Republic of Vanuatu

Public Financial Management Performance Measurement Report

Final Report

Client: Government of Vanuatu

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Abbreviations and Acronyms

ADB	Asian Development Bank
AFD	Agence Française de Développement
AG	Auditor General
AGA	Autonomous Government Agencies
AusAID	The Australian Agency for International Development
BOP	Balance of Payments
BPS	Budget Policy Statement
CIRD	Customs and Inland Revenue Department
COFOG	Classification of Functions of Government
COM	Council of Ministers
CRP	Comprehensive Reform Programme
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DCO	Development Committee of Officials
DG	Director General
DOFT	Department of Finance and Treasury
DSA	Debt Sustainability Analysis
DSPPAC	Department of Strategic Policy, Planning and Aid Co-ordination
EC	European Union
EMIS	Education Management Information System
FED	Foreign Exchange Differences
FF	Fiscal Framework
FMIS	Financial Management Information System
FSR	Fiscal Strategy Report
FSF	Fiscal Strategy Framework
FY	Financial Year
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GIP	Government Investment Programme
GoV	Government of the Republic of Vanuatu
GRT	Government Remuneration Tribunal
JICA	Japan International Cooperation Agency
HDI	Human Development Index
HRMIS	Human Resource Management Information System
IAU	Internal Audit Unit
IFAC	International Federation of Accountants

IFP	Integrated Framework Project
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IFP	Integrated Framework Project
IT	Informational Technology
LPO	Local Purchase Order
MBC	Ministerial Budget Committee
MCA	Millennium Challenge Account
MoE	Ministry of Education
MFEM	Ministry of Finance and Economic Management
MTEF	Medium Term Expenditure Framework
MYOB	Mind Your Own Business (an entry-level accounting software package)
NAO	National Audit Office
NSO	National Statistics Office
NZAID	New Zealand's International Aid and Development Agency
PAA	Priorities and Action Agenda
PAC	Public Accounts Committee
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PFEMA	Public Finance and Economic Management Act
PFM PMF	Public Finance Management Performance Management Framework
PFM PR	Public Financial Management Performance Report
PI	Performance Indicator
RBV	Reserve Bank of Vanuatu
SAI	Supreme Audit Institution
SE	State Enterprise
SERP	Support to Economic Reform Program
SN	Sub-National
SPSAI	South Pacific Supreme Audit Institutions
SWAP	Sector Wide Approach to Planning
TA	Technical Assistance
TIN	Tax Identification Number
UN	United Nations
UNICEF	United Nations Children's Fund
VAT	Value Added Tax
Vatu	Vt
VBMS	Vanuatu Budget Management System

VERM	Vanuatu Education Roadmap (VERM)
VNPF	Vanuatu National Provident Fund
WHO	World Health Organisation

Financial Year in Vanuatu = January to December

Currency = Vatu (Vt)

Exchange rate[1] = US$1 = Vt 91.37; AUD1 = Vt 95.5; Euro 1 = Vt 118.73

[1] Exchange rate – www.ec.europa.eu/budget/infoeuro/index December 2012

Executive Summary

Introduction

This assessment of Public Financial Management (PFM) in Vanuatu uses the PFM Performance Measurement Framework (PMF). The fieldwork took place in November and December 2012 and assessment covers the period 2009 to 2011, including the preparation of the 2012 budget. Several reforms are on-going e.g. tax administration, procurement and capacity support to the Office of the Auditor General, or have only just implemented e.g. revisions to the Public Finance and Economic Management (PFEM) Act. Consequently their full impact cannot be assessed as part of this review. As for the 2009 assessment, this review is based on a wide range of documentation, and reports and interviews with key stakeholders. The exercise in Vanuatu has been led by the Government of Vanuatu (GoV) who originated the concept note, terms of reference and have created a working and oversight group. The overall results of the analysis are set out in Table 1 below. A summary of the findings including explanation and data used is provided at Annex A.

Table 1 Summary of overall results

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating 2012	2009[2]
A. PFM-OUT-TURNS: Credibility of the budget								
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				A	B
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A	A			A	-
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	C				C	-
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	A			A	A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency								
PI-5	Classification of the budget	M1	B				B	B
PI-6	Comprehensiveness of information included in budget documentation	M1	B				B	B
PI-7	Extent of unreported government operations	M1	A	B			B+	C+
PI-8	Transparency of inter-governmental fiscal relations	M2	A	B	D		B	B
PI-	Oversight of aggregate fiscal risk from other public	M1	D↑	D			D↑	D

[2] No comparative scores are provided for PI 2, 3 and 19 as the methodology for their assessment has changed.

Table 1 Summary of overall results								
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating 2012	2009[2]
9	sector entities							
PI-10	Public access to key fiscal information	M1	C				C	C
C. BUDGET CYCLE								
C(i) Policy-Based Budgeting								
PI-11	Orderliness and participation in the annual budget process	M2	B	A	A		A	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	B	C	C	C+	C+
C(ii) Predictability and Control in Budget Execution								
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	B	C		B	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	B		B	B
PI-15	Effectiveness in collection of tax payments	M1	D	A	C		D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	B	A	A		B+	B+
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	B	C		C+	C+
PI-18	Effectiveness of payroll controls	M1	A	B	C	C	C+	C+
PI-19	Competition, value for money and controls in procurement	M2	D	D	D	D	D	=
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	C		C	C+↑
PI-21	Effectiveness of internal audit	M1	C	C	D		D+	C
C (iii) Accounting, Recording and Reporting								
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			B	B
PI-23	Availability of information on resources received by service delivery units	M1	D				D	C
PI-24	Quality and timeliness of in-year budget reports	M1	A	A	B		B+	B+
PI-25	Quality and timeliness of annual financial statements	M1	A	B	B		B+	A

Table 1 Summary of overall results								
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating 2012	2009[2]
C(iv) External Scrutiny and Audit								
PI-26	Scope, nature and follow-up of external audit	M1	D	D	D		D	D
PI-27	Legislative scrutiny of the annual budget law	M1	C	C	C	B	C+	C+↑
PI-28	Legislative scrutiny of external audit reports	M1	D	C	D		D+	D
D. DONOR PRACTICES								
D-1	Predictability of Direct Budget Support	M1	D	D			D	C+
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	C			D+	D+
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D	D↑

Overall assessment and comparison

Since the last assessment, the Government of Vanuatu (GoV) has faced a number of economic and political challenges. Increased payroll costs and unbudgeted expenditure have raised expenditure levels. In 2009 and 2010, actual revenues were also significantly less than anticipated due to a combination of ambitious forecasts, changes in trade agreements and weak enforcement. Subsequent years are now on track. As in previous years, in terms of the three budgetary outcomes, aggregate fiscal discipline remains relatively good, although it has worsened in terms of GoV's own high standards of fiscal responsibility and the pursuit of a balanced budget. However, weaknesses and/or non-compliance with systems lead to less than optimal strategic resource allocations and inefficient service delivery.

In terms of overall performance the picture is mixed. A summary of the key changes is included in Annex B. In comparison with the previous assessment some indicator scores show slight improvement e.g. non-reported operations. Orderliness in budget process remains good and accounting and reporting systems are comprehensive and have the potential to support sound decision-making, if actively used by key stakeholders. As in previous years, although many systems are in place, compliance is still a problem in several ministries and agreed sanctions are not being consistently applied. Since the last assessment, there also appears to have been instances where controls have just been bypassed, for example, in the recruitment of personnel without the required financial visa by health and education and the issuing and honouring of unofficial purchase orders. This non-adherence to controls by some ministries seriously undermines the Government's ability to deliver its mandated services and to achieve its stated goal of reaching the Millennium Development Goal (MDG) targets. It has also led to deterioration in some of the scores, e.g. PI 18 effectiveness of the payroll controls.

Although there are on-going reforms including the systematic development of government policies and the establishment of an improved monitoring and evaluation function, the ability of most ministries to link their policies, plans and budgets remains weak. There are plans to introduce a more medium-term perspective in the near future including the development of sector medium-term expenditure frameworks (MTEF). However, these are unlikely to be successful unless they are supported by training in basic budgeting principles for non-financial personnel, and clearly set within a medium-term fiscal framework. As the Government recognises, policy stability is also dependent on political stability.

Since the last assessment, GoV continues to reduce the burden (economic and financial) of its government business enterprises (GBE). There is also an improvement in the timeliness of the financial statements of several GBEs but this has not led to an improvement in scores. Without enabling legislation, the Ministry of Finance and Economic Management's (MFEM) ability to monitor fiscal risk and its potential exposure remains limited. Although financially less significant, the government's ability to monitor the fiscal risk of sub-national entities is also weak, and would need strengthening if service delivery responsibilities were to be decentralised in accordance with the Decentralisation Act.

With external support from AusAID, improvements in revenue administration are beginning to show positive results and a number of additional legislative and operational reforms are planned, which would further enhance tax revenue collection. The recruitment of a new Auditor General since the previous PEFA and the provision of technical support to his office have also improved the level of oversight, including the number and quality of audits now being undertaken by the office, although its potential impact is limited by manpower constraints, independence issues and negligible parliamentary scrutiny by the Public Account Committee (PAC). These improvements have not yet impacted on overall scores.

A key area of concern in this and earlier assessments has been procurement, in particular the ability of GoV to ensure that its procurement policies are followed in an equitable, efficient and transparent manner. GoV is now attempting to address this difficult area with support from AusAID, although clearly system changes and improvements in compliance levels will require high-level political and management support and the enforcement of sanctions.

Credibility of the budget

As noted above, at the aggregate level, actual primary expenditure has not deviated significantly from the original budget levels, although in the period under review, adherence to GoV's fiscal responsibility framework has deteriorated and certain ministries e.g. health and prime minister's office have exceeded their authorised spending limits. At a ministerial level, calculation of expenditure composition variances has shown limited deviation reflecting GoV's stance of not permitting reallocation between ministries. Notwithstanding this finding some ministries and constitutional bodies have required significant supplementary appropriations e.g. health and education while other ministries have under-spent their allocations. At the last assessment, GoV had recognised that reallocations within ministries were taking funds away from service delivery efforts and had modified its legislation to restrict these changes. Unfortunately, at the time of this assessment, several studies (both internal and external) have found that some ministries are still not focussing their expenditure on the achievement of their agreed plans. GoV's centralised payments system, funds control system and requirement for ministries to provide details of outstanding bills annually are all designed to minimise the occurrence of arrears. Since the last assessment however, MFEM's ability to contain arrears is being stretched as ministries including health and lands do not pay their regular bills e.g. utility and rents, the result of poor budgeting and unbudgeted expenditure.

Unlike the previous two assessments, actual revenue fell short of budgeted revenue in two of the three years. This has been due to a number of factors including changes in revenue forecasting techniques and the impact of delayed donor projects on the predicted levels of economic activity, trade agreement changes and poor tax enforcement measures. Since 2011, however there has been a reversal in this trend and figures for 2012 are also showing positive gains.

Comprehensiveness and transparency

As in earlier assessments, in terms of comprehensiveness and transparency, its ability to oversee fiscal risk remains a significant concern to the GoV, as it is unable to have a complete and up-to-date picture of its exposure to contingent liabilities. Since the last assessment, GoV has not reduced its holding of government business enterprises (GBE)[3] any further, although some work is currently on-going with respect to the liquidation of three companies[4]. However, timeliness of the financial statements of several other GBEs has improved significantly. According to the Auditor General, basic bookkeeping and accounting skills are insufficient in some of the other entities. Legislation to force GBEs to provide MFEM with relevant data is still outstanding, but support from the ADB is available to address the whole issue of non-productive and non-viable entities, provided widespread political support can be obtained. The government's ability to monitor the fiscal risk of sub-national entities is also weak, if service delivery responsibilities were to be decentralised as envisaged under the Decentralisation Act, there would be a greater potential fiscal risk. In the period under review, availability of information to the public remained poor, despite the launching of MFEM's new website many key documents are not available. Audit reports and audited financial statements need to be tabled with Parliament before access is available and despite the efforts of the Auditor General, timeliness of his reporting to Parliament is still an issue.

Policy-based budgeting

As in the two previous assessments the GoV has a clear budget calendar and set of guidelines, which include the approved ministerial ceilings. These set out clearly what needs to be done by whom and when. Some delays are experienced in its implementation but in general the timetable is broadly followed. The Executive, through the Ministerial Budget Committee and the Council of Ministers are actively involved in the process and in the period under review the legislature has approved the budget prior to the start of the new fiscal year, providing predictability from the outset.

Since 2009, the Prime Minister's Office (PMO) and MFEM discuss policy priorities towards the beginning of the year and advise ministries if any changes are required to their budget narratives to meet policy direction changes. A medium-term fiscal framework is prepared and is updated annually however changes from previous forecasts are not explained in great detail. Discussions are on-going to develop medium-term expenditure frameworks at the sector level, but these may prove ineffectual even at the technical level, if not accompanied by greater consistency in medium-term fiscal frameworks and general improvements in basic budgeting skills by line ministries. Work is in progress to improve the links between national (e.g. trade) and sector policies (e.g. education), long and medium-term plans (such as the Priority Actions Agenda (PAA) and the Planning Long, Acting Short (PLAS), ministerial corporate and business plans, budget narratives and actual budget submissions. GoV is also developing its monitoring and evaluation function in both the National Statistics Office and the M&E Unit within the Prime Minister's Office.

Sector strategies are in place for education, health and water, but these are not fully costed with programmes and activities prioritised. Although technically the recurrent cost implications of capital expenditure should be assessed as part of the development of new policy proposals (NPP), in practice this is reported to be of variable quality. The lack of a medium-term perspective also limits

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[3] The Government of Vanuatu refers to its state-owned enterprises as government business enterprises and this report follows the same format.

[4] Vanuatu Livestock Development, Asset Management Unit and Metenesel Cocoa Estate.

the extent to which the estimated recurrent cost implications can be systematically included in future budget submissions.

Predictability and control in budget execution

Tax revenues account for more than 90% of GoV's overall domestic revenues. In order to improve taxpayers' access to information on their liabilities, the Customs and Inland Revenue Department (CIRD) has developed a comprehensive website and opened offices in all the main islands. Since 2009, GoV has also reviewed its exemption policies for import duties, and put in place an exemptions committee to review all requests in a more transparent way. Improvements in internal business processes for both customs and VAT are also proving to be beneficial with increased compliance and more consistent enforcement campaigns. Although not yet impacting on the indicator scores, work is also on-going to improve overall tax administration processes and to improve and update legal frameworks. There are also plans to take a more holistic review of current tax practices. Non-tax revenues represent approximately 10% of domestic revenue. As noted in the previous two assessments, outstanding accounts receivable remain a major problem, particularly for wharfage charges and land rents

The GoV is determined to follow a prudent approach to financial management and consequently the MFEM operates a monthly or bi-monthly warrant system, based on the cash flow forecasts prepared by the ministries. This facilitates both cash management and expenditure checks. Frequent requests for advances are a symptom of poor cash planning and no procurement planning by ministries, but no ministry has been denied additional release for proper expenditure, which is within the total budget appropriated. Currently debt administration in Vanuatu is fairly straightforward with relatively few external loans and domestic debts, although both are now increasing, and GoV recognise that they need to improve their debt management capability, especially if this trend continues.

As in 2009, once data reaches the human resource management information system, the payroll accounting procedures and controls are reasonable, although non-approval by management of pay run listings is a concern. Some action has been taken, but delays are still reported at the Service Commissions (e.g. Public Service, Police and Teachers) in the processing of recruitments and particularly terminations. Since 2009, a worrying trend in Education and Health has emerged whereby controls over budgeted establishment figures are being ignored and significant overspends on payroll budgets are taking place.

Since the last assessment, there is an improvement in the availability of information on procurement activities, and an increase in the contracts being monitored by the Central Tender Board (CTB). Despite these improvements, there remain many challenges in ensuring that the whole procurement process is conducted in an equitable, transparent and effective manner. AusAID have supported the Central Tender Board with the funds for advisory support to assist MFEM and CTB in their reform process.

The funds control module facilitates improved expenditure commitment control of government funds[5] and financial regulations/circulars and manuals exist to guide sound financial management, although updates are needed/being written. However, since the last assessment, there has been an increase in the granting and honouring of unofficial purchase orders. As shown in a number of reports, there is also evidence that funds are not being applied as originally intended. These unbudgeted expenditures together with deeds of release for claims awaiting court judgements place a significant burden on government finances and on the achievement of planned outputs. In some

[5] It is not applied to donor funds at their request.

cases, frequent virements below activity level and/or transfers above activity level are also undermining the integrity of the budget execution process, although overall numbers have reduced since 2007[6].

Internal audit capacity continues to be developed and exists, albeit with only a few internal auditors in finance, education, health and in the department of local authorities. Since the last assessment, tentative improvements in management responses to internal audit recommendations appear to have stopped. This is perhaps indicative of either a lack of understanding by management of the role of internal audit in assuring management that the systems are working and/or a general unwillingness to apply the legally available sanctions. However an audit committee has been set up in MFEM and Education for the review of internal audit reports.

Accounting, recording and reporting

As noted in the previous assessments, the GoV operates a centralised payments and human resource information (payroll and personnel) system using SmartStream financial software. Comprehensive and detailed in year budget execution reports can be extracted as required by all users, although a key weakness is that although access is available for finance staff in ministries, many line managers and senior management do not have direct access to, are unaware of or do not understand the information available to them. Bank account reconciliations have been automated/semi-automated for the key treasury managed bank accounts. School bank accounts are captured through an agreement with the National Bank of Vanuatu. Financial statements are produced on an accrual basis and have been produced for FYs 2009 -2011, within ten months of year-end. GoV adopted International Public Sector Accounting Standards voluntarily for some time, but this is now required by law. As the five year 'grace' period for full compliance is now over, difficulties experienced in other countries in full compliance apply in Vanuatu particularly with respect to asset valuation and depreciation. This has consequently led to a slight decline in the score, but this is quite understandable given the demands that IPSAS place on the most sophisticated reporting systems. A breakdown of parliamentary appropriations (on a modified cash basis) to programme level is included in the financial statements to Parliament.

External scrutiny and audit

As noted in the previous assessment, the formal committee structure for the review of estimates has not been operational, but general procedures for the timely if not detailed review of the budget by Parliament have been followed. The basic legal framework for external scrutiny and audit is in place, although there are real concerns over the true independence of the external audit function. Since 2009, there has been a marked improvement in the external audit function, with the appointment of a new Auditor General and provision of technical assistance. A number of audits have been carried out, opinions issued and reports prepared. Despite the outsourcing of some audits, capacity constraints (both in terms of staffing and expertise) are currently limiting the scope and nature of the work. Impact is undermined by the fact that the PAC has not met on a regular basis.

Donor practices

The EC is the only donor providing budget support, the predictability of which has declined since 2009. A greater proportion of funds is being managed through GoV's Development Fund, and is thus known to the MFEM; however, the use of the Fund does not equate with use of all GoV's procedures. A significant amount of support e.g. aid in kind, technical assistance, turnkey projects, estimated to be worth Vt 6 billion remains outside GoV's fiscal reporting. It is therefore estimated

[6] Financial regulation 2.2 report for the period 2007 – 2010.

that less than 50% of total donor support currently use GoV procedures. Bilateral and multilateral programme and project assistance by most traditional donors has been in support of projects incorporated in the New Policy Proposals (NPP) and Government Investment Programme (GIP), although a few donors including multilateral agencies, as well as NGOs, charitable organisations and volunteer agencies respond to *ad hoc* requests from line ministries. Vanuatu is also the recipient of funds from a number of global and regional funds, which with the exception of the global health fund have tended to fall outside both the estimates and aid coordination processes.

Assessment of the current strengths and weaknesses and their impact on PFM

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. Through its centralised payment and control system and prudent approach to cash and debt management, GoV has been able to maintain a reasonable level of *aggregate fiscal discipline.* However, GoV's stated aims set out in its fiscal responsibility framework are being challenged by non-compliance with established systems. Unless compliance levels are improved (PI 18 and PI 20), increases in domestic debt levels and recently agreed external debts combined with the potential fiscal risk from its GBEs and sub-national government, highlighted by PI 9, has the potential to undermine the achievement of aggregate fiscal discipline in the future.

The Assessment (PI 12) shows that GoV's *strategic allocation of resources* is weakened by lack of clear sector policies, the poor links between policy, plans and budget, the lack of complete information on donor support and its predictability. Executive involvement in the establishment of ministerial ceilings gives them the opportunity to influence resource allocation. (PI11). GoV is addressing policy and planning, but effective aid co-ordination remains a problem. Although, GoV's timely in-year and end of year information provides decision-makers with the base for informed decision making and is an important element of a sound internal control framework (PI 24 and PI 25), the key weakness is that this information does not appear to be being used effectively by decision-makers. Current endeavours to focus on the monitoring and evaluation of planned outputs and outcomes are intended to support the drive for improved resource allocation as well as greater accountability. More user friendly, timely and publicly available information could support this process (PI 10).

The tendency in some ministries to ignore GoV's control systems threatens the achievement of government policy including the achievement of MDG targets and adversely affects *service delivery*. Lack of timely response to internal audit report recommendations and non- application of sanctions impact further on service delivery (PI 21). Non-observance of competitive tendering practices can also limit the efficiency of service delivery by increasing costs or lowering the quality of goods and services provided (PI 19). Increased activity of the external audit function is a positive sign in terms of service delivery effectiveness (PI 26). Improved access to the financial information available, particularly at the community level can assist in improved financial management and efficient service delivery, particularly in more remote areas, where centralised controls are inappropriate and counter-productive (PI 10 and PI 23).

Prospects for reform planning and implementation

Vanuatu faces many challenges in ensuring that its public financial management reforms and its development efforts can be implemented and sustained. It has a relatively small but widespread population, some communication difficulties with the outlying islands, and at times political instability. Economic growth is clearly important to sustainable development; however, GoV also recognises that policy stability is essential to the sustainability of the reform process. A key policy priority in their four-year planning matrix is the stability of government and the promotion of political stability. It is therefore intending to address a number of political issues including the funding of political parties.

In Vanuatu, PFM reforms have started at the centre in the MFEM and are now radiating out to line ministries, departments and to outlying islands. As these reforms progress, there will clearly be additional demands on the MFEM but key weaknesses need to be addressed at the ministry level. Reforms fail because of a lack of vision, pressure, action or capacity. In order to succeed, high-level support will be required from MFEM, the Public Service Commission (PSC), line ministries and political leaders. In addition to the need for management training and improved awareness of the implications of poor financial management, there is a need in some ministries to ensure that there are sufficient finance personnel. Given personnel constraints, there may also be a need to reconsider the structure of the internal audit function in order to improve both its coverage and its effectiveness.

In contrast to many other countries, in most cases donors have been adopting a realistic approach to the country's PFM reforms by supporting the establishment of basic, gradual and on-going system improvements through constructive and practical dialogue, the recognition of significant weaknesses in their home country systems and sharing of lessons learnt. The exception is the externally driven PFM reform strategy/plan developed with the assistance of the EU in 2008, which is reported to have had limited ownership and unrealistic targets.

The balance between controls to ensure aggregate fiscal discipline and flexibility to ensure efficient service delivery is a delicate one. A sound internal control framework depends on the integrity of the stakeholders and is rarely improved simply through additional controls. The significant amount of information available for reporting purposes is an important element of the internal control framework, but is not currently used sufficiently. Although the public in Vanuatu are not disinterested in politics and government operations, civil society advocacy is reported to be generally weak. The demand for accountability is not absent but tends to be localised. In the medium-longer term, improvements in PFM could be supported through greater demand for effective national government, together with more effective engagement of Parliament.

1. Introduction

1.1. Objective

The Vanuatu Government considers this Public Expenditure and Financial Accountability (PEFA) assessment as a key exercise to diagnose the current state of Vanuatu PFM systems in order to help it identify areas that may require further improvements and reforms. The PEFA assessment should also serve to inform development partners of the state of the functioning and quality of PFM systems, so they can make better decisions about how to use and/or support the strengthening of those systems.

Two assessments have been carried out to date, one in 2006 and one in 2009. The overall objective of this assessment is therefore to produce a report based on the PEFA methodology, which provides an assessment of the current performance of the PFM system in Vanuatu and to compare progress since the last PEFA assessment in 2009.

1.2. Process of preparing the PFM-PR

The Government of Vanuatu (GoV) has initiated and led the process. The terms of reference and concept note together with the PEFA Secretariat's comments are included as Annex C. The Government established a working group and an oversight group. Three members of the oversight group, AusAID, EU Vanuatu and headquarters, MFEM and the PEFA Secretariat act as peer reviewers for the purposes of the PEFA quality assurance check requirement. As indicated in Annex C, membership of the oversight group includes representatives from government (MFEM and the Office of the Prime Minister) and the donor community. In recognition of the PEFA comments, the original timetable has also been extended to allow for greater consultation. The Delegation of the European Union (EU) in Vanuatu and AusAID are both members of the oversight group and each funded an international consultant to facilitate the process and to carry out the field work. The World Bank/ADB liaison officer and the World Bank Economist from Sydney participated in the interview process and attended the workshop to discuss preliminary results. Interviews were also held with other resident donors operating in country (NZAID and JICA), although neither of these support PFM related initiatives.

The field work phase of the assignment took place between 22nd November and 8th December. The timing of the field work phase was unfortunately not ideal as a new Government had just been elected and there were associated changes in administration. A first draft report was prepared by two external consultants and issued in December 2012. This report was revised in January 2013 incorporating comments received from AusAID. The revised report was reviewed by the oversight committee in April 2013. No additional changes were made and the report was submitted to the PEFA Secretariat in May 2013. Comments from the PEFA Secretariat were received in May 2013 and have now been incorporated by the government. PEFA comments and the related actions are included as Annex D. This final report was then reviewed by the oversight committee in July 2013 and also resubmitted to the PEFA Secretariat. The PEFA disclosure of quality assurance document is attached as Annex E.

1.3. Methodology

As noted above, the GoV established a working and oversight group and two consultants Mrs Carole Pretorius and Mr Ashley Schofield, both of whom have training and experience in the PEFA methodology were contracted to assist GoV in the preparation of this third PEFA Assessment. Several of the working group had also attended PEFA training sessions. Prior to the field work, the team of consultants prepared a draft work plan, list of documentation to be reviewed and an initial interview list. On arrival and following a brief discussion with representatives from the working and oversight groups, the plan was updated and an interview schedule established. The team was based in the MFEM and despite the relatively short time scale, they were able to meet with representatives of key stakeholders from MFEM, line ministries, resident donors, Reserve Bank, Parliament, and Auditor General, private sector representatives and civil society organisations.

Mr Schofield also attended a presentation on the findings of the Education Public Expenditure Review. A complete list of persons interviewed and attending the briefing is included as Annex F. A wide variety of documents were consulted. These include PFM related legislation and regulations, financial statements, budget formulation and execution documents, policy documents, annual reports, Auditor General and Internal Audit reports, donor and sector reports. A list of documents consulted is included as Annex G.

The briefing on the initial findings was held on the 6th December, two days before the end of the field phase. Some scores were debated and following the presentation additional evidence was provided to the team. Prior to leaving the consultants prepared an aide memoire, which was distributed to members of the working and oversight groups. Copies of the presentation were also distributed to attendees.

As noted above, the draft report went through a series of reviews and the final report now incorporates all comments received from the various Peer Reviewers.

1.4. Scope of the assessment

A detailed description of the structure of the public sector in Vanuatu is shown in Annex H. There is no complete information on overall public sector expenditure in Vanuatu. Table 2 provides a summary of the 2012 central government budget and provincial government budgeted transfers. As can be seen from the figures, transfers to provinces and municipalities represent only 1.8 % of central government's budget. Total transfers to GBEs and other agencies represent approximately 4.0%. The assessment covers central government expenditure and intergovernmental relationships and reporting structures as well as the government's oversight of fiscal risk with respect to government business enterprises and provincial and municipal councils.

Table 2 Overview of government institutions and budgeted transfers

Institutions		Total Number of Entities	Transfers[7] from Central Gov Vt million	Original Budget 2012 Vt million
Constitutional Bodies		12		1,100.5
Government Ministries		13		14,011.7
Agencies	Grant receiving	7	253	n/k
	Semi-autonomous	2	n/a[8]	In ministry
Sub-national	Provinces	6	252[9]	?

[7] Not all entities receive transfers from government.

[8] The total budget for the two bodies =

[9] Includes payment of salaries and wages for certain posts Vt 19 million

	Municipalities	3	10.5[10]	n/k
Government Business Enterprises	Commercial under Companies Act	10	25[11]	n/k
	Commercial under Own Act	5	160[12]	n/k
	Non-Commercial Under Own Act	8	177[13]	n/k

[10] Vt9.8 m provided as grant to Luganville, no payment to Port Vila and Lenankel treated as deconcentrated unit.

[11] Transfer to Airports Vanuatu Limited only

[12] Vt100 million for the Vanuatu Agricultural Development Bank and Vt 60 million for Vanuatu Broadcasting and Television Corporation

[13] Refers to Vt 139 million transfer to Vanuatu Tourism Office (increased to V 153 million by supplementary) and Vt 38 million to VIPA

2. Country background information

2.1. Description of country economic situation

Country context

Vanuatu is a Y shaped chain of islands, extending 1,176km in a north south direction between the Equator and the Tropic of Capricorn. It is located in the South-West Pacific, approximately 2,250 kms North East of Sydney and 800 kms west of Fiji. Frequent cyclones (average 2.5 per year), volcanic activity and earthquakes make the country extremely susceptible to natural disasters. Its land area comprises of 83 islands, of which approximately 60 are inhabited. Since 1994, the country has been divided administratively into six provinces Malampa, Samma, Tafea, Torba, Penama and Shefa.

It has a population of approximately 234,000[14] with a population growth rate of 2.6%. The urban population is approximately 24% of total population[15]. Subsistence or small-scale agriculture provides a living for 65% of the population. Fishing, offshore financial services, and tourism are the other mainstays of the economy. The main exports are copra, coconut oil, beef, kava and timber.

According to the UN's 2010/2011 Human Development Index (HDI) Vanuatu is 125th out of 187 countries in terms of its development. After experiencing very strong economic growth from 2005 to 2008, averaging nearly 6.0 per cent a year; the domestic economy started cooling in 2009 attaining an annual growth rate of 3.5 per cent in that year followed by an estimated growth rate of 2.5 per cent achieved in 2011. Generally, macroeconomic stability has been maintained, thanks to prudent fiscal and monetary policies. Inflation has been contained at single-digit levels (2.1% annual inflation as at March 2012), while official reserves have grown to reach around 7 months of import cover over the year to June 2012.

The Debt Sustainability Analysis for both domestic and external debt in 2011 showed that including the stock of quantifiable contingent liabilities the Government has reached its stated prudential limit of debt to GDP of 40 per cent. The stock of debt is forecast to rapidly increase by 33.7 per cent over the medium term reaching VT 17,913 million by 2014. This increase is driven mainly by external concessionary borrowing associated with large infrastructure projects. It is also driven in part by the increase in domestic borrowing associated with the financial shortfalls experienced in 2010 and 2011 which were financed by domestic borrowing. However, the main risks to sustainability may arise from liquidity problems where the Government may not have sufficient liquidity to cover maturing obligations within the medium term. Whilst bonds and concessional payments are likely to be unaffected the major challenge will be in the event of a large increase in payments due to the actualisation of contingent liabilities. Whilst these are difficult to quantify, partly due to the poor accounting standards in some Government Business Enterprises (GBEs) the Ministry of Finance estimates that these will have reached approximately VT 22.7 million by end 2011 making the total stock of debt 55 per cent of GDP. This figure not only exceeds its own debt limits but is also approaching the 60% maximum level advised internationally by the IMF.

Overall government reform program

GoV's overarching planning document is the Priorities Action Agenda (PAA) 2006 -2015, which has recently been revisited. The Strategic Priorities are now: (i) Private Sector Development and

[14] The population census is currently being carried out (2009)

[15] World Development Indicators – World Bank 2008

Employment Creation; (ii) Macroeconomic Stability and Equitable Growth; (iii) Good Governance and Public Sector Reform; (iv) Primary sector development, environment, climate change, and disaster risk management; (v) Provision of Better Health Services, especially in rural areas; (vi) Education and human resource development; and (vii) Economic Infrastructure and Support Services.

To embark on this long-term national development agenda, Government developed an initial four years matrix, called the "Planning Long, Acting Short - Government's policy priorities for 2009-12". This sets out policy priorities including key strategies, performance indicators, responsible ministries and timelines. This planning mechanism has recently been applauded by the Pacific Island Forum Secretariat's Peer Review team as a potential model for the region. The next four year plan is currently being finalised.

Rationale for PFM reforms

Historically, the initial impetus for PFM reforms in the late nineties stemmed from the need to restore macroeconomic prudence. The main objective of the Comprehensive Reform Programme (CRP) in terms of PFM was to develop a legal and regulatory framework that was accountable, free of political interference and incorporating independent oversight and regulatory bodies. In particular, the reforms were aimed at reducing leakage from the finance system and improving the level of control and management of Government finances.

On-going reforms set out in the latest planning documents are designed to maintain aggregate fiscal discipline, as well as improving the linkages between policy priorities and budget and improving the flow of funds to, and accountability of, service delivery units. In the four-year matrix, particular attention is given to responsible macroeconomic and fiscal management and to strengthen accountability and transparency in public offices and institutions.

2.2. Description of budgetary outcomes

Fiscal performance

The Government's aim is to build budget surpluses through the adoption of fiscally responsible, well specified policies. In the period under review GoV has experienced a number of challenges in achieving this goal. The Government's economic and fiscal update for the 2012 budget noted that "The Public Finance and Economic Management Act obligates the Government to target a budget that maintains its "net worth‟ at a level that provides a buffer against factors that may adversely impact its "net worth‟ in the future. It also says that the Government should reduce and manage State debt. In other words, the Government aims to run recurrent surpluses over the medium term, in turn enabling it to reduce the stock of government debt and build reserves for times of difficulty and where it does borrow it does so only for investment purposes and not consumption. In line with this legislative requirement, the fiscal budget position published in Budget 2012 predicted a small deficit worth VT 395.1 million (equal to 0.5 per cent of GDP)".

The International Monetary Fund Article IV consultation for 2011 concluded that fiscal management was currently appropriate to the challenges of continuing recovery while guarding against inflation and economic vulnerability. The following table shows the financial performance for the last three years.

Financial Performance (Vatu million)				
	2009(actual)	2010 (prelim)	2011 (projection 2011)	2012 Budget
Total Revenue and Grants	16,906.2	16,554.6	17,455.3	20,527.8
Total Expenditure and Net Lending	17,441.3	18,820.6	18,534.7	20.922.9

Balance Budget	(535.1)	(2,266.0)	(1,079.4)	(395.1)
Per cent of GDP	*0.8%*	*3.4%*	*1.5%*	*0.5%*
External Financing	762.2	263.8	(341.0)	(326.2)
Domestic Financing	(227.1)	2,002.2	1,420.4	721.3
Total Financing	535.1	2,266.0	1,079.4	395.1

Source: Fiscal Strategy Reports 2012. Table 6

Allocation of resources

The PAA is the government's strategic document, which underlines policy priorities for the medium-term. Sectoral budget allocations tend generally to reflect the overall priorities of the government, however as discussed in PI-12 the link between the budget and more detailed sectoral policy remains poor. Budget allocations (for Government financed expenditure) over the last three years by ministry are shown below. It is important to note at this point that Government financed capital spending is very small and that the vast majority of capital spending is financed by donors.

Since 2010 the Government has prepared an Integrated Budget that combines its donor funding (the Government Investment Program) with its annual Government-financed Budget (predominantly recurrent expenditure). After this iniative began, more aid expenditure has been reported in the Vanuatu Budget Management System (VBMS) and the Government's financial reports. This has given the Government a clearer picture of the total resources available to support its development objectives and the requirements to maintain its capital investments. The approach requires donors to use Government systems and work closely with Ministries to develop expenditure programs. The Government of Vanuatu's development fund receives grant funding from donors and is a separate account from any revenue raised by the Government domestically through for example taxes and fees. In recent years, a greater proportion of funds is being managed through the Development Fund but there remains a significant amount of support e.g. aid in kind, outside the Government's system and fiscal reporting.

Actual and Budgeted Expenditure as Percentage of total Government financed expenditure						
Functional Head	**Budget 2009**	**Actual 2009**	**Budget 2010**	**Actual 2010**	**Budget 2011**	**Actual 2011**
Prime Ministers Office	1.3%	1.3%	1.2%	1.3%	1.3%	1.4%
Min of Agriculture +	2.7%	2.8%	2.9%	3.0%	3.1%	2.9%
Min of Com, Ind & Tourism+BDS	1.9%	1.9%	2.0%	1.8%	2.0%	1.8%
Min of Co-operatives & Ni-Vanuatu	0.9%	0.9%	0.7%	0.7%	0.7%	0.7%
Min of Education	22.8%	23.4%	23.4%	24.7%	24.9%	26.1%
MFEM	27.2%	24.2%	26.7%	23.9%	24.5%	21.4%
MoFA & Ext trade	1.9%	2.0%	2.0%	1.8%	2.1%	2.1%
Min of Health	10.3%	10.9%	11.2%	11.7%	10.6%	11.5%
Min of Infrastructure & Public Utilities	9.8%	10.0%	9.1%	9.4%	9.3%	9.2%
Min of Internal affairs	9.4%	10.2%	9.1%	9.6%	9.2%	9.6%

Min of Justice & Social Welfare	1.4%	1.6%	1.6%	1.8%	2.0%	2.0%
Min of Lands, Geology & Mines	2.3%	2.3%	2.1%	2.1%	2.1%	2.1%
Min of Youth, Dev + Training	0.7%	0.8%	1.0%	1.0%	1.0%	1.4%
President	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%
Parliament	3.3%	3.4%	3.0%	3.2%	3.1%	3.6%
Judiciary	1.3%	1.3%	1.2%	1.2%	1.3%	1.3%
PSC	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%
State Law Office	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%
Ombudsman	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%
NAO	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other Constitutional Areas	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Total expenditure	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Financial Statements 2009 - 2011, Statement of Appropriations

Over the period, allocations and actual expenditure have remained broadly the same, although education and health have accounted for more than their allocated share in 2011. In terms of economic classifications, over half of actual and budgeted expenditure goes on compensation of employees with only a very small proportion going into investment (the vast majority funded by donors).

Actual and Budgeted Expenditure as Percentage of total Government financed expenditure (by economic classification)

Economic classification	**Budget 2009**	**Actual 2009**	**Budget 2010**	**Actual 2010**	**Budget 2011**	**Actual 2011**
Expense (Consumption)	97.4%	94.6%	97.2%	96.7%	97.9%	96.9%
Compensation of employees	54.3%	56.8%	52.6%	55.8%	55.9%	55.6%
Use of goods and services	22.0%	22.4%	24.5%	24.8%	22.3%	22.5%
Consumption of fixed capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest	7.4%	2.6%	5.0%	2.5%	3.4%	2.9%
Subsidies	0.8%	0.9%	0.7%	0.0%	0.8%	0.8%
Grants	9.1%	8.7%	8.3%	8.3%	9.7%	8.5%
Social benefits	1.1%	1.6%	2.8%	3.0%	2.3%	1.7%
Other expense	2.7%	1.6%	3.2%	2.4%	3.6%	4.8%
Net Acquisition of Nonfinancial Assets (Investment)	2.6%	5.4%	2.8%	3.3%	2.1%	3.1%
Fixed assets	2.6%	5.4%	2.8%	3.3%	2.1%	3.1%

Source: National Budget Books, Volume I, 2012 and 2013

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.

Act	Description
Constitution	The 1980 Constitution amended in 1988 provides the basis for sound PFM in Vanuatu. Section 25 sets out the provisions in relation to public finance including the appointment and function of the Auditor General.
Public Finance and Economic Management Act 1998 (amended 2000 + 2009 + 2011 + 2012)	The PFEM Act is designed to: i) ensure effective economic, fiscal, and financial management and responsibility by Government; ii) provide accompanying accountability arrangements, together with compliance with those requirements; and iii) requires the Government to produce a variety of financial and economic statements including a Budget Policy Statement (BPS), a Fiscal Strategy Report (FSR), Economic and Fiscal Statement and Half year Economic and Fiscal Updates.
Expenditure Review and Audit Act 1998 (amended 2000 + 2008)	This Act provides for a committee to review public expenditure and sets out the objectives, functions and powers of the Office of the Auditor General. In particular, it sets out reporting requirements of the Auditor General and the role of the Public Accounts Committee (PAC) in scrutinising public finances. The amendment in 2008 changed the auditor general's terms of employment from a permanent position to a five-year contract.
Government Contracts and Tender Act 1998 (amended 2001)	The Government Contracts and Tenders Act (as amended) and its associated regulations set out the process of procurement. All contracts in excess of VT 5 million[16] must be considered by the Tender Board and be by open and competitive bidding unless that Board approves another process. The Tender Board reports to and is responsible to the Council of Ministers, who can accept or reject a Tender Board approval. The Chairman of the Board is appointed from the private sector.
Revenue Administration	The Customs Act, Import Duties Act (as amended) and the Value Added Tax Act (as amended) set out the mandate of the Customs and Inland Revenue Department and the administration of import duties and VAT respectively. Other Acts e.g. Business Licences Act, Casino Act set out other licensing/charging requirements.
Other	There is no Freedom of Information Act, although there is now a draft freedom of information policy. The Leadership Code Act 1998 makes it a criminal offence for a Leader[17] to fail to disclose a personal interest in the awarding of a government contract. The Archives Act (1992) provides the basic requirements for management and storage of key documents. In support of the various Acts, there are a number of sets of regulations (financial and tender), financial circulars, procedures manuals (e.g. accounting) and operational manuals e.g. payroll and bank reconciliation.

Key revisions

Since 2009, there have been a few key amendments to the legislation, in terms of the Public Finance and Economic Management Act. The main changes in 2011 and 2012 include:

[16] Approximately €35,000 or US$50,000.

[17] As defined by the Act.

- Improved controls over deeds of release;
- Improvements to the approval process for guaranteeing loans including an amendment to the PFEM Act in 2012 requiring the Minister to report to Parliament on loans (section 54- 3A).

Other changes to legislation or proposed changes include

- Amendments have also been made to the Import Duties Act (schedule III) with the introduction of an Exemptions Committee to oversee the granting of exemptions, thus reducing earlier concerns of significant discretionary powers.
- A revised Customs Bill has been drafted together with the draft regulations. Amongst a number of improvements, if passed the Bill and regulations would introduce more concrete timelines in the penalty process.
- New procurement legislation is also being developed and revisions to the Expenditure Review and Audit Act are being proposed to improve the independence of the Auditor General through Parliament to directly approve the budget.
- A Bill prepared some years ago with respect to Public Enterprises was never passed and it is now proposed that new legislation is drafted to cover the need for regular reporting alongside other proposals for more effective corporate governance.
- The amendments of the Decentralisation Act and Municipalities Act in 2011 brought key senior positions in local government under the Public Services Commission regulations. The PSC has appointed the Secretary Generals in the Provinces and Town Clerks and Accountants in Port Vila and Luganville. Other posts are waiting for funding.

2.4. The institutional framework for PFM

Structure of Government

The Government of Vanuatu is comprised of the Prime Minister's Office and twelve ministries[18], twelve constitutional bodies and approximately fifty Departments. All Ministries and Departments have their headquarters in the capital of Vanuatu, Port-Vila, with branches throughout the main archipelago of Vanuatu predominantly in the main townships of Luganville, (Santo), Norsup, (Malekula) and Lenakel (Tanna). There are six provincial councils, Malampa, Samma, Tafea, Torba, Penama and Shefa. There are three municipal councils Port Vila, Luganville (Santo) and Lenakel (Tanna).

Legislative

The head of the Republic is the President who is elected for a period of 5 years by an electoral college consisting of Parliament and Provincial Councils. Vanuatu's parliament is a unicameral 52-member body plus a Speaker of Parliament. MPs are elected by universal adult suffrage for a period of four years for multi-seat constituencies. Vanuatu has a multi-party system, in which no one party often has a chance of gaining power alone, and parties must work with each other to form coalition governments.

The current President (Head of State) was elected on 2 September 2009, by electoral college, consisting of Parliament and the Presidents of the Provincial Councils. This was for a five year term until 2014. The most recent Parliamentary election s took place on 19 November 2012. No party obtained an absolute majority and Parliament (52 seats) is made up of 16 party and four

[18] Until December 2012, these comprised of the: Ministry of Justice and Social Welfare; Ministry of Foreign Affairs and External Trade; Ministry of Internal Affairs; Ministry of Finance and Economic Management; Ministry of Commerce, Industry and Tourism; Ministry of Co-operatives and Ni-Vanuatu Business Development; Ministry of Education; Ministry of Youth Development and Training; Ministry of Infrastructure and Public Utilities; Ministry of Health; Ministry of Agriculture, Quarantine, Forestry and Fisheries; Ministry of Lands, Geology and Mines

independent representatives. The Vanua'aku Parti (Our Land Party) and the Peoples Progressive Party (PPP) won most Seats (eight each) and the leader of the PPP was re-elected as Prime Minister. Next elections are due to take place in 2016.

There is one standing committee, the Public Accounts Committee (PAC), responsible for public financial matters. The Chairperson is a member of the Government and the committee comprises of an equal number of government and opposition members (maximum 6 members).

Executive

Executive authority is established in the office of the Prime Minister, who is responsible for the day-to -day running of government affairs. The Prime Minister is elected by Parliament from amongst its members and appoints/dismisses other Ministers. The Council of Ministers can vary in size but must not exceed ¼ of the Parliament. Currently, it comprises of 13 Ministers including the Prime Minister and his deputy.

Judiciary

The judiciary is constitutionally independent from the other two branches of government. It includes, the Supreme Court, Court of Appeal, magistrates, island and land courts. There are no specialised commercial courts.

Office of the Auditor General

The Office of the Auditor General (OAG) is a constitutional body with its powers, scope and nature of its activities derived from the Expenditure Review and Audit (ER&A) Act (amended 2008). In addition to its audit duties, it is currently charged with the additional responsibility of acting as the secretariat for the PAC[19]. The Constitution provides a degree of independence for its operations but budgetary and operational independence is potentially undermined by its reliance on allocation of funds by the government and appointment of personnel (including the Auditor General) by the Public Services Commission.

Ombudsman

The Ombudsman is a constitutional body with powers set out in the Ombudsman Act 1998. It is charged with upholding good governance and good administration in public office, responsible leadership in Government and protecting the use of official languages in Vanuatu. A review conducted in 2001 has never been adopted but it is understood that some work is on-going to revise the Ombudsman legislation.

Reserve Bank of Vanuatu

The Reserve Bank of Vanuatu (RBV) is responsible for monetary policy and is the government's banker. In addition to its oversight of the banking sector, the RBV has also recently been given the responsibility of overseeing the Vanuatu National Provident Fund (VNPF).

Ministry of Finance and Economic Management

The Ministry of Finance and Economic Management (MFEM) is responsible for the formulation of sound and effective national economic policies and managing and co-ordinating the distribution of the Government's financial resources. Its mission is to "contribute to significantly and equitably improving economic growth and development and the economic, financial and social well-being of

[19] This could be viewed as a potential conflict of interest.

all the people of Vanuatu, while retaining those elements of Vanuatu cultural and social values we continue to cherish"[20].

The new structure for the MFEM is provided in Annex I. Key responsibilities include budget planning, preparation and execution, financial management, monitoring of GBE performance, and the delivery of important services such as payroll, payments and the provision of the government's financial management information system.

Office of the Prime Minister

The Department for Strategic Policy, Planning and Aid Co-ordination (DSPPAC) has been established in the Office of the Prime Minister (OPM). This department is responsible for assisting ministries in the development of their policies and ensuring that policies are linked clearly to the government's plans and budgets. The Department is also responsible for aid co-ordination, although GoV does not yet have an Aid Strategy. It also maintains the Government Investment Programme (GIP). Government's commitment to Monitoring and Evaluation was also re-affirmed with the establishment of a dedicated M&E Unit within the PM's office in 2008. The M&E Unit is tasked with preparing, in consultation with line ministries, a set of monitoring reports covering the revised PAA, COM decisions, budget programmes, and projects/NPPs.

Line ministries

Director Generals of individual ministries are appointed as the administrative head of a Ministry under the Public Service Act (1998). This assigns specific responsibilities including compliance with the PFEM Act as well as sound economic and expenditure management of the Ministry's affairs. The 2009 revision to the PFEM Act also assigns responsibility to the head of an agency[21] for the effective, efficient and ethical use of the agency's public resources and public funds. Each ministry has a corporate services unit responsible for human resources, financial, administrative and support services.

2.5. The key features of the PFM system

The financial year for central and provincial government in Vanuatu is from January to December[22]. Most Government Business Enterprises (GBEs) follow a similar timetable.

The FMIS uses the package software SmartStream. It includes modules for general ledger, funds control, accounts payable, accounts receivable, purchasing, payroll/ human resources and assets register. Since 2008, a Vanuatu Budget Management System (VBMS) is being used for the inputting of budget data by line ministries. The VBMS is directly linked to the SmartStream system. Access to the system(s) by line ministries is provided by a wide area network (wan) that covers all ministry headquarters in Port Vila and a number of provincial offices located in Luganville on the Island of Santo. Increase in access is planned in both Port Vila and other islands. Financial reporting is now done by MFEM using Vision and OLEF, off the shelf ledger reporting tools. Bank reconciliation is automated/semi-automated through the SmartStream system. There are a significant number of reports available from, or which can be generated from GoV's accounting and budget systems, however, not all managers in the ministries have the training and/ or the inclination to access these reports. A sample of the type of reports available is included as Annex J

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[20] Draft Business Plan Department of Finance 2009/10

[21] An agency is defined as (a)a Ministry; or (b)a Ministerial office; or (c)an office established by or under the Constitution; or (d)an office or body established by or under an Act of Parliament; or (e)a prescribed agency;

[22] The municipal councils in Luganville and Port Vila have a July to June financial year.

From 2010, recurrent and donor budgets has been presented to the Ministerial Budget Committee (MBC) as a combined Integrated National Budget. Ministries are asked to present New Policy Proposal (NPP) to MBC for consideration including all donor funded projects over Vatu 10 million.

The geography of Vanuatu poses particular difficulties for sound financial management and effective service delivery. Although all main islands have branches of the National Bank of Vanuatu (NBV), distances and accessibility of these branches for officials posted to particular service delivery units e.g. schools, health centres is problematic. Various solutions continue to be developed to improve access to financial services and systems including the creation of Financial Service Bureaus (FSBs), and agency arrangements with the private sector. FSBs have already been established in Santo, Malekula, Tanna and one is soon to be opened in Torba.

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. The following paragraphs provide the detailed information to support the 2012 scores, to compare the changes since 2009 and to provide a brief overview of any On-going reforms designed to address some of the identified weaknesses.

Budget Credibility				**Methodology**	**Score**	
PI-1 Aggregate expenditure out-turn compared to original approved budget				**M1**	**A**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(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)	In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure	A	For 2009 – 2011, actual primary expenditure deviated from originally budgeted primary expenditure by 3.0%. 0.8% and 0.2% respectively	▪ Statement of appropriations – 2009 - 11	B	A

Assessment 2012

This indicator assesses the difference at an aggregate level between actual primary expenditure and the originally budgeted primary expenditure and reflects the government's ability to implement the budgeted expenditure, which is an important factor in supporting the government's ability to deliver public services in line with policy statements.

Primary expenditure excludes debt servicing expenditure and donor project funding as the government has limited control over these amounts. The analysis has therefore been carried out on government financed expenditure appropriated to line ministries excluding public debt service and donor funded project expenditure[23].

The deviation for central government expenditure has been calculated on the basis of the information provided in the audited financial statements for 2009 and 2010.and the unaudited statements for 2011[24]. The figures are taken from the Statement of Appropriations, which are

[23] Capital expenditure is primarily funded by donors and the development fund consists of donor partners received for such projects. Any government contributions to such projects remain as part of the Government-financed fund which mainly funds recurrent expenditure.

[24] The Financial Statements for 2011 have been submitted to the Office of the Auditor General.

recorded on a modified cash basis[25]. The figures include some capital items that are reflected in the Statement of Financial Position, and exclude some accrual based items that are included in the Statement of Financial Performance.

The resulting analysis (see Annex K for detailed calculations for 2009 – 2011) shows that at the aggregate level, actual primary expenditure deviated from original budgeted primary expenditure by 3.0%, 0.8% and 0.2% .respectively.

Expenditure	2009		2010		2011	
	Original budget Vt Million	Actual expenditure Vt Million	Original budget Vt Million	Actual expenditure Vt Million	Original budget Vt Million	Actual expenditure Vt Million
Total Government financed expenditure	14,094.3	13,905.6	15,501.1	14,972.2	15,112.2	14,697.3
- of which debt service	1,929.9	1,381.8	1,440.5	1,029.7	1,393.0	1,003.4
Total primary expenditure	12,164.4	12,523.8	14,060.6	13,942.5	13,719.2	13,693.9
Deviation (%)	3.0%		0.8%		0.2%	

In the period under review (2009 – 2011) GoV's attempts to achieve a balanced budget in accordance with their fiscal responsibility framework was challenged by lower than anticipated revenue figures in 2009 and 2010 (see PI 3), supplementary appropriations in 2009 of 453.5 vt million, 560 vt million in 2010 and 549 vt million in 2011. In addition there was unauthorised expenditure by most ministries in 2009, Health, Parliament, Ministry of internal Affairs, the Prime Minister's Office in 2010 and six ministries in 2011,although unauthorised spending in 2011 was less than 1% except for the Prime Minister's Office. However, significant under-spending by MFEM and several constitutional bodies e.g. national audit office, state law office and the public prosecutor in all three years has meant that primary actual expenditure has been lower than original budgeted figures in each year.

Total actual primary expenditure has also been lower than the total primary budgets for each year (original plus supplementaries). In order to understand GoV's overall recurrent fund financial performance these positive balances must then be set against the significant deficits of the Government Business Entities (GBEs) in 2009 and 2010. As indicated in section two, overall, expenditure has also been growing faster than revenues leading to an increasing deficit figure, funded solely by domestic borrowing.

Comparison 2009 - 2012

Deviations are slightly lower than in the previous assessment, which recorded deviations of 10.3%, 3.7% and 6.1% in the years 2006 – 2008.

Budget Credibility	Methodology	Score

[25] The data in section 2.2 are accrual based and therefore there will be some differences.

PI-2 Composition of expenditure out-turn compared to original approved budget				**M1**	**A**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i)Extent of the variance in expenditure composition during the last three years excluding contingency items	Variance in expenditure composition exceeded 5% in no more than one of the last three years	A	The variance in expenditure composition was 2.1 %, 3.3% and 4.8% for the period 2009 - 2011	▪ Summary of appropriations 2009 - 2011	-	-
(ii)the average amount of expenditure actually charged to the contingency vote over the last three years	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget	A	GoV does not operate a contingency reserve or unanticipated miscellaneous expenditure vote.	• Interview Budget ▪ Budget documentation ▪ SmartStream analysis	-	-

Assessment 2012

This indicator measures the extent to which the composition of expenditure varies considerably from the original budget, as the budget will not be a useful statement of policy intent, if variations are significant. This is assessed at administrative level.

Dimension (i) For the period 2009 -2011, the analysis shows (see Annex K for detailed calculations) that the variance in expenditure composition at administrative level was 2.1 %, 3.3% and 4.8%. This reflects GoV's policy of not allowing transfers between ministries (see PI 16). However, it can be seen that there is a growing tendency for the over-expenditure of some ministries or constitutional bodies to be offset by the under-expenditure of other ministries.

Other reports[26] also indicate that below the level of the ministry, there is a greater level of variance at program and activity level, but particularly at the level of economic classification within the non-payroll category. Although budgets are prepared to the level of cost centre and economic classification and presented to Parliament, they are not appropriated at this level.

Dimension (ii) GoV does not have a contingency reserve. Within MFEM's central payments programme, there is an account code for incidentals but < than 0.5% of the original budget remains coded to this account code.

Comparison 2009 - 2012

Due to changes in the methodology for this indicator, it is not possible to make a direct comparison.

Budget Credibility				**Methodology**	**Score**	
PI-3 Aggregate revenue out-turn compared to original approved budget				**M1**	**C**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i)Actual domestic revenue collection	Actual domestic revenue was between	C	Actual revenue has been 92%, 87% and 100% of	▪ Financial statements	-	-

[26] Public Expenditure Reviews – Education and Financial regulations report 2.2 for 2010 and 2011

compared to domestic revenue estimates in the original approved budget.	92% and 116% of budgeted domestic revenue in at least two of the three years		budgeted revenue for the period 2009 - 2011	notes 1-3 ▪ Fiscal Strategy Report 2009-2012 Table 4 ▪ Interviews DoFT, CIRD		

Assessment 2012

In Vanuatu, there is no income tax, no corporation tax and no inheritance tax. Tax revenues come mainly from import duties and a 12.5 % Value Added Tax (VAT) on goods and services. A number of trade agreements are already in place including the Pacific Island Countries Trade Agreement (PICTA) and the Melanesian Spearhead Group (MSG). Various other trade frameworks are currently being negotiated e.g. the Pacific Agreement on Closer Economic Relations (PACER). The implications on revenue are to be reviewed. A smaller amount is generated from a multitude of rates and taxes, the two largest being business licences and vehicle licenses. Other ministries also raise fees and charges for a wide variety of activities including ports, lands and police. As shown in Annex L, there is over Vt1 billion in accounts receivable, although a significant proportion of this amount is unlikely to be collected due to its age.

Responsibility for revenue forecasts lies with the Economic Analysis Section of the MFEM and is based on input information provided by the Revenue Section of the Department of Finance and Treasury (DoFT), Customs and Inland Revenue Department (CIRD) and the National Statistics Office (NSO). Forecasts for tax revenues are based on the levels collected in previous years adjusted for GDP growth and inflation. Since the last assessment, GDP calculations have also been revised.

As noted in the previous assessment, the level of revenue from import duties is influenced by the existing tax exemptions. Although there are new rules with respect to how they are awarded (see PI 13). According to the financial statements 2009 – 2011, the value of the exemptions[27] for the period 2009- 2011 were as follows: 2009 = 3,228 Vt million; 2010 = 1,401 Vt million; and 2011 = Vt1,383 million. A significant proportion of these relate to exemptions for project related goods, particularly in 2009 and 2010 with the MCC programme. Goods obtaining relief under the Melanesian Spearhead Group (MSG) are also growing in significance.

As discussed in PI 15, there is also over Vt 2.9 billion in outstanding VAT arrears on the accounts, approximately half of which relate to amounts outstanding from GBEs. A proportion of the total arrears are also unlikely to be collected due to their age and the change in the threshold for VAT registration.

Dimension (i) As can be seen from the table below actual revenue was 92%, 87% and 100% of revenue forecasts for the period under review. The explanation for this situation is a combination of factors including changes in the GDP calculation basis and revenue forecasting methodology in 2010 (changed back in 2011), the impact of delays in expected donor related projects on economic activity, global economic slowdown and its impact on Vanuatu, transition from import duties to excise taxes and in some cases lack of strong enforcement.

Revenue	2009	2010	2011

[27] See Note 1 Financial Statements 2009-2011

(Vt Million)	Forecast Revenue Vt million	Actual Revenue Vt million	Forecast Revenue Vt million	Actual Revenue Vt million	Forecast Revenue Vt million	Actual Revenue Vt million
Total domestic revenue	13,177	12,161	14,579	12,688	13,375	13,347
Deviation recurrent (%)	92%		82%		100%	

Source: Financial statements notes 1- 3 and Budget documentation table 4 volume 1

For VAT revenue, which represents approximately 40% of all revenues the breakdown of forecasts to actual is as follows:

Revenue (Vt Million)	2009		2010		2011	
	Forecast Revenue Vt million	Actual Revenue Vt million	Forecast Revenue Vt million	Actual Revenue Vt million	Forecast Revenue Vt million	Actual Revenue Vt million
Total VAT	5,000	4,618	5,000	4,558	5,102	5,040
Deviation recurrent (%)	92%		91%		98.8%	

Comparison 2009 – 2012/On-going reforms

The methodology for this indicator has changed so a strict comparison of scores is not feasible. However in the previous assessments actual revenues were higher than forecast reflecting potentially an under-estimation of revenue potential. In addition, Vanuatu is also entering into a number of trade agreements which are having an effect on their revenue potential. Since 2009, Customs have also implemented Harmonised System (HS- 2007 version) was implemented in 2010.

As discussed in PI 13- 15, a number of reforms are On-going and planned in tax administration which are already having a positive impact on revenue collection and receipts for 2012 are predicted to be greater than forecast.

Budget Credibility				**Methodology**	**Score**	
PI-4 Stock and monitoring of expenditure payment arrears				**M1**	**B+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Stock of expenditure payment arrears (as a percentage of total expenditure for the corresponding fiscal year) and any recent change in stock	The Stock of arrears is low i.e. below 2% of total expenditure	A	Stock of expenditure arrears as recorded in the financial statements is <1%. At the end of 2011, MFEM also paid off outstanding utility bills.	▪ Financial statements; ▪ statements of responsibility; ▪ Interviews (DoFT + MoH)	A	A
(ii) Availability of data for monitoring the stock of expenditure payment arrears	Reliable and complete data on the stock of arrears is generated through routine procedures at least at	A	GoV accounts on an accrual basis but do not age profile because of their 30 day payment policy. In addition, they have an	▪ Financial statements; statements of responsibility; ▪ Interviews	A	A

	the end of each fiscal year (and includes an age profile)		annual exercise to identify and pay any non-processed bills before year end.	(DoFT)		

Assessment 2012

Dimension (i) Once an invoice is entered into the FMIS, it adopts a thirty day payment policy, which is complied with in the vast majority of cases. According to the financial statements, the total amounts for operational commitments under a year is 75 million[28] vatu for the last two financial years and for accounts payable and accruals is 909 vt million as at 31st December 2010 and 628 vt million at 31st December 2011[29]. The outstanding bills proportion of these figures is approximately vt million 75, as the vast proportion relates to LPOs committed against that fiscal year's budget for which no goods or service has been provided.

As noted in PI 20, the GoV has a centralised payments system incorporating an expenditure commitment control (funds control system), which does not allow commitments without budgetary or fund provision. Utility providers (water and electricity) should disconnect for non-payment, although it is noted that the Ministry of Health regularly assumes that the hospitals will not be disconnected. Other measures such as prepaid telephone accounts are used to mitigate the potential for the accumulation of arrears. Attempts to introduce prepayment facilities for water and electricity were thwarted by the Utilities Regulatory Authority.

For the period under review, there are no arrears in respect of payroll or debt. At year-end, MFEM have also had a policy of paying any outstanding bills that have not been presented through the system. The only outstanding bills that remain outside of these two systems are therefore ones that individual ministries do not submit or declare.

Dimension (ii) As indicated above, GoV's financial statements are produced on an accrual basis and GoV has a 30 day payment policy once the information is in the system, the status of supplier's payments can therefore be monitored. Due to their payment policy no age profiling is maintained.

MFEM recognise that some ministries do not submit some of their bills on a timely basis and therefore at year-end also conduct an exercise whereby ministries are required to submit a statement of responsibility setting out any outstanding amounts or commitments.

Comparison 2009 – 2012/ On-going Reforms

No major change, although it is noted that in 2012, ministries who have spent funds on unbudgeted expenditure are stretching MFEM's ability to contain arrears and maintain aggregate fiscal discipline.

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. The following paragraphs provide the detailed information to support the 2012 scores, to compare the changes since 2009 and to provide a brief overview of any On-going reforms designed to address some of the identified weaknesses.

[28] See Statement of Commitments

[29] See Note 13 Accounts payable and accruals plus additional detailed information from .Treasury interview

Comprehensiveness and Transparency				Methodology	Score	
PI-5 Classification of the budget				**M1**	**B**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i)The classification system used for formulation, execution and reporting of the central government's budget.	The budget formulation and execution is based on administrative, economic and functional using GFS/COFOG or a standard that can produce consistent documentation according to those standards.	B	The budget formulation and execution is based on administrative, economic, program activity and cost centre classification using standards that can produce consistent documentation according to GFS/COFOG standards but not at sub functional level.	▪ Budget documentation classification ▪ Chart of accounts	B	B

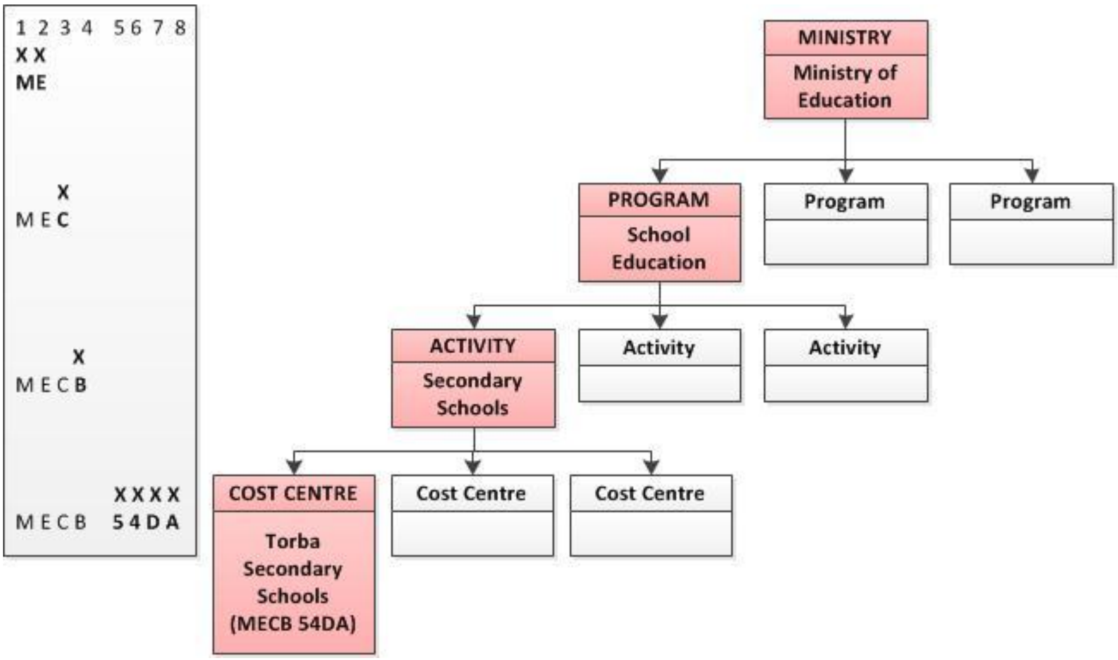
Assessment 2012

In Vanuatu, the central government's budget is based on administrative, program/activity/cost centre and economic classification for formulation, execution and reporting. Table 3 below shows the linkage between the budget classification and the chart of accounts.

Table 3 Classification System		
Budget Classification		
XX ME	Ministry Ministry of Education	Alpha
X ME**C**	Program School Education	Alpha
X MEC**B**	Activity Secondary Schools	Alpha
XXXX MECB **54DA**	Cost Centre Torba Secondary Schools	Alpha/Numeric
Chart of Accounts		
X 7 8	Type Revenue Expenditure	Numeric
XXX 7 TIV 7 TLV 8 CRV 8 CRR 8 AWP	Item Vehicle Import Duty Vehicle Licences Vehicle Repairs & Maintenance Roads Repairs & Maintenance Permanent Wages	Alpha

Although the FMIS System chart of accounts set-up differs from the GFS economic reporting requirements, it can produce consistent documentation according to those standards. In addition, although not used for budget presentation purposes, information (budget and actual) can also be presented by function in accordance with the UN's classification of functions of government (COFOG). There are a total of 73 programmes each broken down into one or more activity. These activities are then broken down into one or more cost centres. A diagram showing GoV's budget structure is shown overleaf. Main ministries have cabinet support and executive management as individual programmes, other programmes vary across ministries e.g. lands management, environment, civil aviation authority and payments on behalf of government. There is currently no bridging table to COFOG's sub- functions.

Figure 1 budget structure



Comparison 2009 - 2012/On-going reforms

No changes have taken place or are planned in the classification system. Some concerns were raised about the adequacy of the program/activity format at the Ministry of Education (MoE), but this is not assessed by this indicator.

Comprehensiveness and Transparency				**Methodology**	**Score**	
PI-6 Comprehensiveness of information included in budget documentation				**M1**	**B**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Listed information (see below) available in	Recent budget documentation fulfils	B	Recent budget documentation fulfils	▪ Budget documentation	B	A[30]

[30] This was incorrectly scored in 2006

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.	5-6 of the 9 information benchmarks		5 of the 9 benchmarks,	▪ vol 1 – 3 (FY 2012)		

Assessment 2012

The Budget documentation submitted to the legislature is comprehensive, and consists of three components: i) Volume I: Fiscal Strategy Report (FSR), incorporating the Economic and Fiscal Update (Statement) and the Budget Policy Statement; ii) Volume II: Program Budget Estimates; iii) Volume III: Program Budget Narrative.

The Budget Policy Statement (BPS) re-affirms Government's long-term objectives of fiscal policy and sets out the broad strategic priorities by which the Government will be guided in preparing the estimates. This is now published in April, prior to the agreement of ministerial ceilings. The Economic and Fiscal Projections Statements sets the macroeconomic framework and forecasts on which the budget is developed. It forms the basis of the related fiscal tables included in the Government's annual Fiscal Strategy Report. This is prepared quarterly with the second set of projections published as the half yearly

Estimates for parliamentary appropriation are presented (and voted on) by program and activity. Appropriations are further broken down by program, activity, cost centre and summarised economic classification. Volume 3 of the budget documentation is prepared by the Department of Strategic Policy, Planning and Aid Co-ordination. The program budget narrative presents each program along with the key characteristics i.e. objectives, activities, means of service delivery, performance targets.

The table below summarises the availability of budget information. The indicator has been assessed on the data for the 2012 budget, which is consistent with earlier years.

Elements of budget documentation	Availability	Notes
1. Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	The Economic and Fiscal Update sets the macroeconomic framework and forecasts on which the budget is developed. In 2012, it provided projections for % changes in real/nominal GDP growth, sectoral growth figures plus current account balance and inflation.
2. **Fiscal deficit**, defined according to GFS or other internationally recognised standard	Yes	Fiscal deficit is defined in Volume I: Fiscal Strategy Report and is reflected in table on statement of financial performance. The Budget Policy Statement included in FSR includes the narrative on fiscal framework.
3. **Deficit financing**, describing anticipated composition	Yes	Deficit financing is included in Volume 1, FSR, in Economic and Fiscal projections chapter.
4. **Debt stock**, incl. details at least for the beginning of the current year	Yes	Budget documents (Volume 1: FSR) include information on external and internal debt stock, as well as a graph on Vanuatu's stock of debt in the last years.
5. **Financial assets**, incl. details at least for the	No	No information is included in the budget

Elements of budget documentation	Availability	Notes
beginning of the current year		documents,
6. **Prior year's budget out-turn**, presented in the same format as the budget proposal	No	Prior year budget outturn is not presented by administrative, program/activity.[31]
7. **Current year's budget** (revised budget or estimated out-turn), presented in the same format as the budget proposal	No	Current year's budget outturn is not presented by program activity.
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	The FSR includes summarised budget data for both revenue and expenditure for the current and previous years, the budget for the next year, and forecast for the following two years.
9. **Explanation of budget implications** of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to exp programs	No	The link between policy and budget is very weak now in the budget preparation process. Budget impact of new policy is generally not assessed.

Comparison 2009 - 2012/ On-going reforms

Revised legislation has simplified the legal presentation requirements, particularly in relation to economic forecast data. However, these do not affect the score for this indicator.

Comprehensiveness and Transparency				**Methodology**	**Score**	
PI-7 Extent of unreported government operations				**M1**	**B+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports	The level of unreported extra-budgetary expenditure other than donor funded projects is insignificant (below 1% of total expenditure)	A	Unreported central government operations are now less than 1% due to change in policy with respect to primary school fees.	▪ Interviews (DoFT), financial statements and budget documentation	C	C
(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.	Complete income/expenditure information for all loan financed projects and at least 50% (by value) of grant financed projects	B	A significant proportion at least 50% but less than 90% of grant funded projects from the major donors which involve cash transfers are recorded through the development fund.	▪ Interviews (DoFT), financial statements and budget documentation	B	D

[31] Statement of appropriations at administrative and program/activity level showing original budget, supplementary appropriations, virements and actual expenditure are produced at the same time as the financial statements, but are not currently available at time of budget submission due to delays in audit.

Assessment 2012

Dimension (i) The assessment reviews the extent of unreported (and under-reported) government operations in terms of the annual budget, in-year budget reports and final accounts. The major potential sources of unreported government operations in Vanuatu are: i) revenues from individuals for secondary school fees at government and government assisted schools; technically some of these schools do not belong to GoV but the government has done an exercise and found the fees do not represent a significant value < than 1%; (ii) revenues from individuals for hospital fees and medical charges at government and government assisted hospitals and clinics. Historically these Patient Care Fund (PCF) monies have not been managed through the government system. There is some debate as to whether these monies are fees or donations, although recognising the need to clarify management of these revenues, the government does not consider them (at approximately Vt 20 million) to be materially significant.

Expenditure and revenue received by all constitutional bodies e.g. Auditor General are accounted for in the fiscal reports. The Investment Promotion Authority and Utilities Regulatory Authority are also fully documented. For the two semi-autonomous agencies[32], salary details are fully recorded. As there are no memorandum items in the budget to the legislature, transfers may be under-reported in the budget, but this is immaterial (Vt 31 million). A limited number of other institutions (see Table 2 and Annex H) receive grants from Government to enable them to provide services for the public good. Although they raise their own revenues, their core funding is from central government, without which they cannot survive. Information on these bodies is included in the budget (and central government financial statements) as transfers. Their own audited financial statements are included in the (delayed) audit report. School grant expenditure is monitored by Ministry of Education, although the precise details of expenditure are not broken down for reporting purposes (see PI 23).

Dimension (ii) The amount of cash being provided by donors for grant-financed projects for which the government can be held accountable can be broken down into two different types. The first set includes grant-financed projects, which are accounted and reported through the Development Fund. The Development fund is included in the budget documents. In recent years, aid funding to Vanuatu has primarily been in the form of grants. The table below includes only grant-funded expenditure. The amount of funds reported through GoV's Development Fund has increased significantly since 2005. This was primarily because the Department of Finance and Treasury (DoFT) has been the fiscal agent for the Millennium Challenge Account (MCA) and significant increases in AusAID, NZAID and UN funding through the Development Fund. For the last completed financial year (2011) almost 100% of government to government cash funds come from AusAID and approximately 80% from NZAID.

Donors	2009 (Vt million)	2010 (Vt million)	2011 (Vt million)
Development fund	**4435**	**4400**	**2804**
AusAID	1088	1595	1382
NZAID	1020	468	260
MCC	1969	1847	145
EU	0	97	6

32 Vanuatu Institute of Technology and Vanuatu Institute of Teacher Education

UN(including WHO)	147	187	188
Japan	67	78	642
China	1	3	7
France	1	14	32
Others	113	113	142

Source: Note 4 Financial Statements 2009 - 2011

The second set relates to those grant-financed projects, which are recorded as 'aid in kind' in the budget and is a combination of cash and 'true' aid in kind and which are managed completely outside the Government systems through separate project accounts held by the line ministries in commercial banks. Information on these fund activities and other regional (but financially less significant) has not been routinely submitted to the MFEM.

In the period under review, the government only had one active loan and this was from the Government of China for the E-government project, and relates to a loan agreed in 2008. The total loan facility from China is Vt 3,283 million and is included in the debt records (see PI 17). According to the financial statements[33], Vt 1,000 million has been on lent to Air Vanuatu for the purchase of Y12 aircraft from China and Vt 657 million was drawn down for the e-government project. The funding for the purchase of the aircraft is shown as an advance to Air Vanuatu and the E-government project as a capital works in progress in the statement of financial position. When the E-government project is finished the work will be capitalised and will be classified under plant & equipment and computer hardware and software.

The predictability of budget support is assessed in D1. Information on Aid in Kind, technical assistance and projects (grant and loan financed) managed totally by donor agencies, is assessed in indicator D2. The extent to which national procedures are used is discussed in D3. In GoV's financial statements, contributions from donors include only those contributions that have been received in cash for specific projects. Revenue, expenses and capital purchases for these projects are accounted for in full within these Statements. Aid in Kind, technical assistance, expenses and capital purchases that have been paid for, or provided directly by external donors are not included as revenue in these statements.

Comparison 2009 - 2012

The Government's new policy with respect to primary school education means that a school grant system is now in place. This therefore eliminates the problem whereby school fees were unreported and associated expenditure unaccounted. There has been no significant change in the proportion of donor funds (in value terms) being accounted and reported through the Development Fund. The decline in value terms is related to the closure of the MCA assistance in 2010.

Comprehensiveness and Transparency				**Methodology**	**Score**	
PI-8 Transparency of inter-governmental fiscal relations				**M2**	**B**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006

[33] Detailed statement of borrowings

(i) Transparency and objectivity in the horizontal allocation among SN governments	The horizontal allocation of almost all transfers (at least 90% by value from central government is determined by transparent and rules based systems	A	The allocation (Vt 234 million) is divided equally between the six provinces. Port Vila does not receive funding. Payments for Lenakel are made directly. In terms of the Performance Indicator (PI), this represents a transparent and rules based system.	▪ Financial statements, budget documentation and interviews (Min internal affairs – dept of local authorities)	A	A
(ii) Timeliness of reliable information to SN governments on their allocations	SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals so that significant changes are still possible	B	The budget preparation process for provincial governments matches central government. Allocations are advised prior to their approval by the council in August. Only Luganville municipality has a delay in terms of its financial calendar; however amounts have remained consistent for many years. Actuals have been in line with budgets	▪ Interview (Dept of Local authorities); ▪ Financial statements and budget documentation	B	B
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% by value of SN government expenditure or if a higher proportion is covered consolidation into annual reports takes > 24 months delay if at all	D	The GoV does not prepare general government accounts (central and sub-national) and fiscal information consistent with the central government reporting is not yet collected.	▪ Financial statements	D	D

Assessment 2012

Sub-national government in Vanuatu is governed by the Municipalities Act (CAP 126) and the Decentralization and Local Government Regions Act (CAP 127). Despite provisions within the Constitution and decentralisation legislation, many functions, which should be legally the responsibility of the six Provinces are still managed at a national level. There are now three municipal councils Port Vila (Efate), Luganville (Santo) and Lenakel (Tanna), the latter being created as an appointed body rather than an elected body in 2008. Funds being transferred from central government to sub-national government represent only a small percentage (about 1.8%) of total government financed expenditure. The value of own income of the provinces and Luganville is relatively small, but it is understood that Port Vila has income of approximately Vt 300 million[34].

[34] Based on interview with department of local authorities.

Dimension (i) The grant to provinces of Vt 234 million is divided equally between the six provinces and does not bear any relation to the population to be served. The Decentralisation Review Commission (DRC) made some recommendations in terms of a formula-based system based on population and need, but this has not been implemented. Only Luganville received a transfer (Vt 9.75 million). Payments for Lenakel are being made directly by the Ministry of Internal Affairs.

Dimension (ii) Provincial governments share the same financial year as the central government and for the period under review, grants have been broadly the same. The ceiling for the Ministry is provided in the budget circular and the grant to be given to the Provinces advised to them before the Council approves the annual budget. The budget is also presented to the Minister for Internal Affairs for his/her approval. Actual transfers have been in line with budget for the last few years. The Luganville municipal council has a July to June financial year compared with the central government January to December cycle. This means that the Luganville municipal council must finalise its budget before central government contributions have been confirmed. However, Luganville has been allocated and received broadly the same amount for several years

Dimension (iii) Provincial government accounts are audited by the Internal Auditor before submission to the Auditor General. Since the last assessment, it is understood that the timeliness of account preparation has improved with accounts being prepared to 2010[35]. Due to the late/non-production of accounts, the GoV does not prepare general government accounts (central and sub-national) and fiscal information consistent with the central government reporting is not yet collected.

Comparison 2009 – 2012/ On-going reforms

There have been no major changes since 2009, although the improvement in the timeliness of the provincial government accounts is noted. The amendments of the Decentralisation Act and Municipalities Act in 2011 brought key senior positions in local government under the Public Services Commission regulations. The PSC has appointed the Secretary Generals in the Provinces and Town Clerks and Accountants in Port Vila and Luganville. Other posts are waiting for funding. Other aspects of the decentralisation policy are still outstanding.

Comprehensiveness and Transparency				**Methodology**	**Score**	
PI-9 Oversight of aggregate fiscal risk from other public sector entities				**M1**	**D↑**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Extent of central government monitoring of AGAs and PEs	No annual monitoring of AGAs or PEs takes place or is significantly incomplete	D↑	GBE unit does not receive information on GBEs in a timely manner, which delays completion of financial statements.	▪ GBE listing of current status ▪ Financial statements	D	D
(ii) Extent of central government monitoring of SN government's fiscal position	No annual monitoring of SN government fiscal position takes place or is significantly incomplete	D	The Ministry of Internal Affairs now monitors the provincial government's use of		D	D

[35] Awaiting confirmation from auditor general

			central government grants, but monitoring of SN government's fiscal position is significantly incomplete.			

Assessment 2012

Dimension (i) In the financial statements, contingent liabilities and contingent assets are recorded in the Statement of Specific Fiscal Risks at the point at which the contingency is evident.

The status of current information for those government business enterprises (GBEs) monitored by the GBE unit in MFEM is shown below. Although the MFEM account for direct payments made to, and dividends received from the GBEs each year, the absence of up-to-date financial data makes it difficult for the government to assess the true extent of fiscal risk, or of the economic impact of the sector. These fiscal risks are likely to include the potential for arrears with major suppliers, accruing of debts and non-servicing of loans; however without hard evidence in the form of audited financial accounts, it is not possible to quantify the size of these risks.

Company	Holding		Accounts status	End of Financial Year	Status of Accounts	Name of Auditor	Operational Status 2012
	2009	2012					
Companies incorporated under Companies Act (CAP 191)							
Air Vanuatu (Operations) Limited	100%	100%	2010	31 Dec	Audited	Law Partners	Active
Airports Vanuatu Limited	100%	100%	2010	30 Sep	Audited	Law Partners	Active
Ifira Wharf & Stevedoring (1994) Limited	34%	34%	2011	30 May	Audited	Barrett & Partners	Active
Metenesel Estates Limited	99.40 %	99.4%	2003	30 Jun	Audited	Business Management Services	Inactive
Northern Islands Stevedoring Limited	10%	10%	2006	N/a	Audited	Hawkes Law	Commissioned
Vanuatu Post Limited	100%	100%	2010	31 Dec	Audited	I Count Ltd	Active
Vanuatu Abattoirs Limited	33.9%	33.9%	2011	31/12	Audited	James Kluck & Associates	Active
Vanuatu Livestock Development Ltd	100%	100%	2003	N/a	Audited	Business Management Services	Inactive
Non- Commercial under their own Act							
Asset Management Unit	100%	100%	2006		Audited	Ezy Business Accounts	Operations completed
Reserve Bank of Vanuatu	100%	100%	2010	31 Dec	Audited	PWC	Active
Vanuatu Commodities Marketing Board	100%	100%	2002	31 Dec	Audited	Tatalele & Co	Commissioned

Company	Holding		Accounts status	End of Financial Year	Status of Accounts	Name of Auditor	Operational Status 2012
	2009	2012					
(VCMB)							
Vanuatu Tourism Office	100%	100%	2010	31 Dec	Audited	Barrett & Partners	Active
Utility Regulatory Authority	100%	100%	2010	31 Dec	Audited	AJC	Active
Vanuatu Financial Services Commission	100%	100%	2009	31 Dec	Audited	OAG	Active
Telecommunication & Radio-communication Regulator	100%	100%	2011	31 Dec	Audited	Law Partners	Active
Vanuatu Investment & Promotion Authority	100%	100%	2011	31 Dec	Audited	Law Partners	Active
Commercial under their own Acts							
National Bank of Vanuatu	100%	100%	2011	31 Dec	Audited	Law Partners	Active
National Housing Corporation	100%	100%	1997	31 Dec	Audited	OAG	Active
Vanuatu Agriculture Development Bank	100%	100%	2011	31 Dec	Audited	Business Management Services	Active
Vanuatu Broadcasting & Television Corporation	100%	100%	2003	31 Dec	Audited	OAG	Active
Vanuatu National Provident Fund[36]	100%	100%	2011	31 Dec	Audited	Barrett & Partners	Active
Total							

Source: GBEU monitoring unit and GoV annual report 2011

Dimension (ii) Provincial governments are allowed to raise taxes, but they are not allowed to raise loans[37] without the approval of the Minister of Finance. The Ministry of Internal Affairs now monitors the provincial government's use of central government grants (expenditure). Reports on the use of funds should be received before the release of the next month's funds, this is not consistently followed but reports are followed up by the Ministry's internal auditor; however, there is no monitoring of fiscal risk e.g. non-payment of suppliers, employees.

Comparison 2009 -2012

There has been a marked improvement in the timeliness of the preparation of accounts for many of the enterprises.

[36] Monitoring of VNPF has been assigned to the Reserve Bank

[37] Ref PFEM Act.

On-going reforms

In its planning matrix, the Government has set out its policy to review the performance of GBEs and where necessary abolish or institute reforms as required. ADB and AusAID have offered joint assistance, but the whole process is experiencing some delays. Legislation is still required to facilitate the MFEM monitoring process.

Comprehensiveness and Transparency				Methodology	Score	
PI-10 Public access to key fiscal information				**M1**	**C**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Number 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.	The government makes available to the public 1-2 of the listed types of information.	C	Only limited Budget documentation is readily available to the public. The indicator has therefore been scored as 1 out of 6.	▪ Interviews Chamber of Commerce ▪ PIPP ▪ Website review ▪ Interviews Budget	C	C

Assessment 2012

There is no Freedom of Information Act in Vanuatu and public access to information is limited. The MFEM publishes the Budget Policy Statement (BPS) at the same time as it is distributed through government. According to the PFEM Act (10.3), any member of the public may make a written submission to the Public Accounts Committee (PAC) within 14 days of notice in respect of that Budget Policy Statement. However as the PAC has not been operational for budget review purposes, this avenue has not been open to the public.

A summary of the Half-Year Economic and Fiscal Update is published in July in the local newspapers. A summary of the Fiscal Strategy Report incorporating the Economic and Fiscal Statement is published in November *before appropriation*. The entire budget documentation, including Parliamentary appropriations is available <u>after</u> the Appropriation Act is passed. For the period of the review, the MFEM website contained some information but it did not appear to be up to date. Public demand for information is limited, civil society advocacy for improved government performance is also reported to be weak and the media lacks technical capacity to initiate budget discussion.

Required documentation	Availability	Comments
Annual budget documentation when submitted to the legislature	No	Documentation is provided free to public bodies e.g. universities, libraries only <u>after</u> appropriation. Other copies are sold, but the price is high. However, the Budget Policy Statement is published in April in the local newspapers. Budget documentation is not yet available on-line.
In-year budget execution reports within one month of their completion	Yes	The Half Year Economic and Fiscal Update has been published in local newspapers since 2007.
Year-end financial statements within 6 months of completed audit	No	There is no legal requirement for the audited financial statements to be made public separately from the Auditor General's report. Due to the absence of an Auditor General and the subsequent delays in the finalisation of audits, these have not been available to the public.

External audit reports within 6 months of completed audit	No	Once tabled in Parliament, the reports should be available on request. Although the 2007 Audit Report has been tabled, it still has not been made available to the public.
Contract awards (app. USD 100,000 equiv.) published at least quarterly	No	Not publicly available.
Resources available to primary service unit at least annually	No	Not publicly available.

Comparison 2009 – 2012/On-going reforms

No real change. A draft freedom of information policy has been written.

3.3. Policy-based budgeting

The indicators in this group assess to what extent the budget is prepared with due regard to government policy. The following paragraphs provide the detailed information to support the 2012 scores, to compare the changes since 2009 and to provide a brief overview of any On-going reforms designed to address some of the identified weaknesses.

Policy Based Budgeting				**Methodology**	**Score**	
PI-11 Orderliness and participation in the annual budget process				**M2**	**A**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Existence of and adherence to a fixed budget calendar	A clear annual budget calendar exists but some delays are often experienced in its implementation. The Calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.	B	The budget process and calendar is clearly set out and allows at least 4 week. A cut off date is set for submission of data to the VBMS. Some extensions have been allowed but the number had been reducing.	▪ Financial Circular no' 7 of 2011	B	B
(ii)Clarity/comprehensiveness of and political involvement in the guidance and preparation of budget submissions (budget circular or equivalent)	A comprehensive and clear budget circular is issued to MDAs which reflects ceilings approved by Cabinet (or equivalent) prior to the Circular's distribution to MDAs	A	The Budget Circular is comprehensive and clear and reflects the ceilings. The budget ceilings for the last three years were approved by the MBC and CoM before the distribution of the circular to line	▪ Financial Circular no' of 2011	A	A

			ministries.			
(iii)Timely budget approval by the legislature or similar mandated body (within the last three years)	The legislature has, during the last three years, approved the budget before the start of the fiscal year.	A	The Budget was approved as follows:2010 - 31/12/09; 2011 – 28/12/10; 2012 – 20/12/11	▪ Appropriation Acts, no' 45 of 2009; no' 32 of 2010 and no' 20 of 2011	C	A

Assessment 2012

Dimension (i) The PFEM Act and regulations sets out the general calendar for the budget preparation process. The detailed budget timetable is set out on annual basis (see Annex M and N) both for Government financed spending (primarily recurrent, small capital) and donor grant financing into the development fund (mainly for capital spending). Ministries prepare their budget submission based on a cabinet approved Government financed expenditure ceiling and then prepare submissions fo new projects to receive funding either from Government or donors. For the preparation of the 2012 budget, the initial calendar was issued in February 2011 and a revised calendar with the budget circular on 22nd July 2011. The initial cut off date for budget submissions was the 22nd August 2011 for 2012 budget[38] thus allowing ministries just over four weeks for budget preparation. In reality, they had already been given indications of the budget direction for the preparation of their budget narrative.

Dimension (ii) Policy priorities are determined, and since the 2009 budget, policy priorities were discussed between PMO[39] and MFEM) and a Budget Policy Statement (BPS) produced for approval by the Minister of Finance. This is published in April of each year. The ceilings are then set by MFEM based on the macroeconomic framework and policy priorities. These resource envelopes are then presented and endorsed first by the Ministerial Budget Committee (MBC) and after that by the Council of Ministers (CoM). The Budget Circular including ministerial ceilings is then distributed to line ministries. It is then the responsibility of the line ministries to prepare their budgets within their overall ceiling. Line ministries have the opportunities to defend their budget including any New Policy Proposals (NPP) at the MBC hearings in August/September[40]. Agreed budget submissions are approved by the CoM before their submission to the Parliament.

Dimension (iii) The 2009 revisions to the PFEM Act now require that the Bill for an Appropriation Act be introduced into Parliament at least 30 days before the start of the Financial Year. In practice for the period 2010 to 2012, the budget was approved as follows:

- FY2010 was approved on 31/12/2009
- FY 2011 was approved on 28/12/2010
- FY2012 was approved on 20/12/2011

Comparison 2009 – 2012/On-going reforms

There was no major change in this indicator over the period. Late appropriation of the budget in 2009, and thus a lower score was the result of the elections and occurs every fourth year. Provisions are now in place in the legislation to ensure that government operations can continue, until such time as the budget is passed. Updating of the financial regulations is on-going.

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[38] A longer time period was allowed for earlier years.

[39] Department of Strategic Policy and Aid Co-ordination.

[40] The Line ministry present their budget submission, which includes their corporate and business plans incorporating the detailed budget figures and service targets.

Policy Based Budgeting				Methodology	Score	
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting				**M2**	**C+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Preparation of multi-year fiscal forecasts and functional allocations	Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis	C	Fiscal aggregates for revenue and expenditure (economic classification) are prepared for three years, including the budget year. The link between the previous year's projections and the subsequent budget ceiling is not clear.	▪ Fiscal strategy reports	C	C
(ii) Scope and frequency of debt sustainability analysis	DSA for external and domestic debt is undertaken at least once during the last three years	B	A debt sustainability analysis for external and domestic debt was carried out by the by GoV and IMF in 2011.	▪ Fiscal strategy report 2012	B	D
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	Statements of sector strategies exist for several major sectors but are substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts	C	Some costed strategies (education, water and health) have been prepared (representing >25% of total expenditure) but relationship with fiscal forecasts is recognised to be extremely weak.	▪ Annual report 2011 ▪ Interviews (DSPPAC) ▪ Review of PAA September 2012	C	D
(iv) Linkages between investment budgets and forward expenditure estimates.	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budgets only in a few (but major) cases.	C	Although a unified budget has been established, a structured and prioritised Investment programme has not yet been established. While recurrent cost implications have not been ignored e.g. road maintenance fund for MCA roads, the process has not been formalised.	▪ Interviews (DSPPAC) and Budget ▪ Review of PAA September 2012	C	C

Assessment 2012

Dimension (i) Multi-year budgeting is in its infancy. There is no medium-term strategic framework. At present projections of fiscal aggregates for revenue and expenditure are prepared for three years, including the budget year. These are presented according to economic classification e.g. salary and wages, in accordance with GFS 2001 standards. Fiscal aggregate projections are not prepared by functional e.g. education or health or sector classification. The fiscal strategy report explains the changes in GDP from the previous year at a sector level e.g. services sector, but the link between the previous year's projections (for example for 2012[41]) and the subsequent budget ceiling for 2012 is not clearly set out or differences explained.

Dimension (ii) The Treasury undertook a detailed Debt Sustainability Analysis jointly with the IMF in 2011. That analysis found that the current stock of debt was manageable as was the forecast increase in borrowing due to major infrastructure works. There may be challenges in terms of the flow of debt payments in the future but currently these are forecast to be well within internationally recognised prudential limits. The situation may become more precarious if some contingent liabilities are actualised.

Dimension (iii) Ministries prepare three year corporate plans and an annual business plan. The annual business plan forms the basis for the budget narratives. Some ministries or sectors e.g. education, water and health have also prepared partially costed sector strategies. However, the relationship between the costed strategies and the budget is recognised to be extremely weak and as indicated in a number of reports[42], the overall quality of costing and budget preparation at the ministerial level is weak. The Health Sector Strategy 2010-2016 (HSS) stipulates the vision for the country's health sector development and is being used to underpin coordination with a health development partners group to align the assistance of development partners in a better-coordinated fashion.

As noted in the review of the PAA, many problems were caused by poor linkages between the PAA policies, the PLAS policies, sector strategies, corporate plans and business plans, and budget programmes and narratives. The weak linkages and multiple, disparate objectives lead to a lack of clarity on priority actions and outcomes for line ministries. Given Vanuatu's limited human and financial resources, maintaining a keen focus on priority outcomes is recognised to be essential.

According to the review, the lack of alignment between levels of planning and budgeting is of particular concern. Budget allocations to nationally agreed priorities are unclear and there is a lack of information about how resource allocation decisions are affecting ministry performance in achieving policy objectives. In addition, there is little pressure for ministries to demonstrate that policy objectives are being achieved. Overall accountability for delivering the results outlined in the PAA is weak, and there is therefore little pressure to collect information to show that policy objectives are being achieved.

Dimension (iv) In 2010, GoV introduced its unified budget, although still retaining the government investment programme. This maintains details of all projects awaiting funding and is not prioritised. Donor projects to the value of more than Vt 10 million should be approved by the MBC as part of the budget preparation process. An appraisal of the proposed project should include an assessment by DSPPAC of the recurrent cost implications and while it would be incorrect to state that no recurrent cost implications are considered, the process is not formalised. The Millenium Challenge Account (MCA) funded roads projects ended in 2010 and since this time, the Government has ring-fenced VT 500 million in its budget as a road maintenance fund to maintain the MCA-funded but also other

[41] Projected current expenditure for 2012 in the fiscal strategy report was Vt 13.789 billion, the subsequent ceiling in the budget circular is Vt 15. 438 billion.

[42] Financial management assessment for implementation of the Vanuatu Education Sector Strategy

roads across the islands. However, this is not a separate fund per-se but just a budget line that should be specificially used for road maintenance.

Comparison 2009 – 2012/ On-going reforms

Work is on-going to improve policy preparation, a review of the PAA has been carried out and the next PLAS is being developed. A costed strategy for the health sector has also been established. However, the unified budget is not operating as well as anticipated in part due to difficulties in aid co-ordination. No change in scores

In order to improve implementation and the progress in achieving policy objectives, government, through the PM's office, will work with PSC and line ministries towards the:

- Simplification and coordination of these 'layers of plans' to ensure they are aligned, particularly to budget programmes. The PAA Action Plan for each Strategic Priority will be linked directly to the new format Corporate Plans, which should be directly aligned with Budget programmes, narratives and indicators.
- Incorporation of achievement of corporate plan and budget programme objectives into public service performance management.

Currently there are also plans to introduce a more medium-term perspective to government budgeting with the introduction of sector medium-term expenditure plans.

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. The following paragraphs provide the detailed information to support and explain the 2012 scores, and where relevant to compare these with the 2009 and any on-going reforms designed to address some of the identified weaknesses.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-13 Transparency of taxpayer obligations and liabilities				**M2**	**B**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Clarity and comprehensiveness of tax liabilities	Legislation and procedures for most but not necessarily all major taxes are comprehensive and clear with fairly limited discretionary powers of the government entities involved	B	VAT legislation is relatively clear, although now regarded to be somewhat outdated. Schedule III of the current import duty act has been amended to improve transparency over the administration of exemptions. Value of exemptions is reported.	▪ VAT Act, ▪ Schedule III of the Import Duties Act ▪ interviews (DoFT and CIRD)	C	C
(ii) Taxpayers' access to information on tax liabilities and	Taxpayers have easy access to comprehensive, user friendly and	B	Information on tax liabilities and procedures for major taxes (VAT/customs) is provided directly by the CIRD with	▪ Interviews, brochures and website www.customsinlan	B	C

administrative procedures	up-to-information on tax liabilities and administrative procedures for some of the major taxes while for other taxes the information is limited.		offices now in all 6 provinces as well as through its website[43]. Information on other rates and taxes is not so well known	drevenue.gov.vu		
(iii) Existence and functioning of a tax appeals mechanism	A tax appeals system of administrative procedures has been established but needs substantial redesign to be fair, transparent and effective	C	Clear administrative procedures are in place for VAT and other taxes, and have dealt with most cases. An independent VAT tribunal is established under law but at the time of the assessment, no members were appointed. For other taxes, final recourse is with the court system.	▪ VAT Act ▪ interviews (CIRD)	B	B

Assessment 2012

Dimension (i) The Customs and Inland Revenue Department (CIRD) is responsible for the collection of tax revenue (import duties, VAT and other rates and taxes e.g. business licences) in Vanuatu. Other fees and charges are collected by individual ministries and monitored by the Revenue section of the Department of Finance and Treasury (DoFT).

Taxpayers' liabilities are set out in the VAT and the Import Duties Act (as amended). Legislation for VAT is relatively straight-forward[44]; although it is recognised by CIRD that the laws need to be reviewed and updated to meet current international business procedures, the feasibility of having a tax administration act is also being considered. Goods that are imported and meet certain conditions as detailed in Schedule III of the Customs Import and Export Duty Tariff are either exempt from duty or liable to duty at lower rates than would normally apply. The granting of exemptions is however now done through an exemptions committee rather than at the discretion of an individual or individuals. In the past few years as noted in PI 3 a significant proportion of exemptions are for authorised donor projects (in receipt of a Government Investment Programme (GIP) number).

Dimension (ii) Information on VAT liabilities is available from the VAT office and awareness campaigns have been conducted in the past on Efate. Billboards in prominent positions (opposite central market) remind people of the dates of submission and other information. An advisory service is offered in conjunction with the registration process, and offices in the provinces combine advisory and collection programmes. Since the 2009 assessment, CIRD has established its own informative website, which contains information on e.g. legislation and regulations, procedures as well as various forms. Access to information on tax liabilities and administrative procedures has also been improved through the opening of offices in all six provinces. For import duties, major importers have direct access to the system. Information on other rates and taxes is recognised to be weaker.

Dimension (iii) Successful resolution of most cases (for VAT and import duties) has been achieved through the set of clear administrative procedures[45], which have been established within the

[43] Some data is in need of updating but the draft customs regulations of 2012 are available for consultation.

[44] Tax policy issues in relation to the rating of goods e.g. zero-rated or exempt is not reviewed in this indicator.

[45] This policy has been recommended by the technical assistance due to the cost and delay in processing appeals through the court system.

Customs and Inland Revenue Department. As noted in the previous assessment, the establishment of an independent VAT tribunal is set out in the legislation. It is understood now that members have not been appointed to the tribunal. For disputes over import duties, taxpayers only have final recourse to the Court system (magistrate, supreme) in appealing against their tax assessment. Land issues are dealt with by the land courts.

Comparison 2009 - 2012/On-going reforms

CIRD is receiving technical assistance for both Customs and VAT. Several reforms are on-going and changes in legislation (schedule III) means that granting of exemptions is more transparent. At the time of this assessment, the VAT tribunal was not operational as no members had been appointed. There has been an apparent deterioration in scores, as in the 2009 assessment the assessors understood that the legislation for a tribunal had been set up and members had also been appointed, but the tribunal had not met.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-14 Effectiveness of measures for taxpayer registration and tax assessment				**M2**	**B**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Controls in taxpayer registration	Taxpayers are registered in a database system for individual taxes, which may not be fully and consistently linked. Linkages to other registration and licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers,	C	Currently there is no single TIN. Taxpayers may be registered on both the Asycuda system as well as the RMS system. The same number is used for business licenses and VAT registration.	▪ Interviews CIRD	C	C
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration.	Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration	B	Penalties exist for non-registration/non filing (VAT) and have been supplemented by on- the-spot fines. These are now deemed to be adequate. Penalties exist for import duties but without timelines. Other rates and taxes have less clear penalty systems.	▪ Legislation ▪ Interviews (CIRD)	B↑	B
(iii) Planning and monitoring of tax audit programmes.	Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self assessment	B	Risk based audits are in place for Customs and VAT. The RMS system identifies 4 categories for further audit including refunds. Post importation checks on import duties are based on an assessment of likely returns.	▪ Interviews (CIRD)	B	B

Assessment 2012

Dimension (i) Import duties are administered through the Asycuda system, The ASYCUDA++ system is currently linked to the Port Vila Customs offices at the Airport Cargo Shed, the International Airport Arrival office, the Main Wharf, the Post Office, the ITS office, the Customs Compliance and Audit offices, and the Customs administration offices. The system is also accessible on the island of Santo. There are over 200 users on the system, both within Customs and the 80 plus Customs Brokers who access the system from their own business premises.

VAT and other rates and taxes are maintained on a windows based or Revenue Management System (RMS). Although manual checks are made, currently there is no direct link between the two systems and there is no unique Tax Identification Number (TIN). VAT and business licenses share the same number in the majority of cases. In some of the more remote provinces, business licences are administered by the provincial government and therefore are assigned a different number, these are not material in number.

Dimension (ii) Penalties exist for non-compliance with VAT registration and for non-filing of VAT returns. Non-filing of returns incurs a 10% penalty for month 1 and a further 2% for every subsequent month. A new penalty system for VAT law infringements providing for on-the-spot fines was also introduced in 2007 to improve voluntary compliance. Enforcement has also been strengthened in the review period. Penalties exist for non-payment of import duties, although goods are not released until payment in all cases. Penalties for non-payments of other rates and taxes e.g. vehicle licensing is the responsibility of the Police and is reported to be not strictly enforced.

Dimension (iii) Tax audits and fraud investigations continue to be carried out by the VAT audit section of the CIRD. This section carries out a number of different types of audits, which are based on specific reports produced by the RMS e.g. refunds. Other tax audit and fraud investigations are planned based on an assessment of risk and value for money, concentrating on the high-value taxpayers. In terms of auditing customs duties, a system of post-importation checks is carried out again concentrating on high-value and ...importers.

Comparison 2009 – 2012/On-going Reforms

Improvements in enforcement in VAT are reported to have improved compliance. There is also on-going assistance in Customs to improve the efficiency and effectiveness of operations. A study has recently been completed on the feasibility of linking the two main systems and plans are in place to upgrade the RMS and to Asycuda World. There is reported to be a growing private sector awareness of the necessity of keeping receipts and maintaining business records.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-15 Effectiveness in collection of tax payments				**M1**	**D+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(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).	The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections)	D	Total VAT arrears represent about 10% of annual collections. This figure has not changed significantly over the period. Customs do not have an arrears problem as goods are not released ahead of payment.	CIRD	N/R	D

ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	A	VAT revenue is banked directly with the Reserve Bank of Vanuatu (RBV) in Vila and with the NBV in Santo. Other revenue is also transferred to Treasury daily in Efate.	Interviews CIRD	A	A
iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place annually within 3 months of end of year	C	VAT is reconciled on a regular basis (at least monthly) but complete reconciliation of all revenue (tax and non tax) is only done annually.	Interviews CIRD	D	D

Assessment 2012

Dimension (i) Tax revenue arrears relate to VAT as Customs does not release goods until payment is made. As shown in the table below, as a result of significant efforts by the VAT unit, the number of cases with outstanding amounts less than 12 months old has reduced significantly over the period, although the associated value did increase in 2011. Approximately 50% of outstanding arrears belong to the State Owned Enterprises. These have proved to be particularly difficult to collect. Furthermore some of the older debt belongs to organisations which are no longer in the VAT threshold and therefore is unlikely to be collected.

Total VAT arrears represent approximately 10% of annual VAT collections for all three years. From the data available it is not possible to calculate precisely the average annual debt collection ratio, however it can be deduced from the figures below that this is still low because of difficulties with government enterprises and the need to write off some of the debt.

VAT Arrears for the period 2009 - 12						
	2009	**2009**	**2010**	**2010**	**2011**	**2011**
	Number of cases	*Value (Vt)*	*Number of cases*	*Value (Vt)*	*Number of cases*	*Value (Vt)*
Less than 12 months overdue	994	409,287,469	832	350,728,342	768	467,337,785
12 or more months overdue	1308	59,953,349	1622	62,785,671	1753	54,512,464
Total	2,302	469,240,818	2,454	413,514,013	2,521	521,850,249

Dimension (ii) In terms of timely deposit of funds, all tax revenue is deposited into MFEM managed accounts. VAT revenue is banked directly with the Reserve Bank of Vanuatu (RBV) in Vila and with the NBV in Santo. In Vila, collections of import duties and other rates and taxes are cashed with the MFEM chief cashier by the CIRD cashier on a daily basis. In Santo import duties are deposited on a daily basis with the NBV. In outlying islands revenue is deposited monthly, but this is a relatively small amount. VAT revenue is managed by the CIRD to enable it to pay refunds on a timely basis[46]

[46] Vanuatu is regarded as one of the best countries in the region for the efficient handling of VAT refunds.

Dimension (iii) There are no direct links between the tax systems and the FMIS, complete reconciliation between data held by the Treasury and information maintained by the CIRD (tax assessment, arrears, collections and transfers/deposits) is done at year end. Reconciliation is done for VAT on a monthly basis.

Comparison 2009 - 2012/On-going reforms

As noted in the previous two indicators a number of reforms are on-going to improve tax administration, some of which have started to impact on the dimension scores.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-16 Predictability in the availability of funds for commitment of expenditures				**M1**	**B+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(I) Extent to which cash flows are forecasted and monitored.	A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows.	B	The cashflow forecasts are prepared on a fiscal year basis and the cashflow is updated at least quarterly. Monthly warrants are released by MFEM and checked by Budget Division.	▪ Interview ▪ Financial Regulation 3.1 ▪ Financial Regulation 12.3 ▪ Example of monthly breakdown of budget (Education Summary by Month)	B	B
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.	A	Ministries project their own cashflow requirements within their respective approved fiscal ceiling. Warrants are released monthly by Budget Division MFEM based on the Ministry cashflows. Within the period in review, Ministries can rely on the approved cashflow forecasts to commit expenditure for operational purposes.	▪ Interview ▪ Observation, Approval of warrants in SmartStream-Budget Release Request. ▪ 2012 Budget Guidelines	A	C
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.	A	There are strong controls over virements between MDAs. Section 34A precludes any virements between MDAs unless appropriated through a Supplementary Appropriation Act	▪ Interview ▪ Financial Regulation 12.9 (1) ▪ Section 39 (4), PFEM Act 1998 ▪ Section 34A, PFEM Act, 1998 (2009) ▪ Section 34B, PFEM Act, 1998 (2009)	A	A

To achieve effective execution of the budget, MDAs require a level of certainty on the availability and timing of funding. The Ministry of Finance and Economic Management, as part of the Budget Circular and Financial Regulation 12.3, require MDAs to provide monthly cashflow forecasts to support their expenditure of recurrent and capital inputs as part of the budget generation process. A Cashflow Committee, with the primary role of cash management, provides some level of oversight. Until the end of 2011, the MDAs could rely on the monthly warrants being executed without adjustment and at the beginning of each month. The key points are:

- Monthly warrants (amounts) are based on cash flow requirements submitted by ministries into VBMS as part of budget preparation process (August of preceding year). Funding requests are profiled across the fiscal year to reflect expected expenditure patterns
- Once the budget has been approved, cash flows can be updated by the spending ministry until 31 March of each financial year.
- Warrants for payroll are released bi-monthly in accordance with payroll runs.
- Each ministry has continued to receive its full annual warrant provision, as MFEM have borrowed on domestic market to counter any shortfalls in revenue.

If a ministry does not have sufficient funds in the month's warrant, they can request an advance, which should be supported by a revised cash flow. All New Policy Proposals (NPP) are placed in month 12 to be drawn down as required but with justification to avoid ministries using the NPP as additional resourcing. The advance request is reviewed by Budget who should check it is for 'proper' spending. If considered appropriate, they will release the funding (provided it does not exceed the overall amount for the year). In broad terms, ministry allocations are predictable, although it would help if they were better at cash and procurement planning.

Essentially MFEM are using monthly system for two purposes – assist with cash planning and as a check on the correctness of ministry spending.

Assessment 2012

Dimension (i) Annual cash outflows are prepared by ministries as part of their budget submission. Ministries can review their cash flow requirements up until 31 March. As noted in PI 17, the main cash balances are calculated and consolidated daily. The Government Cashflow Committee, for the period 2009 to 2011, met on a monthly basis to assess the liquidity situation and to decide on action to be taken with respect to maturing loans. Furthermore, for 2012, the Cashflow Committee has only met on an ad hoc basis which could pose problems in cashflow management when, in a time of fiscal constraints, a key management control is not operating.

Dimension (ii) The GoV operates a monthly warrant system (actual authorisation for release of funds), cash releases have not differed from budgeted appropriations for many years. Predictability of funding is further enhanced by legislation, whereby appropriations cannot be transferred between agencies without appropriate approvals. Currently, Treasury provide one half of the monthly tranche at the beginning of the month and the remainder mid month. In late 2011, and in response to cashflow crises, MFEM introduced half warrants at the beginning of the month and the remaining half in the middle of the month for operational expenditure. In terms of payroll, there is a high level of reliability and predictability. If a ministry does not have sufficient funds in its warrant it can request an advance. In the past, this would have been accompanied by an updated cashflow requirement. As we understand it, this financial control is no longer operating.

Dimension (iii) Section 34 provides legislative restrictions on the virement of budget allocations between MDAs. Section 34B and Regulation 12.9 manage budget adjustments within MDAs and require the Director General to provide an explanation to Parliament. Reallocations between departments or ministerial offices within a ministry are considered in PI 27.

Comparison 2009 – 2012

There are no major changes since the last assessment. We note the shift by MFEM to splitting the payment of the monthly warrants. However, this has only materially occurred in 2012 which is outside our scope for this PI.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-17 Recording and management of cash balances, debt and guarantees				**M2**	**C+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Quality of debt data recording and reporting.	Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognised. Reports on debt stocks and service are produced only occasionally or with limited content.	C	MFEM effectively operates three systems for debt recording. The CS-DRMS only lists the name of the external debt record. A spreadsheet is used for domestic debt. The FMIS manages all debt related payments and transactions. Reporting is on annual basis and provides a summary of debt management.	▪ Interview ▪ Government Debt Report Summary 2012, dated November 2012 ▪ Observation ▪ Financial statements – statement of borrowings	C	C
(ii) Extent of consolidation of the government's cash balances.	Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.	B	The main Government bank accounts are held with the Reserve Bank and regularly reconciled and consolidated. School accounts held by the NBV, with some donor accounts held by commercial banks.	▪ Interview ▪ Listing of GoV Consolidated and Operating Bank Accounts (2012)	B	B
(iii) Systems for contracting loans and issuance of guarantees.	Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.	C	Only the Minister for Finance can enter into Loans on behalf of GoV (S53 PFEM Act). An amendment to the PFEM Act in 2012 requires the Minister to report to Parliament on loans. S60 provides details on guarantees and indemnities. The weakness is that there is no ceiling, similar to debt, for guarantees.	▪ Part XIII, MFEM Act ▪ Section 54 (3A) (2012) ▪ Audited Financial Statements FY2005 to 2009 ▪ Audited Financial Statements FY2010 ▪ Principles of responsible fiscal management, Section 22, PFEM Act	C	C

The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over. MFEM deploys three essentially separate systems for recording and managing debt records and transactions.

An important requirement for avoiding unnecessary borrowing and interest costs is that cash balances in all government bank accounts are identified and consolidated (including those for extra-budgetary funds and government controlled project accounts). All MFEM main bank accounts are held at the Reserve Bank with some donor and schools accounts held with commercial banks.

The controls over the contracting loans and the issuance of guarantees are contained in the finance legislation and regulations. Part XIII of the Public Finance and Economic Management Act 1998 provides the Minister for Finance the authority to enter into loans and provide guarantees, where this 'is necessary and in the public interest to do so'. The PFEM act was amended in 2012 to provide for a report to Parliament on the reasons for raising a loan.[47] An amendment to the Public Finance and Economic Management Act, dated June 2008, provides for the Minister to report to Parliament any guarantee or indemnity granted under this section and must provide the following information in his or her report:

- The details of the guarantee or indemnity; and
- The reasons why the guarantee or indemnity was necessary in the public interest; and
- An assessment of the risks associated with the guarantee or indemnity."[48]

Assessment 2012

Dimension (i) The records for the GoV's external debts (central government and on-lent) and domestic debts are maintained by the MFEM's debt management section using an Excel spreadsheet for domestic records and the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS version 1.3 Build 7.3) for external debt. CS- DRMS provides the records only of external debt records and does not record any information beyond name, loan holder, amount, FX denomination. There are nine loans with ADB, four loans with IDA[49] and four other foreign currency loans. At the time of interview, CS-DRMS had not been updated to reflect the additional loans from China and has not been updated since 2008.

Domestic debt records are maintained on an excel spreadsheet which only accounting staff can access and is backed up daily through the network.

All debt related payments and transactions are recorded through SmartStream. However, the SmartStream transactions are not recorded in either the domestic spreadsheet and/ or CS- DRMS. Therefore, MFEM does not operate an integrated system to support debt management and reporting. Information is also maintained on opening and closing balances and in-year transactions within the SmartStream system.

Information on the Excel spreadsheet and Smart Stream system is up to date, and reports on debt stock and debt servicing are produced regularly. Reconciliation with creditors' data has not been done recently, but given the small number of debts data quality is considered fair.

Dimension (ii) The MFEM has an electronic interface with the RBV and can therefore access the balances on their main accounts as required. Government bank accounts are held with the Reserve

[47] Public Finance and Economic Management (Amendment) Act NO. 22 of 2012

[48] Public Finance and Economic Management (Amendment) Act No. 4 of 2008, Section 60 (2)

[49] International Development Association

Bank with cash balances on the main accounts calculated daily. Donor contributions are deposited into a separate trust account held at the Reserve Bank and managed by MFEM. Some donor accounts held with commercial banks with school bank accounts at the National Bank of Vanuatu.

Dimension (iii) According to the PFEM Act, a loan can only be raised by the Minister of Finance. The Minister is required to obtain minuted approval from the CoM. Under Section 54 (3A), the Minister must report back to Parliament on the reasons behind the raising of the loan.

Guarantees and indemnities can only be considered by the Finance Minister, and are reported to Parliament. Decisions should be made in consultation with the DG of Finance, to ensure that it is fiscally responsible and in accordance with the Act, and in the case of loans after discussion on legal implications with the Attorney General. Loans are required to be within the stated prudential limit of debt to GDP of 40 per cent but there is no overall ceiling for guarantees.[50]

Comparison 2009 – 2012

There are no major changes since the last assessment. There have been some amendments to the PFEM Act which has strengthened reporting to Parliament.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-18 Effectiveness of payroll controls				**M1**	**C+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Degree of integration and reconciliation between personnel records and payroll data.	Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.	A	The payroll and personnel systems are all part of SmartStream. Therefore, they are integrated and the reconciliation process is automated.	▪ Interview ▪ Sample personnel update dated 5/11/12 ▪ Financial Regulation 7.1 (4)	A	A
(ii) Timeliness of changes to personnel records and the payroll.	Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.	B	The interviews suggested that most personnel changes were processed between one and two months.	▪ Interview ▪ Sample personnel update dated 5/11/12	B	B
(iii) Internal controls of changes to personnel records and the payroll.	Authority and basis for changes to personnel records and the payroll are clear.	C	The controls for those payroll adjustments appear reasonable. A check is made on the establishment list by PSC and then a financial visa is obtained from MFEM. However, management oversight is missing with education and health	▪ Interview(s) ▪ Sample personnel update dated 5/11/12 ▪ Public Service Staff Manual, Government of Vanuatu ▪ Financial Regulation 7.1	A	A

[50] Budget Paper, 2012, page 24

			recruiting workers using their operational budgets.	(6) and (7)		
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	Partial payroll audits or staff surveys have been undertaken within the last 3 years.	C	Partial audits and surveys have been undertaken. MFEM Internal audit has conducted a fraud investigation that covered payroll. MOE Internal Audit apparently checks teachers against the payroll and establishment as part of school audits.	▪ Interviews ▪ Audit List 2011	C	C

The payroll module in SmartStream manages the payroll requirements for about 5,100 employees excluding political appointees. The process to appoint an employee or change the entitlements of an existing employee is:

- A request to appoint and/ or change the employee's current working conditions are sent to the relevant Commission. For each vacant position that is to be advertised, the Director and Director-General must outline the selection criteria for the job vacancy on the Request to Advertise a Vacancy Form (PSC FORM 3-1) and attach copies of the current approved Job Description; Current approved Department's organisation chart that clearly shows where the position fits in the structure; Job advertisement; and approved Financial Visa from the Department of Finance.
- The Director-General must then certify that the Job Description is accurate and up-to-date and that there is sufficient funding available for the position to be filled.
- The Public Service Commission is supposed to check the establishment listing and will approve the appointment or promotion. Under section 23 of the Public Service Act, the Commission is the sole authority for making appointments to the Public Service.
- An approval letter is sent to employee, copied to the relevant ministry management.
- The HR officer within the Ministry will calculate the change in salary and any back adjustments.
- The approval letter, completed and approved salary authority form and calculation sheet are sent to MFEM (Payroll Section) for processing.
- MFEM check calculations; approve the change and process salary adjustment onto SmartStream including updating the personnel records with changes.
- Each pay-run provides a report for each cost centre which is supposed to be checked and approved by the manager of that cost centre and returned to MFEM.

The key weaknesses are that the line manager does not check and approve each payroll report as per Financial Regulation 7.1 (6) and (7), and the lack of regular payroll audits.

Assessment 2012

Dimension (i) All permanent and service contract employees are paid through the integrated SmartStream Human Resource Management Information System (HRMIS) module. This includes both personnel and payroll data. Payments are made on a fortnightly basis and all payments are made into bank accounts.

Dimension (ii) Procedural delays in the service commissions/ line ministries can still result in delays in personnel being included in the payroll. In consultation with the Public Service Commissioner, it was noted that there had been previous problems in the past with obtaining a quorum for meetings. Apparently, the commission now meets twice every month. The interviews suggested that most personnel changes were processed between one and two months. A review of a small number of payroll changes supported this.

Dimension (iii) The authority and basis for changes to payroll are clear. An employee's payroll number is based on their Vanuatu National Provident Fund (VNPF) number to minimise duplicate payments. Letters of appointment and a salary authority form are the prime documents for inclusion in the HRMIS database. The payroll system has inbuilt controls to indicate when changes have been made. Audit trails are automatically created by the system but not followed up. Line managers do not sign off on monthly payroll reports and/ or confirm that the correct changes have been made. Overall, there are internal controls to manage the changes to personnel records and payroll. However, the management oversight controls of payroll are not operating with both Health and Education using their operational budgets to pay for new workers.

Dimension (iv) A number of partial audits and surveys have been undertaken over the last three years. MFEM Internal Audit has conducted a fraud investigation of a data entry clerk, which entailed checking a range of pays to establish the extent of the fraud and to attempt to recover funds back. However, this review focused on a narrow scope to support the fraud investigation and did not consider the need to establish the accuracy of payrolls and the existence or otherwise of ghost employees. A partial staff survey takes place as part of the annual education survey, which collects information on personnel numbers. The PSC conducted some payroll analysis of the Ministries of Health and Education respectively and found that each had exceeded its approved posting by 239 positions and 107 positions respectively. Essentially, these positions were expected to be funded through operational expenditure.[51] Hence, controls to ensure that personnel were within budgeted establishment were sidestepped by ministries. No complete payroll audit and physical count of personnel has been conducted for the period of this review.

Comparison 2009 – 2012

There are no major changes since the last assessment in the systems, controls and administrative processes. However, ministries are sidestepping existing controls to engage personnel outside the budgeted establishment structure, in particular using operational budget to fund contact workers.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-19 Competition, value for money and controls in procurement				**M2**	**D**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	The legal framework meets one or none of the six listed requirements.	D	The legal framework meets none of the six listed requirements. There is a lack of transparency on the procurement process. Procurement	▪ Interview, CTB ▪ Government Contract and Tenders Act 2001 ▪ Improving Vanuatu's	-	-

[51] Payroll Analysis on Ministry of Health, dated 19 July 2012 and Ministry of Education, dated 12 September 2012, and conducted by Public Service Commission.

			guidelines are incomplete.	Procurement Policy and Procedures- Final report, August 2011 ▪ Tender Regulations 3.2		
(ii) Use of competitive procurement methods.	For less than 60% of the value of contracts awarded, OR reliable data is not available.	D	Based on interview, it was estimated that less than 50 per cent of procurement went through Central Tender Board for 2009 to 2011. The CTB granted exemptions to the value of 17 per cent of Government expenditure through the CTB in 2012. Overall, there is limited evidence to reasonably assess this indicator beyond a 'D'.	▪ Interview ▪ Improving Vanuatu's Procurement Policy and Procedures- Final report, August 2011	-	-
(iii) Public access to complete, reliable and timely procurement information.	The government lacks a system to generate substantial and reliable coverage of key procurement information, OR does not systematically make key procurement information available to the public.	D	Information on bidding opportunities is advertised in paper and occasionally radio. No notice board in operation. The procurement process meets only one element (bidding opportunities).	▪ Interview, CTB ▪ Tender Regulations 4.2	-	-
(iv) Existence of an independent administrative procurement complaints system.	The procurement complaints system does not meet criteria (i) & (ii) and one other criterion, OR there is no independent procurement complaints review body.	D	There is no independent complaints system in operation except through the judicial system.	▪ Interview ▪ Improving Vanuatu's Procurement Policy and Procedures- Final report, August 2011, section 4, Para 13	-	-

An effective procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programs and services by the government. However, a report from Charles Kendall noted that 'the present legal framework for procurement in Vanuatu and, in particular, the way in which it is applied presents manifold risks. There is a lack of transparency and accountability, there is widespread non-compliance and a lack of enforcement of compliance, there are alleged malpractices and there is no evidence of value for money savings. All of these risks ultimately impact on the Government's finances, which include both Government own funds and DPs contributions. [52]

[52] Improving Vanuatu's Procurement Policy and Procedures- Final report, August 2011, pages 3 to 6 inclusive

The tender regulations provide for open and competitive tender process with all notices appearing in the newspapers and on the radio. There are exemptions to this and we approached the CTB to provide information on the level of exemptions for the period in review and this information is contained in the table below.

SUMMARY OF GOVERNMENT CONTRACTS PROCESSED BY CENTRAL TENDERS BOARD

	2009	**2009**	**2010**	**2010**	**2011**	**2011**	**2012**	**2012**	**In Progress**
	No.	**Value (VT)**	**No.**	**Value (VT)**	**No.**	**Value (VT)**	**No.**	**Value (VT)**	**No.**
Vanuatu Government	13	341,768,459	4	47,360,739	4	79,337,732	10	703,770,747	5
Development Partners	2	43,963,700	15	395,192,065	15	1,038,884,141	18	798,517,497	2
Joint funding (Vangov+DP)	1	75,600,000	0	0	0	0	0	0	1
TOTALS	**16**	**461,332,159**	**19**	**442,552,804**	**19**	**1,118,221,873**	**28**	**1,502,288,244**	**8**
Exemptions Granted by CTB	0	0	1	30,000,000	2	81,461,212	7	121,997,275[53]	

Assessment 2012

Dimension (i) The legal and regulatory framework lists a number of requirements to be met for a functioning procurement framework. The assessments are drawn from the Charles Kendall report 'Improving Vanuatu's Procurement Policy and Procedures- Final report, August 2011'.

Listed Requirements	**Yes/ No**	**Assessment**
(i) organised hierarchically and precedence clearly established;	No	The legal and regulatory framework is spread over various acts/regulations. For example, the regulations for procurement under 5 million Vatu are included in Part 5 of the Financial Regulations rather than in the Contact and Tenders Regulations (*page 5*).
(ii) freely and easily accessible to the public through appropriate means;	No	There is a lack of awareness of procurement requirements and alleged malpractices and nepotism. Most importantly, there is a lack of trust in the transparency of public sector procurement (*page 6*).
(iii) applied to all procurement undertaken using government funds;	No	The evidence available indicates that the Guidelines for Procurement are incomplete (works not included), they are not user friendly and they are largely ignored by procuring entities (*page 5*).
(iv) making open competitive procurement the default method of procurement and	Yes	Section 3 (3)(f) of the Government Contracts and Tenders Act provides for a competitive and transparent

[53] The exemptions granted for 2012 should have been 8 tenders, but the CTB received instructions to cancel a tender for e-government project.

define clearly the situations in which other methods can be used and how this is to be justified;		process. Regulation 3 (2) provides for open and competitive process. However, the evidence indicates that competitive bidding is rarely used and that contract splitting is common (*page 5*).
(v) providing for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;	No	The report indicated a lack of capacity and competency within Government to carry out procurement. There is a lack of transparency (e.g. lack of information on the procurement process, no dedicated website for displaying information and document, publishing tenders and contract awards) (*page 6*).
(vi) providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature?	No	No independent complaints tribunal or body exists.

Compliance with the procurement regulations is assessed in PI 20. Tender regulations prohibit the splitting of a contract; however, there is no regular compilation of information to analyse the number of contracts, which are actually submitted for open competition or justification for use of less competitive methods.

Dimension (ii) Regulations under the Government Contracts and Tenders Act 1998 provide that all tenders must be called by open and competitive bidding (Section 3.2), unless another process is approved by the Tenders Board (section 3.3). Explicit provisions are made for alternative methods such as two-stage tendering, selective tendering and period contracts for repetitive purchases. Although decisions to use less competitive methods are minuted at Tender Board meetings, this data is not analysed. The Charles Kendall report notes that competitive bidding is rarely used and that contract splitting is common.[54] This dimension was a difficult one to score in that the table above clearly shows that the number and value of contracts being managed by the Central Tenders Board is increasing. The table also identifies that the number of exemptions to competitive tendering are also increasing. However, the salient point is that they are being sent to the CTB for a decision on the requested exemption.

Based on the dimensions rating criteria, we cannot provide any assessment beyond a 'D' as we do not have any information as to the total amount of all government procurement activities using national procedures for the relevant reporting period where contracts are awarded by methods other than open competition. Furthermore, we do not have any information regarding total government procurement beyond that provided by the CTB in the above table. Whilst we can see improvement over the reporting period and the willingness of the Government to move forward, the lack of financial information to underpin any evidence and the recent review by Charles Kendall precludes us from recognising that progress through an increased score.

Given the changes in PI19, we are also unable to provide any comparative data from previous PEFA reviews.

[54] Improving Vanuatu's Procurement Policy and Procedures- Final report, August 2011, page 5

Dimension (iii) The Government lacks a system to provide reliable procurement information. There is a lack of transparency (for example, a lack of information on the procurement process, no dedicated website for displaying information and documents, publishing tenders and contract awards).[55] There is no notice board in operation. There are no Government's procurement plans. There is no independent complaints system in operation. The Charles Kendall report notes that the private sector believes that there is a lack of awareness of government procurement requirements.

Dimension (iv) There is no independent complaints system in operation except through the judicial system. There is no clearly recognised process available that enables the submission and timely resolution of complaints submitted by private sector participants. A lack of a complaints mechanism potentially costs GoV money through lawsuits, as the court system is the only avenue available for dispute resolution. This has meant that the Government has been reticent to be involved in any legal action due to the cost.

Comparison 2009 – 2012/On-going Reforms

Due to changes in the methodology for this indicator, it is not possible to make a direct comparison with 2009 PEFA scoring.

In some instances, the procurement situation for the reporting period appear to have worsened with anecdotal information suggesting considerable activity to avoid open and competitive tenders placed through the Central Tenders Board. A review by Charles Kendall and Associates in 2011 has highlighted problems in the procurement process. Subsequently, the Government have requested Technical Assistance to strengthen the Central Tender Board's capacity to manage the procurement process and an adviser is now co-located with the Central Tender Board. There has been an improvement in the level of information gathering by CTB to underpin the reform process.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-20 Effectiveness of internal controls for non-salary expenditure				**M1**	**C**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Effectiveness of expenditure commitment controls.	Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	C	The local purchase order process (expenditure commitment) cannot proceed without a funds availability check at cost centre/activity level and a check on the budget within SmartStream. However, some ministries are creating unofficial orders thus avoiding this commitment control check. These unofficial orders/unauthorised expenditures are also being honoured.	▪ Interview ▪ SmartStream funds control module ▪ Purchasing Manual	B	B

[55] Ibid, page 5

			Utilities also do not require an LPO to incur an expenditure commitment.			
(ii)Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.	C	The legislation regulations/manuals are in place but the latter would benefit from an update. Understanding at line ministry level is a concern particularly among non-finance personnel. The controls appear comprehensive at MFEM but breakdowns are occurring at the both MFEM and MDA level. as discussed in the next dimension.	▪ Interview ▪ PFEM Act, regulations and procedures manuals ▪ Mellors, John, 2012, Vanuatu Education Sector Public Expenditure Review, Presentation	C↑	C
(iii) Degree of compliance with rules for processing and recording transactions.	Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.	C	MFEM suggest that 10 per cent of transactions are returned as errors. MFEM states that all simplified procedures require Director approval and account for 2-3 per week. Mainly for court cases and to avoid fines. Anecdotally, miscoding LPOs and payments is one way of avoiding the controls.	▪ Interview ▪ Audit reports ▪ Fin reg 2.2 report ▪ Mellors, John, 2012, Vanuatu Education Sector Public Expenditure Review, Presentation	C	C

Assessment 2012

Dimension (i) As noted in 2009, the local purchase order process (expenditure commitment) cannot proceed without a funds availability and budget check within SmartStream. This check takes place at cost centre/activity level and does not allow over commitment of operational expenses, even if payroll expenses have exceeded their budget limit. It does not check against individual account codes, as budgets are not appropriated at this level of detail. There is evidence that some ministries including education and health are raising unofficial orders, which do not pass through this expenditure commitment control check. As utilities do not require an LPO to incur an expenditure commitment, these are also outside the check on cash availability and budget provision.

Dimension (ii) As reported in 2009 and confirmed in this review, in terms of financial legislation, regulations, delegations, responsibilities and accompanying circulars are considered to be generally comprehensive. The financial regulations are being updated and there is a need for updates in the procedures manual. Recent changes to the PFEM Act have strengthened virement controls. There does however appear to be a gap in the comprehensiveness, relevance and understanding of the processes and the actual compliance with those processes, as discussed in the following dimension.

Understanding of the financial legislation, regulations and responsibilities associated with certain positions by non-finance personnel is a particular concern.

Dimension (iii) MFEM has suggested that about ten per cent of transactions are returned as processing errors. The level of compliance with transaction procedures (expenditure and revenue) is also noted in the internal and external audit reports in some ministries and departments as a source of some concern. Indeed the key finding for each audit report is generally the non-compliance by the auditee with financial regulations and procedures. In particular, miscoding, whether through inaccuracy, lack of understanding or intentional, has been noted by some observers as an area which requires improvement. MFEM states that all simplified procedures require Director approval and account for perhaps two to three per week.

As part of the interview process, the PEFA reviewer checked the payment of one invoice and found that it was approved for payment above the delegated officer's authority. Whilst the internal controls should provide a reasonable check on unauthorised and incorrect expenditure by ministries, anecdotally, there are material errors, miscoding and activities to avoid the controls. For example, the Ministry of Education can post a central office purchase order against a school grant cost centre for payment purposes. This transaction error should be detected by the payments checks within MFEM but it appears that on many occasions this is not occurring. Application of sanctions against those contravening financial regulations is not routinely applied.

Comparison 2009 – 2012/On-going Reforms

Since the last assessment, the financial regulations have been updated and changes made to the legislation to try and ensure greater control. A new Auditor General has been appointed and increased the level of activity and scope of work with donor support. The internal audit functions have also extended their audit programmes beyond traditional transactional auditing. However, the weaknesses continue to be at the managerial accountability level at MDAs, which weaken an existing and adequate control framework. Scores have therefore been downgraded with respect to the effectiveness of the expenditure commitment controls.

Predictability and Control in Budget Execution				**Methodology**	**Score**	
PI-21 Effectiveness of internal audit				**M1**	**D+**	
Dimension	Framework Requirement	Score	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Coverage and quality of the internal audit function.	The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognised professional standards.	C	There are internal audit functions in education, health, finance and internal affairs. These represent more than 50% of expenditure and the finance internal audit covers other MDAs The compliance reviews conducted by the internal audit functions provide elements of systems monitoring. MoE Internal Audit performs operational reviews at the schools level. not	▪ Annual Audit Plan 2009 ▪ Annual Audit Plan 2011 ▪ 2011 List of audit reports ▪ MoE audit plan for schools ▪ MoH Audit Plan ▪ Interview, internal Audit MFEM ▪ Interview, OAG	C	C

			MoE central systems where risk and material errors occur. These do not yet meet recognised standards			
(ii) Frequency and distribution of reports.	Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.	C	The interview indicated that MFEM audit reports are issued, copied to SAI and MoF for 2011. MFEM audits are extending to smaller GoV entities. Education audit reports are issued to the DG Education and audit committee. Health audit reports are issued to the DG Health only. The OAG (SAI) has indicated that they do not rely on internal audit reports.	▪ Interviews. ▪ 2011 List of audit reports	C	C
(iii) Extent of management response to internal audit findings.	Internal audit recommendations are usually ignored (with few exceptions).	D	The interview and evidence indicated recommendations are followed up after 18 months' as no change has occurred. MoH internal audit recommendations are ignored.	▪ Annual Audit Plan 2009 ▪ Annual Audit Plan 2011 ▪ 2011 List of audit reports	C	D

The Public Finance and Economic Management Act requires under section 29 (2) 'a head of a ministry must ensure that all financial management obligations are met including:

> (d) Sound financial management systems and internal controls exist and these are operated so as to provide:
>
> (i) timely and materially accurate financial information; and
>
> (ii) reasonable assurances that the transactions recorded are within statutory authority and properly disclose the use of all public financial resources administered by the ministry on behalf of the State…'

Section 70 of the same Act provides for '… the Minister to make from time to time by Order make all such regulations as may be deemed necessary or expedient to give full effect to the provisions of this Act…'.

Part 14 of the Financial Regulations provides for 'the Director general to establish an internal audit function within the Finance Ministry to carry out a continuous and independent appraisal of the accounting, financial and other manual and electronic systems, controls and procedures of the government so as to assist the Director-General and heads of other Agencies to meet their responsibilities under the Public Finance and Economic Management Act'. The internal audit function reports to an audit committee. According to the regulations, the internal audit function is to be independent of the operational activities of the Ministry. Through a Ministerial Order dated 14 October 2005 made under section 70 of the PFEM Act, an Internal Audit Unit was established within the MFEM and is currently supplemented by units in the Ministries of Education and Health and Internal Affairs (Department of Provincial Affairs).[56]

The internal audit function within MFEM is staffed with up to five auditors in 2012 with two having business degree qualifications. MFEM has introduced an Audit Committee for oversight of the audit function for 2012 and it has met twice this year, focusing on setting up the administrative infrastructure to support internal audit function in the ministry, including the draft internal audit manual. The MFEM internal audit function has developed an annual audit programme for 2009, 2010 and 2011 and completed a number of audits each year. According to the initial interview, the programme was risk based. In a subsequent interview, the audit programme is not risk based but focuses on areas that audit consider appropriate, including investigations. We can confirm that the internal audit function is not undergoing pre-audit transaction checking and is conducting a range of audits. However, the function reports to the Director Finance and cannot be considered independent. We note that the establishment of the Audit committee for 2012 and plans to report directly to the Director General will mitigate this issue. Whilst no systems audits were planned for 2011, the audit coverage has steadily increased and audits were conducted on visas at immigration, meteorological services and parliamentary expenses and revenues.

The Ministry of Health has one internal auditor who generally undertakes traditional compliance audits of transactions and investigations. The key outcome of the review of this function is that auditor suggested that the same findings and recommendations were repeated each time as the accountability for the implementation of recommendations is lacking.

The Ministry of Education auditors provide primarily a broad audit plan for schools which incorporates governance, internal controls, asset control, income, salaries and wages, purchasing, housing, government grants, petty cash and banking. Generally, they would achieve between 70 and 100 audits per annum depending on funding for allowances. Essentially, a school can, on average, expect to be audited once every six years or so.

Dimension (i) The compliance audits do extend to systems monitoring and broader operational issues (visas, meteorology, school governance, global fund in MoH) for MDAs. The Internal Audit Unit within the MFEM has the mandate to conduct audits within other government entities and has since 2006 systematically increased the number of audits across a wider range of entities. According to Principal Internal Auditor, the focus has been on auditing transactions with a planned shift to more systems based audits in 2013. In reviewing the audit reports for 2011 for all audit functions, the vast majority have been compliance audits that have incorporated some systemic issues that could be applied to Government of Vanuatu public financial management systems and processes. The Education audit function carries out audits of schools using an operational audit programme developed by an adviser. The Ministry of Health has limited capacity to undertake any audits and the annual audit plan highlights this. However, the evidence and the interview indicated that no comprehensive systems based audits have been conducted for 2009, 2010 and 2011. However, compliance audits extend to systemic monitoring of issues.

The OAG commented that they do not rely on the work of internal audit in the ministries as the governance arrangements do not allow them to be independent. The OAG does not review and comment on the internal audit plans. Furthermore, they suggested that the audit reporting lack

[56] Both health and internal affairs only have one person

clear recommendations to warrant any management action and did not challenge. This underpins the lack of capacity and independence within the ministries.

Dimension (ii) Reports prepared by MFEM's internal audit unit have been issued within three months of conducting the audit. The reports are issued to auditee management with copies to the external auditor, Director Finance and Audit Committee (for 2012). If the issues are serious, the report is also issued to the Public Service Commission and the Ombudsman. Education audit reports are issued to the Director General Education and audit committee. Health audit reports are issued to the Director General Health but not to the Auditor General and rarely to MFEM.

Dimension (iii) The MFEM has established an audit committee in 2012 which includes the Office of the Auditor General as an observer and plans for an outside professional from one of the accounting firms. This is a very positive move and provides the ministry with the capacity to influence and improve the central government internal control framework. However, for 2012, the audit committees have only met twice and only considered issues of scope, documentation, naming conventions and membership.

Generally, the weakness has been the management implementation of audit recommendations and a timely follow up by the internal audit function with auditees. We were unable to establish the extent to which audit recommendations that were accepted were actually implemented as there was generally a gap of 18 months between the initial audit and a follow up audit. Of the three follow up audits conducted in 2011, each focused on audits that were completed in 2009 with a lapsed period of 18 months. The follow up to audit reports must be consistent with the identified risk and professional auditing standards. The MFEM internal audit reports for 2011 did include management comments and, most importantly, acceptance of the some of the audit recommendations. The gap is the extent to which the recommendations are actually implemented and applied by line management. This is the primary reason for a lower score (from C to D) for the PEFA review.

Education has an audit committee for 2012. However, we were unable to establish whether it has actually met. A register of audit recommendations for the Ministry of Education is also maintained. One audit (VERM 2009-2010, dated July 2010) had 23 audit recommendations, which appears to show a period of over 18 months between the audit report and the expected implementation of the recommendations.[57] Of those 23 recommendations, seven were logged as complete with the others having follow-up dates for December 2011. There has not been any update for 2012.

For Health, the auditor suggested that most recommendations are repeated as there is no management response.

Comparison 2009 – 2012

Although the Internal Audit function has improved and more reports have been produced since 2009, it is recognised that it does not yet meet full international standards. There have been positive developments since 2009 including the establishment of the audit committee and structured planning. However, there continue to be weaknesses including independence, follow up to, and implementation of, recommendations that restrict the capacity of internal audit to support the internal control framework and financial management. The positive responses identified in the 2009 assessment including the dismissal of personnel and changes in procedures for the MCA has not continued, in retrospect this score may have been too generous.

[57] The first 23 audit recommendations were all issued on 12/07/2010 from the VERM audit and of the remaining 200 or so recommendations for schools, there is no date for the issuance of the report.

An Internal Audit Charter has been drafted but has still been not approved. Internal audit manuals have also been revised. Various training programmes have been conducted and association with the Institute of Internal Auditors (Australia) is being pursued.

3.5. Accounting, recording and reporting

This set of indicators assesses the quality and timeliness of accounting, recording and reporting. The following paragraphs provide the detailed information to support the 2012 scores, to compare the changes since 2009 and to provide a brief overview of any On-going reforms designed to address some of the identified weaknesses.

Accounting, Recording and Reporting				Methodology	Score	
PI-22 Timeliness and regularity of accounts reconciliation				**M2**	**B**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Regularity of bank reconciliations	Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.	B	The bank reconciliations for MFEM bank accounts normally take place two weeks after the close of the month.	▪ Interview ▪ Bank reconciliation 22/11/12	B	B
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.	B	MFEM operate one main (general) suspense account, which currently only has one transaction. Suspense accounts normally cleared after two months from close of period. Petty (cash imprest) accounts are reconciled annually.	▪ Interview ▪ List of GoV Bank Accounts held centrally (excludes school bank accounts).	B	B

Assessment 2012

Dimension (i) MFEM undertakes reconciliations of GoV's main treasury managed accounts on a regular basis. The bank reconciliation of the main operating account (numbers one and two) is completed daily by the assistant accountant and approved by the senior accountant. The development account is done monthly and normally two weeks after close of the period. The accounts held with BRED Bank are completed weekly or monthly. For Santo expenditure, the bank reconciliations are conducted weekly following the receipt of the relevant information from the MFEM's cashier in Santo.

Dimension (ii) As in 2009, in terms of imprest accounts, standing imprests are reconciled at the end of the year, with documentation to be submitted prior to year-end. Temporary advances are acquitted within a specified period and deductions are made from pay for non-return of receipts. Suspense accounts are cleared annually within two months of year-end. At the time of the review, the suspense account only had one material transaction.

Comparison 2009 – 2012

There are no major changes since the last assessment.

Accounting, Recording and Reporting				Methodology	Score	
PI-23 Availability of information on resources received by service delivery units				**M1**	**D**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.	D	To date, for the period in question, there has been no comprehensive data collection at the primary school level. There are annual school surveys which provide some information. A Health PER was completed in January 2012. An Education PER was completed in December 2012 but is outside the period in question.	▪ Interview ▪ Mellors, John, 2012, Vanuatu Education Sector Public Expenditure Review, Presentation ▪ Northway, Dianne, 2011, Public Expenditure Review Health Sector	C	C

Assessment 2012

Dimension (i) No public expenditure tracking survey has been carried out during the period in question, although several expenditure reviews were undertaken. There was no systematic tracking to determine if resources were actually received by front line service delivery units (primary schools and/ or health clinics). Resources provided in kind are not captured under MFEM systems. However, the 2012 Education PER study provides some indication of the resources being allocated to primary schools. Furthermore, schools provide annual survey which elicits some information on teacher's salaries. VMIS provides information on teacher salaries and school grants, so MFEM can potentially develop a financial position for each school. Finally, the school bank account information is provided from the National Bank of Vanuatu which may identify operational expenditure items. Therefore, whilst no comprehensive study has been undertaken, it is possible to build a broad picture of resources flowing to primary school units.

For health clinics, the information is sparse. The 2011 PER indicated that 'there appears to be no Government funds spent on the actual public health activities and campaigns because this is funded almost entirely by the donor community'. The PER identified 'that over the past few years more Government resources have been stored centrally within the Corporate Services budget. The reasons for this have been to maintain aggregate control of the budget, due to weaknesses in financial management within some parts of the Ministry. However, at the end of the day what has resulted in an apparent decline in direct spending on both hospitals and community health and increased spending on Corporate Services'.[58]

Comparison 2009 – 2012

For the period 2009 to 2011, there have been no comprehensive studies undertaken which is contrast to the previous PEFA where a French supported study was conducted to gather data for the EMIS. This resulted in a higher score for 2009 PEFA.

Accounting, Recording and Reporting				**Methodology**	**Score**	
PI-24 Quality and timeliness of in-year budget reports				**M1**	**B+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	A	SmartStream and other report writers (OLEP/ Vision) provide the capacity to interrogate by cost centres and to transaction level. Reports are available show commitment, actual and budgeted expenditure by cost centre, activity and programme and economic classification.	▪ Observation, FMIS. ▪ Sample report, Public Works Department (78A1) ▪ Interview	A	A
(ii) Timeliness of the issue of reports.	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	A	MFEM produce a monthly aggregated report by ministry including a summary of the fiscal environment. MDAs can produce reports a required at the detail and summary levels. All MDAs have access to report writers.	▪ Observation, FMIS ▪ Interview ▪ Sample, Monthly Budget Report-October 2012	A	A
(iii) Quality of information.	There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.	B	Generally, the financial data is considered useful and accurate.	▪ Interview ▪ Financial Management Report 2010	B	B

[58] Northway, Dianne, 2011, Public Expenditure Review Health Sector, page iii.

Assessment 2012

Dimension (i) SmartStream and other report writers provide a capacity to interrogate by cost centres and to transaction level with reports showing actual, commitment and budget by programme/activity to the level of detail contained in the budget. The weakness is that line managers are not aware of, not trained and/ or not required to regularly review their execution of the budget.

Monthly reports on revenue collected are also produced. A monthly budget report is prepared by the Budget Section. This report covers revenue and expenditure in GFS format for central government.

Dimension (ii) Line ministries, as well as the MFEM have access to the FMIS and can review actual expenditure and commitments as and when required. Reports are produced monthly by finance offices in ministries, although it is understood that regularity of reporting is not uniform across ministries.

Dimension (iii) Quality of data is considered useful and accurate. There are some checks within the FMIS to monitor the accuracy of coding, although this is limited. The section 2.2 Financial Management report 2010 draws some general conclusions for all MDAs including an improvement in aggregate fiscal control and overall improvements in the quality of budgeting.

Comparison 2009 – 2012

There are no major changes since the last assessment.

Accounting, Recording and Reporting				**Methodology**	**Score**	
PI-25 Quality and timeliness of annual financial statements				**M1**	**B+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Completeness of the financial statements.	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.	A	The consolidated financial statements are produced annually and are complete. The financial statements include revenue, expenditure, financial assets and liabilities including arrears, financial assets and public debt as notes to the accounts.	▪ Interview ▪ Financial Statements 2009 ▪ Financial Statements 2010 ▪ Financial Statements (draft) 2011	A	A
(ii) Timeliness of submission of the financial statements.	The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.	B	The Financial statements for the period in question have been lodged at various intervals (FY2009- 16/7/10, FY2010- 3/10/11, FY2011- 11/10/12).	▪ Interview ▪ Emails to Auditor General for FY2010 and FY2011	A	B
(iii) Accounting standards used.	IPSAS or corresponding national standards are applied.	B	IPSAS standards are applied with some variations including IPSAS19 and IPSAS17.	▪ Interview ▪ Financial Statements (draft)	A	A

			However, the five year transitional period for applying IPSAS17 Property, Plant and Equipment standards expired in 2010, reflecting delays in updating assets/asset revaluation.	2011		

According to the Government, the Statements follow generally accepted accounting practice and comply with International Public Sector Accounting Standards (IPSAS) as issued by the International Federation of Accountants where practicable. Where the financial statements do not fully comply with IPSAS these are disclosed in the notes to the accounts.[59]

Consolidated financial statements are produced annually on an accrual basis, which although not meeting GoV's own targeted completion date of 3 months from period end, are still relatively timely and where practical apply IPSAS standards. The financial statements have been lodged with the Auditor General within 10 months of the end of the fiscal year.

Assessment 2012

Dimension (i) In addition to the Statement[60] of Appropriations (summary by ministry and detailed by programme), the following statements [61] are produced:

Statement of Financial Performance	Statement of Specific Fiscal Risks
Statement of Financial Position	Statement of segments- Statement of Financial Activity of the Development Fund
Statement of Cash Flows	Statement of segments- Statement of Financial Performance of the Recurrent Fund
Reconciliation of Net Cash Flows from operations and the Operating Balance	Statement of Accounting Policies
Statement of Movements in Equity	Summary of Appropriations by Ministry
Statement of Borrowings	Statement of Appropriations
Statement of Foreign Currency Borrowing by Currency	Statement of Un-appropriated Expenditure
Statement of Borrowings- Detailed	Reconciliation of Statement of Appropriations and Recurrent Fund Operating Balance
Statement of Commitments	Analysis of Budget Transfers and Virements

Dimension (ii) MFEM has not provided the financial statements to the Auditor General to meet the legal requirement of submitting the accounts within 3 months of year-end. In the last three years, at

[59] Government of Vanuatu, Draft Financial Statements 2011, page 4

[60] The statement shows original budget, supplementaries, virements, actual and variance.

[61] Government of Vanuatu, Financial Statements 2010

least the first draft of the statements has been submitted within six to ten months of year-end (FY2009- 16/7/10, FY2010- 3/10/11, FY2011- 11/10/12).

Dimension (iii) International Public Sector Accounting Standards (IPSAS) or IFRS are applied where practical, but in those instances where the standards are not met, an explanation is provided including physical assets and the application of IPSAS 17.

Comparison 2009 – 2012

The Government has adopted the International Public Sector Accounting Standards, including IPSAS17 Property, Plant and Equipment, which provides for a five year transitional period to comply with this standard. [62] This transitional period expired in 2010 and, as the Government notes in the 2011 Financial statements, it has not been able unable to adequately identify and value all of its assets yet.[63] The down rating from 2009 is based on the five year transitional period expiring and the delays in updating assets/asset revaluation. Depending on the level of technical assistance available to the DoFT, it is envisaged that this process will require between 5-10 years.

3.6. External Scrutiny and Audit

This set of indicators looks at the quality and timeliness of external scrutiny of the government's estimates as well as the public accounts. The following paragraphs provide the detailed information to support and explain the 2012 scores, and where relevant to compare these with the 2009 and 2006 scores as well as a brief description of any On-going reforms designed to address some of the identified weaknesses.

External Scrutiny and Audit				**Methodology**	**Score**	
PI-26 Scope, nature and follow-up of external audit				**M1**	**D**	
Dimension	Framework Requirement	Score	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Scope/nature of audit performed	Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues.	D	The audit scope covers central government entities and the nature or audit focus is financial attest. Independence is an issue. The Annual Audit report to parliament indicates audits at MDA level and representing less than 50 per cent of total expenditures, primarily as Health and Education were not covered.	▪ Interview, John Path, Auditor General. ▪ Financial Statements 2005-2009 ▪ Financial Statements 2010 ▪ Draft OAG management letter, undated ▪ MFEM response, dated 19 November 2012 ▪ Annual Audit Report, OAG, 2012	D	D
(ii) Timeliness of audit	Audit reports are	D	The Financial	▪ Interview, John	D	D

[62] International Public Sector Accounting Standard (IPSAS) 17 Property, Plant and Equipment, section 5,page 511

[63] Government of Vanuatu, Draft Financial Statements 2011, page 43

reports to legislature	submitted to legislature more than 12 months from end of period covered (for audit of financial statements from their receipt by the auditors).		Statements for 2005-2009 were presented, more than 12 months from the end of the financial year, in April 2012. FY 2010 has not been presented as yet.	Path, Auditor General. ▪ Financial Statements 2005-2009		
(iii) Evidence of follow up on audit recommendations	There is little evidence of response or follow up.	D	There is no evidence of follow up to audit recommendations primarily due to limited capacity and activity of the OAG during the period under review. The formal management response to the draft management letter for FY2010 is dated 19 November 2012. There is no evidence of replies to previous financial statements.	▪ Financial Statements 2010 ▪ Draft OAG management letter, undated ▪ MFEM response, dated 19 November 2012	D	D

The Auditor General's mandate is derived from the Constitution (Section 25 (4) to (6)), Section 25 of the Public Finance and Economic Management Act, and Part 3 of the Expenditure Review and Audit (ER&A) Act 1998 (amended 2008) and covers financial, compliance and performance audit.

The Auditor General is appointed by the Public Service Commission for five years. The independence of the Auditor General does not currently meet the Lima Declaration (Section 5- Independence of Supreme Audit Institutions) and the Mexico declaration of SAI Independence (Principle Two), primarily due to the Minister for Finance approving annual appropriation for the OAG, the appointment of the Auditor General is not approved by Parliament and recruitment is through the Public Service Commission.[64] It is noted that the Auditor General is planning to introduce revised legislation to support greater independence as an outcome of a review of the external audit function in 2010.[65]

Assessment 2012

Dimension (i) The audit scope for the Office of the Auditor General is for all agencies where that agency[66]:

- is substantially owned or controlled by Government; or
- has a significant financial interdependence with the State by virtue of an allocation in an Appropriation Act; or,
- has significant use of or controls public money

[64] To be fair, there would be very few SAIs that meet the eight pillars of independence (http://www.intosai.org/uploads/02english.pdf).

[65] Short Term Technical Assistance to the Vanuatu Office of the Auditor-General- Technical Paper: Legislative Framework, European Union, August 2010

[66] Expenditure Review and Audit (ER&A) Act 1998

This includes central government ministries, all government agencies, government business enterprises as well as provincial and municipal government. However, for the period of this review, the OAG has undertaken a limited programme primarily due to lack of capacity.

The ER&A Act requires the OAG to employ two external audit advisers, who will offer advice and assistance in the discharge of the Auditor-General's functions, including adherence to standards. Together with the Auditor General, they will form the Audit Commission. No evidence could be found that this Commission was created. However, the Auditor general is supported by donors and an adviser has been with the NAO since mid-2011. The appointment of the Auditor General is not approved by Parliament and recruitment is through the Public Service Commission. Staff recruitment and budget approval procedures are not separated from those of the auditee. The independence of the audit function envisaged by INTOSAI is not being achieved. Due to capacity constraints (only six auditors), audit coverage was less than 50% of central government total expenditure and comprised primarily financial audits (transaction testing).

Dimension (ii) Under the ER&A Act, the Auditor General has a legal obligation to submit at least one report annually through the Speaker to Parliament. The Auditor General provided the first annual report to the Parliament in 2012. Under the revised PFEM Act, the Auditor General must examine the financial statements as soon as practically possible, but there is no specified timetable. Since the 2009 PEFA report, the 2005- 2009 financial statements have been audited and were submitted to the Speaker in April 2012. The 2010 Financial Statements were provided to the Auditor General by MFEM on 3 October 2011 but have not yet submitted to the Speaker.

Dimensions (iii) There is limited evidence of follow up to audit queries during 2009 to 2011. The OAG lacked capacity to undertake any audit programme and the new Auditor General was only appointed in 2011. Follow up to audit recommendations was a lower priority. The 2010 Financial Statements have been audited and a draft management letter was issued. On 19 November 2012, the Ministry of Finance and Economic Management responded to the issues raised by the Auditor General.

Comparison 2009 – 2012

Since the last assessment, the new Auditor General has been appointed and work is on-going, although due to capacity constraints and the backlog of work, this has not been reflected in the scores. The OAG has completed financial audits of the financial years 2005 to 2009, which has been presented to the Speaker but, to date, this has not been laid before Parliament. The OAG has also completed the 2010 financial audit and issued a management letter to the MFEM.

The Auditor General is proposing new legislation to improve the independence of the OAG directly being paid by Parliament. There are proposals to recruit more staff and improve the salaries to attract and retain staff.

External Scrutiny and Audit				**Methodology**	**Score**	
PI-27 Legislative scrutiny of the annual budget law				**M1**	**C+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Scope of the legislature's scrutiny.	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been	C	Section 25 of the Constitution provides for Parliament to approve the budget. No public expenditure will occur unless approved by	▪ Interview ▪ PFEM Legislation ▪ Constitution	C	C

	finalised.		Parliament. The budgets for each year were appropriated. Documentation tabled to Parliament includes fiscal strategy report, programme budget estimates and narrative.			
(ii) Extent to which the legislatures' procedures are well-established and respected.	Some procedures exist for the legislature's budget review, but they are not comprehensive and only partially respected.	C	The Expenditure Review Committee is charged with responsibility for scrutiny of the budget under ER&A Act. For 2009 to 2011, there is no evidence that this occurred.	▪ Interview. ▪ ER & A legislation ▪ Budget Circular for 2012 Budget	C	C
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	The legislature has at least one month to review the budget proposals.	C	The PFEM Act requires that budget must be introduced before the end of the first month of the financial year. The Budget circular provides for legislative scrutiny at least one month before the end of the current financial year (2011).	▪ Budget Circular for 2012 Budget	C	C
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.	B	The Acts provide in year amendments and exceptions. Section 34A precludes any virements between MDAs unless appropriated through a Supplementary Appropriation Act.	▪ PFEM Act Section 39[4C] and [5] ▪ Financial Regulation 12.9 (1) ▪ Section 39 (4), PFEM Act 1998 ▪ Section 34A, PFEM Act, 1998 (2009)	B↑	B

Assessment 2012

Dimension (i) The Constitution provides the scope for parliamentary oversight and approval for public expenditure through the budget process. The budget documents submitted to parliament includes the Fiscal Strategy Report, incorporating the Economic and Fiscal Update and the Budget Policy Statement (Vol.1), the Program Budget Estimates (Vol.2) and the Program Budget Narrative (Vol.3). The budget process only involves the legislature at the appropriation stage. As we understand it, the parliamentary review is not involved in the early stages of the budget process in reviewing fiscal policy or medium-term priorities.

Dimension (ii) Under the ER&A Act, the detailed review of the estimates has been delegated to the Public Accounts Committee (PAC), but this procedure has not been followed. The Public Accounts Committee did not meet to consider the budget for the period 2009 to 2011. The Budget is therefore only reviewed by the legislature.

Dimension (iii) The revised PFEM requires that 'the Bill for an Annual Appropriation Act is to be introduced into the Parliament at least 30 days before the start of the financial year to which the Bill relates to'. Parliament sits for one month in extraordinary session. In the budget circular for Budget FY2012, this commenced on 18 November 2011.

Dimension (iv) The Act provides for in year amendments and exceptions. Section 34A precludes any virements between MDAs unless appropriated through a Supplementary Appropriation Act. The PFEM Act requires all expenditure of public money to be appropriated and sets a standing appropriation of 1.5% for genuine cases of emergency (section 39 [4C] and [5]). Transfers within MDAs are governed by Regulation 12.9.

Comparison 2009 – 2012

There have been legislative revisions impacting this indicator since the last assessment. The Public Finance and Economic Management (amendment) Act No. 15 of 2009 changes are covered under:

- Part Two: Responsibilities of Minister, Director General and Heads of Agencies
- Part Three: Reports on Economic, Financial and Fiscal Policy, which includes a revised section 23 on the budget process.
- Part Eight: Appropriations

The above changes have been noted in the PEFA analysis where relevant to the indicators.

External Scrutiny and Audit				**Methodology**	**Score**	
PI-28 Legislative scrutiny of external audit reports				**M1**	**D+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete.	D	There is a requirement to submit the annual report to the Legislature. There is no timeframe or requirement to review the report.	▪ Expenditure Review and Audit Act, 1998 ▪ Interview	D	D
(ii) Extent of hearings on key findings undertaken by the legislature.	In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only.	C	There has only been two in-depth hearing on the Auditor General's annual report and audits. The April 2010 hearing looked at audit reports from 2000, 2003, 2005 and 2008 that focused on fraud and misfeasance. We understand that another meeting occurred in May 2009, but we have no confirmation of the scope or agenda.	▪ Interview ▪ Committee of Public Accounts, 27- 30 April 2010	D	D
(iii) Issuance of recommended actions by the legislature and implementation by the	No recommendations are being issued by the legislature.	D	The Expenditure Review and Audit Act provides for the review and follow-up	▪ Expenditure Review and Audit Act, 1998 ▪ Interview	D	D

executive.			by Committee. However, the PAC can only recommend and there is no requirement for the executive to act.			

According to the ER&A Act, the Public Accounts Committee (PAC) has the mandate for legislative scrutiny of external audit reports[67]. The status of the scrutiny of the financial statements is included as Annex O.

Assessment 2012

Dimension (i) In terms of the ER&A Act there are no deadlines for the review of audit reports by the PAC. As noted in PI 26, during the period under review only one audit report was submitted. The PAC only met once in April 2010 when they discussed a number of investigations conducted by the OAG. We also understand that they met in May 2009 but we do not have confirmation of the scope or agenda.

Dimension (ii) The PAC has held two hearings during the last three years. The April 2010 reviews were in-depth and concentrated on audit reports on fraud dating back to 2000. The hearings included many central government witnesses from the PSC and MFEM. The OAG commented that the PAC had sent the Police to ensure that some ministry officials attended the hearing.

Dimension (iii) The ER&A Act requires a Director General and other heads of public bodies to respond within 28 days to any PAC report they may have received. No PAC reports have been issued for the period 2009 to 2011.

Comparison 2009 – 2012

There has been very little PAC activity apart from two meetings with the OAG in May 2009 and in April 2010. As noted above the PAC met in May 2009 and again in April 2010, but membership was affected by the need for a quorum.

3.7. Donor practices

The indicators in this group assess the extent to which donor practices impact the performance of country PFM systems. The following paragraphs provide the detailed information to support and explain the 2012 scores, and where relevant to compare these with the 2009 scores as well as a brief description of any On-going reforms designed to address some of the identified weaknesses.

Donor Practices				Methodology	Score	
D-1 Predictability of Direct Budget Support				**M1**	**D**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i)Annual Deviation of actual budget support from the forecast provided	In at least two of the last three years did direct budget support outturn fall short of the forecast	D	No budget support was reported as being disbursed although	▪ Interview/email – EC ▪ Awaiting DoFT confirmation of nature of receipt	C	D

[67] Some concerns have been raised as to the legal ability of the PAC (a standing committee) to compel attendance. However, anecdotally, the Auditor General indicated that the police were sent to collect witnesses to the committee.

by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature	by more than 15% OR no comprehensive and timely forecast for the year (s)was provided by donor agencies		amounts of 118, 125 and 266 Vt million were pledged over the period. An amount of 97.4 million was recorded as received in 2010, however this was not part of any money pledged under the SERP II budget support program. This money was related to a closed project for structural adjustment under the Department of Finance that started in 2002.	▪ Vol 1 Budget documentation 2009- 2011		
ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	The requirements for score C or higher have not been met.	D	None disbursed in last 3 completed FY	▪ Interviews DoFT ▪ EC interview/email	A	D

Assessment 2012

Dimension (i) The only donor providing budget support as defined by the OECD is the EU. An amount of VT 118 million was pledged in 2009 but due to conditionalities not being met none was received. An amount of Vt125 million was pledged in 2010 and although a figure of Vt97.4 million[68] was received, this did not relate to the budgeted commitment for budget support. An amount of VT 266 million was pledged in 2011 but not received. The Vt6 million in the Development Fund for 2011 relates to a regional fund.

Dimension (ii) According to the financing agreement, tranches are to be released once in the financial year. In the last three completed financial years, no budget support is reported to have been released. However, in 2012 an amount of €900,000 was requested on 8th August and €600,000 or VT 70 million was received on 15th October.

Comparison 2009-2012/On-going reforms

Delays in negotiations of the 10th EDF funding and non-achievement of the conditionalities have led to delays in receipt of budget support, which has an adverse impact on predictability of GoV funds.

[68] The VT 97.4 million was from the EU under project code 02U335 - a closed project for structural adjustment under the Department of Finance. This is very late budget support for a program well before SERP II

Donor Practices				Methodology	Score	
D-2 Financial information provided by donors for budgeting and reporting on project and program aid				**M1**	**D+**	
Dimension	Framework Requirement	PEFA 2012	Summary	Information Sources	PEFA 2009	PEFA 2006
(i) Completeness and timeliness of budget estimates by donors for project support.	Not all major donors provide budget estimates for disbursement of project aid at least for the coming fiscal year and at least three months prior to start	D	Of the five major donors, China does not provide complete information for budget purposes. Information from other donors is also incomplete. A significant proportion of donor funds is still off budget. Information for the estimates is provided by donors providing funds through the Development Fund, and some other assistance e.g. EU in August.	▪ Budget documentation, Donor plans e.g. AusAID partnership ▪ NZAID, JICA brochure (and website)	D	D
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	Donors provide quarterly reports within two months of end of quarter on the disbursements made for at least 50% of the externally financed projects estimates in the budget	C	For those externally financed project estimates in development fund, donors provide information on disbursements of cash to the fund. NZAID, AusAID and EC provide more complete information in relation to their programmes. These account for more than 50% of budgeted funds	▪ Interviews ▪ Smartstream extract (2011) ▪ AusAID data ▪ NZAID data ▪ EC data	C	D

Assessment 2012

Dimension (i) In the last completed financial year (2011), the major donors in Vanuatu were AusAID, China, NZAID , EU, UN agencies, , France (AFD, French Embassy and French Pacific Fund), Japan (JICA and Japanese Embassy), MCA (remaining part) and the Global Fund. Technical and project assistance in energy, disaster prevention and governance[69] are provided by the ADB and World Bank. Bilateral

[69] Some World Bank technical assistance is funded by AisAID.

technical support is also provided by the US and Germany. Further assistance is provided by charitable organisations including the Volunteer Service Overseas (VSO) and the Peace Corps, and regional bodies such as the Forum and South Pacific Commission.

Annex P provides an overview of the major donors' areas of support. The full extent of donor support to Vanuatu is not clear. The accuracy of the information maintained by DSPPAC in the GIP is known to be unreliable as projects are included with no funding/no approval. In the 2011 Budget, the recorded figure for cash grants (those funds distributed via the development fund) were estimated to be Vt4,108 million with a further Vt2,456 million recorded as 'Aid in Kind' which in Vanuatu includes both directly managed support e.g. E.U and technical assistance and goods purchased directly. In addition China is providing support to an E-Government programme through a loan. Aid in kind such as vehicles, technical assistance such as doctors, or turnkey projects provided by the Chinese are not shown.

The 2012 budget shows a significant decrease in funding with Vt 2,546 million in cash grants and 861 million recorded as 'Aid in Kind'. This is caused in part by the completion of the MCA Compact. However, there is also incomplete information for example no donor support is shown for NAO or revenue administration, although technical assistance is being provided. In the budget, no donor support is shown for the Meteorological Department, although interviews indicated that there was support from Australia, ADB, Germany, US and Japan.

AusAID, NZAID, MCA, EC and some UN agencies provide information on project aid (Development Fund) and Aid in Kind for GoV's estimates, albeit using their own classifications. According to the budget documentation, this information on levels of support should be provided by donors by the beginning of August, which technically allows Ministries time to incorporate the figures into their VBMS NPP submissions, if the funding is more than VT10 million. However, it does not allow time for recognition of recurrent cost implications (if any), although for health and education, there are On-going discussions between the donors and government. Other major donors e.g. France and China currently operate outside the government's budget system.

Dimension (ii) Information on actual disbursements has been provided to MFEM by MCA (as MFEM is the fiscal agent) and the EC (through its National Authorising Office (NAO)). NZAID provide quarterly reports on actual disbursements at their quarterly meetings. AusAID is now also able to provide more detailed information through its quarterly aid talks. Information on other support is not routinely provided.

Comparison 2009 – 2012/ On-going reforms

There is no major change, the completion of the Millennium Challenge Compact means that the proportion of funds on which regular reports are available is going down, although this has been compensated by the increasing proportion of AusAID funds provided through the Development Fund.

Aid funding was recorded on a separate database (the GIP). From 2010, donor funding has been increasingly captured through the Vanuatu Budget Management System (VBMS) and reports made available on how much is being spent on particular programmes and activities, regardless of the funding source. However there remain many projects outside the government system, with their own project implementation unit.

Donor Practices				Methodology	Score	
D-3 Proportion of aid that is managed by use of national procedures				**M1**		
Dimension	Framework	PEFA	Summary	Information	PEFA	PEFA

	Requirement	2012		Sources	2009	2006
(i) Overall proportion of aid funds to central government that are managed through national procedures.	Less than 50% of aid funds to central government are managed through national procedures	D	Less than 50% of donor funding uses national procedures	▪ Budget documentation, ▪ Interviews with donors, DoFT and DSPPAC. ▪ PIFS peer review	D	D

Assessment 2012

This indicator relates to the proportion of donor aid funds that are managed through national procedures (i.e. banking, authorisation, procurement, accounting, audit, disbursement and reporting). General budget support is considered by definition to follow the national procedures. No budget support has been provided. In 2011, Vt2.8 billion[70] of donor contributions were managed through the Development Fund. As shown in the following table, some of this money uses government procedures. Use of the Development Fund does not however mean that all government systems are being used. Donor funds are not appropriated, although they are included in the budget. Fund control checks are not carried out on donor funds, the Development Account is a government managed bank account. Procurement procedures of government are followed, audits are not always carried out by the OAG but they are now carried out in consultation with the OAG and shared with him for reporting to Parliament. Accounting and Reporting is through the Government's SmartStream system.

'Aid in Kind' funds recorded in the budget use the budget system (Vt2.456 billion in 2011) but then use their own procedures. There is then a further category of funding which is not recorded in any government system and is estimated by GoV to be worth an additional Vt 3.5 billion.

According to the 2011 Financial Statements, "Aid in Kind, technical assistance, expenses and capital purchases that have been paid for or provided directly by external donors are not included as revenue in these statements. Aid in kind donor contributions are estimated at 6 billion vatu per year. The bulk of Vanuatu's aid assistance is therefore excluded from these Statements".

Procedures	**Aus**[71]	**NZ**	**EU**[72]	**France**	**Japan**	**China**	**UN**
Financial Year	Jul 11 Jun 12	Jul 11 Jun 12	2011	2011 budget		2011	
Latest Budget (Own currency)	Aus AUD 39.5m	NZ NZD 22.5m	EU EUR	France EUR	Japan EUR	China CNY	UN USD
Exchange Rate (16/08/09)	95.5	75.5	118.73				
Latest Budget (Vt million)	3,772.3		266+?	432	N/A	? 350 +	N/K
Budget	Part	Part	Part	No	No[73]	No	Part

[70] This is significantly below the estimated figures presumably because of absorption capacity.

[71] Excludes funding from Australian NGOs

[72] Including pledged budget support of 266 million

[73] With the exception of the Japanese Embassy grassroots project

Banking	Part	Part	Part	No	No	No	Part
Accounting	Part	Part	Part	No	No	No	Part
Procurement	Part	Part	Part	No	No	No	Part
Reporting	Part	Part	Part	No	No	No	Part
Audit	Part	Part	Part	No	No	No	Part

Source: AusAID, NZAID estimates for relevant years; France funding estimates as per donor matrix

Comparison 2009 - 2012

As noted in PI 7 and D2 above, an increasing proportion of funds are being managed and reported through the Development Fund. Since 2009, more funds are therefore using some national procedures, however this is still < 50% of total donor funding.

On-going reforms

As discussed elsewhere, the introduction of the development budget is designed to improve GoV's budgeting process and donor's support of government priorities. In addition, the Australian and Vanuatu Governments have recently signed the Vanuatu – Australia Partnership for Development. The Partnership includes specific commitments by the Government of Australia to:

- Provide substantive support for policy implementation and a commitment to increase the use of Government of Vanuatu systems in delivering Australian assistance, including through the Governance for Growth Program; and
- Increasingly align Australia's aid with Vanuatu's decision making, finance and procurement systems, recognising Vanuatu's significant progress with public financial management reform and provide support to Vanuatu to monitor and strengthen those systems over time.

4. Government (PFM) reform process

4.1. Description of recent and on-going reforms

PFM reform and related programmes

Although an EU budget support program was engaged in under the condition of the implementation of a PFM Road Map (2008-2013), there was no real government ownership of the document and therefore was not followed as stated in the document. This does not mean that PFM system has not been strengthened in the last years. Contrarily, there have been a wide range of interventions carried out by the Ministry of Finance and Economic Management (MFEM), which have lead to a sequential reform of PFM and key improvements. Although Government did not implement the PFM Road map (2008-2013), most of the reforms have been in line with this document[74], but done in a modest dimension compared to PFM Road Map targets.

AusAID has been supporting most of these reforms through the Governance for Growth Programme. AusAID as the largest donor partner to Vanuatu is also the main development partner supporting and using Government financial systems.

The MFEM has identified a number of additional reforms that are required and which will be stated in their Corporate Plan still under design. This is a complex process, which reaches across Government. The impact of the reform agenda and leadership shown by Vanuatu's Government is reflected in an acceptable fiscal and stable macro-economic position with the maintenance of low debt levels. However, longer term structural weaknesses remain, including the limitations of the budget as a planning tool over the medium term, poor policy and machinery of Government processes, weak links between policies and plans, lack of internal audit across Government, weak compliance in procurement systems in the line ministries and difficulties to track and control expenditure at a disaggregated level.

GoV's overarching planning document is the Priorities Action Agenda (PAA) 2006 -2015. A recent review by government has shown that overall progress has been mixed. In terms of PFM related measures, the following summarises the current emphasis of reforms and areas in which the government wishes to focus.

- No progress has been made in reviewing the tax base to make it more investment friendly although current attention is on improving tax compliance. The import tariff structure needs to be kept under review in line with Vanuatu's trade and industrial policies and pending trade negotiations and agreements.
- A major challenge is to align PAA priorities to corporate plans, budget programmes, and budget narratives. The development of sector Medium Term Expenditure Frameworks (MTEFs) can be a useful complement to the integrated budget framework. There is also a need to improve budget submissions and to provide sufficient information to justify increases in budgets, particularly in the social sectors. This has contributed to the demands for supplementary budgets.
- There is a recognized need to be more proactive in overall debt management and establish a more precise debt management policy for all public sector loans and guarantees.
- Government recognises that procurement arrangements need improvement particularly in the area of ensuring competitive bidding and dispute resolution. The Government has been working

[74] Although MFEM did not follow the PFM Road map, most policy were reformed leading with the fully and partly achievement of PFM Road map. Only targets related State Own Enterprises were not achieved.

to strengthen procurement processes, particularly through institutional strengthening and more recently has begun working on amendments to the Government Contract and Tenders Act.

- Providing policy stability and continuity is hampered by political instability. Policies to address political stability through constitutional changes, political parties, legislation, and other changes to support stability were provided in the PLAS and the PAA.
- Policies to ensure that Political Leaders and bureaucrats are held accountable for their decisions through strengthening of the Auditor-General and Ombudsman's offices, and the Public Accounts Committee have made some progress. Activities are on-going to strengthen the key institutions of the Office of the Ombudsman and the Auditor General. The draft amendments for the Ombudsman Act are currently going through the consultative process. There is a need to push ahead with the amendments, which were first suggested in a review of the act in 2001. The establishment of the Leadership Tribunal will be a key milestone.
- The government recognizes that the Office of the Auditor General (OAG) needs further strengthening. The OAG faces challenges with staffing capacity and capability as well as the efficacy of their audit methodologies and systems. These issues mean public accounts are often not audited to high standards in a timely manner.

4.2. Institutional factors affecting reform planning and implementation

Government leadership and ownership

As noted above, GoV has continued to implement a number of changes in a gradual and co-ordinated manner. The failure of the PFM roadmap is symptomatic of external plans, which have limited local ownership and unrealistic targets. MFEM and the PMO continue to champion the reforms, although support from line ministries appears to vary.

Coordination across government

In Vanuatu, PFM reforms have started at the centre in the MFEM and are now radiating out to line ministries, departments and to outlying islands. As the reforms progress, there will clearly be additional demands on the MFEM. The process of expanding the reforms across government is recognised to be complex and the co-ordination mechanisms necessary are being developed as part of the MFEM's new business plan.

Sustainability of the reform process

Economic growth is clearly important to sustainable development; however, GoV also recognises that policy stability is essential to the sustainability of the reform process. A key policy priority in their four-year planning matrix is the stability of government and the promotion of political stability. It is therefore intending to address a number of political issues including the funding of political parties.

Vanuatu faces a number of challenges in ensuring reform sustainability, not least the limited human resource pool available and high turnover rate. Unrealistic expectations from external stakeholders will also adversely affect sustainability.

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**	Variance was 3.0%, 0.8% and 0.2% **Source: Financial statements 2009 – 2010 (audited) 2011 (unaudited)**
PI-2	Composition of expenditure out-turn compared to original approved budget	**A**	Variance was 2.1%, 3.3% and 4.8% **Source: Financial statements 2009 – 2010 (audited) 2011 (unaudited)**
PI-3	Aggregate revenue out-turn compared to original approved budget	**C**	Actual revenue was 92%, 87% and 100% of forecasts **Source: Fiscal Strategy reports 2009- 2011**
PI-4	Stock and monitoring of expenditure payment arrears	**A**	GoV adopts a 30 day payment policy. Within the FMIS, expenditure payment arrears are therefore negligible. It has an annual process to identify and pay off bills that are not processed in a timely manner e.g. utilities. it has a 30 day payment policy and therefore does not age profile its debts **Sources: Financial statements- working papers and interviews**
B.	**KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency**		
PI-5	Classification of the budget	**B**	The budget formulation and execution is based on administrative, economic, program/activity and cost centre classification using standards that can produce consistent documentation according to GFS/COFOG standards but program classification is not at sub functional level. **Source: Budget documentation; Chart of Accounts; Interviews**
PI-6	Comprehensiveness of information included in budget documentation	**B**	Recent budget documentation fulfils 5 of the 9 benchmarks,. **Source: Budget documentation – volumes 1 – 3 2009- 2011**
PI-7	Extent of unreported government operations	**B+**	Government operations which are unreported are now assessed at being less than 1% of total expenditure. With no memorandum notes to the budget there is an element of under-reporting, but audited financial statements are included in (delayed) audit report. There remain some donor support provided in cash which is not part of the development fund and therefore not recorded

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			Sources: Financial statements, Interviews – Donors and MFEM
PI-8	Transparency of inter-governmental fiscal relations	**B**	The allocation is divided equally between the six provinces. A grant is also provided to Luganville Municipality. In terms of the Performance Indicator (PI) this represents a transparent and rules based system. For Luganville municipality, notification is relatively late, although it has not changed for many years.The GoV does not prepare general government accounts (central and sub-national) and fiscal information consistent with the central government reporting is not yet collected. **Sources: Interviews – MFEM and MIA; Financial Circular no' 7 of 2011**
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	**D↑**	Late production of accounts by several of the major GBEs means that annual monitoring remains incomplete. Monitoring of SN government's fiscal position is significantly incomplete. **Sources: Financial Statements 2011, GBE unit monitoring lists, Annual Report (GoV) + Interviews – GBEU + Dept of local authorities**
PI-10	Public access to key fiscal information	**C**	Only limited Budget execution documentation is readily available to the public.. The indicator has therefore been scored as 1 out of 6. **Sources: Interviews – Civil Society, Private sector and Budget**
C.	**BUDGET CYCLE**		
C(i)	**Policy-Based Budgeting**		
PI-11	Orderliness and participation in the annual budget process	**A**	The budget process and calendar is clearly set out and allows at least 4 weeks. A cut off date is set for submission of data to the VBMS. Some extensions have been allowed but the number had been reducing. The Budget Circular is comprehensive and clear and reflects the ceilings. The budget ceilings for the last three years were approved by the MBC and CoM before the distribution of the circular to line ministries. The Budget was approved prior to the start of the year: **Sources: Financial Circulars no' 7 of 2011, Interviews – Budget Section; Line Ministries, Government Gazette, Self assessment**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C+**	Fiscal aggregates for revenue and expenditure (economic classification) are prepared for three years, including the budget year. The link between the previous year's projections and the subsequent budget ceiling is not clear. A debt sustainability analysis for external and domestic debt was carried out by the GoV and IMF in 2011. Some costed strategies have been prepared (representing >25% of total expenditure) but relationship with budget is recognised to be extremely weak. Investment decisions have often been based on availability of donor funding. While recurrent cost implications have not been ignored, the process has not been formalised.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			Sources: Fiscal strategy reports 2009 -12, Interviews, Self assessment.
C(ii)	**Predictability and Control in Budget Execution**		
PI-13	Transparency of taxpayer obligations and liabilities	**B**	VAT legislation is relatively clear but would benefit from an update, there is now more transparent processes for expenditure. Information on tax liabilities and procedures is provided directly by the Customs department with offices now in all 6 provinces as well as through its extensive website. Clear administrative procedures are in place for VAT and other taxes, and have dealt with most cases. However at the time of the assessment, the VAT tribunal does not currently have membersFor other taxes, final recourse is with the court system. **Sources: Legislation, financial statements, CIRD website and interviews**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**B**	Currently there is no single TIN. Taxpayers may be registered on both the Asycuda system as well as the RMS system. The latter has the same number for both business licences and VAT registration. Penalties exist for non-registration/non filing and have been supplemented by on- the- spot fines. These are now deemed to be adequate and enforcement is improving. Audits are conducted according to an annual plan. The CTS system identifies 4 categories for further audit including refunds. Post- importation checks on import duties is based on an assessment of likely returns. **Sources: Interviews, legislation and regulations**
PI-15	Effectiveness in collection of tax payments	**D+**	Arrears for VAT are significant (> 4% of total tax collections) and despite significant efforts debt collection ratios appear low. All tax revenue is paid into MFEM managed accounts. The majority of tax revenue collected is transferred daily or banked directly with the Reserve Bank. Reconciliation takes place of tax assessments, collections, arrears and transfers to (and receipts) by Treasury takes place for VAT, other revenue is reconciled at least annually. **Sources: Interviews**
PI-16	Predictability in the availability of funds for commitment of expenditures	**B+**	Ministries prepare cash flows as part of their budget submission. A consolidated cash flow is then prepared on the basis of the expenditure estimates and past trends in revenue inflows. The cash outflow and inflow is updated at least quarterly. Although GoV operates a monthly warrant system, cash releases have not differed from budgeted appropriations expenditure is profiled according to their requirements and NPPs can be drawn down as required. An assessment of **B+** has therefore been made. Financial regulations require that budget adjustments above the level of management are approved by the CoM. PI 2 would suggest that there have been few reallocations for the period under review. **Sources: Interviews, regulations, VBMS reports**
PI-17	Recording and management of cash balances, debt and guarantees	**C+**	There are only a limited number of external and domestic debts. Information is currently maintained on several databases, Excel and Smart Stream data is complete and up-to date, but the CS-DRMS data has not been updated, MFEM and RBV have an electronic interface so that cash balances for the key accounts (recurrent and development funds) are known on a daily basis. Some donor project accounts remain outside the system as do a few line ministry accounts + school accounts. The requirements of the PFEM Act ensures that only a single entity can raise loans or approve guarantees and also requires CoM

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			or Parliamentary approval. Loans are required to be within the 40 % debt stock limit but there is no overall ceiling for guarantees. **Sources: Interviews, PFEM Act, Financial statements**
PI-18	Effectiveness of payroll controls	**C+**	GoV has an integrated human resource management information system, whereby amendments to personnel records automatically updates payroll data. There are delays (up to 3 months) in putting people on the payroll and particularly taking people off the payroll due to delays in HR procedures. The payroll system has inbuilt controls which are reasonable. No complete payroll audit or physical count of personnel has been conducted. A partial staff survey takes place as part of the annual education survey. An assessment of **C+** has been made. **Sources: Interviews and payroll manuals, payroll reports.**
PI-19	Competition, value for money and controls in procurement	**D**	The legal framework meets only one of the six listed requirements. There is a lack of transparency on the procurement process. Procurement guidelines are incomplete. We estimate that less than 50 per cent of procurment goes through the CTB. The procurement process meets only one element (bidding opportunities). There is no independent complaints system in operation except through the judicial system. **Sources: Government Contracts and Tenders Act, Interviews**
PI-20	Effectiveness of internal controls for non-salary expenditure	**C**	The local purchase order process (expenditure commitment) cannot proceed without a funds availability check at cost centre/activity level and a check on the budget within SmartStream. However, some ministries are creating unofficial orders thus avoiding this commitment control check. These unofficial orders/unauthorised expenditures are also being honoured. Utilities also do not require an LPO to incur an expenditure commitment. **Sources: PFEM Act revised, manuals, interviews, internal audit reports and Fin Reg 2.2 report.**
PI-21	Effectiveness of internal audit	**D+**	There are internal audit functions in education, health, finance and internal affairs. These represent more than 50% of expenditure and the finance internal audit covers other MDAs The compliance reviews conducted by the internal audit functions provide elements of systems monitoring. Generally, the weakness has been the management implementation of audit recommendations and a timely follow up by the internal audit function with auditees. We were unable to establish the extent to which audit recommendations that were accepted were actually implemented as it appeared that there was 18 months between the audit and a follow up audit. **Source of information: Internal Audit reports, Audit plans (MFEM, MOE, MOH) and interviews**
C(iii)	**Accounting, Recording and Reporting**		

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
PI-22	Timeliness and regularity of accounts reconciliation	**B**	MFEM undertakes reconciliations of GoV's main treasury managed accounts on a regular basis. The bank reconciliation of the main operating account (numbers one and two) is completed daily by the assistant accountant and approved by the senior accountant. The development account is done monthly and normally two weeks after close of the period. Suspense accounts are cleared annually. **Source: interviews, sample bank reconciliation, financial statements**
PI-23	Availability of information on resources received by service delivery units	**D**	To date, for the period in question, there has been no comprehensive data collection at the primary school level. There are annual school surveys which provide some information. A Health PER was completed in January 2012. An Education PER was completed in December 2012 but is outside the period in question. **Source: Interviews, PERs for education and health**
PI-24	Quality and timeliness of in-year budget reports	**B+**	Information can be accessed as required. Standard and customised reports can be produced by the FMIS which show actual, commitment and budget for ministry/programme/activity and where relevant cost centre. Physical reports are produced at the end of the month by MFEM and several ministries. The current position can however be viewed on line at any time. Expenditure data is considered to be generally of reasonable quality. The weakness is that line managers are not aware of, not trained and/ or not required to regularly review their execution of the budget. **Sources: Interviews, monthly fiscal reports, monthly revenue reports, monthly report for ministry.**
PI-25	Quality and timeliness of annual financial statements	**B+**	A consolidated government statement is prepared annually and includes information on revenue, expenditure, financial assets and liabilities. Financial statements for central government are submitted for audit within ten months of year-end. IPSAS standards have been applied voluntarily for some years and are now required by the legislation, but GoV is not able to comply with some of the standards e.g. 17. **Sources: Financial statements 2010, PFEM Act**
C(iv)	**External Scrutiny and Audit**		
PI-26	Scope, nature and follow-up of external audit	**D**	The audit scope covers central government entities and the nature or audit focus is financial attest. Independence is an issue. The Annual Audit report to parliament indicates audits at MDA level and representing less than 50 per cent of total expenditures, primarily as Health and Education were not covered. The Financial Statements for 2005- 2009 were presented to the speaker, more than 12 months from the end of the financial year, in April 2012. However, they have still not be tabled in Parliament. FY 2010 has not been presented as yet. **Sources: Audit report 2012, ER&A Act and interviews**
PI-27	Legislative scrutiny of the	**C+**	Budget documentation submitted to Parliament includes fiscal strategy, programme budget estimates and narrative. Legislative review focuses on the detailed estimates and is not involved at a prior stage of the budget process. The PAC has

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
	annual budget law		not been carrying out its mandate with respect to the budget process, although review by the legislature has been followed. Parliament sits for one month (November) to consider appropriation bill. **Sources: Volumes 1–3 of Budget documentation, Interviews, ER&A Act, PFEM Act**
PI-28	Legislative scrutiny of external audit reports	**D+**	The PAC met only once in May 2009 to discuss the 2007 Audit Report with the OAG. No PAC hearings took place. In 2010, a meeting was held and in-depth hearings were held on a range of fraud audit investigations dating back to 2000. No PAC reports have been produced since 1997 **Sources: Interviews, PAC Minutes.**
D.	**Donor practices**		
D-1	Predictability of Direct Budget Support	**D**	EC pledged budget support was not disbursed **Sources: Interviews, SERP Financing agreement; 10th EDF agreement, budget documentation**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**D+**	A significant proportion of donor funds is still off-budget, although decreasing. Information for the estimates is provided by donors providing funds through the Development Fund, information on other projects is not always provided for the estimates. For those externally financed project estimates in the budget, donors provide information on disbursements of cash to the fund. NZAID, AusAID and EC provide more complete information. **Sources: Interviews, financial statements, budget documentation and donor disbursement documents**
D-3	Proportion of aid that is managed by use of national procedures	**D**	A significant proportion of assistance provided to Vanuatu is in the form of technical co-operation (technical assistance, scholarships, aid in kind or turnkey projects. Less than 50% of donor funding uses national procedures. **Sources: Interviews, financial statements, framework document and donor papers**

Annex B Summary table on progress made

Indicator	2009	2012	Performance Change	Other factors
A. PFM OUTTURNS: Credibility of the budget				
PI-1. Aggregate expenditure out-turns compared to original approved budget	B	A	Deviations are slightly lower than in the previous assessment.	Recent changes to the PFEM Act are designed to assist further in the control of unbudgeted expenditure
PI-2. Composition of expenditure-outturn compared to original approved budget	-	A	Not comparable due to a change in methodology	
PI-3. Aggregate revenue out-turns compared to original approved budget	-	C	Not comparable due to a change in methodology	
PI-4 Stock and monitoring of expenditure payment arrears	A	A		
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency				
PI-5 Classification of the budget	B	B	No change	
PI-6 Comprehensiveness of information included in the Budget	B	B	No change	
PI-7 Extent of unreported government operations	C+	B+	School grants at primary level have taken the place of unreported school fees thus the improvement in score	
PI-8 Transparency of inter-gov. fiscal relations	B	B		
PI-9 Oversight of aggregate fiscal risk from other public sector entities	D	D	Some improvement in the timeliness of the financial statement preparation by the GBEs	
PI-10 Public access to key fiscal information	C	C	Information to the public is still limited	
C. BUDGET CYCLE:				
C(i) Policy-based budgeting				
PI-11 Orderliness and participation in the annual	B	A	There are still some delays in submitting budgets, but the situation has been improving. The budgets were appropriated	

Indicator	2009	2012	Performance Change	Other factors
budgeting process			before the start of the year	
PI-12 Multi-year perspective in fiscal planning, expenditure policy & budgeting	C+	C+	Health now has partially costed strategy	
C (ii) Predictability and control in budget execution				
PI-13 Transparency of taxpayer obligations and liabilities	B	B	Improvements in the treatment of exemptions for import duties, but VAT tribunal not operational	
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B↑	B		
PI-15 Effective collection of tax payments	D+	D+		
PI-16 Predictability in the availability of funds for commitment of expenditures	A	B+	Cashflow forecasting allows MDAs to plan quarterly. We note the shift by MFEM to splitting the payment of the monthly warrants. However, this has only materially occurred in 2012 which is outside our scope for this PI.	
PI-17 Recording and management of cash balances, debt and guarantees	C+	C+	No change in assessment. There have been some amendments to the PFEM Act which has strengthened reporting to Parliament.	
PI -18 Effectiveness of payroll controls	C+	C+	There are no major changes since the last assessment in the systems, controls and administrative processes. However, ministries are sidestepping existing controls to engage personnel outside the budgeted establishment structure.	
PI-19 Competition, value-for-money & controls in procurement	D+	-	Not comparable due to a change in methodology. In some instances, the procurement situation has worsened with anecdotal information suggesting considerable splitting of contracts	
PI-20 Effectiveness of internal controls for non-salary expenditure	C+↑	C	Since the last assessment, the financial regulations have been updated and changes made to the legislation to try and ensure greater control. The Auditor General has been appointed and internal audit functions have also extended their audit programmes. However, the weaknesses continue to be at the	

Indicator	2009	2012	Performance Change	Other factors
			managerial accountability level at MDAs, which weaken an existing and adequate control framework. Scores have therefore been downgraded with respect to the effectiveness of the expenditure commitment controls.	
PI-21 Effectiveness of internal audit	C	D+	There have been positive developments since 2009 including the establishment of the audit committee and structured planning. However, there continue to be weaknesses including independence, follow up to, and implementation of, recommendations that restrict the capacity of internal audit to support the internal control framework and financial management.	
C (iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	B	B	No changes	
PI-23 Availability of information on resources received by service delivery units	C	D	For the period 2009 to 2011, there have been no comprehensive studies undertaken which is contrast to the previous PEFA where a French supported study was conducted to gather data for the EMIS. This resulted in a higher score for 2009 PEFA.	
PI-24 Quality, timeliness of in-year budget reports	B+	B+	No change	
PI-25 Quality and timeliness of annual financial statements	A	B+	The Government has adopted the International Public Sector Accounting Standards, including IPSAS17 Property, Plant and Equipment, which provides for a five year transitional period to comply with this standard. This transitional period expired in 2010 and, as the Government notes in the 2011 Financial statements, it has not been able unable to adequately identify and value all of its assets yet. This is why the assessment has reduced slightly.	
C (iv) External Scrutiny and Audit				
PI-26 Scope, nature, follow up of external audit	D	D	Since the last assessment, the Auditor General has been	

Indicator	2009	2012	Performance Change	Other factors
			appointed and work is on-going, although due to capacity constraints and the backlog of work, this has not been reflected in the scores. The OAG has completed financial audits of the financial years 2005 to 2009, which has been presented to the Speaker but, to date, this has not laid before Parliament.	
PI-27 Legislative scrutiny of the annual budget law	C+↑	C+	No change	
PI-28 Legislative scrutiny of external audit reports	D	D+	There has been very little PAC activity apart from two meetings with the OAG in May 2009 and in April 2010. As noted above the PAC met in May 2009 and again in April 2010, but membership was affected by the need for a quorum.	
D DONOR PRACTICES				
D-1 Predictability of Direct Budget Support	C+	D	Pledged support not received	
D-2 Financial Information provided by Donors for budgeting and reporting on aid	D+	D+		
D-3 Proportion of aid that is managed by use of national procedures	D↑	D		

Annex C Terms of Reference

VANUATU

TERMS OF REFERENCE:
PEFA ASSESSMENT, VANUATU 2012

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Executive Summary

A PEFA assessment – Public Expenditure and Financial Accountability – is a standard tool for assessing the health of a Public Financial Management system and the budgeting process. It is a tool that has been developed over the last ten years or so, as part of the Aid Effectiveness agenda[75] as a method of strengthening Public Financial Management and budgetary systems, in turn helping donors and recipient Governments to move towards using Government systems.

As Vanuatu has been receiving EU Budget Support since 2002, the country and public sector has experience in PEFA assessments. The first PEFA report was conducted in Vanuatu in 2006. Three years later, in 2009, a second PEFA assessment was carried out to review progress achieved in the 2006-2008 period and since then, there has been considerable progress in the strengthening of Vanuatu's PFM (Public Financial Management) systems.

Although an EU budget support program was engaged in under the condition of the implementation of a PFM Road Map (2008-2013), the policy did not root and therefore was not followed as stated in the document. This does not mean that PFM system has not been strengthened in the last years. Contrarily, there have been a wide range of interventions carried out by the Ministry of Finance and Economic Management (MFEM), which have lead to a sequential reform of PFM and key improvements. Although Government did not implement the PFM Road map (2008-2013), most of the reforms have been in line with this document[76], but done in a modest dimension compared to PFM Road Map targets.

AusAID has been supporting most of these reforms through the Governance for Growth Programme. AusAID as the largest donor partner to Vanuatu is also the main development partner supporting and using Government financial systems.

The MFEM has identified a number of additional reforms that are required and which will be stated in their Corporate Plan still under design. This is a complex process, which reaches across Government. The impact of the reform agenda and leadership shown by Vanuatu's Government is reflected in an acceptable fiscal and stable macro-economic position with the maintenance of low debt levels. However, longer term structural weaknesses remain, including the limitations of the budget as a planning tool over the medium term, poor policy and machinery of Government processes, weak links between policies and plans, lack of internal audit across Government, weak compliance in procurement systems in the line ministries and difficulties to track and control expenditure at a disaggregated level.

The PEFA assessment is an opportunity to take stock of progress made to date, to compare this to the baseline established in 2009, and to consider future specific priorities and the sequencing of reforms that are still required. Strengthened Government systems will increase the confidence of donors to deliver aid through those systems. Continuing PFM reform is important to maximise the spending power of the Government, to combat corruption, strengthen a country's governance and to deliver services to the people of Vanuatu.

Rationale

75 By the Organization for Economic Cooperation and Development, Development Aid Committee, World Bank, International Monetary Fund and a group of donors

76 Although MFEM did not follow the PFM Road map, most policy were reformed leading with the fully and partly achievement of PFM Road map. Only targets related State Own Enterprises were not achieved.

The Vanuatu Government considers this PEFA assessment as a key and important exercise to diagnose the current state of Vanuatu PFM systems in order to help the Government to identify areas that may require further improvements and reforms. The PEFA assessment should also serve to inform development partners of the state of the functioning and quality of PFM systems, so they can make better decisions about how to use and/or support the strengthening of those systems. Therefore, the rationale for conducting a PEFA assessment in Vanuatu is twofold:

In the short-term,

- As the primary rationale, the PEFA assessment is aimed at providing to Government a snapshot of its PFM system, and strengths and weaknesses - this will help guide the Government's reform/strengthening efforts over the medium-term.

- The second rationale, underpinning this PEFA exercise is that it will provide an update of the state of the Vanuatu PFM system in order that development partners can use it to make decisions on how they may use or improve their support to enhance the PFM system, including financing via the Government's financial systems.

- The PEFA will also serve to check the performance of development partners e.g. predictability of financing.

- The Government may also use the PEFA exercise to inform the EU that eligibility and required conditions for the formulation and implementation of the EU-Vanuatu Good Governance Contract are met.

In the medium-term, the Government will rely on the results of PEFA assessment:

- To provide relevant information to orient Government's dialogue within its own institutions and its development partners on Public Finance Management and to help facilitate improved donor coordination.
- To be used as baseline to monitor progress in the PFM system’s operation in Vanuatu in the future.

Objective

The objective of this assignment is as follows:

To compile a comprehensive[77] “Public Financial Management – Performance Report” (PFM-PR) prepared according to the PEFA methodology, so as to provide an assessment of the overall

[77] This PFM PR is composed of the detailed analysis of the 31 indicators of the « PFM Performance Measurement Framework » and of the performance report itself, which summarises this analysis of the indicators and includes other elements relevant for the assessment.

performance of Vanuatu's PFM systems, strengths and weaknesses, to follow-up on progress against the PEFA indicators from the previous (2009) assessment as well as to help donors on how to improve their support to strengthen PFM..

Purpose

The purposes of the assignment are to:

i. Provide an updated quantitative and qualitative analysis of the overview of PFM performance in accordance with the PEFA Performance Measurement Framework, identifying the main PFM weaknesses in the country, and evaluating to what extent the institutional mechanisms set up by the Government contribute to planning and the implementation of PFM reforms.
ii. Establish and explain the level of improvement in performance, based on the PEFA indicators scores by detailed comparison to the results found during the PEFA assessment carried out in 2009.
iii. Assess the results of the PEFA review, i.e. the performance change in relation to the Government's reform program and possible effects on the scores attained.
iv. Describe the management and quality assurance arrangements for the conduct of the assessment in the Report in accordance with the relevant template available on the PEFA website.

Specific Tasks / Results

In order to meet the objective of the assessment mission the following specific tasks shall be carried out in accordance with the PEFA methodology:

- Documentation. Before the mission in Vanuatu the experts will collect all basic documentation deemed necessary for the mission's in-country work from the Government, AusAID and European Union (EU) Delegation. They will inform the Government which will coordinate closely with the EU Delegation to Vanuatu and AusAID. The gathering of documentation will draw on documents used for the PEFA 2009. Possible sources of relevant information also include PFTAC, Asian Development Bank, World Bank, New Zealand and other development partners. The experts will specify the time-span they deem necessary between the date of reception of this basic documentation and the actual start of the mission in country. The Government will particularly follow up this issue with AusAID and the EU so as to minimize the risk of disrupting the mission due to delays in the provision of basic documentation. Therefore, key documents will be provided in advance, before the field mission starts.
- Background brief: A background brief and explanation of the task will be prepared for the Vanuatu Ministry of Finance and Economic Management officials and other PFM officials likely to work on the PEFA assessment with the expert team, the EU Delegation, AusAID and other donors.
- Work-plan: No later than one week before arrival, the experts will submit to the national authorities and the involved donors an outline work-plan describing the main steps of the mission, notably specifying the list of the interlocutors to meet, a tentative meeting schedule, and the list of required information not yet collected and to be provided in-

country. This work-plan may foresee a mid-term meeting gathering all the stakeholders, so as to report on the work's progress and possible difficulties faced. Within 3 days of arrival the experts will submit the confirmed work-plan.

- Assignment: After the inception phase, and based on the agreed action plan and timetable, the PFM experts will continue with the analyses, fieldwork and reporting required to achieve the indicated results, based on the PEFA methodology. These tasks include (but are not limited to):
  - ✓ Further collection of documentation not previously analysed
  - ✓ The organisation of the required working sessions
  - ✓ Analyses of documentation and interviews with the administration. This includes the drafting of an Aide Mémoire
  - ✓ Compilation of draft final report
  - ✓ Analyses of comments/verification and compilation of final report.

- Debriefing: A final debriefing session will be planned in Vanuatu with all stakeholders for the presentation of results. The session will shed light on the findings contained in the Aide Mémoire, with the aim of achieving agreement on the scores between the assessment team and Government officials. Furthermore, it may be possible to carry out a video conference with the Headquarters of the European Union (EU) during this debriefing session.

A detailed indicative work-plan is included in Annex A of this Terms of Reference (TOR).

Methodology

During the formal assessment, the following methodology will be followed:

1) Document of reference: The experts, in close coordination with Government services involved, will undertake the required analysis while rigorously following the structure, the methodology and the guidelines of the document adopted by the PEFA Steering Committee, titled "Public Financial Management – Performance Measurement Framework". This document can be found on the website www.pefa.org. The original version of this document is in English. Should any uncertainty arise in the interpretation of the text of the translated versions (French, Spanish, Portuguese, Russian) the experts will refer to the original English version to avoid any misunderstanding of the methodology to apply. The experts will duly take into account the PEFA Assessment Field Guide and the Good Practice Note[78] during their analysis[79].

2) Differences in Methodology. If the particular situation of the country requires the addition of specific indicators and/or, for some indicators, to diverge from the prescribed methodology, this shall be duly justified by the experts and require the agreement, during the mission, of the

[78] The Good Practices in Applying the PFM Performance Measurement Framework can be found at http://siteresources.worldbank.org/PEFA/Resources/GoodPracticeinImplementationofPEFAassessmentMar1609Final.pdf

[79] The PEFA Assessment Field Guide can be found at http://siteresources.worldbank.org/PEFA/Resources/PEFAFieldguide.pdf

European Union Delegation and the Ministry of Finance and Economic Management. In any case, only a very limited number of additional indicators would be acceptable. In this case, as well as for any possible proposed difference in methodology, the experts will ask for the written opinion of the PEFA Secretariat.

3) Methodological queries. Any questions on the methodology of the guidelines, which the experts cannot resolve with the available documentation, should be addressed to the PEFA Secretariat[80], in close consultation with local staff.

4) Supporting information. In the report the experts will justify the scoring and describe, in an Annex, for each indicator, the analytical work, which has been carried out mentioning the sources of information and documentation used. The experts should also provide a detailed comparison between the PEFA 2009 and 2012 individual scores and changes noted between these two assessments. Furthermore, for each indicator, the experts will mention any possible difficulties encountered during the assessment, the approach used to overcome these difficulties, and, as appropriate, the additional investigative work judged necessary to complete the analysis carried out. The experts will also describe the management and quality assurance arrangements for the conduct of the assessment in accordance with the relevant template available on the PEFA website.

Quality Assurance

In order to meet quality assurance set by the PEFA Secretariat, the TORs and Concept note will be revised by four independent agencies – MFEM (the lead agency), the EU Delegation in Vanuatu and Head Quarters, AusAID and the PEFA Secretariat. The report will also go through the mentioned standard quality assurance process and be reviewed by the mentioned agencies. The management and quality assurance arrangements will be described in the report in accordance with the relevant template available on the PEFA website (Annex 1).

Stakeholders: Donors and National Authorities

The following stakeholders will be involved in this assessment:

- The lead agency: This will be the **Government of Vanuatu**, represented by the MFEM. The Government's role will be, *inter alia*:

  (i) to make the first contact with the Development partners and officially agree with them on the timetable and TOR of the PEFA assessment and concept note;

  (ii) will indicate the names of the officials (Government officials of and principal technical advisers to MFEM, Department Strategic Policy, Planning and Aid Coordination and

[80] See also "Clarifications issued by the PEFA Secretariat" at http://siteresources.worldbank.org/PEFA/Resources/ClarificationsMarch2012.pdf

other relevant Government ministries and agencies) who will be the interlocutors of the experts and of the donors during the assessment;

(iii) will appoint at least 3 relatively high level Government officials as "project managers" who will oversee and participate in all interview and rating sessions; and,

(iv) will comment on the draft and final reports and send its comments to the experts and the lead donor.

- The role of AusAID and the European Union (represented by the Delegation to Vanuatu) as the development partners funding the PEFA assessment, will be:

  (i) to finance the PEFA assessment and recruit the experts;

  (ii) to be part of the oversight team;

  (iii) to check the quality of the report in consultation with the OT, the PEFA Secretariat and the Government;

  (iv) to consolidate the comments of donors and the PEFA Secretariat and forward them to the experts and the Government; and

  (v) to disseminate the draft and final report.

- Of the other donors involved, the Asian Development Bank/World Bank (ADB/WB), UN and NZAID, as important key development partners, will be included in the list of organisations to be interviewed. While PFTAC, Japan, Republic of China, the Secretariat of the Pacific Community, as well as the EU Member States maybe involved at a strategic level during this assignment. This will include strategic direction, provision of information regarding donor funded activities and verification of information and reports.

- The Oversight Team: In line with the quality assurance arrangement under the PEFA CHECK[81], an OT will be established to govern the assessment via the lead agency, in this case the Government through MFEM. The OT will be chaired by the Director of Finance and Treasury in the Ministry of Finance and Economic Management and will include the Department of Strategic Policy, Planning and Aid-Coordination, the NAO, the EU and AusAID. The Oversight Team and the PEFA Secretariat in accordance with the PEFA CHECK mechanism review the TOR of the assessment and the assessment reports. The other donors in the country, including the WB/ADB, UN and NZAID will not be part of the OT but included as stakeholders.

[81] See PEFA website: http://web.worldbank.org/WBSITE/EXTERNAL/PEFA/0,,contentMDK:23139995~menuPK:8501194~pagePK:7313176~piPK:7327442~theSitePK:7327438,00.html

- Other State structures: The Government will identify other State structures and indicate the names of officials therein who will be the interlocutors of the experts. These will include, but are not limited to:

  - ✓ The Auditor-General's Office
  - ✓ The Reserve Bank of Vanuatu
  - ✓ The Office of the Ombudsman
  - ✓ The Public Accounts Committee
  - ✓ The Prime Minister Office
  - ✓ The Department of Local Authorities
  - ✓ The Decentralisation Review Committee

- The coverage of the analysis is the central Government. It is important to note that while the PEFA assessment will cover fiscal transfers to the provinces and grant bodies; Provincial Governments themselves will not be included in this assessment and neither will state owned enterprises and grant bodies.
- Other Non-State Actors: The OT will identify other non-state actors and indicate the names of officials therein who will be the interlocutors of the experts. These will include, but are not limited to:
  - ✓ Pacific Institute of Public Policy (PiPP)
  - ✓ Vanuatu Chamber of Commerce and Industry
  - ✓ VANGO
  - ✓ Vanuatu Council of Churches

Reporting

Reporting requirements are set out below:

- The experts will provide to the Government first and donors later, within 3 working days after the start of the mission in the field, an Inception Report (inclusive of an updated detailed work-plan) that will guide the remainder of the assignment and the allocation of resources;
- The experts will agree indicative results and brief comments with local officials prior to the end of the mission on the spot;
- In view of the final session of debriefing at the end of the mission, one or two days before debriefing session the experts will provide to the Government through the MFEM with an 'aide memoire' to circulate to development partners and other stakeholders for consultation. Recognising the tight timeframes and workload, this will be a working draft to allow for clarification of details in country before the experts depart;

- Within one week after the end of the mission on the spot, the experts will send to the Government, the European Union Delegation, and AusAID a draft PFM-Performance Report, in electronic copy, based on Annexes 1 and 2 of the above-mentioned PEFA document. The Government will share this draft Report with the stakeholders for comments;
- Within maximum 15 days following the reception of the draft report, the stakeholders (OT, the EU and AUSAID, Government, PEFA Secretariat) will send their comments to the experts. Comments will be sent to the Government, who will be responsible to consolidate the comments and forward it to the team leader;
- Within 15 days after the reception of the comments, the experts will write the final report. The latter will be sent in 5 copies to the Government as well as in electronic version. It will contain, in an annex, the observations of the Government on the points where the latter disagrees with the findings of the experts. It will also contain a description of the management and quality assurance arrangements for the conduct of the assessment. The Government will share final version with stakeholders.
- All reporting will be done in English. Following agreement from the Government, the PEFA Secretariat may publish the final report on its website.

Composition and professional profile of the team

The team will be composed of two independent experts:

- ✓ **One expert** (Category 1)-Team Leader and PEFA Expert, for a total of 34 working days
- ✓ **One expert** (Category 1) - PFM Analyses Expert, for a total of 30 working days.

The experts will have the following profiles:

10.1 Team Leader / PEFA Expert (Category 1)

Expert Qualifications / Experience

- Proven experience, spanning at least 5 years, in the application of the PEFA methodology and assessment of PEFA indicators and reporting;
- At least 15 years working experience in the various disciplines of public financial management, PFM reform, and PFM/fiscal policy formulation and dialogue;
- At least a recognized Master Degree or recognised equivalent level in the fields of public financial management, fiscal policy, accounting, economics and/or public sector auditing.

Skills / Knowledge-Base

- Working experience in assessing all aspects of PFM systems, policies and procedures;
- Knowledge of international practices with regard to PFM systems, policies, procedures and practices;

- Understanding of and experience in working in Pacific Island Countries' public finance management sector and environment will be advantageous; and
- Understanding of the aid effectiveness debate and experience in the ODA environment related to financial management performance measurement and policy dialogue will be advantageous.
- Fluent in English and knowledge of French.

10.2 PFM Analyses Expert (Category 1)

Expert Qualifications / Experience

- At least 10 years working experience in the various disciplines of public financial management, PFM reform and/or PFM/fiscal policy formulation;
- At least a recognized Master Degree or recognised equivalent level in the fields of public financial management, fiscal policy, accounting, economics and/or public sector auditing;
- Proven experience in the application of the PEFA methodology and assessment of PEFA indicators and reporting or the MAPS assessment.

Skills / Knowledge-Base

- Working and/or research experience in assessing all aspects of PFM systems, policies and procedures. The expert must offer work/research experience in at least a combination of the main fields covered by the PEFA indicators, which include:
  - ✓ Budget transparency and allocation (including budget formulation, preparation and oversight)
  - ✓ Budget management
  - ✓ InterGovernmental relations
  - ✓ Multi-year fiscal planning
  - ✓ PFM and expenditure policy and legislation
  - ✓ Taxation systems and policies
  - ✓ Public procurement and treasury functions
  - ✓ Internal controls and auditing
  - ✓ External auditing and performance auditing
  - ✓ ODA incorporation on budgets
  - ✓ Accrual and IPSAS cash accounting

- Understanding of the Pacific Island Countries public finance management sector and environment will be advantageous; and
- Understanding and/or experience in working with the PEFA methodology and assessment of PEFA indicators and reporting will be advantageous.
- Knowledge of French as an asset.

The cumulated experience of the experts should ensure that the team is able to cover the analysis of the different areas of the PFM-Performance Report, including public procurement and treasury. The working language for this assignment will be English and the two experts will have an excellent command of English, and it is desirable that at least one of them have a good command of French. The CVs of the proposed experts will contain references of any prior PEFA mission(s) carried out, and the details of the contracting authority.

Logistics, timing and budget

The assignment will commence by November at the latest and end no later than 15th January 2013 with the submission of the final report. The working group will be composed of the two international experts, 2 staff from Department of Treasury, one adviser from the MFEM, two staff from Prime Minister's Office and one adviser from M&E Unit. Staff from MFEM will be part of the team, while the rest of proposed members will be only involved at concrete levels of the study. Government will also provide a room within MFEM where the assessment team will be based throughout the overall assessment period. The experts will deliver a maximum of 64 total person/working days of service for the two experts (the assignment will be a maximum of 90 calendar days for the Team Leader) – also refer to Section 9 of the Terms of Reference.

A tentative table with the inputs (in man/days) is below.

	Team Leader	**PFM Analyses Expert (Category 1)**
Desk phase	3	3
Travel to Vanuatu	2	1
In-country field mission	16	16
On the spot: analysis of documentation and interviews with administration. Drafting of the aide mémoire		
Final debriefing workshop (aide-mémoire)		
Travel to base	2	2
Draft final report	5	5
Final report	6	3
TOTAL working days	**34**	**30**

For the purpose of this contract, experts have the permission to work during weekends and public holidays, as required for delivering the requested services. The MFEM will provide support to the experts with the arrangements for the venue of any stakeholder workshops, if necessary.

Annex A: Indicative Road Map for the preparation and execution of the mission

Tasks	Responsible	Tentative Calendar
Formation of an Oversight Team (OT)	MFEM in consultation with EU	Second Week September 2012
OT appoints an Assessment Manager (AM)* and the 2 staff and 2 advisors that will participate in the PEFA study	OT members chaired by MFEM	Second week September
Presentation of the first draft ToR for mission to the OT and the PEFA Secretariat by the AM	AM	Second Week of September
Feedback provided by the OT and PEFA Secretariat on the ToR	OT, PEFA Secretariat	First week October 2012
Include recommendations and Validation of the ToR including mission timetable	OT	First-Second Week October
- Discussion and finalisation of the TOR - Approval of the TOR	AM, OT	
Recruitment of the experts	AM with OT participation	Third week of October
Recruitment of consultants according to the specific recruitment procedures of the AM.	AM with OT participation	Fourth Week of October
- Collection of document and send them to experts	EU in Collaboration with MFEM staff involved in PEFA exercise.	October
Works of the experts and finalisation of the report	Experts	October
-Background Brief +Work Plan - Briefing of the OT and AM, including EU and AusAID - Organise interviews, carry out interviews, request for additional information. - Analysis of documentation and interviews with administration. Drafting of the aide mémoire. - Presentation of Aide Memoire and Debriefing of OT, AM, EU and AusAID - Write and send draft report.	Assessment team	*November/December*
Validation of the reports	OT, Secretariat of PEFA	First and second week

		of december2012
- To check the quality of the draft report **-To draft and send comments to the experts.** **- Approval of the final report** **-Public Presentation of the Document**	**OT, PEFA Secretariat, MFEM and AM.**	**First and second week December at the latest.** **15 January 2012** **Date to be determined by the Government**

* The Assessment Manager (AM) will be responsible for contracting and managing the assessment mission in close coordination with and supervised by the OT.

Annex B: Concept Note – PEFA Vanuatu 2012

- Under the formulation phase of EU General Budget Support to the Government of Vanuatu the EU suggested and discussed with the Department of Finance and Treasury of the Ministry of Finance and Economic Management (MFEM) of Vanuatu the possibility to carry out a PEFA Assessment to be finalised before the end of 2012.

- The Government considered this suggestion as a good opportunity to check the state of Vanuatu's PFM system and identify further areas where reforms would be needed over medium-term. The Government also sees the exercise as a way to inform donors on how they can better support PFM as well as to assess donor performance. The commitment to undertake PEFA assessments on a 3-4 year basis and to develop national PFM roadmaps on the back of these is also a commitment by the Forum Economic Ministers[82]

- Being AusAID the main donor in the country and the major supporter to strengthening Government financial systems, the Government invited this development to engage in the PEFA assessment as contributor to the team of experts, and thereof to the study, as well as key stakeholder.

- The objective of the assessment mission is to draft a comprehensive "PFM – Performance Report" (PFM-PR) prepared according to the PEFA methodology, so as to provide an analysis of the overall performance of the PFM systems of the country as well as to follow-up on progress against the PEFA indicators from the last assessment (2009) that will permit the measuring over time of changes in performance, identify key areas for reform as well as to inform donors *make decisions about how to support the strengthening of PFM systems*

- This PEFA assessment is also intended to provide an updated comprehensive overview of Vanuatu's PFM system that will be used by development partners to provide support to PFM reforms and enhance effectiveness.

- In the absence of a formal PFM reform or PFM Road Map in Vanuatu and in line with the new EU Budget Support Guidelines, the results of the PEFA assessment will also help to set the PFM current status as baseline to be used to report against[83] the yearly progress in improving Public Finance Management Systems.

- The specific objectives of this assignment include:

1. Update the overview of PFM performance in accordance with the PEFA Performance Measurement Framework set by the PEFA Secretariat.

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82 -http://www.forumsec.org/resources/uploads/attachments/documents/FEMK.06%20-%20Update%20on%20Public%20Finance%20Management%20Roadmap%20Impementation.pdf).

83 Joint with other document such IMF Art.IV, Corporate Plan, MFEM Annual Reports, PFM assessments.

2. Establish and explain the level of improvement in performance based on the PEFA indicators scores by comparison to the results found in the last PEFA carried out in 2009.

3. Assess the results of the PEFA review i.e. the performance change in relation to the project activities and possible effects on the scores attained.

4. Describe the management and quality assurance arrangements for the conduct of the assessment in the Report in accordance with the relevant template available on the PEFA website.

- PEFA as an independent standard assessment to be published following a quality assurance process both at the preparation of the Terms of Reference (ToR) for the PEFA and at the review/approval of the assessment report. If there are differences between the latter and the Government's position, the position of the Government (on all or part of the report) could be annexed to the final report.

- Process to be supervised by an Oversight Team (OT) chaired by the Ministry of Finance and Economic Management (MFEM);The formal assessment to be contracted externally by the European Union and AusAID, following the ToR approved by the OT. Draft ToR and draft assessment report to be shared with the PEFA Secretariat for quality assurance purposes (PEFA CHECK).

- Assessment team: group of four to six people, 2 contracted externally (1 Senior expert by the EU and 1 Senior expert by AusAID) in a mission of about 4 weeks + 2 weeks for finalisation and preparation purposes for the two main experts; 4staff from the Government, one Advisor/TA from the MFEM and one Advisor/TA from PMO. Mission to be undertaken during October – November 2012.

Road Map for the preparation and execution of the PEFA mission

Tasks	Responsible	Tentative Calendar
Formation of an Oversight Team (OT)	**MFEM in consultation with EU**	**Second Week September 2012**
OT appoints an Assessment Manager (AM)* and the 2 staff and 2 advisors that will participate in the PEFA study	**OT members chaired by MFEM**	**Second week September**
Presentation of the first draft ToR for mission to the OT and the PEFA Secretariat by the AM	**AM**	**Second Week of September**
Feedback provided by the OT and PEFA Secretariat on the ToR	**OT, PEFA Secretariat**	**First week October 2012**

Include recommendations and Validation of the ToR including mission timetable	**OT**	**First-Second Week October**
- Discussion and finalisation of the TOR **- Approval of the TOR**	**AM, OT**	
Recruitment of the experts	**AM with OT participation**	**Third week of October**
Recruitment of consultants according to the specific recruitment procedures of the AM.	**AM with OT participation**	**Fourth Week of October**
- Collection of document and send them to experts	**EU in Collaboration with MFEM staff involved in PEFA exercise.**	**October**
Works of the experts and finalisation of the report	**Experts**	**October**
-Background Brief +Work Plan **- Briefing of the OT and AM, including EU and AusAID** **- Organise interviews, carry out interviews, request for additional information.** **- Analysis of documentation and interviews with administration. Drafting of the aide mémoire.** **- Presentation of Aide Memoire and Debriefing of OT, AM, EU and AusAID** **- Write and send draft report.**	**Assessment team**	**November/December**
Validation of the reports	**OT, Secretariat of PEFA**	**First and second week of december2012**
- To check the quality of the draft report **-To draft and send comments to the experts.** **- Approval of the final report** **-Public Presentation of the Document**	**OT, PEFA Secretariat, MFEM and AM.**	**First and second week December at the latest.** **15 January 2012** **Date to be determined by the Government**

* The Assessment Manager (AM) will be responsible for contracting and managing the assessment mission in close coordination with and supervised by the OT.

Annex C: Comments from the PEFA Secretariat

This note sets out the PEFA Secretariat's comments on the Terms of Reference for the PEFA Assessment of the Government of Vanuatu, as requested by Gemma Pinol Puig, of the European Union Delegation to Vanuatu, on September 19, 2012.

We are grateful for the opportunity to present our comments, which address questions related to the planning and process of undertaking a PEFA-based PFM assessment, as set out in the guidance material for the application and management of the Performance Measurement Framework (available on the PEFA website www.pefa.org).

Overall Impression

This is a good Terms of Reference, which address the items on the Secretariat's checklist (available on the website), though not completely in all cases. It will be a repeat PEFA assessment, on this occasion led by the Government using a team of officials supported by consultants. There are arrangements for an Oversight Team, headed by senior Government officials, and including some – but not all – of the active development partners, although it is not clear how their inputs will be coordinated (whether involved in the Oversight Team or not).

The final part of the document is a 'Concept Note', which adds little – if any – value for the reader.

Our detailed comments and suggestions are as follows:

Background

The background and context for the assessment are both explained, and while it is stated that PFM reforms have been progressed by the Government in the years since the previous assessment in 2009, no details are provided, nor is any mechanism for monitoring and coordinating reform activities mentioned. The only recent analytical work referred to is the 2009 PEFA assessment, but if other material does exist, it may provide valuable background for the assessors.

Purpose

The overall purpose of the assessment is to *"compile a comprehensive "Public Financial Management – Performance Report" prepared according to the PEFA methodology, so as to provide an assessment of the overall performance of Vanuatu's PFM systems, strengths and weaknesses, to follow-up on progress against the PEFA indicators from the previous (2009) assessment as well as to help donors on how to improve their support to strengthen PFM".*

Scope and Coverage

The coverage of the analysis is to be the central Government, and it would be helpful to specify the related entities that will be included in the assessment (both budgetary and autonomous agencies).

Stakeholder roles

Government will lead this assessment, and has provided not only officials to be assessment team members, but also a senior official to Chair the Oversight Team.

Several oversight agencies (external audit, Public Accounts Committee, etc.) are mentioned, as are civil society groups, but it is not clear how active development partners other than EU and AusAid will be involved in the exercise (they:*"maybe involved on a strategic level"*) but no roles and responsibilities are mentioned.

Methodology

It is stated that the recommended PFM-PR format will be followed, and that the standard 31 PEFA indicators will be used, in accordance with the various Guides and other documents issued by the Secretariat.

While the process is outlined, there is no reference to the recommended initial training seminar, although a debriefing workshop is included. The schedule appears rather tight, as completion is due by 15 December 2012: this may not allow sufficient time for stakeholders to digest and agree the ratings.

Sources of information for scoring the indicators are not specified, but there is an intention to incorporate information from non-state actors (such as a Chamber of Commerce, to corroborate information around procurement and taxation issues) – always valuable for triangulation.

The final report is to be published once agreed by Government, and is to be used in discussion with development partners to engage on the PFM agenda and future support initiatives.

Quality assurance

The Terms of Reference refer to the Oversight Team and the PEFA Secretariat reviewing the ToR and the assessment report, and mentions the new process endorsement mechanism for PEFA assessments (‘PEFACheck’) which came into effect in May 2012. However, no arrangements are specified to meet the PEFA Check requirements (four agencies to be involved, etc).

Resources

The indicative timing of each stage in the process is shown, although there is no indication of the person-days involved, other than for the contracted consultants. The timescale appears compressed, and may not allow for sufficient time for resolving queries once the draft is completed, nor for reflection by the various stakeholders.

PEFA Secretariat

October 1, 2012

Annex D Peer Review Comments on Draft and Final Reports

Draft report

As set out in the terms of reference and concept note, peer reviewers included AusAID, the EU Delegation in Vanuatu and EU headquarters, the Ministry of Finance and Economic Management and the PEFA Secretariat.

AusAID comments

AusAID - tracked change comments were incorporated into the first revised draft report. The comments and the Assessment Team's responses are highlighted in the table below.

AusAID comment	Assessment Team's Response	Action Taken
Almost 90% mobile ownership and coverage. Not sure this statement is accurate.	Agreed, communication is generally good across the islands but still problems in some areas	Edits to text on page xi
PFM reform strategy - Whose is this? I've not heard of it before?	Plan was developed in 2008 with EU assistance	Edits to text on page xii
Is this for 2011 or 2012? The narrative above refers to 2012 but the table refers to the 2011 original budget.	2010 removed from the table	Edits to text on page 2
What does 'of concern' mean? It exceeds its own prudential limits but these are self imposed. Is there another widely regarded threshold that is breached by this level of debt. Also, is it more informative to distinguish between domestic and external debt when looking at the exposure issues?	A total stock of debt (including contingent liabilities) worth 55 per cent of GDP approaching the 60% maximum level advised internationally by the IMF	Edits to text on page 4
Council of Ministers comprises 12 Ministers - I think this may need revising.	Agreed, change to 13	Edits to text on page 10
I recall that earlier in the summary it mentions that line Ministries do not have good access to the system (or something to that effect).	Early text mentions although all line ministry finance officers have access to the system, many managers and directors don't access or use it (different points)	No change
Outstanding bills - Is there any assessment on the possible size of this is?	Hard to get definitive data so no change to the text	No change
What does this sentence mean with respect to unreported 'revenue' from school grants?	A proper school grant system is now in place. This therefore eliminates the problem whereby school fees were unreported and associated expenditure unaccounted.	Edits to text on page 23
tender assessments - given the table below how does this metric drop from a C to a D?	Added in more explanation. Based on interview, it was estimated that less than 50 per cent of procurement went through Central Tender Board for 2009 to 2011. The CTB granted exemptions to the value of 17 per cent of Government expenditure through the CTB in 2012. Overall, there is limited evidence to reasonably assess this indicator beyond a 'D'.	Edits to text on page 44

We were unable to establish the extent to which audit recommendations that were accepted were actually implemented as it appeared that 18 months between the audit and a follow up audit . - confused by this sentence	Agreed, this point could be expressed better	Edits to text on page 52
some quotes from the 2011 health PER - argued that the narrative above seems at odds with the scores below and even seems to be a little off track against the actual dimensions below (not that I necessarily disagree but not sure what relevance it has to the scoring).	However, at the end of the day what this has resulted in is a declining direct spending on both hospitals and community health and increased 'apparent' spending on Corporate Services'	Edits to text on page 55

EU delegation comments

The EU delegation had no separate comments on the initial draft report, other than changing references to EC to EU. This change was incorporated

Revised draft report

The revised draft report was reviewed by the oversight committee, which included representatives from MFEM, AusAID and the EU delegation in Vanuatu.

The revised draft report was accepted without alteration and submitted to the PEFA Secretariat in May 2013.

PEFA Secretariat comments

This note sets out the PEFA Secretariat's comments on the PEFA Assessment 2012 of the Republic of Vanuatu, as requested by *Tony Amos, Acting Director, Department of Finance and Treasury, Ministry of Finance and Economic Management,* on May 6, 2013. We are grateful for the opportunity to present our comments, which address the following questions:

1. Is the requisite background information for the assessment adequately included?
2. Have the standard indicators been used (with or without modification)?
3. Are the indicators correctly applied or interpreted?
4. Is sufficient evidence provided for all aspects of each indicator? If not, what is missing?
5. Is the information specific, presented clearly and used correctly?
6. Is the scoring methodology correctly chosen and applied?
7. Is the scoring correct, on the basis of the information provided?
8. Are there any specific features of the country's PFM system that result in a mismatch with the definition or calibration of the indicators (constitutional arrangements, system heritage)?
9. Have the indicator-related information and ratings as well as other relevant information been combined in an analysis that highlights the main strengths and weaknesses of the PFM system and indicates priorities for reform?

Our comments do not consider if the data/information presented in the report is likely to be correct and we can only judge the correctness of scoring on the basis of the evidence actually presented.

Overall impression

This is a good draft report which shows a good understanding of the methodology and covers all the standard features of a PFM-PR in a format that closely follows the recommended outline. Most of the ratings are supported by an ample quantity of evidence. Sometimes a paragraph describes the ongoing and future reforms which are very useful for the reader.

This is a Repeat Assessment and performance changes are well explained. Comparison between the 2012 and 2009 assessments is done in the Summary Assessment, at individual indicator level (in a specific paragraph) and in annex A (with a brief description of performance changes between assessments). Around twenty indicators have remained unchanged.

In spite of a substantial body of detailed information, in a few indicators additional information or clarification is necessary to better evidence the rating given and/or better understand the performance change over time.

General observations

Throughout the text it is unclear if the budget includes or excludes capital expenditures. It would be useful to clarify this by providing budgetary allocation data by economic classification in Section 2 and further information in the same Section and at indicator level (see Secretariat Notes in some indicators).

A list of documents consulted is included in Annex E and there is a list of the stakeholders consulted in Annex D (including representatives from non-government sources, which are essential for triangulating information). Detailed sources of information are also described under each indicator.

Section 1 – Introduction

The purpose of the report is clearly stated as *to diagnose the current state of Vanuatu PFM systems in order to help identify areas that may require further improvements and reforms...to inform development partners of the state of the functioning and quality of PFM systems … to produce a report based on the PEFA methodology, which provides an assessment of the current performance of the PFM system in Vanuatu and to compare progress since the last PEFA assessment in 2009*".

The scope of the assessment is clear and covers the central government.

The assessment was initiated and lead by the Government with support from the EC and AusAID. The Government established a working group and an oversight group; this is considered good practice.

Section 2 – Background information

The country's economic context is described, and key economic data is included. Information on budgetary outcomes is provided by sector while data by economic classification is missing (PI-5 confirms that an economic classification exists). The table with budgetary outcomes by administrative head seems to contain only the data on recurrent expenditures.

The links between the executive, judiciary and oversight institutions are well described, as are the legal and institutional arrangements for PFM. The legal framework and the division of responsibilities within the Ministry of Finance are explained as well (with clear chart).

Detailed information about the Government Development Fund is missing and it is unclear whether it includes donor funds only or also Government funds and how does it operates? There is a brief mention to another other fund (e.g. road fund). It would be useful to include in the narrative a short explanation about these funds.

The structure of the public sector is outlined and includes information on SNG and AGA and percentages.

The report mentions Provincial Councils (6), Municipal Councils (3) and Regional Councils. It is not clear whether Regional Councils are a third layer of sub national government level or it is used interchangeably with Province.

Section 3 – Assessment of PFM systems, processes and institutions

This section follows the structure of the Framework document closely. The methodology is well understood, and the standard 31 indicators for a national assessment have been applied. The table below contains specific observations where additional evidence or clarification to justify the scoring is required, or where there is a lack of correspondence between the evidence provided and the rating allocated.

Indicator / dim	Comments on evidence and rating	Comparison w/ 2009 assessment
PI-1	An A may be correct but it is unclear whether the indicator uses total expenditures or capital expenditures are excluded. Text on top of page 13 refers to recurrent expenditures and table refers to total expenditure. Is the Development Fund (ref PI-7, PI-17, D-3) which seems to include more than only donor's funds (footnote 33) included in the calculation? Please clarify. Uncertain	Improvement over B not evidenced
PI-2 (i)	Appears correctly rated A on the basis of evidence provided	Not comparable. Changes in the methodology
(ii)	Appears correctly rated A on the basis of evidence provided	Not comparable; new dimension
Overall	Correctly combined to A	
PI-3	Appears correctly rated C on the basis of evidence provided	New methodology; no changes
PI-4 (i)	Appears correctly rated A on the basis of evidence provided	No changes
(ii)	Appears correctly rated A on the basis of evidence provided	No changes
Overall	Correctly combined to A	
PI-5	Appears correctly rated B on the basis of evidence provided	No changes
PI-6	Appears correctly rated B on the basis of evidence provided	No changes
PI-7 (i)	Appears correctly rated A on the basis of evidence provided	Improvement over C evidenced
(ii)	Appears correctly rated B on the basis of evidence provided Note: it is not clear whether the development fund is included into PI-1? In general some discussion of capital vs recurrent expenditures and sources	No changes

	of financing would be useful	
Overall	Correctly combined to B+	Improvement
PI-8 (i)	Appears correctly rated A on the basis of evidence provided Note: There is again a reference to transfers as a share of recurrent expenditures. Does it mean capital transfers are separate? The narrative could be clearer.	No changes
(ii)	Appears correctly rated A on the basis of evidence provided Notre: the narrative (p 25) refers that *CG contributions are therefore known later in the Council's budget preparation cycle* which is confusing (although amounts involved are very small the narrative could be more specific on this).	No changes
(iii)	Appears correctly rated D on the basis of evidence provided	No changes
Overall	Correctly combined to B but now uncertain	
PI-9 (i)	Appears correctly rated D↑ on the basis of evidence provided Note: information on the status of audited accounts of PEs is useful nonetheless, a discussion on the nature of fiscal risks, quasi-fiscal activities if any may provide additional relevant details	No changes but an ↑
(ii)	Appears correctly rated D on the basis of evidence provided	
Overall	Correctly combined to D↑	No changes but an ↑
PI-10	Appears correctly rated C on the basis of evidence provided	No changes
PI-11 (i)	A rate A seems correct but the narrative should clarify if the process covers both recurrent and capital budget preparation; throughout the report there is only mention to recurrent expenditures. Unclear if Development Fund contains Government funds and if it is part of the same budget preparation process	
(ii)	Same comment as in dim (i)	
(iii)	Appears correctly rated A on the basis of evidence provided	No changes
Overall	Correctly combined to A but now uncertain	
PI-12 (i)	Appears correctly rated C on the basis of evidence provided	
(ii)	Appears correctly rated B on the basis of evidence provided	
(iii)	Appears correctly rated C on the basis of evidence provided	
(iv)	Appears correctly rated C on the basis of evidence provided	
Overall	Correctly combined to C+	
PI-13 (i)	Appears correctly rated B on the basis of evidence provided	Improvement over C

		evidenced
(ii)	Appears correctly rated B on the basis of evidence provided	No changes
(iii)	Appears correctly rated C on the basis of evidence provided NB: Useful to explain what it has deteriorated since 2009 assessment or was the dimension overrated by then?	Deterioration over B but seems to be a re-basement of the previous score
Overall	Correctly combined to B	
PI-14 (i)	Appears correctly rated C on the basis of evidence provided	No changes
(ii)	Appears correctly rated B on the basis of evidence provided	No changes
(iii)	Appears correctly rated B on the basis of evidence provided	No changes
Overall	Correctly combined to B	
PI-15 (i)	Appears correctly rated D on the basis of evidence provided	Improvement over NR
(ii)	Appears correctly rated A on the basis of evidence provided	No changes
(iii)	Appears correctly rated C on the basis of evidence provided	Improvement over D
Overall	Correctly combined to D+	
PI-16 (i)	Appears correctly rated B on the basis of evidence provided	No changes
(ii)	Appears correctly rated A on the basis of evidence provided	No changes
(iii)	Appears correctly rated A on the basis of evidence provided	No changes
Overall	Correctly combined to B+	
PI-17 (i)	Appears correctly rated C on the basis of evidence provided	No changes
(ii)	Appears correctly rated B on the basis of evidence provided	No changes
(iii)	Appears correctly rated C on the basis of evidence provided	No changes
Overall	Correctly combined to C+	
PI-18 (i)	Appears correctly rated A on the basis of evidence provided	No changes
(ii)	Appears correctly rated B on the basis of evidence provided	No changes
(iii)	Rate B may be correct but the existence of excess posting in Health and Education (dim iii) seems to indicate that controls exist but do not guarantee full integrity of the data. Possible C. Uncertain	Uncertain
(iv)	Appears correctly rated C on the basis of evidence provided	No changes
Overall	Correctly combined to C+ but now uncertain NB: Comment on “Comparison” about considering acquiring a dedicated HRMIS system is unclear since dim (i) refers to an existing HRMIS module in the smart stream.	Uncertain

PI-19 (i)	Appears correctly rated D on the basis of evidence provided	Not comparable; methodology changed
(ii)	Appears correctly rated D on the basis of evidence provided	Idem
(iii)	Appears correctly rated D on the basis of evidence provided	Idem
(iv)	Appears correctly rated D on the basis of evidence provided	Idem
Overall	Correctly combined to D	
PI-20 (i)	Appears correctly rated C on the basis of evidence provided	Deterioration over B evidenced
(ii)	Appears correctly rated C on the basis of evidence provided	Idem
(iii)	Appears correctly rated C on the basis of evidence provided	Idem
Overall	Correctly combined to C	
PI-21 (i)	Appears correctly rated C on the basis of evidence provided	No changes
(ii)	Appears correctly rated C on the basis of evidence provided	No changes
(iii)	Appears correctly rated D on the basis of evidence provided	Deterioration over C ; team suggests previous score may have been too generous
Overall	Correctly combined to D+	
PI-22 (i)	Appears correctly rated B on the basis of evidence provided	No changes
(ii)	Appears correctly rated B on the basis of evidence provided	No changes
Overall	Correctly combined to B	
PI-23	Appears correctly rated D on the basis of evidence provided	Deterioration over C evidenced
PI-24 (i)	Appears correctly rated A on the basis of evidence provided	No changes
(ii)	Appears correctly rated A on the basis of evidence provided Note: the non-uniform regularity of reporting could be elaborated upon as it may affect the score	No changes
(iii)	Appears correctly rated B on the basis of evidence provided	No changes
Overall	Correctly combined to B+	
PI-25 (i)	Appears correctly rated A on the basis of evidence provided	No changes
(ii)	Appears correctly rated B on the basis of evidence provided	Deterioration over A evidenced
(iii)	Appears correctly rated B on the basis of evidence provided	Deterioration over A

	NB: it would be useful to explain what has deteriorated since the 2009 assessment	not evidenced
Overall	Correctly combined to B+	
PI-26 (i)	Appears correctly rated D on the basis of evidence provided	No changes
(ii)	Appears correctly rated D on the basis of evidence provided	No changes
(iii)	Appears correctly rated D on the basis of evidence provided	No changes
Overall	Correctly combined to D	
PI-27 (i)	*Appears correctly rated C on the basis of evidence provided*	*No changes*
(ii)	Appears correctly rated C on the basis of evidence provided	No changes
(iii)	Appears correctly rated C on the basis of evidence provided	No changes
(iv)	Appears correctly rated B on the basis of evidence provided	No changes
Overall	Correctly combined to C+	
PI-28 (i)	Appears correctly rated D on the basis of evidence provided	No changes
(ii)	Appears correctly rated C on the basis of evidence provided	No changes
(iii)	Appears correctly rated D on the basis of evidence provided	No changes
Overall	Correctly combined to D+	
D-1 (i)	Appears correctly rated D on the basis of evidence provided	Deterioration
(ii)	Appears correctly rated D on the basis of evidence provided NB: text contradicts info in dim(i) which indicates a disbursement of Vt97.4 million in 2011	Deterioration
Overall	Correctly combined to D	
D-2 (i)	Appears correctly rated D on the basis of evidence provided	No changes
(ii)	Appears correctly rated C on the basis of evidence provided	No changes
Overall	Correctly combined to D+	
D-3	Appears correctly rated D on the basis of evidence provided	No changes

Section 4 - Government Reform Process

This section provides a detailed review of past and current reform and of the progress made since the 2009 assessment, together with an analysis of the institutional factors that will support the reform program, as well as the challenges going forward.

Summary Assessment

The Summary Assessment provides a very concise overview of the impact of the main strengths and weaknesses of the PFM system across the six 'critical dimensions' as well as, the implications of these weaknesses for each of the three main budgetary outcomes.

The "story line" is clear

PEFA Secretariat

May 20, 2012

Response to the PEFA Secretariat comments

The PEFA Secretariat comments were incorporated by MFEM and a final report was sent to the PEFA Secretariat in July 2013.

The following matrix summarises the response and any necessary follow up actions from the Assessment Team with regards to the PEFA Secretariat comments.

PEFA comment	Assesment Team's Response	Action Taken
Information on budgetary outcomes is provided by sector while data by economic classification is missing	This can be done	Table inserted onto page 7
The table with budgetary outcomes by administrative head seems to contain only the data on recurrent expenditures.	Recurrent expenditure should be relabelled as Government financed expenditure, the bulk of capitals spending is funded by donors	Small edits throughout the text
Detailed information about the Government Development Fund is missing and it is unclear whether it includes donor funds only or also Government funds and how does it operates?	Small section can be drafted on the development fund	Small edits to text on page 6
There is a brief mention to another other fund (e.g. road fund). It would be useful to include in the narrative a short explanation about these funds	The road fund is not a separate fund, just a budget line that is money appropriated for by Parliament for road maintenance	Small edits to text on page 32
It is not clear whether Regional Councils are a third layer of sub national government level or it is used interchangeably with Province.	They are another name for the Provincial Councils	Small edits to text on page 9
PI-1 An A may be correct but it is unclear whether the indicator uses total expenditures or capital expenditures are excluded. Text on top of page 13 refers to recurrent expenditures and table refers to total expenditure. Is the Development Fund (ref PI-7, PI-17, D-3) which seems to include more than only donor's funds (footnote 33) included in the calculation? Please clarify	Adjust text so clear that it includes capital and call government financed spending. Must exclude donor spending and interest payments as Government can't control these	Small edits to text on page 13
PI-7 (ii) Note: it is not clear whether the development fund is included into PI-1? In general some discussion of capital vs recurrent expenditures and sources of financing would be useful	Make some changes to the text	Small edits to footnote on page 13
PI-8 (i) Note: There is again a reference to transfers as a share of recurrent expenditures. Does it mean capital transfers are separate? The narrative could be clearer.	Relabel recurrent expenditure as government financed expenditure	small edits to text on page 25
PI-8 (ii) Notre: the narrative (p 25) refers that CG contributions are therefore known later in the Council's budget preparation cycle which is confusing (although amounts involved are very small the narrative could be more specific on this).	As suggested, rewrite the text so that it is clearer	Small edits to text on page 26

PI-9 (i) Note: information on the status of audited accounts of PEs is useful nonetheless, a discussion on the nature of fiscal risks, quasi-fiscal activities if any may provide additional relevant details	A small discussion could be written on the nature of fiscal risks - supplier arrears, debt etc but reluctant to write what the value is (size of the risk) from unaudited accounts	Small edits to text on page 27
PI-11 (i) A rate A seems correct but the narrative should clarify if the process covers both recurrent and capital budget preparation; throughout the report there is only mention to recurrent expenditures. Unclear if Development Fund contains Government funds and if it is part of the same budget preparation process	Need to just relabel as donor financed spending (development fund) and government financed spending (the recurrent fund which includes capital spending)	Small edits to text on page 30
PI-13 (iii) NB: Useful to explain what it has deteriorated since 2009 assessment or was the dimension overrated by then?	Discussed with working group team leader and agreed an overrating last time as the tribunal never actually met	Small edits to text on page 36
PI-18 (iii) Rate B may be correct but the existence of excess posting in Health and Education (dim iii) seems to indicate that controls exist but do not guarantee full integrity of the data. Possible C.	Rating C maybe more appropriate. In terms of changes to personnel records and payroll, the controls are adequate. The only issue is management oversight and MOH and MOE can pay for additional staff through operational expenditure.	Edits to text on page 44 and 45
PI-18 (Overall) NB: Comment on "Comparison" about considering acquiring a dedicated HRMIS system is unclear since dim (i) refers to an existing HRMIS module in the smart stream.	PSC mentioned they want a modified system linked to the existing HMIS system in Smartstream but are not clear on this issue. Best to delete this line to avoid confusion.	Line deleted on page 45
PI-25 (iii) NB: it would be useful to explain what has deteriorated since the 2009 assessment	The rating is base on the five year transitional period expiring and the delays in updating assets/ asset revaluation.	Edits to text on page 58 and 60
D-1 (ii) NB: text contradicts info in dim(i) which indicates a disbursement of Vt97.4 million in 2011	Is this referring to page 64 table, 97.7, in which case yes it should be should be 97.4	edits to text in box on page 65

Evaluation of response to the PEFA Secretariat comments

At the end of July the PEFA Secretariat provided an evaluation of the responses to its comments and further advice. The PEFA Secretariat's response is provided below.

This note provides a follow up to the PEFA Secretariat comments of May 20, 2013 on the Republic of Vanuatu PEFA Assessment 2012 (April 2013 version). It assesses the changes made to the report in the subsequent draft (July 2013 version) following the Secretariat's comments and any other changes to indicator scores which the Secretariat had considered appropriate during its original review (but does not address issues raised by other reviewers). All of the suggested improvements of the Secretariat's previous comments are listed in the tables below along with our corresponding assessment of the response.

In summary, the revised version of the report fully addresses most of the comments raised by the Secretariat with augmented and improved evidence. The revised version of the report has fully responded to 16 comments and partially responded to 1 comment.

Detailed observations by section (and indicator)

PEFA Secretariat comments on evidence and rating (and comparison)	Assessment team's response	Secretariat's evaluation of the response
General observations		
Throughout the text it is unclear if the budget includes or excludes capital expenditures. It would be useful to clarify this by providing budgetary allocation data by economic classification in Section 2 and further information in the same Section and at indicator level (see Secretariat Notes in some	Table inserted on page 7	Full response

indicators).		
Section 2 – Background information		
The table with budgetary outcomes by administrative head seems to contain only the data on recurrent expenditures.	Recurrent expenditure should be relabelled as Government financed expenditure, the bulk of capitals spending is funded by donors	Full response
Detailed information about the Government Development Fund is missing and it is unclear whether it includes donor funds only or also Government funds and how does it operates? There is a brief mention to another other fund (e.g. road fund). It would be useful to include in the narrative a short explanation about these funds	Small edits to text on page 6	Full response
There is a brief mention to another other fund (e.g. road fund). It would be useful to include in the narrative a short explanation about these funds	The road fund is not a separate fund, just a budget line that is money appropriated for by Parliament for road maintenance	Full response
The report mentions Provincial Councils (6), Municipal Councils (3) and Regional Councils. It is not clear whether Regional Councils are a third layer of sub national government level or it is used interchangeably with Province	They are another name for the Provincial Councils.	Full response

Section 3 – Assessment of PFM systems, processes and institutions

PI/dim	PEFA Secretariat Comments on evidence and rating	Comparison with 2009 assessment	Assessment team's response (or action taken)	Evaluation of the response
PI-1	An A may be correct but it is unclear whether the indicator uses total expenditures or capital expenditures are excluded. Text on top of page 13 refers to recurrent expenditures and table refers to total expenditure. Is the Development Fund (ref PI-7, PI-17, D-3) which seems to include more than only donor's funds (footnote 33) included in the calculation? Please clarify. Uncertain	Improvement over B not evidenced	Adjust text so clear that it includes capital and call government financed spending. Must exclude donor spending and interest payments as Government can't control these. Small edits to text on page 13.	Full response on PI-1, footnote 33 still is not clear that the Development Fund includes only donor funds.
PI-7 (ii)	Appears correctly rated B on the basis of evidence provided Note: it is not clear whether the development fund is included into PI-1? In general some discussion of capital vs recurrent expenditures and sources of financing would be useful	No changes	Small edits to footnote on page 13	Full response
PI-8 (i)	Appears correctly rated A on the basis of evidence provided	No changes	Relabel recurrent expenditure as government financed expenditure. small edits to text	Full response

	Note: There is again a reference to transfers as a share of recurrent expenditures. Does it mean capital transfers are separate? The narrative could be clearer.		on page 25	
PI-8 (ii)	Appears correctly rated A on the basis of evidence provided Note: the narrative (p 25) refers that *CG contributions are therefore known later in the Council's budget preparation cycle* which is confusing (although amounts involved are very small the narrative could be more specific on this).	No changes	Small edits to text on page 26	Full response
PI-9 (i)	Appears correctly rated D↑ on the basis of evidence provided Note: information on the status of audited accounts of PEs is useful nonetheless, a discussion on the nature of fiscal risks, quasi-fiscal activities if any may provide additional relevant details	No changes but an ↑	A small discussion could be written on the nature of fiscal risks - supplier arrears, debt etc but reluctant to write what the value is (size of the risk) from unaudited accounts. Edits on page 27.	Full response
PI-11 (i)	A rate A seems correct but the narrative should clarify if the process covers both recurrent and capital budget preparation; throughout the report there is only mention to recurrent expenditures. Unclear if Development Fund contains Government funds and if it is part of the same budget preparation process		Need to just relabel as donor financed spending (development fund) and government financed spending (the recurrent fund which includes capital spending)	Full response, also due to added description on Development Fund in background information
PI-11(ii)	Same comment as in dim (i)		Need to just relabel as donor financed spending (development fund) and government financed spending (the recurrent fund which includes capital spending)	Full response
PI-13 (iii)	Appears correctly rated C on the basis of evidence provided NB: Useful to explain what it has deteriorated since 2009 assessment or was the dimension overrated by then?	Deterioration over B but seems to be a re-basement of the previous score	Discussed with working group team leader and agreed an overrating last time as the tribunal never actually met. Edits on page 36	Full response
PI-18(iii)	Rate B may be correct but the existence of excess posting in Health and Education (dim iii)	Uncertain	Rating C maybe more appropriate. In terms of changes to personnel records	Full response. Dimension downgraded

	seems to indicate that controls exist but do not guarantee full integrity of the data. Possible C. Uncertain		and payroll, the controls are adequate. The only issue is management oversight and MOH and MOE can pay for additional staff through operational expenditure. Edits on pages 44-45	
PI-18 (Overall)	Correctly combined to C+ but now uncertain NB: Comment on "Comparison" about considering acquiring a dedicated HRMIS system is unclear since dim (i) refers to an existing HRMIS module in the smart stream.	Uncertain	PSC mentioned they want a modified system linked to the existing HMIS system in Smartstream but are not clear on this issue. Best to delete this line to avoid confusion. Line deleted on page 45	Full response
PI-25 (iii)	Appears correctly rated B on the basis of evidence provided NB: it would be useful to explain what has deteriorated since the 2009 assessment	Deterioration over A not evidenced	The rating is based on the five year transitional period expiring and the delays in updating assets/ asset revaluation. Edits on pages 58 and 60.	Full response
D-1 (ii)	Appears correctly rated D on the basis of evidence provided NB: text contradicts info in dim(i) which indicates a disbursement of Vt97.4 million in 2011	Deterioration	Is this referring to page 64 table, 97.7, in which case yes it should be 97.4. Edits on page 65	Partial response. The contradiction is that "no budget support was disbursed" and "97.4 million were received in 2010".

PEFA Secretariat

July 31, 2013

<u>Revisions to the final report following further comments from the PEFA Secretariat</u>

The matrix below highlights the Assessment Team's response to further comments from the PEFA Secretariat.

PI/dim	PEFA Secretariat Comments on evidence and rating	Assessment team's response (or action taken)	Evaluation of the response	Assessment Team's response
PI-1	An A may be correct but it is unclear whether the indicator uses total expenditures or capital expenditures are excluded. Text on top of page 13 refers to recurrent expenditures and table refers to total expenditure. Is the Development Fund (ref PI-7, PI-17, D-3) which seems to include more than only donor's funds (footnote	Adjust text so clear that it includes capital and call government financed spending. Must exclude donor spending and interest payments as Government can't control these. Small edits to text on page 13.	Full response on PI-1, footnote 33 still is not clear that the Development Fund includes only donor funds.	Footnote33 deleted to avoid confusion. Text on page 6 should explain what is in the Development

	33) included in the calculation? Please clarify. Uncertain			Fund.
D-1 (ii)	Appears correctly rated D on the basis of evidence provided NB: text contradicts info in dim(i) which indicates a disbursement of Vt97.4 million in 2011	Is this referring to page 64 table, 97.7, in which case yes it should be 97.4. Edits on page 65	Partial response. The contradiction is that "no budget support was disbursed" and "97.4 million were received in 2010".	Edits to the text in the table on page 66, the 97.4 was received for a very old structural adjustment program and had nothing to do with the amounts pledged under the SERP II program

Consolidated matrix of all comments

In order to receive the "PEFA Check" endorsement, the Government was advised that "the PEFA Check mechanism requires that the comments of all peer reviewers are responded to by the assessment team, ideally in the form of consolidated matrix." This matrix is provided below.

Commentator	Comment	Assessment Team Response	Action Taken
AusAID	Almost 90% mobile ownership and coverage. Not sure this statement is accurate.	Agreed, communication is generally good across the islands but still problems in some areas	Edits to text on page xi
AusAID	PFM reform strategy - Whose is this? I've not heard of it before?	Plan was developed in 2008 with EU assistance	Edits to text on page xii
AusAID	Is this for 2011 or 2012? The narrative above refers to 2012 but the table refers to the 2011 original budget.	2010 removed from the table	Edits to text on page 2
AusAID	What does 'of concern' mean? It exceeds its own prudential limits but these are self imposed. Is there another widely regarded threshold that is breached by this level of debt. Also, is it more informative to distinguish between domestic and external debt when looking at the exposure issues?	A total stock of debt (including contingent liabilities) worth 55 per cent of GDP approaching the 60% maximum level advised internationally by the IMF	Edits to text on page 4
PEFA Secretariat	Detailed information about the Government Development Fund is missing and it is unclear whether it includes donor funds only or also Government funds and how does it operates?	Small section can be drafted on the development fund	Small edits to text on page 6
PEFA Secretariat	Information on budgetary outcomes is provided by sector while data by economic classification is missing	This can be done	Table inserted onto page 7
PEFA Secretariat	It is not clear whether Regional Councils are a third layer of sub national government level or it is used interchangeably with Province.	They are another name for the Provincial Councils	Small edits to text on page 9

AusAID	Council of Ministers comprises 12 Ministers - I think this may need revising.	Agreed, change to 13	Edits to text on page 10
PEFA Secretariat	PI-1 An A may be correct but it is unclear whether the indicator uses total expenditures or capital expenditures are excluded. Text on top of page 13 refers to recurrent expenditures and table refers to total expenditure. Is the Development Fund (ref PI-7, PI-17, D-3) which seems to include more than only donor's funds (footnote 33) included in the calculation? Please clarify	Adjust text so clear that it includes capital and call government financed spending. Must exclude donor spending and interest payments as Government can't control these	Small edits to text on page 13
PEFA Secretariat	PI-7 (ii) Note: it is not clear whether the development fund is included into PI-1? In general some discussion of capital vs recurrent expenditures and sources of financing would be useful	Make some changes to the text	Small edits to footnote on page 13
PEFA Secretariat	Full response on PI-1, footnote 33 still is not clear that the Development Fund includes only donor funds.	Deleted footnote to avoid confusion as the text on page 6 should explain what is in the Development Fund.	Footnote 33 deleted.
AusAID	What does this sentence mean with respect to unreported 'revenue' from school grants?	A proper school grant system is now in place. This therefore eliminates the problem whereby school fees were unreported and associated expenditure unaccounted.	Edits to text on page 23
PEFA Secretariat	PI-8 (i) Note: There is again a reference to transfers as a share of recurrent expenditures. Does it mean capital transfers are separate? The narrative could be clearer.	Relabel recurrent expenditure as government financed expenditure	small edits to text on page 25
PEFA Secretariat	PI-8 (ii) Notre: the narrative (p 25) refers that CG contributions are therefore known later in the Council's budget preparation cycle which is confusing (although amounts involved are very small the narrative could be more specific on this).	As suggested, rewrite the text so that it is clearer	Small edits to text on page 26
PEFA Secretariat	PI-9 (i) Note: information on the status of audited accounts of PEs is useful nonetheless, a discussion on the nature of fiscal risks, quasi-fiscal activities if any may provide additional relevant details	A small discussion could be written on the nature of fiscal risks - supplier arrears, debt etc but reluctant to write what the value is (size of the risk) from unaudited accounts	Small edits to text on page 27
PEFA Secretariat	PI-11 (i) A rate A seems correct but the narrative should clarify if the process covers both recurrent and capital budget preparation; throughout the report there is only mention to recurrent expenditures. Unclear if Development Fund contains Government funds and if it is part of the same budget preparation process	Need to just relabel as donor financed spending (development fund) and government financed spending (the recurrent fund which includes capital spending)	Small edits to text on page 30

PEFA Secretariat	There is a brief mention to another other fund (e.g. road fund). It would be useful to include in the narrative a short explanation about these funds	The road fund is not a separate fund, just a budget line that is money appropriated for by Parliament for road maintenance	Small edits to text on page 32
PEFA Secretariat	PI-13 (iii) NB: Useful to explain what it has deteriorated since 2009 assessment or was the dimension overrated by then?	Discussed with working group team leader and agreed an overrating last time as the tribunal never actually met	Small edits to text on page 36
AusAID	tender assessments - given the table below how does this metric drop from a C to a D?	Added in more explanation. Based on interview, it was estimated that less than 50 per cent of procurement went through Central Tender Board for 2009 to 2011. The CTB granted exemptions to the value of 17 per cent of Government expenditure through the CTB in 2012. Overall, there is limited evidence to reasonably assess this indicator beyond a 'D'.	Edits to text on page 44
PEFA Secretariat	PI-18 (iii) Rate B may be correct but the existence of excess posting in Health and Education (dim iii) seems to indicate that controls exist but do not guarantee full integrity of the data. Possible C.	Rating C maybe more appropriate. In terms of changes to personnel records and payroll, the controls are adequate. The only issue is management oversight and MOH and MOE can pay for additional staff through operational expenditure.	Edits to text on page 44 and 45
PEFA Secretariat	PI-18 (Overall) NB: Comment on "Comparison" about considering acquiring a dedicated HRMIS system is unclear since dim (i) refers to an existing HRMIS module in the smart stream.	PSC mentioned they want a modified system linked to the existing HMIS system in Smartstream but are not clear on this issue. Best to delete this line to avoid confusion.	Line deleted on page 45
AusAID	We were unable to establish the extent to which audit recommendations that were accepted were actually implemented as it appeared that 18 months between the audit and a follow up audit . - confused by this sentence	Agreed, this point could be expressed better	Edits to text on page 52
AusAID	some quotes from the 2011 health PER - argued that the narrative above seems at odds with the scores below and even seems to be a little off track against the actual dimensions below (not that I necessarily disagree but not sure what relevance it has to the scoring).	However, at the end of the day what this has resulted in is a declining direct spending on both hospitals and community health and increased 'apparent' spending on Corporate Services'	Edits to text on page 55
PEFA Secretariat	PI-25 (iii) NB: it would be useful to explain what has deteriorated since the 2009 assessment	The rating is base on the five year transitional period expiring and the delays in updating assets/ asset revaluation.	Edits to text on page 58 and 60
PEFA Secretariat	D-1 (ii) NB: text contradicts info in dim(i) which indicates a disbursement of Vt97.4 million in 2011	Is this referring to page 64 table, 97.7, in which case yes it should be should be 97.4	edits to text in box on page 65
PEFA Secretariat	Partial response. The contradiction is that "no budget support was disbursed" and "97.4 million were received in 2010".	Edits to the text in the table on page 66, the 97.4 was received for a very old structural adjustment program and had	Edits to the text in the table on page 66

		nothing to do with the amounts pledged under the SERP II program	
PEFA Secretariat	The table with budgetary outcomes by administrative head seems to contain only the data on recurrent expenditures.	Recurrent expenditure should be relabelled as Government financed expenditure, the bulk of capitals spending is funded by donors	Small edits throughout the text
EU	since the signature of the Lisbon Treaty, our Delegation is no longer a Delegation of the EC but rather of the EU	Agreed	Small edits throughout the text
AusAID	I recall that earlier in the summary it mentions that line Ministries do not have good access to the system (or something to that effect).	Early text mentions although all line ministry finance officers have access to the system, many managers and directors don't access or use it (different points)	No change
AusAID	Outstanding bills - Is there any assessment on the possible size of this is?	Hard to get definitive data so no change to the text	No change

A revised final report was sent to the PEFA Secretariat in August 2013.

Annex E PEFA Check Disclosure of Quality Assurance Mechanism

PEFA Assessment Management Organization

Oversight Team

An Oversight Team was established in September 2012

- The Oversight Team was chaired by Mr Tony Amos Sewen, Acting Director of the Department of Finance and Treasury at the Ministry of Finance and Economic Managment (MFEM).

Members of the Oversight team included:

- Department of Strategic Policy Planning and Aid Co-ordination: Benjamin Shing and Johnson Naviti
- National Authorising Office: Hilaire Sese
- EU: Gemma Pinol Puig and Adrien Mourgues
- AusAID: Simon Cramp

Working Group

A working group was also established with he following members

- The Assessment Team Leader funded by the EU was Carole Pretorius
- Thesecond inernational team member funded by AusAID was Ashley Schofield
- MFEM Staff from Department of Treasury: Brain Wabaiat & Dorothy Ericson
- Adviser from MFEM: Nik Soni
- PMO Staff: Colin Tavi & Charlie Namaka
- Adviser M&E Unit: Paul Roger De Villers

Review of Concept Note and/or Terms of Reference

The Draft Terms of Reference /Concept Note of September 2012 was reviewed by the Oversight Team and sent to the PEFA Secretariat on 19th September 2012. Comments received from the Secretariat dated 1st October 2012 are attached as Annex C.

A final terms of reference (attached as Annex C) was issued on 11th October 2012.

Review of the Assessment Report

A first draft report was issued by the consulting team on 21st December and sent to the Oversight Team. The report was reviewed by the full Oversight Team. AusAID (Simon Cramp, Governance for Growth Programme) tracked change comments were incorporated into the first revised draft report. The EU delegation said that they found the report “very informative, well written and a good reflexion of the situation in Vanuatu". Members of the Oversight team within the Vanuatu Government were happy with report and had no specific comments.

The revised draft report was issued on the 31st January and sent to and reviewed by the Oversight Team. The Oversight Team met on 17th April. The Team accepted the revised draft report without alteration and this report was submitted to the PEFA Secretariat by the Oversight Team Chairman on 6th May.

Comments were received from the PEFA Secretariat on 21st May 2013. These comments and subsequent action are included as Annex D. The PEFA Secreteriat then provided an evaluation of the Government's response to its comments on 31st July 2013 and the Governemnt took further actions based on this evaluation, as listed in Annex D.

Annex F Interviewees

Name	Institution	Position
Ministry of Finance and Economic Management		
Dorothy Ericson	Finance and Treasury	Deputy Director, Financial Operations
Primrose Toro	Accounts Section	Chief Financial Officer
James Willie	Revenue Section	Senior Revenue Collector
Nirose A Silas	Internal Audit Section	Principal Internal Auditor
Brendan Toner	FMIS Section	Accounting and Systems Adviser
Leisau Tarip	Accounts Section	Senior Accountant
Michael Busai	Treasury	Senior Economist
Roan Lester	Treasury	Economist
Nigel Malosu	Treasury	Acting Budget Manager
Brian Wabaiat	Treasury	Acting Fiscal Policy Manger
John Robert Simelum	Treasury	Expenditure Analyst
Joshua Nava	Treasury	Budget Adviser
Rex Willie	Treasury	Expenditure Analyst
Simil Johnson	National Statistics Office	Director
Betty Harry	Central Tender Board	Secretary
Phil O'Reilly	Central Tender Board	Adviser
Willie Malas	Payroll Section	Payroll Supervisor
Benjamin Malas	Customs & Inland Revenue	Deputy Director
Collins Gesa	VAT Revenue	Manager
Praveen Reddy	VAT Revenue	Adviser
Harold Tarosa	Customs	Principal Border Officer
Melton Aru	Rates and Taxes	Manager
Mayline Melsul	Rates and Taxes	Senior Compliance Officer
Wilson Kalmelu	Accounts Payable	Senior Payments Officer
Cyrus Simeon	Accounts Payable	Senior Payments Officer- Imprest
Johnson Wabaiat	VPMU	Director
Nikunj Soni		MFEM Adviser (by email)
Office of the Prime Minister		
Ben Shing	Department of Strategic Policy, Planning and Aid Co-ordination (DSPPAC)	Director
Colin Tavi	Monitoring and Evaluation (M&E)	Head of M&E

Name	Institution	Position
Flora	OPM - Aid Co-ordination	Aid Co-ordination Officer
Charlie Namaka	Office of the Prime Minister (OPM)	Senior Policy Adviser Economic Sector
Reserve Bank		
Odo Tevi	Reserve Bank of Vanuatu	Governor
Sector Ministries		
Holi Simon	Public Service Commission	Chairman
Judith Melsul	Public Service Commission	Manager, Performance Improvement Unit
Maxim Charley	Education	Internal Auditor
Arnaud Malessas	Education	Principal Internal Auditor
Cobin Ngwero	Education	Senior Monitoring and Evaluation Officer
Dawn Reuben	Education	Finance Officer
Fabiola Bibi	Education	Policy and Planning
Saki Tungon	Education	Finance Officer
Dominique Gibert	Education	Adviser, Procurement and Assets Management
Monique Natao	Department of Public Works	Finance Manager
Larry Langon	Department of Public Works	Assistant Finance Manager
Cherol Ala	Department Local Authorities	Director
Markton Williams	Ministry of Health	Internal Auditor
Henry Lakelueo	Ministry of Health	Budget Officer
Jameson Mokoroe	Ministry of Health	Finance Manger
Parliament		
Lino Bulekuli	Parliament	Clerk
Office of the Auditor General (OAG)		
John Path	Office of the Auditor General (OAG)	Auditor General
Beulah Daunakamakama	Office of the Auditor General (OAG)	Adviser
Donors		
Robert de Raeve	Delegation of the EU in Vanuatu	Chargé d'Affaires
Adrien Mourgues	Delegation of the EU in Vanuatu	Programme Officer
Gemma Piňol Puig	Delegation of the EU in Vanuatu	Program Assistant
Belynda McNaughton	AusAID	First Secretary (Health and Education)
Christelle Thieffrey	AusAID	Senior Program Manager
Simon Cramp	AusAID	Program Director GfG

Name	Institution	Position
Patrick Haines	AusAID	Senior Program Manager
Mikaela Nyman	NZAID	Development Counsellor
Akihito Motegi	JICA	Project Formulation Adviser
Civil society		
Derek Brien	Pacific Institute of Public Policy (PIPP)	Executive Director
Private sector		
Astrid Boulekone	Chamber of Commerce	Director General
Chris Kernot	Chamber of Commerce	Councillor
Jacques Nioteau	Chamber of Commerce	President

Annex G List of documents consulted

Title	Author	Date
Laws and regulations		
Public Finance and Economic Management Act 1998	Government of Vanuatu	01 Jul 1998
Amendment to Public Finance and Economic Management Act	Government of Vanuatu	2009, 2011, 2012
Ministerial Order: Establishment of Internal Audit Unit in MFEM	Government of Vanuatu	2005
Expenditure Review and Audit Act 1998 (Amended 2000)	Government of Vanuatu	2004
Government Contracts and Tenders Act 1998	Government of Vanuatu	1998
Government Contracts and Tenders Act 1998 (Amended 2001)	Government of Vanuatu	2001
Public Service Act 1998	Government of Vanuatu	1998
Constitution of the Republic of Vanuatu	Government of Vanuatu	1983
Guidelines for the Procurement of Goods and Services	MFEM	2005
Financial Regulations of the Republic of Vanuatu	Government of Vanuatu	2000
(User Guide) Bank Reconciliation	MFEM	
(Operations Manual) Payroll Section	MFEM	
Appropriation (2010) Act 45 of 2009	Government of Vanuatu	2009
Appropriation (2011) Act 32 of 2010	Government of Vanuatu	2010
Appropriation (2012) Act 20 0f 2011	Government of Vanuatu	2011
Financial Statements		
Audited Financial Statements for year ended Dec 2009	Government of Vanuatu	
Audited Financial Statements for year ended Dec 2010	Government of Vanuatu	
Unaudited Financial Statements for year ended Dec 2011	Government of Vanuatu	
Budget formulation and execution documents		
Half Year Economic and Fiscal Update July 2011	MFEM	2011
Budget 2010 Volumes 1, 2 and 3	Government of Vanuatu	2009
Budget 2011 1, 2 and 3	Government of Vanuatu	2010
Budget 2012 1, 2 and 3	Government of Vanuatu	2011
Financial Circular 03 of 2009 (Budget Timetable for 2010)	MFEM	09 Apr 2009
Financial Circular 07 of 2011 (Guidelines for submission of budgets)	MFEM	June 2011
Monthly Revenue Reports (Budget Amounts)	MFEM	
Monthly Revenue Reports (Actual Amounts)	MFEM	
GBE monitoring document		
Policy documents		
Priorities and Action Agenda 2006 – 2015 2012 Update: Re-committing to Reform to achieve "a Just, an Educated,	Government of Vanuatu	Sept 2012

Title	Author	Date
Healthy and Wealthy Vanuatu"		
Planning Long, Acting Short – The Governments Policy Priorities for 2009-2012	Government of Vanuatu	2009
Peer Review	Pacific Islands Forum Secretariat	2012
Auditor General's reports		
Auditor General's Report to Parliament	Office of Auditor General	2011
Financial Statements of the Government of Vanuatu	Office of Auditor General	2005-9
Financial Statements of the Government of Vanuatu	Office of Auditor General	2010
Draft Financial Statements of the Government of Vanuatu	Office of Auditor General	2011
Internal audit reports		
Internal Audit plans Years 2009, 2010, 2011 and 2012	MFEM (Internal Audit)	2012
Ministry of Health – Internal Audit Plan	MoH	12/05/2009
Ministry of Education- Internal Audit Plan	MoE	29/07/2009
Vanuatu Mobile Force–Fire Service Station (Surprise Cash Count)	MFEM (Internal Audit)	31/07/2009
Ministry of Health – Review of Financial Management of Aid Donor Funding	MFEM (Internal Audit)	03/08/2008
Sector documents		
Corporate Plan	MFEM	
Donor Documents		
EU-Vanuatu Country Strategy 2008-2013	European Union	2008
Support to economic Reform Programme 2007-2010	European Union	2007
10th EDF Programme of the European Union (2008-13)	European Union	2008
NZAID support	NZAID	2012
Australian Development Assistance to Vanuatu 2008-2009	AusAID	2008
Staff report on Article IV Consultation	IMF	April 2011
JICA support to Vanuatu (brochure)	JICA	2012
Other		
Donor Matrix	DSPPAC	

Annex H Structure of the Vanuatu Public Sector

Vanuatu Public Sector[84]					
Constitutional Bodies	Ministries[85]	Other Agencies	Sub-national	Government Business Enterprises[86]	Holding
President of the Republic	Prime Minister's Office	Grant receiving Agencies[87]	Provinces	Commercial under Companies Act	
Parliament	Agri., Quarantine, For. & Fisheries	Vanuatu Cultural Centre	Torba	Air Vanuatu Limited	100%
Judiciary	Commerce, Industry & Tourism	Agricultural Res. & Train. Centre	Sanma	Airports Vanuatu Limited	100%
Malvatumauri	Coop. & ni-Van. Bus. Dev. Services	Vanuatu Maritime College	Penama	Global Trading & Manufacturing	31%
Auditor General	Education	Vanuatu Maritime Administration	Malampa	Ifira Wharf & Stevedoring Limited	34%
Ombudsman	Finance and Economic Management	Vanuatu Agricultural College	Shefa	Metensel Estates Limited	99.4%
Public Prosecutor	Foreign Affairs & External Trade	Vanuatu Youth Council	Tafea	Northern Island Stevedoring Limited	10%
Public Solicitor	Health	Vanuatu National Training Council	Municipalities	Vanuatu Abbatoirs	33.9%
Public Service Commission	Infrastructure & Public Utilities	Semi-autonomous Agencies	Port Vila	Vanuatu Livestock Development	100%
State Law Office	Internal Affairs	Van. Institute of Teachers Education	Luganville	Vanuatu Post Limited	100%
Citizenship Office	Justice & Social Welfare	Investment Promotion Authority	Lenakel	Commercial under own Acts	
Judicial Ser. Commission	Lands, Geology & Mines	Vanuatu Institute of Technology		National Bank of Vanuatu	100%
	Youth Development & Training			Vanuatu Agriculture Dev. Bank[88]	100%
				National Housing Corporation	100%

[84] Source: Budget 2009

[85] Following the 2012 elections, the Ministry of Civil Aviation

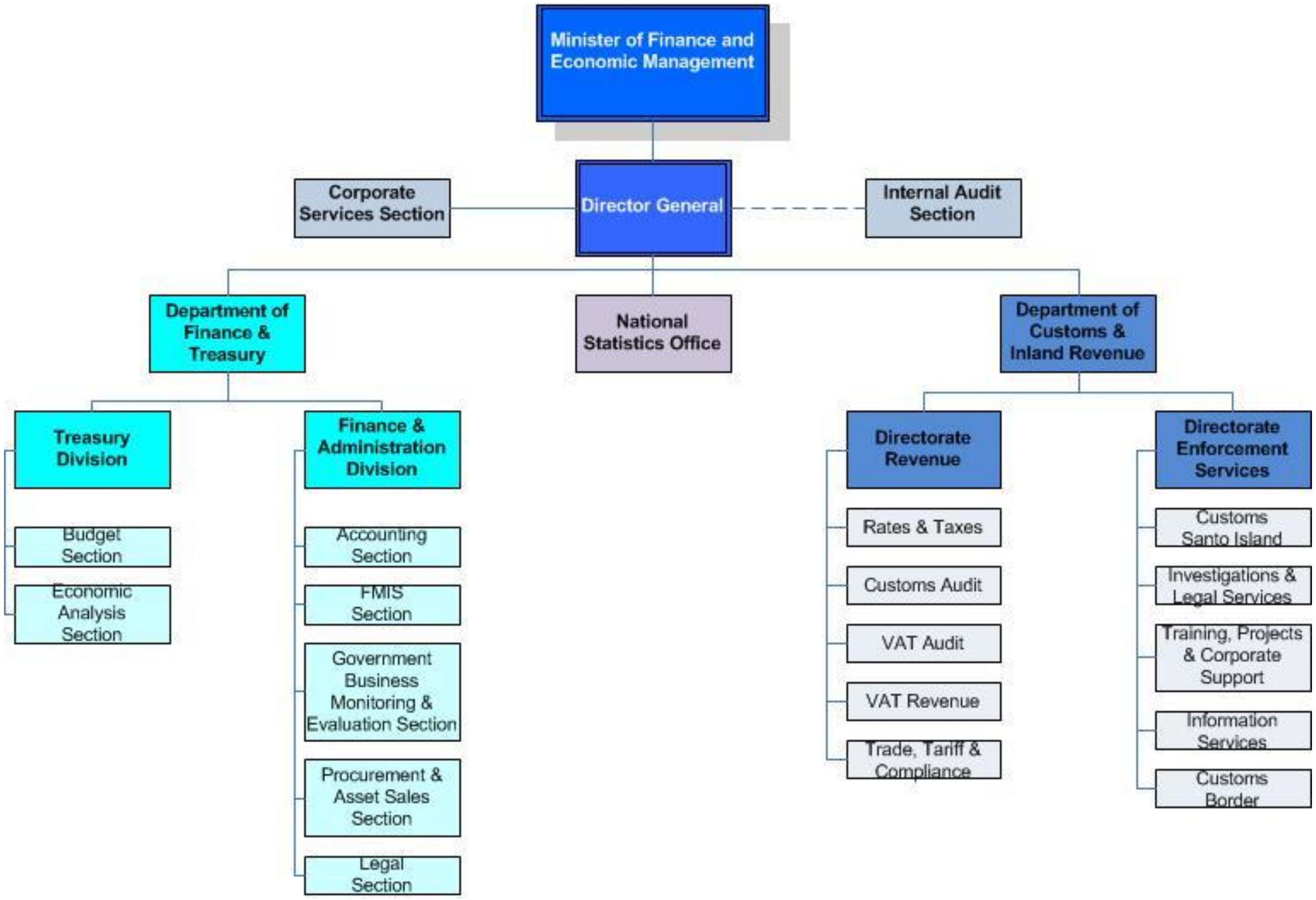
[86] The GBE differentiation as per "State-Owned Enterprise Reform Consultation" between Gov, ADB and AusAID – It is recognised that this does not follow IMF classification.

[87] Government related Agencies receiving grants to enable them to provide services for the public good.

[88] VADB receiving Vt 200 million in year one and a further Vt 100 million for 3 years and VBTC also receives grant to support its operations.

Vanuatu Public Sector[84]					
Constitutional Bodies	Ministries[85]	Other Agencies	Sub-national	Government Business Enterprises[86]	Holding
				Vanuatu Broadcasting & TV Corp.	100%
				Vanuatu National Provident Fund	100%
				Non Commercial under own Acts	
				National Tourism Office	100%
				Van. Financial Services Commission	100%
				Reserve Bank of Vanuatu	100%
				Asset Management Unit	100%
				Utility Regulatory Authority	100%
				Van Commodities Marketing Board	100%

Annex I Organisation Structure of the MFEM



Annex J Examples of Available FMIS Reports

Type of Reports	
Web Based Financial Reports	**Web Based Development Fund / Project Reports**
Expense Detail with drilldown to transactions	Project Summary (life to date or year to date
Expense Summary (by cost centre)	Project Detail (life to date or year to date)
Expense by Period	**Vision Development Fund / Project Reports**
Revenue Detail with drilldown to transactions	Project summary by project or job code
Cost Centre Summary by Year	Project Detail by Project
Statement of Financial Position	Project Detail Consolidated
Statement of Appropriations by Activity	Development Fund reconciliation
Other Financial Reports	**Payroll Reports**
Accrual Based Financial Statements & Notes	Payroll charges to departmental accounts by employee
Monthly Revenue & Expenditure (in GFS format)	Payroll Payments summary and detail
Summary and Detailed Departmental Reports (to Cost Centre and job code level)	Payroll Audit (changes entered)
Appropriations Summary	Payroll Reconciliations
Warrant Overview	Timesheets
Detailed Balances	Payroll employee ledger distributions
Transaction Listing	Payroll invoice remittance deductions
Budget Reports (VBMS and Vision)	**Human Resources Reports**
Ministry Budget Submissions	Organisation Structure and establishment
Cost Centre Budget (Summary & Detailed)	Leave balances and details by employee
Ministry/Department Budget/Ceiling	Employee personal details
Appropriation (Summary & Detailed)	Employees due for retirement
Budget Virements	**Revenue Reports**
Budget by Account Codes	Revenue and Invoicing
Cash flow	Aged Debtors
New Policy Proposals (Summary & Detailed)	Land Title invoicing
Ministry, Program and Activity Narratives	Outstanding Invoices by Debtor and Department
Budget Appropriations by Economic Class	Revenue details by department and year
Purchasing Reports	**Asset Reports**
Local Purchase Order Details	Asset Maintenance
Local Purchase Order Receipting to Invoice	Asset Register with Valuations
Local Purchase Order Rejections	Asset Service & Replacement Schedule

Annex K Budget v Actual Comparison

Data for year =	2009					
Administrative or functional head	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**%**
Prime Ministers Office	177,740,817	183,437,327	182,991,838	445,489	445,489	0.2%
Min of Agriculture +	381,182,220	384,687,008	392,443,537	-7,756,529	7,756,529	2.0%
Min of Com, Ind & Tourism+BDS	260,823,262	262,462,167	268,528,799	-6,066,632	6,066,632	2.3%
Min of Co-operatives & Ni-Vanuatu	123,146,717	122,553,000	126,784,857	-4,231,857	4,231,857	3.3%
Min of Education	3,210,459,357	3,258,674,777	3,305,306,387	-46,631,610	46,631,610	1.4%
MFEM	1,906,183,696	1,983,539,943	1,962,498,336	21,041,607	21,041,607	1.1%
MoFA & Ext trade	266,787,741	275,945,003	274,669,487	1,275,516	1,275,516	0.5%
Min of Health	1,450,109,521	1,509,466,068	1,492,950,300	16,515,768	16,515,768	1.1%
Min of Infrastructure & Public Utilities	1,379,906,590	1,383,659,286	1,420,673,355	-37,014,069	37,014,069	2.6%
Min of Internal affairs	1,318,507,755	1,421,054,460	1,357,460,606	63,593,854	63,593,854	4.7%
Min of Justice & Social Welfare	202,148,609	219,766,476	208,120,712	11,645,764	11,645,764	5.6%
Min of Lands, Geology & Mines	318,382,014	325,064,938	327,788,016	-2,723,078	2,723,078	0.8%
Min of Youth, Dev + Training	103,796,698	111,128,931	106,863,178	4,265,753	4,265,753	4.0%
President	45,169,407	50,108,859	46,503,853	3,605,006	3,605,006	7.8%
Parliament	463,555,813	471,377,332	477,250,704	-5,873,372	5,873,372	1.3%
Judiciary	177,431,409	178,921,000	182,673,289	-3,752,289	3,752,289	2.1%
PSC	110,608,242	112,384,060	113,875,956	-1,491,896	1,491,896	1.3%
State Law Office	71,758,609	78,464,647	73,878,583	4,586,064	4,586,064	6.4%
Ombudsman	52,260,931	49,715,401	53,804,883	-4,089,482	4,089,482	7.8%
NAO	33,050,534	24,055,221	34,026,950	-9,971,729	9,971,729	30.2%
Other Constitutional Areas	111,398,762	117,317,553	114,689,831	2,627,722	2,627,722	2.4%
allocated expenditure	12,164,408,704	12,523,783,457	12,523,783,457	0.0	259,205,087	
contingency						
total expenditure	12,164,408,704	12,523,783,457				
overall (PI-1) variance						3.0%
composition (PI-2) variance						2.1%
contingency share of budget						0.0%

Data for year =	2010					
Administrative or functional head	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**%**
Prime Ministers Office	188,846,817	190,746,063	187,261,206	3,484,857	3,484,857	2%
Min of Agriculture +	452,010,345	447,325,394	448,215,139	- 889,745	889,745	0%
Min of Com, Ind & Tourism+BDS	314,809,452	273,476,467	312,166,223	- 38,689,756	38,689,756	12%
Min of Co-operatives & Ni-Vanuatu	103,344,229	103,257,814	102,476,522	781,292	781,292	1%
Min of Education	3,623,578,157	3,692,345,206	3,593,153,572	99,191,634	99,191,634	3%
MFEM	2,701,015,334	2,555,347,201	2,678,336,847	- 122,989,646	122,989,646	5%
MoFA & Ext trade	309,879,139	272,776,878	307,277,306	- 34,500,428	34,500,428	11%
Min of Health	1,736,457,661	1,750,451,526	1,721,877,872	28,573,654	28,573,654	2%
Min of Infrastructure & Public Utilities	1,407,365,090	1,406,668,721	1,395,548,455	11,120,266	11,120,266	1%
Min of Internal affairs	1,413,185,130	1,439,869,213	1,401,319,629	38,549,584	38,549,584	3%
Min of Justice & Social Welfare	241,055,953	264,866,040	239,031,979	25,834,061	25,834,061	11%
Min of Lands, Geology & Mines	321,918,963	308,406,477	319,216,040	- 10,809,563	10,809,563	3%
Min of Youth, Dev + Training	150,667,580	143,838,489	149,402,532	- 5,564,043	5,564,043	4%
President	42,169,407	41,400,592	41,815,341	- 414,749	414,749	1%
Parliament	463,555,813	479,868,311	459,663,668	20,204,643	20,204,643	4%
Judiciary	187,146,609	186,887,355	185,575,273	1,312,082	1,312,082	1%
PSC	109,608,242	109,579,849	108,687,940	891,909	891,909	1%
State Law Office	85,705,932	83,435,089	84,986,321	- 1,551,232	1,551,232	2%
Ombudsman	52,260,931	48,974,725	51,822,133	- 2,847,408	2,847,408	5%
NAO	33,050,534	24,712,827	32,773,032	- 8,060,205	8,060,205	24%
Other Constitutional Areas	122,931,948	118,272,570	121,899,777	- 3,627,207	3,627,207	3%
allocated expenditure	14,060,563,266	13,942,506,807	13,942,506,807	- 0	459,887,965	
contingency						
total expenditure	**14,060,563,266**	**13,942,506,807**				
overall (PI-1) variance						0.8%
composition (PI-2) variance						3.3%
contingency share of budget						0.0%

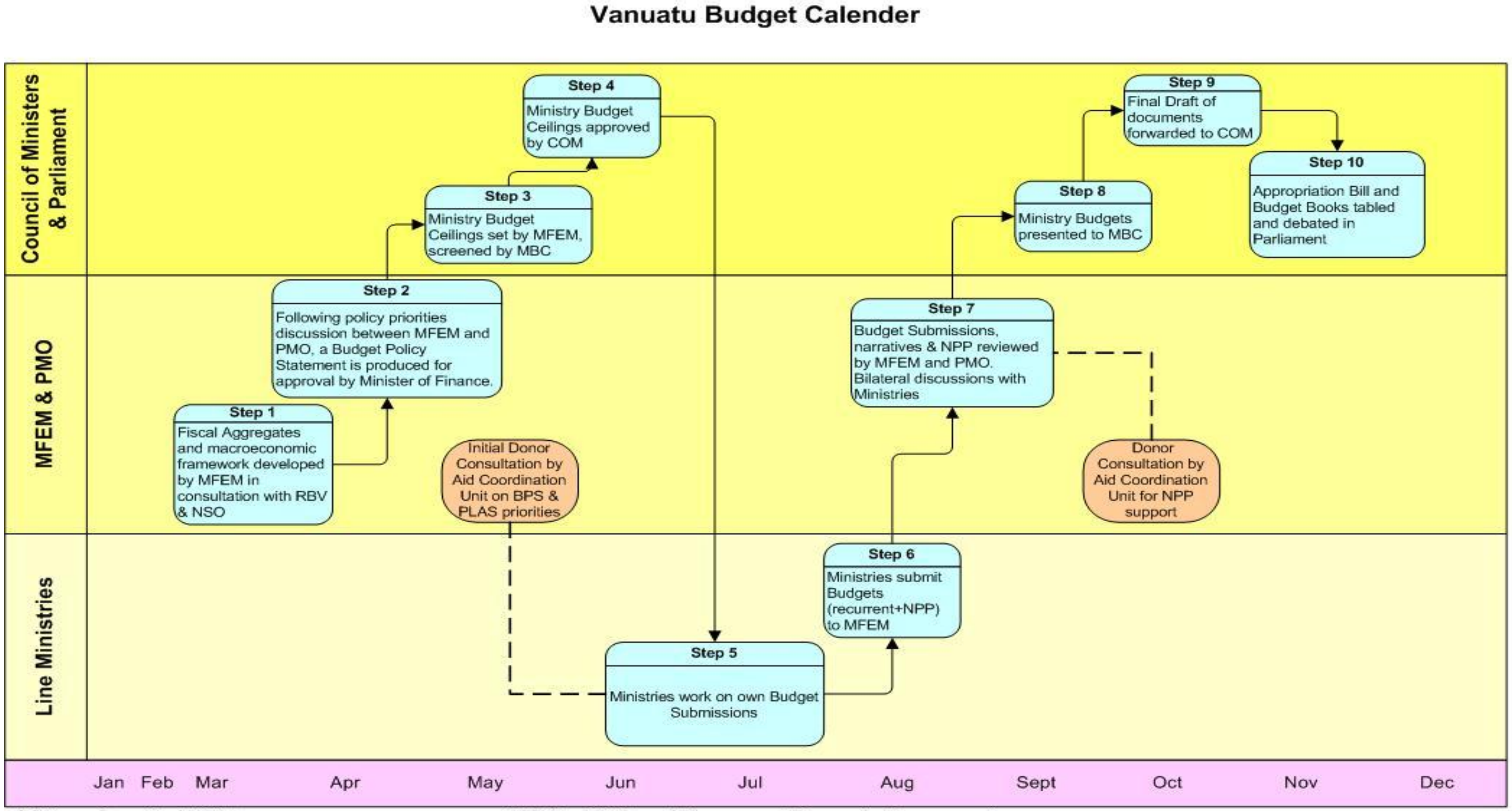
Data for year =	2011					
Administrative or functional head	**Budget**	**Actual**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Perce nt**
Prime Ministers Office	197,846,817	205,700,764	197,481,513	8,219,251	8,219,251	4%
Min of Agriculture +	475,547,367	431,716,844	474,669,316	-42,952,472	42,952,472	9%
Min of Com, Ind & Tourism+BDS	305,911,939	268,417,950	305,347,103	-36,929,153	36,929,153	12%
Min of Co-operatives & Ni-Vanuatu	110,501,476	110,181,818	110,297,446	-115,628	115,628	0%
Min of Education	3,763,578,157	3,831,134,842	3,756,629,085	74,505,757	74,505,757	2%
MFEM	2,303,195,678	2,143,800,098	2,298,943,057	-155,142,959	155,142,959	7%
MoFA & Ext trade	309,879,139	308,892,148	309,306,978	-414,830	414,830	0%
Min of Health	1,596,058,054	1,687,461,219	1,593,111,092	94,350,127	94,350,127	6%
Min of Infrastructure & Public Utilities	1,412,465,090	1,350,234,069	1,409,857,114	-59,623,045	59,623,045	4%
Min of Internal affairs	1,384,069,889	1,404,787,088	1,381,514,342	23,272,746	23,272,746	2%
Min of Justice & Social Welfare	302,555,953	295,676,121	301,997,314	-6,321,193	6,321,193	2%
Min of Lands, Geology & Mines	310,452,817	310,921,042	309,879,597	1,041,445	1,041,445	0%
Min of Youth, Dev + Training	146,667,580	206,454,433	146,396,773	60,057,660	60,057,660	41%
President	42,169,407	41,921,429	42,091,545	-170,116	170,116	0%
Parliament	465,555,813	531,779,920	464,696,211	67,083,709	67,083,709	14%
Judiciary	194,088,884	194,686,186	193,730,518	955,668	955,668	0%
PSC	99,608,242	96,303,493	99,424,325	-3,120,832	3,120,832	3%
State Law Office	93,629,409	92,377,410	93,456,532	-1,079,122	1,079,122	1%
Ombudsman	51,960,931	39,526,677	51,864,990	-12,338,313	12,338,313	24%
NAO	33,050,534	23,004,197	32,989,509	-9,985,312	9,985,312	30%
Other Constitutional Areas	120,431,948	118,916,193	120,209,582	-1,293,389	1,293,389	1%
allocated expenditure	13,719,225,124	13,693,893,941	13,693,893,941	0	658,972,729	
contingency						
total expenditure	**13,719,225,124**	**13,693,893,941**				
overall (PI-1) variance						0.2%
composition (PI-2) variance						4.8%
contingency share of budget						0.0%

Annex L Non-tax revenue

DEPT ID	DEPARTMENT	Amount	< 30_days	31-90 DAYS	91-180 DAYS	> 180 DAYS
020	Parliament	132,193	-	-	-	132,193
030	Ombudsman	213,390	-	-	-	213,390
050	National Audit Office	279,570	-	-	-	279,570
100	Prime Minister's Cabinet	62,324	-	-	-	62,324
110	State Law Office	680,528	-	-	750	679,778
120	Public Prosecutor	-	-	-	-	-
130	Public Solicitor	95,588	-	-	25,275	70,313
140	Judiciary	10,804,775	-	-	-	10,804,775
150	Dept of Economic & Social Dev	17,719	-	-	-	17,719
160	Statistics	78,228	-	-	36,232	41,996
190	Public Service Commission	7,660,198	-	-	-	7,660,198
230	Internal Affairs Cabinet	-	-	-	-	-
250	Correctional Services	-	-	-	-	-
260	Police & Security	129,688,358	6,750	2,360,367	61,296	127,259,945
270	Department of Labour	460,000	-	-	20,000	440,000
290	Civil Status & Archives	708,012	-	-	-	708,012
320	Vanuatu Investment Promotion Authority	5,000	-	-	-	5,000
330	MFEM Corporate Services	2,483,132	-	-	-	2,483,132
340	Finance Cabinet	3,480,700	-	7,000	-	3,473,700
350	Finance & Economic Management	9,893,324	-	179,265	67,874	9,646,185
360	Customs & Excise	7,520	-	-	7,320	200
380	Cooperatives & Rural Business Development	396,897	-	-	-	396,897
390	Trade, Industry & Investment	7,000	-	-	-	7,000
410	Minister of Foreign Affairs	133,875	-	-	-	133,875
440	Foreign Affairs Department	153,650	-	-	-	153,650
470	Agriculture Department	677,945	-	-	5,000	672,945
480	Fisheries	3,271,286	-	66,500	92,461	3,112,325
490	Vanuatu Quarantine Inspection Services	18,965,817	1,058,500	538,169	1,587,702	15,781,446
540	Department of Education	1,197,276	-	12,976	-	1,184,300
610	Health Services	41,671,900	28,696	-	72,673	41,570,531
620	Department of Rural Water Supply	372,235	-	-	-	372,235

DEPT ID	DEPARTMENT	Amount	< 30_days	31-90 DAYS	91-180 DAYS	> 180 DAYS
630	Energy Unit	402,500	-	-	-	402,500
640	Environment Unit	430,200	-	-	430,200	-
650	Natural Resource Cabinet	92,423	-	-	-	92,423
660	Urban & Rural Lands	487,336,607	44,600	1,743,669	6,667,691	478,880,647
680	Land Survey	3,033,926	-	-	-	3,033,926
690	Geology & Mines	5,775,356	-	544,848	-	5,230,508
720	Forestry	14,004,190	-	-	60,000	13,944,190
730	Cabinet - Infrastructure & Public Utilities	385,119	-	-	-	385,119
740	Civil Aviation	249,942	-	83,703	-	166,239
750	Meteorological	1,908,336	378,000	4,000	37,000	1,489,336
760	Ports & Marine	362,766,532	1,134,906	6,436,913	1,928,877	353,265,836
780	Public Works	4,867,388	-	52,500	3,000	4,811,888
	TOTAL OUTSTANDING	**1,114,850,959**	**2,651,452**	**12,029,910**	**11,103,351**	**1,089,066,246**

Annex M Budget Process



COM	Council of Ministers	MFEM	Ministry of Finance and Economic Management
PMO	Prime Minister's Office	NPP	New Policy Proposals
NSO	National Statistics Office	BPS	Budget Policy Statement
RBV	Reserve Bank of Vanuatu	PLAS	"Planning Long, Acting Short" Matrix
MBC	Ministerial Budget Committee		

Annex N Budget Calendar for 2012

Date	Activity	Responsible Agencies
14th Feb – 4th Mar	MFEM to meet with PMO to discuss policy priorities	DOFT & DSPPAC
7th – 11th Mar	Submit budget policy priorities to DCO for information	DSPPAC & PMO
14th – 18th Mar	Submit budget policy priorities to COM for approval Inform Ministries to start amending their narratives in line with Government priorities	DSPPAC PMO
21st Mar – 1st Apr	Budget Policy Statement to be submitted to Minister and DG MFEM followed by its Publication	DOFT
30th Mar	DG MFEM presents Expenditure Report regulation 2.1 to the PSC	DOFT
1st Apr	Fiscal aggregates and macroeconomic framework developed by MFEM in consultation with RBV & NSO: • Draft overall expenditure envelope (for whole of government) established • Fiscal priorities established	DOFT, NSO & RBV
30th May	2012 Ministry ceilings screened by MBC	DOFT & MBC
13th – 17th Jun	Budget training for finance Officers and Directors of agency's Ex-Parliament Building • This will cover VBMS • Review of what is required under the budget guidelines	DOFT, All Agencies & Directors
11th - 15th Jul	2012 Ministry ceilings approved by COM DCO information paper to be submitted at same time After approval by COM, ceilings are distributed to every Ministry and Department along with Budget Guidelines **Ceilings will be set at Ministry level only**	DCO, COM & PMO DOFT
25th - 29th Jul	Donor consultations (Policy priorities)	MOFA organise meeting. MOFA, PMO, Aid Management & MFEM organise presentations
30th Jul	Half Year Economic and Fiscal Update Published	DOFT
8th – 12th Aug	Donor consultations to agree final numbers for VBMS	MOFA organise meeting. MOFA, PMO, Aid Management & MFEM organise presentations
22nd Aug	Ministers/DGs submit 2012 budget submissions to DOFT	DOFT to lock-down

Date	Activity	Responsible Agencies
		VBMS for all Ministries
22nd Aug – 22nd Sep	Reviews budget submissions, narratives and NPPs Narratives sent to language service for translation	DOFT PMO
26th Sep – 7th Oct	Ministers present Ministry budgets to MBC MBC approval of draft project proposal and NPP database updated, new approved programs added and ones not funded for two years deleted	All agencies MBC & Aid Coordination Unit
10th – 14th Oct	MBC considers final draft of budget estimates DOFT to draft COM paper	DOFT & MBC
10th – 14th Oct	Draft final budget papers sent to DCO for information • Final Budget forwarded to COM • Appropriation Bill prepared by SLO	COM, DCO, DOFT & SLO
14th Oct – 14th Nov	Final budget books prepared in French and English	DOFT, Language Services
18th Nov	Appropriation Bill distributed to MPs	Clerk of Parliament

Annex O Scrutiny of Financial Statements

Year Ending	Submission of Financial Statements to OAG	Date signed off by OAG	Submission of Audit Report to Speaker	Scrutiny by Public Accounts Committee	Date available to Public
1998-2001 2002-2004[89]	2003 2006	31 Mar 2007 31 Mar 2007	30 Nov 2007	PAC met OAG to discuss 2007 report (May 2009). No hearings	Not released yet
2005	Aug 2006	30 March 2012	12 April 2012	No hearings	Not released yet
2006	31 Mar 2007	30 March 20121	12 April 2012	No hearings	Not released yet
2007	31 Mar 2008	30 March 2012	12 April 2012	No hearings	Not released yet
2008	11 Jun 2009	30 March 2012	12 April 2012	No hearings	Not released yet
2009	16 July 2010	30 March 2012	12 April 2012	No hearings	Not released yet
2010	3 October 2011	20 August 2012	Not submitted	No hearings	Not released yet
2011	11 October 2012	Still being audited	Not submitted	No hearings	Not released yet

[89] The introduction of a new accounting format for 2005 statements led to a decision to redo the statements for FY 2002 – 2004 according to the new format and was resubmitted in 2006 (See PEFA 2006 par 3.6.4)

Annex P Donor Support

Sector	Australia (various time periods)		European Union	New Zealand 12/13	Japan	France	China 12/13
Private Sector and Job Creation			Active			Active	
Education and Development of Human Resources	12/13	VERMAP VT2bn	Active	369.21	Active	Active	6.561
	2012	S'ships Vt400 m					
	08-13	TVET II 1.4 bn					
Good Governance	12-13	Vt800m	Active	Active		Active	
Civil society	Varies	2.3bn					
Law and Justice	varies	2.61 bn		164.913			
Land	09-15	2bnvt					
Economic Infrastructure							90
Roads	09-16	VTSSP 6.34 bn		Active			
Landing Strips						Active	
Hospital						Active	
Wharf/shipping				95.28	Active		
Energy	08-12	800m			Active		
Water					Active		
Telecom Utilities regulator	08-12 08-12	1.15bn 800m					
Urban development	13-16	3.1bn					
Agriculture/rural			Active (lead)	53.7m		Active	Active
Natural Resources and disaster management	Active		Active		Active	Active	
Tourism				39.7m (12/13)		Active	
Health,	10-14	2.2bn	Active Coordinator donor group education	Active	Active	Active	160.369

Source: GoV Donor matrix