

Dimension (iii) Some basic recommendations are contained in the reports. Evidence to show extent of management response to these internal audit findings was not found.

Dimension	Score	Justification and cardinal data
(i) Coverage and quality of the internal audit function	D	D+
(ii) Frequency and distribution of the reports.	B	
(iii) Extent of management response to internal audit findings	D	

Ongoing Activities

MLPID has requested for an internal audit post to be established for activities on Kiritimati.

3.5 Accounting, recording and reporting

This set of indicators assesses the quality and timeliness of accounting, recording and reporting.

PI-22 Timeliness and regularity of accounts reconciliation

Assessment 2009

Reliable reporting of financial information requires constant checking and verification of the recording practices. This is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. High quality of bank reconciliation requires that large differences are not left unexplained. Regular reconciliation of suspense accounts and advances is essential to ensure that the financial reports reflect actual expenditure levels. As indicated in PI 1 and 2, lack of regular reconciliation and clearance undermines potentially budget credibility.

Dimension (i) As indicated in PI 17 there are four main treasury managed bank accounts. The bank reconciliations for No.1 Account (the main operations account) up to 2004 have been completed. Reconciliation for the years 2004 to 2008 are still to be completed. The Accountant General's Office is concentrating on the reconciliations for 2009 and intends to have up to date reconciliations prior to the production of the 2009 accounts. However, currently reconciliations are not done on a regular basis (less frequently than quarterly).

A reconciliation statement for No.4 Account (development fund) has been submitted to the audit office for years 2005 and 2006, but the KNAO note that they are unable to place reliance on it since it is only a reconciliation between the Cash Book and the General Ledger and not with the Bank statements.

Dimension (ii) There are no suspense accounts. As with bank accounts, historically advances and Telmos have not been reconciled or cleared on a regular basis. Both the Auditor General's reports and PAC reports note the problem with lack of regular clearance of advances.

Dimension	Score	Justification and cardinal data
(i) Regularity of bank reconciliations	D	There is a significant backlog for the bank reconciliations for both the No'1 and No' 4 account. Reconciliations for 2009 are done less frequently than quarterly. <i>Source: Audit Reports 2005 – 2007 + interviews KNAO, Acc Gen's office</i>
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	D	There are no suspense accounts, for the period under review, advances and Telmos have not been reconciled and cleared on a regular basis. <i>Source: Audit Reports 2005 – 2007 + interviews KNAO, Acc Gen's office</i>

Ongoing activities

The Accountant General's Office has established separate teams to address the problems, and progress is being monitored by the Speaker and PAC (see PI 28). Letters have been issued to approximately half of those with outstanding advances.

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

Assessment 2009

Information on resources (cash and in-kind) received by service delivery units is an important indicator of the reliability and integrity of the fund flows from the centre to the “front line”.

In Kiribati, many of the front line units are located on the outlying islands. In the period under review there has been no special exercise to identify the level of resources received by service delivery units and neither the Ministry of Education or the Ministry of Health prepare reports that combine cash and goods. In the Ministry of Health all cash and drugs that go to clinics are recorded either in the accounts system or in the hospital pharmacy database. The exception is when there are free donations made by overseas agencies or individual benefactors, such as in the case of Christmas Island hospital where they received medical equipment and supplies outside the government system.

Dimension	Score	Justification and cardinal data
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.	D	Drugs dispensed are recorded by the hospital pharmacy and cash recorded in the accounts system, but single reports are not produced and no special survey has been conducted. <i>Source: Interviews, MEYS and MHMR</i>

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

Assessment 2009

The quality and timeliness of in year budget reports is an important measure of a government’s ability to “bring in” the budget. The indicator is assessed based on: i) scope of reports in terms of coverage and compatibility with budget estimates; ii) timeliness of the issue of the reports and iii) quality of information.

Dimension (i) The Accounts Section produces monthly management reports from the Attaché system. This report covers the ministries actual recurrent expenditures and revenue compared to original budget and revised estimates but does not include commitments. Reports on development project expenditures are not routinely produced. Only transaction listings from the general ledger are available. Twice a year, ministries prepare MOP progress reports, the content of the various progress reports varies but in the financial reporting only the MPWU include commitments.

Dimension (ii) Management reports are produced monthly by the accounts section and are available to ministries on line or through a soft copy (where a print facility is not available). MOP progress reports are produced twice in a year, one in July or August and one in January or February. In practice, several ministries or government statutory bodies submit their progress reports very late. Some ministries prepare their own reports

Dimension (iii) Quality of data is considered poor and the usefulness of the reports has been questioned. For example in the December 2008 MOP, it is noted that the data provided on financial performance is a rough estimate of what has actually been incurred and earned throughout 2008 due to the corruption of the Attaché system. There is limited reconciliation of revenue and expenditure figures maintained by the MFED and line ministries. There are also delays in the input of data by the accounts section, which means that the statements are not complete.

Dimension	Score	Justification and cardinal data
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	D+ Monthly management reports are produced which compare actual with budgeted expenditure for programs within ministries but do not record commitments. Reports are produced monthly within one or two weeks of the period end. Data quality is poor due to lack of reconciliation with ministry data, delays in posting of payment vouchers and in 2008 corruption of the database.
(ii) Timeliness of the issue of reports	A	
(iii) Quality of information	D	

PI-25 Quality and timeliness of annual financial statements

Assessment 2009

The quality and timeliness of annual financial statements are assessed by looking at: i) the completeness of financial statements, ii) the timeliness of submission and iii) the accounting standards used.

Dimension (i) GoK produce a financial statement for government ministries and departments, which includes information on expenditure, revenue, some financial assets and some financial liabilities. The Auditor General notes that they do not disclose at year-end the unpaid commitments. In addition, he qualifies his opinion on recent statements (2006 and 2007) because of: (i) incorrect cash at bank balances for 2007 and 2006 of \$6,913,508.24 and (\$6,975,945.17); (ii) incorrect balance of cash to local government in 2006, due to various omissions of state fund accounts; (iii) incorrect cash in transit balances for 2006 and 2007 of \$2,458,878.54 and \$2,505,366.81 respectively; and (iv) lack of reconciliation of government major revenue.

Although not required for assessment of this indicator, the Auditor General also notes that there is no disclosure of government assets and liabilities in the hands of government owned companies and statutory corporations, government fixed assets, and project funds received outside of Government No. 4 Account. As noted in PI 20 and PI 24, the data held by the MFED Attaché system is not reconciled with the data held by every ministry, and there are therefore also concerns about its accuracy and completeness.

Dimension (ii) Section 39 of the Public Finance (Control and Audit) Act directs the Accountant General to provide the Auditor-General with full statements of accounts within six months of the year-end. The table overleaf (see PI 26) shows the improvement in the timeliness of the accounts, with the accounts being submitted within 19 months, 7 months and 6 months for the FYs 2006 – 2008 respectively.

Dimension (iii) The accounts are prepared on a cash basis. The statements to be included in the annual accounts are specified in the Public Finance (control and audit) Act; however, no accounting standards are disclosed or used.

Dimension	Score	Justification and cardinal data
(i) Completeness of the financial statements	C	D+ A consolidated government statement is prepared annually, contains information on expenditure, revenue, some financial assets and some financial liabilities, although it does not contain information on payment arrears. The Auditor General also raises a number of concerns about the accuracy and completeness of the data, and all recent accounts have received a qualified opinion. A C score has therefore been assigned. Timeliness of submission of accounts has improved,
(ii) Timeliness of submission of the	A	

financial statements		over the period from 19months to 6 months. As the latest financial statement is within 6 months a score of A has been assigned.
(iii) Accounting standards used	D	No accounting standards are used.

Ongoing/Planned Activities

The Auditor General has advised that the government adopt the International Public Sector Accounting Standards on cash reporting.

3.6 External Scrutiny and Audit

The indicators in this group seek to assess the scope, quality, timeliness of external audit and the level of follow up of audit recommendations. Key elements of the quality of external audit include the scope and coverage of the audit, adherence to auditing standards, including the independence of the external audit institution.

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

Assessment 2009

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of external audit include: (i) the scope and coverage of the audit, adherence to auditing standards, including the independence of the external audit institution; (ii) timeliness of submission of audit reports to the legislature; (iii) evidence of follow up on audit recommendations.

Dimension (i) In accordance with Section 29 and 30 of the Public Finance (Control and Audit) Act, the Auditor General is required on behalf of the Maneaba ni Maungatabu to audit the public accounts. On an annual basis, the focus of the audit is to provide an opinion on the financial statement, in particular the figures produced by the Attaché system. Audits comprise predominantly of transaction testing, rather than a review of systems or performance, but significant issues are raised. In addition, more detailed audit of central government entities is done on a rolling basis. In the latest audit report (for 2006 and 2007), six of the ministries/offices were audited; these included some of the major ministries e.g. education and health, and it is therefore estimated that audits currently represents about 50% of total expenditure on an annual basis.

The Office attempts to follow international auditing standards including use of audit plans, appropriate supervision and record keeping, but capacity constraints mean that it may not always be able to achieve full compliance. According to Section 114 (4) of the Constitution, the Office is a constitutional and independent office ‘not subject to the direction or control of any other person or authority’. Any attempt to violate its independence will become the subject of a report to the Maneaba ni Maungatabu (Parliament) in accordance with Section 41 of the Public Finance (Control and Audit) Act. However, the Office lacks independence in terms of its financial and personnel resource.

Dimension (ii) The Auditor General reports are submitted to the Speaker, who ensures they are tabled before Parliament. They are also delivered to the *Beretitenti* and the Minister of Finance. The latest available report of the Auditor General is in respect of the accounts for 2007. The legislation does not specify any restrictions on the time to be taken by the Auditor General in the production of his report. The table below shows the receipt of accounts and issue of the audit report. It shows both improved timeliness of the production of accounts (see PI 25) and issue of the audit report.

Table 6 Issue of reports by KNAO			
Financial Accounts	Received by KNAO	Report issued by KNAO & submitted to Speaker	Time taken for completion
As at 31 st December 2004	22 nd December 2006	10 th December 2007	12 months
As at 31 st December 2005	14 th March 2008	1 st September 2008	6 months
As at 31 st December 2006	4 th July 2008	19 th December 2008	5 months
As at 31 st December 2007	4 th July 2008	19 th December 2008	5 months
As at December 31 st 2008	June 2009	?	

Dimension (iii) The reports of the Auditor General include recommendations to address issues raised in the report. As shown in the table below, in the past, action or response to the outstanding queries has been poor. Audit reports do contain management responses to some of the queries, but there is not evidence of systematic follow up by all concerned parties, and the Auditor General had noted his concern that his recommendations were not always adopted.

Table 7 List of outstanding audit queries			
Year	No' of audit queries	Answered queries	Unanswered queries
2003	22	0	22
2004	32	0	32
2005	20	1	19
2006	109	0	109
2007	1	0	1

However, this year, action is being taken by the accounts section of MFED to address some of the outstanding queries shown above (see PI 22), although this is not yet reflected in the published audit reports.

Dimension	Score	Justification and cardinal data
(i) Scope/nature of audit performed	C	C+
(ii) Timeliness of audit reports to legislature	B	
(iii) Evidence of follow up on audit recommendations	C↑	

Audit focus is currently on the financial statements, audit of individual entities takes place on a rolling basis and systems and value for money audits are not carried out. Improvements to KNAO's independence await draft legislation. Approx 50% of expenditure is audited annually and therefore a C is assigned.

The last three audit reports for the FYs 2004, 2005, and combined report for 2006 and 2007 show improved timeliness and reports on financial statements are now available within 8 months of their receipt.
Source: KNAO reports – FY 2004, 2005, 2006+2007

Historically, the response to audit queries has been poor, but there is evidence that more follow up on queries is now being made, although not in a systematic manner. A C with an upwards arrow has therefore been assigned to indicate improvement.

Ongoing activities

Support to the KNAO is being provided by Australia through funding of technical assistance and through the sub regional audit support program funded by the ADB.

PI-27 Legislative scrutiny of the annual budget law

Assessment 2009

Legislative scrutiny of the annual budget law is an important element of its oversight responsibilities. The indicator is assessed based on: i) scope of the legislature's scrutiny; ii) extent to which procedures are well established; iii) adequacy of the time provided for scrutiny; iv) rules for in year amendments without ex ante approval.

Dimension (i) The legislature's review of the estimates covers details of revenue and estimates but only at the end of the budget process. Discretionary recurrent expenditure is appropriated, development fund and statutory expenditure is for information purposes.

Dimension (ii) According to parliamentary rules and procedures, following the first reading of the appropriation bill, two days must elapse before further debate. As with other bills, appropriation bills (and supplementary appropriation bills) are referred to a Committee of the whole Parliament, but without a vote. Amendments to increase expenditure may be moved only by ministers. Appropriation bills or supplementary appropriation bills, as amended, are then put to the vote in the Parliament.

Dimension (iii) The Budget is presented to Parliament at the start of the November/December parliamentary session. Overall time allocated is two to three weeks.

Dimension (iv) As noted in PI 16, there are clear rules for financial virements between programs, whereby approval is required from the Minister of Finance. These rules do allow extensive administrative reallocations, although there is no evidence that this takes place. In certain circumstances, the Minister of Finance can allow the advance payment up to the value of \$1,000,000 (an expansion of total expenditure) without the prior approval of Parliament. In addition, statutory expenditure can be expanded and does not require prior approval by Parliament. As noted in section 3.8, there are no clear rules with respect to additional drawdowns from the RERF, which currently does not require legislative approval.

Dimension	Score	Justification and cardinal data
(i) Scope of the legislature's scrutiny	C	<p>The legislature's review is at a late stage and only includes revenue and expenditure estimates</p> <p>Procedures are laid down in the Parliament's rules and procedures, are well established and followed. They do not include specialised committees or negotiation procedures and therefore a C has been assigned</p> <p>The time allowed for the legislature's review is less than one month from the time they receive the budget documents.</p> <p>Clear rules exist (except for draw downs from the RERF) for discretionary expenditure, however, they allow expansion and administrative re-allocation. Additional statutory expenditure can occur without legislative approval, thus leading to an increase in total expenditure.</p>
(ii) Extent to which the legislature's procedure are well established and respected	C	
(iii) Adequacy of time for the legislature to provide a response to budget proposals and, where applicable, on macro-fiscal aggregates earlier in the budget preparation cycle.	D	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	

PI-28 Legislative scrutiny of external audit reports

Assessment 2009

The legislature has a key role in scrutinising the execution of the budget. This indicator therefore assesses: i) timeliness of examination of audit reports; ii) extent of hearings; iii) issuance of recommendations.

Dimension (i) In the last three years, the PAC has received the audited financial statements for central government for the years, 2004, 2005 and 2006/7. The PAC conduct their reviews in a timely basis and normally report back to the next session of parliament. Given that there are only three parliamentary sessions a year, this means that the report is normally issued within six months of its receipt.

Dimension (ii) The PAC conduct hearings with responsible officers from all entities. Assistance is provided by the KNAO. In some cases, earlier reports have commented on the fact that the committee itself has conducted investigations. The Committees have received training with the assistance of the UNDP; however, it is understood that the Committee may not have sufficient technical support to carry out in depth hearings.

Dimension (iii) As illustrated above, the response to audit queries and PAC recommendations was particularly poor; however since 2007, according to the PAC committee there has been a steady improvement.

Dimension	Score	Justification and cardinal data
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	B	B In the last three years, the PAC reports have been produced within 6 months of the receipt of the audit report. Hearings take place with all entities, however these may not be as technically detailed (in depth) as required and therefore a B score has been issued. The PAC issues reports containing recommendations, the PAC and the speaker are monitoring the follow up of recommendations. Since the start of the new parliament, the PAC report that 50% of their recommendations are being followed up.
(ii) Extent of hearings on key findings undertaken by legislature	B	
(iii) Issuance of recommended actions by legislature and implementation by the executive	B	

3.7 Donor practices

The indicators in this group assess the extent to which donor practices impact the performance of country PFM systems. In the period under review external donors have funded all development expenditure.

D-1 Predictability of Direct Budget Support

Currently no donor provides direct budget support and therefore this indicator is not assessed.

Dimension	Score	Justification and cardinal data
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	N/A	No donor provides budget support.
(ii) In-year timeliness of donor disbursements (compliance with	N/A	No donor provides budget support.

aggregate quarterly estimates)		
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D-2 Financial information provided by donors for budgeting and reporting on project and program aid

Assessment 2009

Dimension (i) The major donors include Australia, New Zealand, Japan, Taiwan, ADB, European Union, US, UN agencies including UNICEF, UNDP, and UNFPA and the World Bank. Other active donors include World Health Organisation, Canada, Cuba, South Pacific Regional Environment Programme (SPREP), Secretariat to the South Pacific Community (SPC), IMF and FFA. The majority of their assistance is in the form of project/programme assistance, although Japan provides non-project grant aid in the form of diesel fuel to Kiribati Oil Import Limited. A few donors including multilateral agencies, as well as NGOs, charitable organisations and volunteer agencies respond to ad hoc requests from line ministries. Kiribati is also the recipient of funds from a number of global e.g. global health and regional funds, which tend to fall outside the project appraisal process and development fund processes.

The full extent of donor support to Kiribati is not clear. The accuracy of the information maintained in the Development Funds is known to be unreliable, and is currently being reviewed. Projects are included with no funding/no approval. Other projects appear to be old, as there is no budget or expenditure.

There is no structured process whereby MFED request information from donors on their estimates, although AusAID provides overall budget and specific program information to MFED when requested. They also regularly provide forward programming budget information to line ministries e.g. Education when developing multi-year programs. The three UN³³ agencies have a more structured process, whereby their intended support is indicated at a roundtable session. NZAID and EC can provide information for projected disbursements on project aid (Development Fund) for GoK's estimates, albeit using their own classifications. Although, the projected disbursements in the EC's records do not match those in the government's budget.

Dimension (ii) Information can be provided to MFED by the EU (through its National Authorising Office (NAO)), although it does not appear to be done as no figures have been included in the government accounts. With the exception of Australia and the three UN agencies (³⁴) most other donors do not provide government with complete information on their disbursements.

Dimension	Score	Justification and cardinal data
(i) Completeness and timeliness of budget estimates by donors for project support.	D	D Not all major donors provide complete budget estimates for disbursement of project aid for the government's fiscal year. Donors do not provide quarterly reports on actual disbursements for at least 50% of the externally financed project estimates.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D	

³³ UNICEF, UNDP and UNFPA

³⁴ The team are awaiting more detailed information from the UN

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

Assessment 2009

This indicator analyses to what extent the principles of the Paris Declaration have resulted in some harmonisation and alignment of externally funded projects to the use of the national procedures (procurement, payment, auditing and reporting). The indicator is assessed on the proportion of aid funds to central government that are managed through national procedures.

The following analysis makes an attempt at determining the extent to which donors use government procedures. The budget for the Australian Government's aid programme and NZAID budget is from their figures. All other figures are from GoK's budget for 2009. Calculation of use of donor procedures is taken from the annual accounts for 2008. All EC funds are administered through the National Authorising Office (NAO) in MoFED, with individual projects/programmes following the relevant EC procedures for procurement, disbursement, reporting. Audits are carried out by an independent external auditor.

Table 8 Donor use of Government Procedures								
Procedures	Aus	NZ	EU	Taiwan	Japan	WB	UN	ADB
Latest Budget (A\$ million)	15	7 (NZ\$)	9	11++	2++	3.6	7.1	
Budget (dev fund)	Yes	Yes	Yes	Part	Ltd	Yes	Yes	No
Banking	10%	8%	No	Part	Ltd	No	Part	No
Accounting	10%	8%	No	Part	Ltd	15%	Part	No
Procurement	10%	8%	No	Part	Ltd	No	Part	No
Reporting	10%	8%	No	Part	Ltd	No	Part	No
Audit	10%	8%	No	Part	Ltd	No	Part	No

Although calculations are very approximate, it can be seen that less than 50% of donor funds use government procedures.

Dimension	Score	Justification
(i) Overall proportion of aid funds to central government that are managed through national procedures.	D	Less than 50% of funds use national procedures.

3.8 Specific Country Issues

Revenue Equalisation Reserve Fund

One of the first registered Sovereign Wealth Funds (SWFs), the Revenue Equalisation Reserve Fund (RERF) of Kiribati was established in 1956 during the United Kingdom's colonial administration of the Gilbert (now Kiribati) and Ellice Islands (now Tuvalu). The RERF was capitalized using tax revenue from phosphate mining. It was established in anticipation of phosphate exhaustion and to help balance the government's future recurrent budget. The Government of Kiribati acts as both the trustee and beneficiary and, therefore, has sole authority over investment, distribution, and utilization of RERF resources.

The RERF is a special fund, established through the Public Finance (Control and Audit) Act, and its governing policies are proposed by the Minister of Finance and approved by the parliament. The RERF Investment Committee has oversight and management responsibility for the fund, and sets

overall policies and guidelines. Fund Managers are currently HSBC and Nikko Investments and the fund custodian is State Street.

A change to the RERF rules on committee membership was approved during the April/May 2009 session of the Maneaba ni Maungatabu. The current members of the Committee include: (a) the Minister of Finance, Chairman; (b) the Attorney General or his nominee; (c) the Secretary to the Cabinet; (d) the Secretary for Finance; (e) the Accountant General; and (f) the Director of National Economic Planning Office. The Minister may also appoint up to three other members. These appointees are required to have: i) experience with the Fund, or ii) management of other similar investments, or iii) financial skills and knowledge deemed relevant to the Fund. Currently there are two external members, both retired former finance employees, one of whom is working for the Commonwealth Secretariat Office in London. This change has gone some way to improve governance arrangements, reduce concerns that decision-making authority rested with too few people and that additional oversight and advice was needed, as well as greater transparency and public disclosure.

During the Reserve Fund's formative years, the Kiribati Government followed a conservative capital accumulation and reinvestment policy that allowed the fund to grow from its original A\$556,000 in 1956 to \$69 million by 1979. From 1973 to 1979 alone, \$33 million was paid into the fund. In subsequent years, this conservative approach continued, but as noted earlier there has been an increase in drawdowns from the RERF since 2001.

Although there is a general policy of maintaining the real per capita value of the fund³⁵, so that it does not fall below the 1996 level of \$4,500, there are no specific rules on its use. With the large drawdowns in recent years, and the global decline in asset values, the RERF has dropped to around A\$4,200 in real per capita (1996 A\$) terms, which is more than 40 percent below its peak in 2000 and below the previously cited informal target. This has raised concerns about its long-term sustainable use, particularly given its recent decline in value due to the global financial crisis.

Indeed according to the IMF³⁶, the future outlook for the fund has worsened. Although, the asset mix of the fund is not a primary reason for the decline of the fund (the fund still averaged a 4.5 % return during 2004–08). If past trends of draw downs persist, even under a relatively optimistic assumption of 6 % nominal returns, the Fund is projected to be depleted in 2030— five years earlier than the projection as of 2007 Article IV consultation. They project that to maintain the per capita value of RERF (in 1996 A\$), a substantial fiscal effort will be required, as non-stochastic simulations indicate that with 6 % returns, fiscal deficits need to be reduced to around 6 % of GDP, implying an adjustment of around 6 % of GDP from the expected 2009 deficit.

Table 9 Recent valuations of the RERF						
	2004	2005	2006	2007	2008	2009 proj
Closing balance A\$ million	589	647	660	637	562	577
Closing balance US\$ million	459	475	522	562	389	391
Draw downs A\$ million	25	15	33.5	45	25	26.3
Per Capita Value (in 1996 \$A)	5,379	5,618	5,447	5,052	4,173	4,059

Source: IMF 2009 Article IV consultation + budget documentation/financial statements

³⁵ The Australian Consumer Price Index is used to determine the fund's real value.

³⁶ Article IV consultation report 2009

In order to address the issue of the sustainable management of the Fund, Australia has committed to provide the MFED with assistance in reviewing the management of the RERF and developing a policy for its sustainable use. As part of this consultancy, a review of the Kiribati Provident Fund (KPF) will also be carried out, as currently liabilities are greater than assets.

4 Government (PFM) reform process

4.1 Description of recent and on-going reforms

PFM reform and related programmes

In the KDP, there are two KPAs that link with PFM reform, KPA 2 on economic growth and poverty reduction and KPA 6 on governance. In KPA 2, a number of strategies are described to address the need to improve government's fiscal position. These include: (i) demonstrate commitment to fiscal prudence and refrain from unnecessary over spending ; (ii) safeguarding existing revenue sources and develop new revenue sources, including expanding the tax base; (iii) improve capacity of Tax and Customs Service in the collection of revenue; (iv) improve capacity of Tax Office to increase collection of taxes on production; (v) strengthen PFM through long-term budget strategies including multi-year budgets; (vi) improve capacity of MFED to monitor and ensure value of RERF is not eroded.

Strategies for addressing the governance issues include: (i) strengthening capacity of the KNAO; (ii) encourage and enforce timely submission of public annual accounts; (iii) review, update and develop regulations/legislation and strengthen enforcement mechanism at all levels; and (iv) promote awareness, education and understanding of legislation and regulations.

There are a number of ongoing projects in support of these (and other) reform strategies. The Australian Government's Aid Programme is funding technical assistance support to the customs division and to KNAO. Assistance to the tax division ended in April 2009. ADB is providing capacity development support through its Sub-Regional Audit Support (SAS) Program, which is intended to improve transparency and accountability in managing and using public resources in the participating countries. The SAS Program will be part of the overall Pacific Regional Audit Initiative (PRAI) which will assist Kiribati, Nauru, and Tuvalu and is supported by ADB, Australian Agency for International Development, and Pacific Islands Forum Secretariat. This program started in 2009 and will see the audit offices of the three countries working jointly to conduct public sector audits to quality standards in a timely manner.

ADB support of the Technical Assistance to Kiribati Economic Management and Public Sector Reform is just commencing (July 2009). Broadly designed to help Kiribati move to the use of a medium-term fiscal framework (MTFF) over a number of years, while bedding down necessary supportive financial improvements, as well as progressing public enterprise reform; the TA inception report notes other areas requiring assistance including improvement of financial accounts.

UNDP has also offered support for improvement of aid co-ordination, but this is on hold awaiting the development of the co-ordinated approach to PFM reform described below. In addition, assistance has recently been provided by PFTAC to the tax division to determine the cost of further modernisation of its administration and changes in tax policy.

Under the Australia-Kiribati Partnership for Development Outcome 3: Improved Growth and Economic Management, Australia is in the process of developing a harmonised program of assistance, in close consultation with other donors in the sector such as ADB, to strengthen economic management. This support will be for mutually agreed Government of Kiribati led economic reforms, which specifically aim to: improve public financial management; increase Government of Kiribati

revenue; reduce the cost of public enterprises and improve service delivery; and increase the size and participation of the private sector.

4.2 Institutional factors supporting reform planning and implementation

Government leadership and ownership

In recent years, donors have provided significant assistance to PFM reforms. Some of these reforms have proved unsustainable or politically not feasible. The current government intentions to address financial management weaknesses are clearly spelled out in the President's 2007 Speech and also in the Kiribati Development Strategy 2008—2011. The Minister of Finance and senior MFED management, as well as staff of the ministry, are supportive of budgeting improvements and review of the state-owned enterprise. However, currently reforms are project based and the government has not developed an overall long-term strategy or plan for PFM. Reformers (and potential reformers) in government face a number of challenges. The recent inception report for the economic management and public sector reform project clearly shows that based on past experience, there are a number of risks to PFM reforms including insufficient political support for the imposition of fiscal discipline, public opposition, legislative delays, public service inertia and staffing constraints. Consequently, the development of new reforms are taking a more considered approach, aimed at improving the work environment and technical capacity, and building long-term sustainable rather than state of the art systems.

Annex A Summary Table of Performance Indicators

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
A.	PFM-OUT-TURNS: Credibility of the budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	For the period 2006 – 2008, variance at an aggregate level is 1.2%, 0.6% and 9.6% (does not exceed 5% in more than one year.) and therefore on this basis justifies an A score. <i>Source: Annual Accounts and Budgets for 2006 - 2008</i>
PI-2	Composition of expenditure out-turn compared to original approved budget	B	The disaggregated variance for 2006 – 2008 = 5.4%, 4.9% and 2.4%. This means that the ministerial variances are greater than overall variance by more than 5% in only one year. <i>Source: Annual Accounts and Budgets for 2006 – 008</i>
PI-3	Aggregate revenue out-turn compared to original approved budget	D	In two or more years actual revenue was less than 92% of forecast revenue. <i>Source: Annual Accounts and Budgets for 2006 – 2008</i>
PI-4	Stock and monitoring of expenditure payment arrears	N/R	There is no data on the stock of expenditure payment arrears. Data for monitoring the stock of expenditure payment arrears is not generated either on a regular or ad hoc basis. <i>Source: Annual accounts, estimates, interviews: accounts section, line ministries</i>
B.	KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	D	The budget formulation and execution is based on administrative, program and economic classification, but without revision/analysis/re-submission cannot produce consistent documentation according to GFS/COFOG standards. <i>Source: Annual Accounts and Budgets for 2006 - 2008</i>
PI-6	Comprehensiveness of information included in budget documentation	C	Three of the listed elements are clearly shown in the budget documentation; however although prior year outturns and current year revised budgets are shown at various summary levels, this is not the case for the individual ministry budgets broken down by program/division and it is understood that appropriations take place at this level. <i>Source: Budgets and budget speeches for 2007 - 2009</i>
PI-7	Extent of unreported government operations	D+	Combining transactions on the import levy and dai Nippon causeway funds means that approximately A\$2.2 million is underreported. Assuming total (funded) expenditure of 140 million, this equates to approximately 1.5%. There are no loan financed projects and the information maintained on cash received is deficient due to funds being held outside the development fund, problems with acquittals of development fund money and the use of the dev fund as a transit account <i>Source: Annual accounts, budgets, interviews MFED, donors, line ministries</i>
PI-8	Transparency of inter-governmental fiscal relations	B	Recurrent grants are based on population for island councils, urban councils receive no additional support. Development Project assistance follows a set of rules, although there is more discretion involved. As most support is for recurrent costs, the dimension has been assessed as an A. Information on recurrent funding levels is based on previous budgets (which has remained unchanged) and therefore is known to the councils. As they share the same financial calendar changes may not be received before the start of their detailed budgeting process, development funding is not so predictable and therefore a B score has been assigned. The statistics section produce an annual report on general government expenditure (in 2009 this included data to 2007), but it is not done according to sectoral categories and it is acknowledged that this may be incomplete, a D score has therefore

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			been assigned. <i>Source : Interviews MISA, Development grant rules Statistical tables 8 and 9</i>
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D	Monitoring of PEs is constrained by the lack of up to date, unqualified financial statements, their reluctance to provide information to MFED. Central government receives reports from island councils (not urban councils), but these do not show the fiscal position of the councils (e.g. extent of unpaid liabilities). <i>Source: TA report, KNAO reports, Interviews MFED, MISA</i>
PI-10	Public access to key fiscal information	C	Only one of the key fiscal reports is readily available. Other reports can be made available e.g. estimates and financial statements but this is not widely known. <i>Source: Workshop (incl civil society), KNAO website</i>
C.	BUDGET CYCLE		
C(i)	Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	C+	A budget calendar exists and is generally adhered to, the time for ministries to complete their submissions in 2010 was less than 4 weeks and larger ministries generally believed the time (after the receipt of budget ceilings) to be too limited for meaningful discussion. A C score is therefore assigned. The main budget circular contains ceilings, which have been approved in principle by Cabinet for individual ministries. Guidelines for the preparation of the budget are however quite limited and some ministries view it as an academic exercise, reflecting perhaps the need for greater guidance on budget preparation and prioritisation of activities. A B or higher score require that a comprehensive and clear budget circular is required, therefore although the Cabinet approves the ceiling a C score has been assigned. The budget was approved as follows 2007 – January 2007; 2008 - 20/12/07; 2009 – 9/12/2008. <i>Source: Budget circulars, budget calendar, approved estimates+ interviews NEPO, line ministries.</i>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	No forward estimates of fiscal aggregates are prepared. Kiribati has not had agreed any new loans since 2000, and the IMF has not carried out debt sustainability analysis. The dimension is therefore considered to be N/A. Costed sector strategies exist e.g. education, health and for ministries e.g. MISA. The tourism sector has also an uncosted strategy. However, given the lack of aggregate fiscal forecasts, they are not consistent with any overall medium term government perspective. Recurrent and development fund budgeting are separate processes. Although recurrent cost implications are considered in the project appraisal process, the link with the recurrent budget is limited, as shown by the fact that despite significant increases in infrastructure only A\$500,000 is assigned to maintenance. <i>Source: Budget 2006 – 2008, MOPs, interviews NEPO, line ministries, KDP, MISA strategy, IMF report</i>
C(ii)	Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	B	Changes to the Income Tax Act have recently limited discretionary powers and the Customs Tax Act is clear on how goods are to be valued for import duty purposes. However as there are no supporting regulations yet, this indicator has been assessed as a B. A recent tax education programme took place for the introduction of the PAYE final; however access to user friendly, comprehensive information is limited and difficult because of distances/poor communication. For both customs and income tax, there is a set of procedures for appeals against assessments. These include in the first instance, the head of the division and then the Inland Revenue Board. As the Board is involved in a number of management/policy decisions and the tribunal is not operational, the level of independence from the tax/customs divisions is rather limited and therefore a B has been assigned.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			<i>Source: Tax legislation, Interviews private sector, tax and customs divisions.</i>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	There is no single TIN and some restrictions on the sharing of information between tax and customs divisions. Information maintained by other registration functions is very poor. Given the small size of the island/ community, new businesses are identified on an ad hoc basis. A C score has therefore been assigned. Penalties exist in most areas and have been applied more consistently in recent years, but according to the management the level is insufficient to act as a deterrent for import duty related offences. A programme of audits is operational and one based on an assessment of risk is in the process of being introduced in customs and income tax, but it is not yet fully operational and therefore a C has been assigned. <i>Source: Tax legislation and interviews with private sector and tax and customs divisions</i>
PI-15	Effectiveness in collection of tax payments	D+	The collection ratio for gross tax arrears was not available. All revenue is deposited in treasury-managed accounts. Revenue should be deposited on a daily basis. Complete reconciliation between data held by the accounts section and the tax and customs divisions is currently not done on a regular basis. <i>Source: Interviews accounts, tax and customs divisions</i>
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	A cash flow is prepared but only updated on an ad hoc basis. For recurrent expenditure, the MDAs have a twelve month horizon, for development, their horizon is only restricted by the government's ability to acquit funds in a timely manner. Re-allocations between ministries have not taken place, for movements between programs, accounting officers request the Minister of Finance's approval. <i>Source: Interviews Accounts, line ministries+ legislation</i>
PI-17	Recording and management of cash balances, debt and guarantees	D+	Although there is only a limited amount of debt, records are not reconciled frequently and accurate information on guaranteed loans /overdrafts is not available. Cash balances are calculated daily but not consolidated. Central government's contracting of loans and issuance of loan guarantees are done by the Minister of Finance with approval from Cabinet, but they are not done against clear guidelines, criteria or overall ceilings. <i>Source Interviews Accounts, Budget, line ministries, KNAO reports, daily cash forecast, annual accounts, budgets</i>
PI-18	Effectiveness of payroll controls	D+	There is no regular reconciliation between the payroll, personnel records and nominal roll. There is some delay in payment of new teachers but these are generally for less than 3 months. Although improvements have occurred and most overpayments relate to pre 2001, the problem still continues for retirees. Some of these delays can be for longer than 3 months but are relatively small in value terms. A B has therefore been assigned. Controls exist but are not adequate to ensure full integrity of data. No payroll audit has been carried out. <i>Source Interviews Accounts, line ministries, KNAO reports</i>
PI-19	Competition, value for money and controls in procurement	D+	There is no monitoring on the use of open competition or requirement in the law for the production of the data. Preferred use of open competition is not clear from the legislation and no analysis of actual practices is produced. A process is set out in the legislation for the review of complaints by either the Minister of Finance or the chief procurement officer of the procuring entity. However, procurement regulations are not in place and the private sector question its effectiveness, a C score has therefore been assigned. <i>Source Procurement Act, interviews line ministries and MFED and private sector.</i>
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	The effectiveness of expenditure commitment control procedures varies between ministries, ministry and MFED balances are not reconciled and use of Attache system for submission of commitments are not understood by ministries. Internal controls and procedures need updating to reflect current business practices, procurement regulations are not in place and user manuals are not available. Recent audit reports note a number of areas of

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			concern including missing payment vouchers, mispostings. <i>Source: Regulations, Legislation, KNAO reports</i>
PI-21	Effectiveness of internal audit	D+	Internal audit focuses on transaction testing and stock verification, has no internal audit charter or follow international internal auditing standards. Reports are prepared for each ministry and submitted to the Permanent Secretary, KNAO and the audited entity. Evidence of management response and follow up could not be found. <i>Source Internal audit reports, interview internal audit, KNAO</i>
C(iii)	Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	D	There is a significant backlog for the bank reconciliations for both the No'1 and No' 4 account. Reconciliations for 2009 are being done less frequently than quarterly. <i>Source: Audit Reports 2005 – 2007 + interviews KNAO, Accounts section</i>
PI-23	Availability of information on resources received by service delivery units	D	Drugs dispensed are recorded by the hospital pharmacy and cash recorded in the accounts system, but combined reports are not produced and no special survey has been conducted. Information for schools is also not produced. <i>Source interviews MoH ad MoE</i>
PI-24	Quality and timeliness of in-year budget reports	D+	Monthly management reports are produced which compare actual with budgeted expenditure for programs within ministries but do not record commitments. Reports are produced monthly within one or two weeks of the period end. Data quality is poor due to lack of reconciliation with ministry data, delays in posting of payment vouchers. <i>Source: Management information reports, MOP progress reports, interviews line ministries/accounts section</i>
PI-25	Quality and timeliness of annual financial statements	D+	A consolidated government statement is prepared annually, contains information on expenditure, revenue, some financial assets and some financial liabilities, although it does not contain information on payment arrears. The Auditor General also raises a number of concerns about the accuracy and completeness of the data, and all recent accounts have received a qualified opinion. A C score has therefore been assigned. Timeliness of submission of accounts has improved, over the period from 19months to 6 months. A score of A (within 6 months of year end) has been assigned. No accounting standards are used. <i>Source: annual accounts 2006 – 2008, KNAO reports 2006-2008 and interviews Accounts and KNAO</i>
C(iv)	External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+	Audit focus is currently on the financial statements, audit of individual entities takes place on a rolling basis and systems and value for money audits are not carried out. Improvements to KNAO's independence await draft legislation. Approx 50% of expenditure is audited annually and therefore a C is assigned.. The last three audit reports for the FYs 2004, 2005, and combined report for 2006 and 2007 show improved timeliness and reports on financial statements are now available within 8 months of their receipt. Historically, the response to audit queries has been poor, but there is evidence that more follow up on queries is now being made, although not in a systematic manner. A C with an upwards arrow has therefore been assigned to indicate improvement. <i>Source KNAO interview and reports 2004 – 2007, interviews Accountant General</i>
PI-27	Legislative scrutiny of the annual budget law	D+	The legislature's review is at a late stage and only includes revenue and expenditure estimates. Procedures are laid down in the Parliament's rules and procedures, are well established and followed. They do not include specialised committees or negotiation procedures and therefore a C has been assigned. The time allowed for the legislature's review is less than one month from the time they receive the budget documents. Clear rules exist (except for draw downs from the RERF) for discretionary expenditure, however, they allow expansion and administrative re-

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			allocation. Additional statutory expenditure can occur without legislative approval, thus leading to an increase in total expenditure. <i>Source: Interviews parliament, Public Finance Act, parliamentary rules and procedures</i>
PI-28	Legislative scrutiny of external audit reports	B	In the last three years, the PAC reports have been produced within 6 months of the receipt of the audit report. Hearings take place with all entities, however these may not be as technically detailed (in depth) as required and therefore a B score has been issued. The PAC issues reports containing recommendations, the PAC and the speaker are monitoring the follow up of recommendations. Since the start of the new parliament, the PAC report that 50% of their recommendations are being followed up. <i>Source: PAC members, KNAO, UN report</i>
D.	DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	N/A	No budget support is provided
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	Not all major donors provide complete budget estimates for disbursement of project aid for the government's fiscal year. Donors do not provide quarterly reports on actual disbursements for at least 50% of the externally financed project estimates. <i>Source: Annual Accounts, budgets for 2006-2008 + information/interviews from donors</i>
D-3	Proportion of aid that is managed by use of national procedures	D	Less than 50% of funds use national procedures <i>Source: Annual Accounts, budgets for 2006-2008 + information/interviews from donors</i>

Annex B Terms of Reference

Terms of Reference for an assessment of Public Financial Management In Kiribati based on the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework

A. Background

The Public Expenditure and Financial Accountability (PEFA) Program was founded in December 2001 as a multi-donor partnership. The goals of the PEFA Program are to strengthen partner country and donor abilities to: (i) assess the condition of country public expenditure, procurement and financial accountability systems; and (ii) develop a practical sequence of reform and capacity-building actions.

The PEFA Performance Measurement Framework is a high level analytical instrument which provides an overview of the performance of a country's public financial management (PFM) system. In the Pacific region PEFA assessments have been undertaken to-date in the Fiji Islands, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu.

The Government of Kiribati (GoK) have indicated their interest in undertaking a PEFA assessment. This document sets out the Terms of Reference for an assessment of PFM in Kiribati based on the PEFA Performance Measurement Framework.

B. Objectives of the assessment

The overall aim of the assessment is to produce a comprehensive Public Financial Management – Performance Report (PFM-PR) prepared according to the PEFA methodology which will provide an assessment of the current performance of PFM processes and systems in Kiribati.

The objectives of the assessment are two-fold:

1. Develop the PEFA performance indicators which will provide the baseline data to support the monitoring and evaluation of PFM reforms. The Ministry of Finance and Economic Development (MFED) anticipates the PEFA assessment will be repeated every three years; and
2. Prepare the PFM-PR to support the indicator scores and provide an integrated assessment of the strengths and weaknesses in PFM performance.

There are potential harmonisation benefits from government and development partners using a widely accepted framework, such as PEFA, to assess PFM systems. As well as encouraging a common understanding of the strengths and weaknesses of PFM systems, it may reduce the administrative burden on Kiribati from hosting multiple donor missions.

C. Main actors of the assessment

The Government of Kiribati:

The assessment team will report to the Secretary for Finance. An official nominated by the Secretary for Finance will be a central part of the assessment team (refer *Assessment team's composition* below). Government officials of, and principal technical advisers to, MFED and other relevant Government ministries and agencies will be consulted in this assessment as appropriate. The Auditor-General will also be consulted during the assessment.

The donor community:

The ADB will provide logistical support throughout the duration of the PEFA and will disseminate relevant information, consolidate and coordinate development partner comments on preliminary findings and provide the draft report and the final report to donors.

AusAID and IMF/PFTAC will be consulted during the planning of this assessment (including developing these terms of reference). The ADB will send an official communication to development partners and other stakeholders informing them of the ToR, names of the experts and dates for the field mission phase. This letter should reach the development partners and other stakeholders at least two weeks prior to the field mission phase.

In addition to being involved in field mission consultations, donors will have the opportunity to comment on the draft report, and will receive a copy of the final report.

D. Methodology

The primary reference for the exercise will be the PEFA PFM Performance Measurement Framework. Annex 1 and 2 of the PEFA PFM Performance Measurement Framework will constitute the guidelines for fieldwork and reporting.³⁷ The Performance Measurement Framework aims to support integrated and harmonised approaches to assessment and reform in the field of public expenditure, procurement and financial accountability. Relevant documentation can be found on www.pefa.org.

Available information on public finance and economic reforms in Kiribati will be accessed and analyzed by the Team Leader / Expert prior to the field mission phase, and will form the basis of the background section of the report. Possible sources of relevant information include the Government, ADB, AusAID, NZAID, IMF/PFTAC and other development partners.

An indicative work plan will be presented by the assessment team to the GoK and development partners prior to the start of the field mission phase. The work plan will need to summarise the principal stages of the assessment, include a list of people to be consulted and also outline the information to be collected from stakeholders. The work plan should also include a mid-term review meeting with development partners and key government officials.

³⁷ PEFA, *Public Expenditure and Financial Accountability, Dépenses publiques et responsabilité financière, Public Financial Management, Performance Measurement Framework, June 2005, Reprinted May 2006, PEFA Secretariat, World Bank, Washington DC, USA.*

E. PEFA training and dissemination

The Team Leader / Expert will conduct a one-day preparatory workshop in Kiribati for all stakeholders at the beginning of the field mission phase, including government, development partners, private sector and civil society stakeholders. The core material for the preparation of the workshop can be found on the website of the PEFA Secretariat (www.pefa.org). This workshop will include two types of sessions: one providing a brief overview including general information about PEFA and the assessment; and the other detailing the techniques to be applied and the indicators directed at Government representatives and their advisers.

At the end of the field mission phase, a one-day completion workshop for stakeholders will be held to distribute and discuss the findings contained in an aide-mémoire (refer *Reporting* below), with the aim of achieving agreement on the scores between the assessment team and Government officials. Development partners will be invited to this workshop as observers.

F. Reporting

During the end of field mission phase workshop, the assessment team should provide an aide-mémoire (maximum 10 pages, excluding annexes) to government and lead donors. The aide-mémoire should indicate the main findings and highlight sections to be developed further in the draft report. This aide-mémoire will be complemented by the detailed assessment of the 31 indicators included in the PEFA PFM Performance Measurement Framework.

On completion of the field mission phase, the assessment team will submit a draft report complying with the PEFA PFM Performance Measurement Framework (refer **Annex 2**). This will incorporate comments and feedback received by the assessment team during the final workshop. The draft report will be sent electronically to the Ministry of Finance, participating donors, and the PEFA Secretariat in Washington DC.

Comments from government, development partners and the PEFA Secretariat will be forwarded within one week of receipt of the draft report. The ADB will consolidate the comments from donors.

The Team Leader / Expert will have one week from the receipt of feedback on the draft report to finalize and submit the final report. Comments from government will be attached in full as an annex to the report. The final report will be sent – in hard and electronic copies – to the Ministry of Finance, participating development partners, and the PEFA Secretariat in Washington DC. The Government has agreed to allow the PEFA Secretariat to publish the final report on its website.

All reports should indicate clearly the information sources and documents used for the assessment of indicators, with information being triangulated from different sources whenever possible. Difficulties in the assessment of each indicator and/or suggestions for further investigation should also be mentioned.

G. Oversight Team composition

It is critical that the assessment process is well managed in order to help ensure a high quality product. As recommended by the PEFA Secretariat's *"Good Practices in Applying the PFM Performance Measurement Framework"*, an Oversight Team (OT) will be established to undertake this governance role. The members of the OT will be drawn from the Ministry of Finance, the Auditor General's Office, ADB, AusAID, IMF/PFTAC and the World Bank (as highlighted in the table). The Chair of the OT will be determined following consultations with relevant stakeholders.

Name	Organisation
To be confirmed	Ministry of Finance
To be confirmed	Auditor General's Office
Hayden Everett	ADB
To be confirmed	AusAID
To be confirmed	IMF/ PFTAC
Others to be confirmed	

Members of the OT will meet prior to, as well as attending, the preparatory workshop and the completion workshop (as indicated in section E).

H. Assessment team's composition

The assessment team will comprise three members:

Team leader / Expert: The Team Leader / Expert will be an independent consultant, contracted by ADB. His/her role is to facilitate the work of the team, and provide support as required. S/he should possess at least 10 years experience in public finance and practical experience in developing countries. Good knowledge and experience in small Pacific Island states is highly desirable. Successful completion of a PEFA assessment in a Pacific Island state would be an advantage.

Team member / National consultant: A Kiribati consultant with relevant skills and experience in analysis of public financial information will be engaged to assist the team with field work and help develop the draft report. The local consultant will be contracted by ADB. He/she will have substantial knowledge of the Kiribati Government, and have good writing and communication skills in English.

Team member / Government official: Assisted by technical advice from the team leader / expert, and supported by other members of the assessment team, the government official will be responsible for planning and executing the field work. In particular, the Government official will ensure access to information and documents, and that relevant people are consulted and informed about the assessment. The Government official will have good writing and communication skills in English.

These roles are expected to be full time for the duration of the assessment.

I. Timing of the assessment

The indicative date for the start of the field mission phase in Kiribati is October 2009. Briefing, work plan development and meeting arrangements would occur prior to this date. The overall field mission phase is estimated at 21 calendar days (including the one-day preparatory workshop and the one-day completion workshop), with an additional 21 days for reporting. Refer **Annex 1** for more details.

J. Assessment cost

The assessment will be funded through *TA 6499-REG: Strengthening Governance and Accountability in Pacific Island Countries Phase II*.

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Annex 1: Schedule for the preparation and execution of the PEFA assessment

Tasks	Responsible	Calendar
Validation of the ToR		
Discussion of the ToR	ADB, AusAID, IMF/ PFTAC, Government	June 09
Approval of the ToR	ADB, AusAID, IMF/ PFTAC, Government	July 09
Awareness raising within the Government		
Establish the modalities of Government involvement as well as the list of documentation that the Government has to provide before the start of the field mission phase	ADB, AusAID, IMF/ PFTAC, Government	October 09 (12/10-16/10)
Agreeing the field mission phase timetable		
Dates agreed taking into account other donor missions and the budget calendar of the Government.	ADB, AusAID, IMF/ PFTAC, Government	October 09 (12/10-16/10)
Recruitment of the assessment team		
Recruitment of consultants according to the specific recruitment procedures of each contracting donor. <ul style="list-style-type: none"> - Team leader / Expert (international consultant) - Team member / National consultant - Team member / Government official 	ADB ADB Government	September/ October 09 (Up to 16/10)
PEFA assessment		
Roundtable briefing of Team leader / Expert	Team leader / Expert and ADB, AusAID, IMF/ PFTAC Government	October 09 (26/10-30/10)
Collection of initial documentation	Team leader / Expert	October 09 (19/10-30/10)
Assessment team commences fieldwork	Assessment team	November 09 (03/11)
Preparatory workshop	Assessment team	November 09 (06/11)
End of field work, and preparation of the aide mémoire	Assessment team	November 09 (23/11)
Completion workshop	Assessment team	November 09 (25/11)
Debriefing by Team leader / Expert (in Suva)	Team leader / Expert and ADB, AusAID, IMF/ PFTAC, Government	November 09 (27/11)
Draft report submitted, field work ends	Assessment team	November 09 (30/11)
Comments due back	ADB	December 09 (11/12)
Final report submitted and final debrief	Team leader / Expert and ADB, AusAID, IMF/ PFTAC, Government	December 09 (14/12)

Annex 2: The Public Financial Management – Performance Report (PFM-PA)³⁸

Summary assessment

1. Introduction

2. Country background information

- 2.1. Description of country economic situation
- 2.2. Description of budgetary outcomes
- 2.3. Description of the legal and institutional framework for PFM

3. Assessment of the PFM systems, processes and institutions

- 3.1. Budget credibility
- 3.2. Comprehensiveness and transparency
- 3.3. Policy-based budgeting
- 3.4. Predictability and control in budget execution
- 3.5. Accounting, recording and reporting
- 3.6. External scrutiny and audit
- 3.7 Donor practices
- 3.8. Country specific issues (if necessary)

4. Government reform process

- 4.1. Description of recent and on-going reforms
- 4.2. Institutional factors supporting reform planning and implementation

Annex 1: Performance Indicators Summary

Annex 2: Sources of information

³⁸ PEFA, *Public Expenditure and Financial Accountability, Dépenses publiques et responsabilité financière, Public Financial Management, Performance Measurement Framework, June 2005, Reprinted May 2006, PEFA Secretariat, World Bank, Washington DC, USA* (page 55).

Annex C People consulted/ Workshop attendees

Name	Institution	Position
Ministry of Finance and Economic Development		
Atanteora Beiatou	Administration	Permanent Secretary
Terieta Mwemwenikeaki	Administration	Deputy Secretary
Tiimi Kaitete	National Economic Planning Office	Director
Faitele Mika	National Economic Planning Office	Economist (Investment)
Beraina Teirane	National Economic Planning Office	Sector Economist
Kanong Tatoi	National Economic Planning Office	Senior Economist (Investment)(Acting)
Nuntaake Tokamauea	National Economic Planning Office	Policy Economist
Kurinati Tiroa	National Economic Planning Office	Senior Economist (Aid administration)
Tangitang Kaureata	National Economic Planning Office	Senior Economist (Budget)
Matereta Raiman	Tax	Commissioner of Taxes
Taake Cama	Tax	Senior Inspector of Taxes (Acting)
Rengaua Bauro	Tax	Deputy Accountant (Acting)
Reta Utemare	Tax	Senior Inspector of Taxes
Tekiera Ruaia	Accounts	Accountant General (Acting)
Aberira Taniera	Accounts	Deputy Accountant (Acting)
Teiraoi Nabetari	Accounts	Senior Accountant (Acting)
Uria Nikuata	Accounts	Senior Accountant
Eriati Tauati	Accounts	Senior Accountant
Ted Isopo	Internal Audit	Senior Internal Auditor
Tekena Tiroa	National Statistics Office	Republic Statistician (Acting)
Kitanna Kiritian	National Statistics Office	Statistics Clerk
Tebukabane Tooki	National Statistics Office	Statistics Clerk
Reeti Takaria	National Statistics Office	Assistant Statistician
Tiiri Kauonga	National Statistics Office	Statistics Clerk
Richard Brennan	Customs	Comptroller of Customs
Michael Hyndman	National Economic Planning Office	Public Enterprise Reform Specialist TA
Sector Ministries		
Kevin Rouatu	Public Service Office	Senior Assistant Secretary
Riwata Obetaia	Ministry of Communications, Transport, Tourism Development	Senior Assistant Secretary
Teekoa Ietaake	Ministry of Communication	Permanent Secretary
Ioataake Ioataake	Ministry of Education	Permanent Secretary
Kinaai Kairo	Ministry of Environment, Lands and Agricultural Development	Director (Agriculture)
Corchilli Taireta	Ministry of Environment, Lands and Agricultural Development	Project Officer
Arawaia Moiwa	Ministry of Environment, Lands and Agricultural Development	Project Finance Accountant
Ribanataake Awira	Ministry of Fisheries and Marine Resource Development	Permanent Secretary
Booti Nauan	Ministry of Fisheries and Marine Resource Development	Deputy Secretary (Acting)
Tiantaaki Eti	Ministry of Fisheries and Marine Resource Development	Senior Accountant

Name	Institution	Position
Manikaoti Timeon	Ministry of Line and Phoenix Islands Development	Permanent Secretary
Agnes Yeeting	Ministry of Line and Phoenix Islands Development	Assistant Secretary
Botibara O'Conner	Ministry of Line and Phoenix Islands Development	Senior Accountant
Kabure Temariti	Ministry of Public Works and Utilities	Deputy Secretary
David Lambourne	Attorney General's Office	Solicitor General
Tewia Tawaria	Attorney General's Office	Legal Officer
Rine Ueara	Ministry of Internal and Social Affairs	Senior Local Government Officer
Benateta Betero	Ministry of Internal and Social Affairs	Senior Local Government Officer
Tateti Robuti	Ministry of Health	Senior Accountant
Parliament		
Eni Tekanene	Parliament	Clerk
Kabitite Mwetaake	Public Accounts Committee	Chairman
Terengaiti Awira	Public Accounts Committee	Secretary
Kirata Komwenga	Parliament	Assistant to the Parliament Clerk
National Audit Office		
M. Toromon	National Audit Office	Deputy Auditor General
Eric Flemming	National Audit Office	Adviser
Alex George	Sub Regional Audit support (SAS)	Program Coordinator
Beulah Daunakamakama	Sub Regional Audit support (SAS)	Audit Manager
Government Agencies		
Mataiti Bwebwe	KNOC	Treasurer
Taboia Awira	Public Utilities Board	General Manager
Rameka Rameka	Public Utilities Board	Financial Manager
Donors		
Joanne Craigie	AusAID	First Secretary
Duncan McCulloch	AusAID	Development Programme Specialist
Nautu Taatu	AusAID	Programme Manager (Acting)
Benjamin Ho	Republic of China (Taiwan)	Ambassador
Christina Casella	Delegation of European Commission	
Bernard Blazkiewicz	Delegation of European Commission	Third Secretary
Bureti Williams	Global Fund Health Project	Accountant
Kang Yuenjong	UNICEF	Resident Director
Sonya Campbell	NZAID	Development Programme Manager Kiribati, Nauru & Micronesia
R Keith Leonard	ADB	South Pacific Regional Director
Lai Tora	ADB	Public Financial Management Officer
Emma Ferguson	ADB	Senior Country Specialist
Ashok Sayenju	UN	Coordination Specialist
David Abbott	UNDP	Pacific Regional Macro Economic & Poverty Reduction Advisor
David Smith	UN Pacific Operations Centre	Regional Advisor Development Policy
Matt Davies	PFTAC	IMF/PFTAC Coordinator
Civil society		
Tirobwa Aretana	Church of God	Pastor

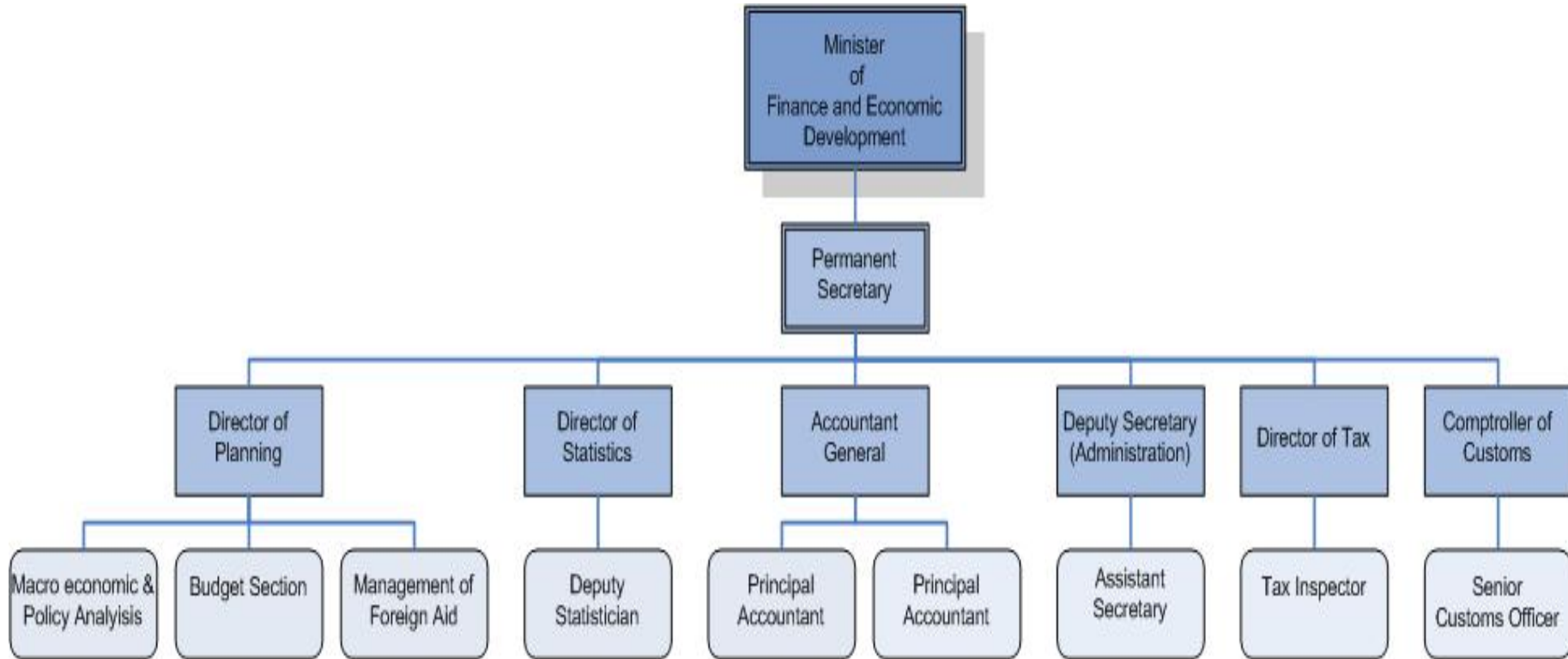
Name	Institution	Position
Katia Kinono	SDA Mission	Representative
Arobati Brechtefeld	LDS-Mormon Church	Administrator
Boorau Koina	Roman Catholic Church	Administrative Manager
Aotai Iererua	Kiribati Red Cross	Account Clerk
Manuel Marenati	COGHS	Representative
Keanimawa	COGHS	Representative
Tewetewe Tekaic	COGHS	Representative
Tearimwi Uering	KPC Antebuka	Account Clerk
Private sector		
Aneta Claire Baiteke	AMAK	President

Annex D List of documents consulted

Title	Author	Date
Laws and regulations		
Financial Regulation (1974 edition)	GoK	06 Dec 1974
Government Stores Regulations	MFED	Jan 1987
Customs Act 2004	GoK	2004
Procurement Act 2002	GoK	2002
Procedure in Committee on Appropriation Bill	Parliament	Unknown
Public Finance (control and audit) Act	GoK	
Financial Statements		
Management Information Report 2006	MFED	Dec 2006
Management Information Report 2007	MFED	Dec 2007
Management Information Report 2008	MFED	Dec2008
Management Information Report (Jan-Oct 2009)	MFED	Oct 2009
Financial Statements 2006	MFED	31 Dec 2006
Financial Statements 2007	MFED	31 Dec 2007
Financial Statements 2008	MFED	31 Dec 2008
Budget formulation and execution documents		
Budget 2006	MFED	2005
Budget 2007	MFED	2006
Budget 2008	MFED	2007
Budget 2009	MFED	2008
National Statistics (1991-2008)	Statistics Office	2009
Budget Speech	MFED	2008
Budget Speech	MFED	2007
Policy documents		
National Development Strategies 2004-2007	MFED	2003
National Development Strategies 2008-2011	MFED	2007
Auditor General's reports		
Status of State Owned Enterprises (SOE) Accounts	National Audit Office	10 Nov 2009
Structure: Kiribati National Audit Office	National Audit Office	2008
Audit Report 2004	National Audit Office	Dec 2007
Audit Report 2005	National Audit Office	01 Sep 2008
Audit Report 2006	National Audit Office	19 Dec 2008
Audit Report 2007	National Audit Office	19 Dec 2008
Internal audit reports		
Board of Survey Stores Report (Police – Betio Island)	Internal Audit Unit (MFED)	14 Oct 2009
Ministry of Public Works Utilities	Internal Audit Unit (MFED)	30 Apr 2009
Donor Documents		
Australian Government Aid Program to Kiribati	AusAID	Nov 2009
Economic Management and Public Sector Reform Report	ADB & GoK	Nov 2009
Statement by the IMF Mission to Kiribati	IMF	04 Mar 2008

Title	Author	Date
Kiribati 2009 Article IV Special Topic Note: Fiscal Aspects of Climate Change	IMF	2009
Kiribati 2009 Article IV consultation: Concluding Statement	IMF	04 Mar 2009
Kiribati 2009 Article IV Special Topic Note: Options for Improving Kiribati's Fishing License Revenues	IMF	2009
Kiribati 2009 Article IV Special Topic Note: Kiribati's Remittances	IMF	2009
Kiribati 2009 Article IV Special Topic Note: Revenue Equalization Reserve Fund	IMF	2009
Pacific Regional Audit Initiative: Sub-regional Audit Support to Public Auditing in Kiribati, Nauru & Tuvalu	ADB	10 Oct 2008
Technical Assistance Report: Pacific Financial Technical Assistance Centre 2005-2008	ADB	Dec 2005
Technical Assistance Completion Report: Preparing the Outer Island Growth Centres Project	ADB	10 July 2008
Republic of Kiribati: Economic Management and Public Sector Reform	ADB	Nov 2008
PFM Reforms: Recommendations of the Way Forward	PFTAC	21 Aug 2006
Annual Program Performance Report for Kiribati 2007-8	AusAID	Nov 2008
New Zealand's Development Assistance in the Pacific	NZAID	Jun2009
Pacific Regional Aid Strategy 2004-2009	AusAID	2004
PFTAC Country Strategy Notes (Updates 2008)	PFTAC	Oct 2008
Estimation of Basic Poverty Needs, Poverty Lines and the incidence and characteristics of poverty in Kiribati (Draft)	UN Pacific Centre + KNS	Sept 2009

Annex E Organisation Chart



Annex F Calculation of variances

Data for year 2006					
Ministry	Budget	Actual	Difference	Absolute	Percent
Support to Beritenti	1,082,653	1,094,607	11,954	11,954	1.1%
Public Service Office + PSC	1,261,341	1,244,255	(17,086)	17,086	1.4%
Judiciary	1,351,074	1,334,989	(16,085)	16,085	1.2%
Police and Prisons	6,634,656	6,693,744	59,088	59,088	0.9%
Foreign Affairs	1,109,378	999,417	(109,961)	109,961	9.9%
Home Affairs + Rural Dev	2,659,024	2,587,722	(71,302)	71,302	2.7%
Environment +Social Dev	2,664,816	2,695,680	30,864	30,864	1.2%
Maneaba ni Maungatabu	1,604,256	1,556,296	(47,960)	47,960	3.0%
Commerce Industry + Trade	1,080,532	1,082,274	1,742	1,742	0.2%
KNAO	585,418	566,657	(18,761)	18,761	3.2%
Attorney General	534,795	413,281	(121,514)	121,514	22.7%
Natural Resources Dev	1,876,982	1,882,929	5,947	5,947	0.3%
Health + family planning	14,762,728	13,251,608	(1,511,120)	1,511,120	10.2%
Education, training +	21,099,921	22,063,994	964,073	964,073	4.6%
Information, Communication +	3,206,611	3,419,972	213,361	213,361	6.7%
Finance + Econ Planning	2,468,568	2,505,567	36,999	36,999	1.5%
Works + Energy	2,825,841	2,750,623	(75,218)	75,218	2.7%
Labour Employment +	2,178,860	2,111,985	(66,875)	66,875	3.1%
LINNIX	2,948,143	2,766,486	(181,657)	181,657	6.2%
Other Gov't Expenses	10,954,163	12,892,283	1,938,120	1,938,120	17.7%
Total expenditure	82,889,760	83,914,369	1,024,609	1,024,609	1.2%
Composition variance	82,889,760	83,914,369		5,499,687	6.6%

Data for year 2007					
Ministry	Budget	Actual	Difference	Absolute	Percent
Support to Beritenti	1,079,294	908,073	(171,221)	171,221	15.9%
Public Service Office + PSC	1,202,561	1,167,725	(34,836)	34,836	2.9%
Judiciary	1,348,818	1,404,256	55,438	55,438	4.1%
Police and Prisons	6,573,155	6,460,198	(112,957)	112,957	1.7%
Foreign Affairs	1,168,158	690,046	(478,112)	478,112	40.9%
Home Affairs + Rural Dev	2,569,990	2,593,860	23,870	23,870	0.9%
Environment +Social Dev	2,664,815	2,502,776	(162,039)	162,039	6.1%
Maneaba ni Maungatabu	1,939,689	1,887,911	(51,778)	51,778	2.7%
Commerce Industry + Trade	1,080,532	1,246,902	166,370	166,370	15.4%
KNAO	585,418	526,014	(59,404)	59,404	10.1%
Attorney General	454,203	400,516	(53,687)	53,687	11.8%
Natural Resources Dev	1,876,982	1,707,115	(169,867)	169,867	9.1%
Health + family planning	13,028,219	14,561,118	1,532,899	1,532,899	11.8%
Education, training +	20,491,650	21,022,616	530,966	530,966	2.6%
Information, Communication +	3,161,893	3,310,944	149,051	149,051	4.7%
Finance + Econ Planning	2,451,968	2,537,079	85,111	85,111	3.5%
Works + Energy	2,727,204	2,671,335	(55,869)	55,869	2.0%
Labour Employment +	2,785,575	2,673,040	(112,535)	112,535	4.0%
LINNIX	2,918,092	2,912,593	(5,499)	5,499	0.2%
Other Gov't Expenses	12,928,163	12,368,352	(559,811)	559,811	4.3%
Total expenditure deviation	83,036,379	83,552,469	516,090	516,090	0.6%
Composition variance	83,036,379	83,552,469		4,571,320	5.5%

Data for year 2008					
Ministry	Budget	Actual	Difference	Absolute	Percent
Support to Beritenti	1,083,617	1,004,894	(78,723)	78,723	7.3%
Public Service Office + PSC	1,267,369	1,268,897	1,528	1,528	0.1%
Judiciary	1,361,346	1,341,353	(19,993)	19,993	1.5%
Police and Prisons	6,627,210	6,602,630	(24,580)	24,580	0.4%
Foreign Affairs	1,104,618	974,586	(130,032)	130,032	11.8%
Home Affairs + Rural Dev	2,729,110	3,094,298	365,188	365,188	13.4%
Environment +Social Dev	2,686,155	2,586,395	(99,760)	99,760	3.7%
Maneaba ni Maungatabu	2,167,219	2,422,084	254,865	254,865	11.8%
Commerce Industry + Trade	1,100,216	1,062,920	(37,296)	37,296	3.4%
KNAO	591,562	563,729	(27,833)	27,833	4.7%
Attorney General	457,710	409,640	(48,070)	48,070	10.5%
Natural Resources Dev	1,890,185	1,763,183	(127,002)	127,002	6.7%
Health + family planning	13,105,936	17,640,681	4,534,745	4,534,745	34.6%
Education, training +	20,533,346	20,641,690	108,344	108,344	0.5%
Information, Communication +	3,176,615	3,370,330	193,715	193,715	6.1%
Finance + Econ Planning	2,473,658	2,562,159	88,501	88,501	3.6%
Works + Energy	2,748,731	2,448,998	(299,733)	299,733	10.9%
Labour Employment +	3,071,093	2,994,140	(76,953)	76,953	2.5%
LINNIX	2,934,273	3,339,406	405,133	405,133	13.8%
Other Gov't Expenses	10,928,163	13,836,278	2,908,115	2,908,115	26.6%
Total expenditure deviation	82,038,132	89,928,291	7,890,159	7,890,159	9.6%
Composition variance	82,038,132	89,928,291		9,830,109	12.0%

Annex G Status of Audit

Audit Status of Key State Owned Enterprises		
State Owned Enterprise	Financial Year Statements	Status
Otintaa Hotel	2007	Tabled in August 2009
Otintaa Hotel	2006, 2008	Overdue accounts
Central Pacific Producer	2007-08	Tabled in August 2009
Television Kiribati Limited	2007-08	Tabled in August 2009
Telecom Authority of Kiribati	2008	Tabled in August 2009
Kiribati Copra Mill	2008	Tabled in August 2009
Development Bank of Kiribati	2005-06	Tabled in August 2009
Development Bank of Kiribati	2007	Currently in progress
Development Bank of Kiribati	2008	Overdue accounts
Kiribati Copra Society	2005-08	Tabled in August 2009
Kiribati Oil Company Limited	2007-08	Tabled in August 2009
Kiribati Provident Fund	2004-05	Tabled in August 2009
Kiribati Provident Fund	2006-07	Currently in progress
Kiribati Supplies Company Limited	2007	Tabled in August 2009
Kiribati Supplies Company Limited	2008	Currently in progress
Captain Cook Hotel	2008	To be tabled in November 2009
Betio Shipyard Limited	2007-08	To be tabled in November 2009
Kiribati Shipping Services Limited	2003-07	To be tabled in November 2009
Kiribati Shipping Services Limited	2008	Overdue accounts
Solar Energy Company	2008	To be tabled in November 2009
Public Vehicle Unit	2006-08	To be tabled in November 2009
Kiribati Housing Corporation	2006	To be tabled in November 2009
Kiribati Housing Corporation	2007-08	Overdue accounts
Kiribati Insurance Corporation	2002-05	To be tabled in November 2009
Kiribati Insurance Corporation	2006-08	Currently in progress
Telecom Services Kiribati Limited	2007-08	To be tabled in November 2009
Kiribati Handicraft & Local Produce	2002-08	Currently in progress
Kiribati Port Authority	2008	Overdue accounts
Public Utilities Board	2006-07	Currently in progress
Public Utilities Board	2008	Overdue accounts
Air Kiribati Limited	2006-09	Overdue accounts
Atoll Seaweed Corporation	2006	Returned for resubmission
Atoll Seaweed Corporation	2007/08	Overdue accounts
Bobotin Kiribati Limited	2008	Overdue accounts
Broadcasting Publication Authority	2006-08	Overdue accounts