



# TECHNICAL ASSISTANCE REPORT

## COOK ISLANDS

### Public Expenditure and Financial Accountability Assessment: Agile Report

**August 2021**

**PREPARED BY**

*Antonio L. Blasco, Dick Emery, Iulai Lavea, Chita Marzan, Esther-Lameko Poutoa, Paul Seeds, and Tiofilusi Tiueti.*



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## **COOK ISLANDS**

# **PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT 2021**

Final Report  
August 2021



## **COOK ISLANDS**

# **Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report**

August 2021

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat  
August 12, 2021

# Assessment management and quality assurance

## Oversight and management

The PEFA assessment was funded and coordinated by the IMF Pacific Financial Technical Assistance Center (PFTAC). The Oversight Team was led by the Ministry of Finance and Economic Management, Cook Islands Government under the guidance of Mr. Kai Berlick; Budget Manager and included Ms. Alexandria Mackenzie-Hoff; Budget Analyst and Ms. Rufina Teulilo; Senior Budget Analyst.

The assessment team was led by Mr. Iulai Lavea (PFTAC Advisor) and included Mr. Paul Seeds (PFTAC Advisor); Mr. Dick Emery (PFTAC Expert); Ms. Chita Marzan (PFTAC Expert); Ms. Esther-Lameko Poutoa (CEO, PASAI); Mr. Tiofilusi Tiueti (PASAI Representative); and Mr. Antonio Leonardo Blasco; representing the PEFA Secretariat in the pilot of the Agile PEFA methodology.

The Peer Reviewers include the representatives of the Government of Cook Islands, Ministry of Foreign Affairs and Trade (NZ), ADB represented by Mr. James Webb, PEFA Secretariat and the IMF. Due to competing priorities, the representative of the NZ Ministry of Foreign Affairs and Trade was unable to review and provide feedback on the report.

Further details on the assessment management and quality assurance arrangements are presented in Annex 1.

## Methodology

### ***Type of assessment:***

The PEFA assessment was conducted in accordance with the PEFA 2016 methodology using the Agile PEFA approach. The assessment covered 31 indicators and 94 dimensions.

### ***Scope and coverage***

The assessment focused on the PFM systems for Central Government, including any transfers that are made from central government to SOE's, Outer Islands and other third parties. The assessment also examined financial reporting from the SOEs to the Central Government, but did not include a detailed review of all the aspects of the PFM systems for those entities

A list of agencies covered by the assessment is presented at Annex 2.

### ***Timelines:***

<b>In-country field work:</b>	January 22, 2021 -
<b>Country fiscal year:</b>	July-June
<b>Last three fiscal years covered:</b>	2017/18, 2018/19, 2019/20
<b>Latest budget submitted to legislature:</b>	2020/21
<b>Time of assessment (planned cut-off):</b>	April 15, 2021

### ***Sources of information:***

The assessment team accessed a wide range of documents largely from MFEM. Most of these documents were uploaded into the Box folder set up for the Cook Islands assessment. Other evidence was sourced from the MFEM webpage and other government ministries. Evidence used is also highlighted in the assessment narrative for each indicator and dimension. Where information is available publicly on the government websites the relevant link is noted in the write-ups.

A consolidated list of documents used for this assessment, including by indicator, can be found in Annex 3. The names of all persons interviewed are listed in Annex 4.

***Exchange rate***

The official currency in the Cook Islands is the New Zealand dollar.

Exchange rate effective as of June 14, 2021

US\$1.00 = NZ\$1.40

***Fiscal Year***

The Cook Islands fiscal year is July-June.

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# Abbreviations and Acronyms

ADB	Asian Development Bank
AFS	Annual Financial Statements
AGD	Accountant General Department
ARIMA	Autoregressive Integrated Moving Average
CIIC	Cook Islands Investment Corporation
CIG	Cook Islands Government
COFOG	Classification of Functions of Government
DMS	Debt Management Strategy
DSA	Debt Sustainability Analysis
EBU	Extra-Budgetary Unit
ERP	Enterprise Resource Planning
FMIS	Financial Management Information System
FPPM	Financial Policies and Procedures Manual
FY	Fiscal Year
GDP	Gross Domestic Product
GFSM	Government Financial Statistics Manual
GRB	Gender Responsive Budgeting
HOM	Heads of Ministries
HRMIS	Human Resource Management Information System
IA	Internal Audit
ICT	Integrated Communications Technology
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
IPSAS	International Public Sector Accounting Standards
ISRE	International Standards on Review Engagements
ISSAI	International Standards of Supreme Audit Institutions
KPI	Key performance indicator
MCA	Ministries and Crown Agencies
MFEM	Ministry of Finance and Economic Management
MTEC	Medium-term Expenditure Ceiling
MTFF	Medium-term Fiscal Framework
MTFS	Medium-term Fiscal Strategy
NIIP	National Infrastructure Investment Plan
OCDS	Open Contracting Data Standards
ODA	Official Development Assistance
OPSC	Office of the Public Service Commission
PAC	Public Accounts Committee
PASAI	Pacific Association of Supreme Audit Institutions
PC	Public Corporation
PCC	Project Coordination Committee
PEFA	Public Expenditure and Financial Accountability
PERCA	Public Expenditure Review Committee and Audit
PFM	Public Financial Management
PFTAC	IMF Pacific Financial Technical Assistance Center
PMU	Project Management Unit
PPCI	Procurement Portal Cook Islands
PPP	Public Private Partnership
PS	Permanent Secretary
PSC	Public Service Commission
PSIP	Public Sector Investment Program
RMD	Revenue Management Division
RMS	Revenue Management System
SDG	Sustainable Development Goals
SNG	Sub-National Government
SOE	State Owned Enterprise
TSA	Treasury Single Account

TVP/TTV Tarai Vaka (Government's investment review process)  
UBW Unit Business World  
VAT Value Added Tax

# 1. INTRODUCTION

The 2021 Cook Islands Agile PEFA assessment measures the extent to which current public financial management systems and processes have progressed using the 2016 PEFA Assessment framework as well as identifying areas of weaknesses, including new challenges that could be the focus of further PFM reforms.

The Ministry of Finance and Economic Management (MFEM) initiated the 2014 PEFA Assessment with assistance from the Pacific Financial Technical Assistance Center (PFTAC). The 2014 assessment noted challenges in the areas of multi-year fiscal planning and budgeting, internal control on both revenue and expenditure management, timeliness of external audit and scope of legislative scrutiny. These challenges have in one way or another affected fiscal discipline, strategic allocation of resources, effectiveness and efficiency of service delivery. These challenges formed the basis of the PFM reforms the government set out to implement in the last six years.

The 2021 assessment provides the opportunity to take stock of the progress made following the 2014 assessment. It also helps identify priority areas where attention could be focused on when developing the next PFM Roadmap. The assessment also provides a sound platform for dialogue with development partners in determining their technical assistance in supporting Cook Islands' reform program. The assessment also provides the authorities with valuable experience in using the PEFA exercise to build country capacity to periodically conduct their own self-assessment.

## ***Economic context***

The Cook Islands economy enjoyed continuous strong growth over the period 2012/13 to 2018/19 registering an average growth rate of 5.8% per year. This was driven largely by unprecedented level of tourist arrivals and higher levels of public and private capital investment. Tourist arrivals jumped from 121,772 in 2014/15 to 164,800 in 2017/18 registering an 11 % annual average growth rate. The value of residential and commercial building approvals also increased in the three years to 2017/18.

The tourism industry is the major economic driver in Cook Islands accounting for two-thirds of total economic activity. The onset of the COVID-19 pandemic in early 2020 triggered a severe shock to the economy with travel halted and the industry suffered extensively. As a result, GDP in 2019/20 contracted by 9.0 percent and is expected to contract further in 2020/21 by 5.3 percent. The stimulus plan put in place to reverse the downward trend is expected to drive a gradual return to pre-pandemic tourism levels and trigger stable and stronger GDP growth in the medium to long term.

On the fiscal front, 2019/20 was the first year the Medium-term Fiscal Strategy (MTFS) was put into action. It reconfirmed Government's commitment to sound fiscal and economic management and signaled adherence to the fiscal rules outlined in the MTFS, improvement in the fiscal balance and a declining debt position. The Government's focus under the 2019/20 Medium-term Budget targeted an improved productive capacity by investing in infrastructure to drive economic growth, raising revenues through better compliance and ensuring improved access to health and education services.

**Table 1 – Economic Indicators**

	<b>FY2017/18</b>	<b>FY2018/19</b>	<b>FY2019/20</b>
<b>Real GDP (\$million)</b>	504.4	531.2	483.3
<b>GDP per capita (currency units)</b>	34,076	35,887	32,650
<b>Real GDP growth (%)</b>	8.9	5.3	-9.0
<b>CPI (annual average change)</b>	0.4	-0.3	1.4
<b>Gross government debt (% of GDP)</b>	103..4	112.6	107.0
<b>External terms of trade (annual percentage change)</b>	n.a	n.a	n.a
<b>Total external debt (% of GDP)</b>	20%	17%	20%

***Fiscal trends (\$m)***

<b>Element</b>	<b>FY18/19</b>	<b>FY19/20</b>
<b>Total revenue (\$m)</b>	218.8	246.3
• <b>Own revenue</b>	196.0	188.3
• <b>Grants</b>	7.8	21.4
<b>Total expenditure</b>	231.7	258.4
• <b>Noninterest expenditure</b>	229.2	256.2
• <b>Interest expenditure</b>	2.5	2.2
<b>Aggregate deficit (incl. grants)</b>	34.9	3.6
<b>Primary deficit</b>	48.4	22.2
<b>Net financing</b>	8.8	-42.2

Source: 2019/20 Budget Estimates; Book 1

**PFM legal framework**

Part V of the Constitution provides for the overarching management of public funds. All public moneys must be remitted to the Government’s Account and authorized for expenditure by virtue of an Appropriations Act unless otherwise permitted by another law.

Section 7 provides for government’s ability to spend over and above the appropriation but limited to one and one-half percent (1 1/2%) of the total amount of all sums appropriated by the Appropriation Act or Acts for that year. It also requires that all public entities must be audited by the government’s Audit Office. The Constitution also provides for a Public Expenditure Committee to investigate public funds accounts.

The key PFM provisions are stipulated under the Ministry of Finance and Economic Management (MFEM) Act 1995-96. The Act provides for the effective economic, fiscal, and financial management of public funds and government's responsibility thereof. It also provides for accountability arrangements together with compliance with those arrangements. Under the MFEM Act, government financial regulations must be available to guide the management of public funds and assets. In line with that provision, government has published the Financial Policies and Procedures Manual (FPPM) 2020, which provides guidance on the process and procedures to be applied in the management of public monies. The government has drafted a Proposed Financial Management Act 2015-2016 but has not been finalized yet.

Other legislations relevant to public finance management include the following:

**Public Expenditure Review Committee and Audit (PERCA) Act (1995-96)** - This Act provides for the establishment of the Public Expenditure Review Committee charged with reviewing the annual budget, annual financial statements and financial policies and procedures. It also stipulates that all entities of government must be audited by the Audit Office

**Income Tax Act (1997), supported by the Value Added Tax Act (1997), and the Customs Act (2012)** – These legislations provide the framework for the management of tax revenues. Substantial amendments were made to both the Income Tax Act and Value Added Tax Act in 2013 and 2014 as a result of the 2013 Cook Islands Government Tax Review.

**Cook Islands Investments Corporation (CIIC) Act (1997/98)**- The CIIC Act provides for the effective and efficient management of government public enterprises. The key objective of the CIIC is to ensure State Owned Enterprise (SOEs) are managed efficiently to avoid them relying on the government budget for financing. Each SOE also has its own legislation.

**Island Government Act (2012)** – This Act provides more autonomy for Outer Islands Governments to manage its financial affairs in terms of its structure, staffing, functions and powers, including on financial accountability. They may borrow, invest, or implement capital projects, but all with prior approval by the Minister of Finance.

**Loan Repayment Fund Act (2014)** – This Act authorizes the annual transfer of estimated amortizations from general government reserves to this Fund for the purpose of debt servicing. It also provides provisions for new debt and guarantees as well as prescribed reporting and audit requirements to ensure accountability and transparency.

## 2. SUMMARY OF FINDINGS

### 2.1 PFM strengths and weaknesses

The 2014 PEFA assessment recognized several improvements in the areas of budget credibility largely as a result of improved budget execution, monitoring, and reporting. Upgrading of information systems also contributed significantly to the improvement. However, challenges were noted in multi-year fiscal planning and budgeting, internal control on both revenue and expenditure management, and these were due to inadequacy of processes as well as non-compliance to rules and regulations. Likewise, timeliness of external audit and scope of legislative scrutiny remained areas of concern.

The 2021 PEFA assessment noted the Cook Islands government implemented a number of PFM reforms to improve transparency and accountability of the budget. The Medium-Term Fiscal Framework (launched in 2018) enabled a strengthened strategic focus of Government's expenditure and tax decisions by incorporating a more robust medium-term perspective that takes into account interactions with relevant sectors of the economy. It also provides the basis for the fiscal rules and the establishment of reserve funds to cater for times of economic downturns and natural disasters. Monitoring the implementation of the budget to ensure the fiscal targets and rules are adhered to is now closely monitored by MFEM.

The installation of the financial management information system (FMIS) which went live on July 2019, was a major milestone in terms of generating timely government wide financial data. It also allowed for a more effective management of government spending.

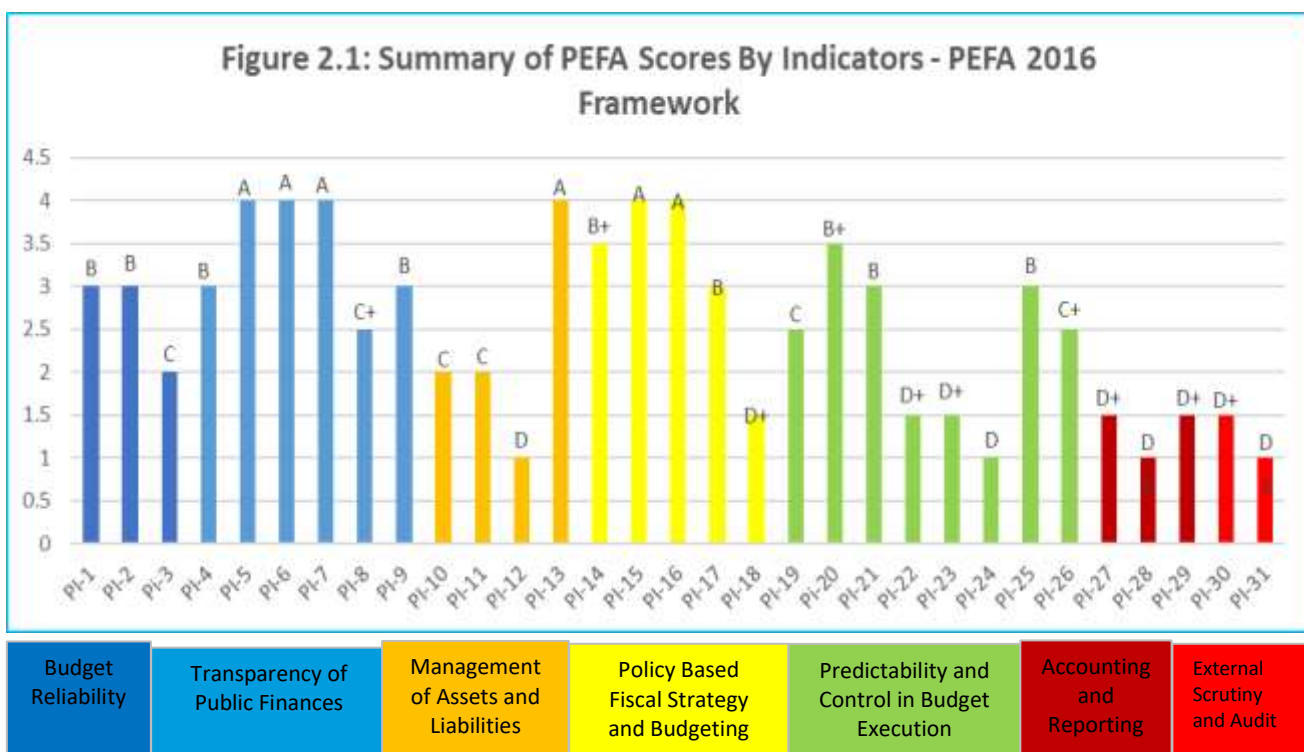
Overall, PFM processes have seen significant improvements since the last assessment across many areas. Notable progress was realized in budget credibility, budget documentation, management of extrabudgetary resources, debt management, macroeconomic and fiscal forecasting, fiscal strategy formulation, revenue accounting and cash management.

On the other hand, areas that require close attention for improvement include asset management, public investment management, expenditure arrears, procurement, revenue risk management, payroll issues, external audit and legislative oversight.

Progress on some of these areas is dependent on the completion of the rollout of the FMIS, (which has been delayed by the onset of the COVID-19 pandemic). For example, The FMIS would provide detailed analysis of payables across the government allowing the reporting of data on arrears (where they exist), and a centralized payment system in the FMIS would facilitate the pooling of cash resources and establishment of a Treasury Single Account (TSA). The full rollout of the FMIS should also facilitate the required strengthening.

Internal auditing has been undertaken and is reasonably well planned—however, there is limited reporting on the implementation of audit plans which has impacted on the ratings herein. Auditing in key areas such as the payroll (and also procurement) is not undertaken with adequate frequency—the payroll audit is now very dated.

Oversight and monitoring of procurement performance and compliance is undermined by a lack of data and statistics, e.g. in accordance with the Open Contracting Data Standards (OCDS). A backlog in the production of the annual financial statements had built up, which is slowly being cleared but production is still in arrears of the statutory requirement, with the 2019/20 statements yet to be submitted for audit. This has exacerbated the lack of legislative scrutiny of audit reports.



## 2.2 Impact of PFM performance on three main fiscal and budgetary outcomes

### 1. Aggregate fiscal discipline

The adoption of the government’s medium term fiscal framework in 2018, provided the platform for the government to strategically examine its fiscal objectives and targets. The framework sets out to achieve two key outcomes 1) improved long-term fiscal sustainability through responsible fiscal management and; 2) debt sustainability and improved medium-term fiscal planning nationally, and within each agency. The framework also provides the basis for the fiscal rules, the establishment of reserve funds for bad times and future generations; and a Government expenditure profile guided by economic realities. More importantly, there’s commitment to closely monitor the fiscal strategy to ensure compliance by all agencies.

The fiscal strategy clearly articulates the government’s fiscal policy objectives, including the fiscal targets and rules. It provides a framework against which the fiscal impact of revenue and expenditure policy proposals can be assessed. This ensures that budget policy decisions are aligned with fiscal targets thereby supporting aggregate fiscal discipline and the strategic allocation of resources.

Maintaining fiscal sustainability over the recent past is clearly illustrated by the high ratings achieved for debt management, macroeconomic and fiscal forecasting, fiscal strategy and medium-term expenditure budgeting.

### 2. Strategic allocation of resources

Cook Islands budgeting is closely aligned to the planning process. The National Sustainable Development Plan (NSDP) 2016-2020 encapsulates the aspirations and ambitions of the country over the five years across four sectors namely - social, cultural, economic and environmental. There is a total of 16 national development goals, all interwoven, to promote the importance of good governance, partnership and collaboration for the successful development of the country.

The NSDP provides a clear policy direction to set medium-term budget priorities and it also acts as a national scorecard to assess the progress to deliver on the national vision.

Guided by the medium-term fiscal strategy (MTFS) and medium-term fiscal forecasts MTFE and with inputs from the ministries, MFEM prepares the medium-term expenditure ceilings (MTECs) at the ministry level which are approved by Cabinet prior to release. The ceilings are communicated to the ministries so that they can formulate their business plans. These business plans are costed making sure that the total expenditure estimate is consistent with the medium-term budget ceilings.

Every mid-year, there is an update of the medium-term projections. This update is the basis of the formulation of the new medium-term fiscal strategy and forecasts. As soon as the MTFS and MTFE are approved by Cabinet, MFEM advises the ministries to re-formulate their medium-term business plans according to the fiscal policy changes and other updated assumptions/parameters.

This demonstrates a clear and robust process where budget resources are allocated according to the national priorities stipulated in the national development plan.

### ***3. Efficient use of resources for service delivery***

The extent to which the MTFE is sufficiently robust provides a good platform for the strategic allocation of budget resources to support national development goals. In the 2020/21 budget, an account of how the budget resources are spent against each national development goal is presented. Under the 2020/21 fiscal year, a total of \$27.7 million was appropriated to provide effective and efficient service delivery to support the community. Projects under this category include the social impact fund with a total budget of \$1.0 million specifically set up to support community development projects as well as non-government organizations.

In support of providing safe drinking water and good sanitation for the community, the Government allocated \$15.6 million to support the Te Mato Vai project and To Tatou Vai, Mei Te Vai Ki Te Vai and other programs which focus on managing, developing and improving water and sanitation.

In support of infrastructure development, the Government allocated \$26.2 million to implement ICT projects to improve connectivity and access to the internet. Renewable energy has been strongly supported and the goal of 100% renewable has been achieved for the Northern Group Islands and most of the Southern Group Islands. As well, the Government has committed \$30.7 million over the medium-term to ensure reliable transport between islands via shipping and air links are available.

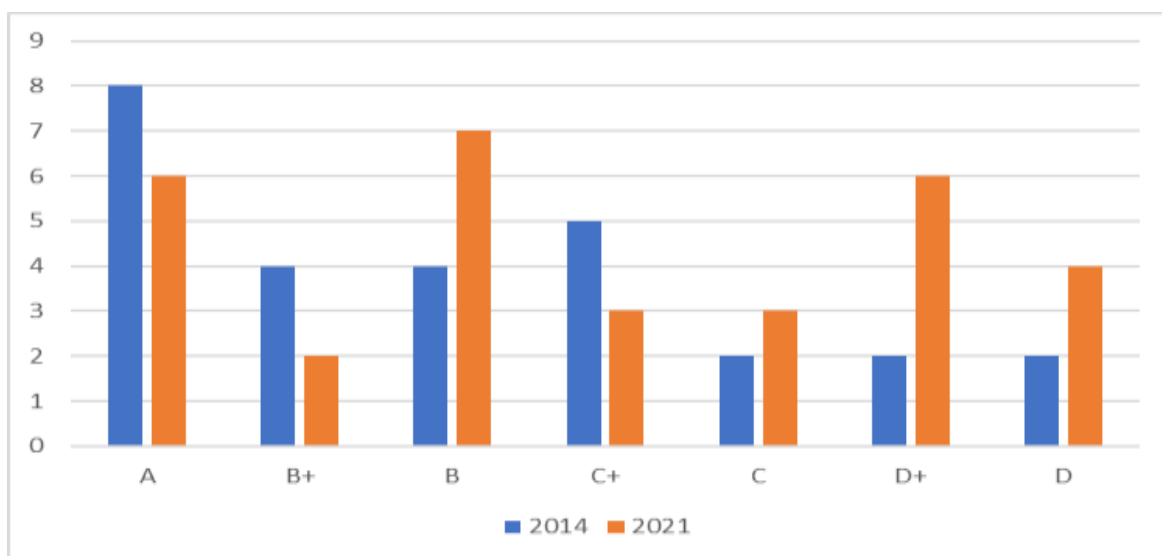
On the health sector a total of \$25.5 million was allocated to develop the health care system to ensure that people have access to a good health care system. A total of \$20.6 million was provided to support quality education which is available at all levels from early childhood, primary, secondary and tertiary education.

## **2.3 Performance change since previous assessment**

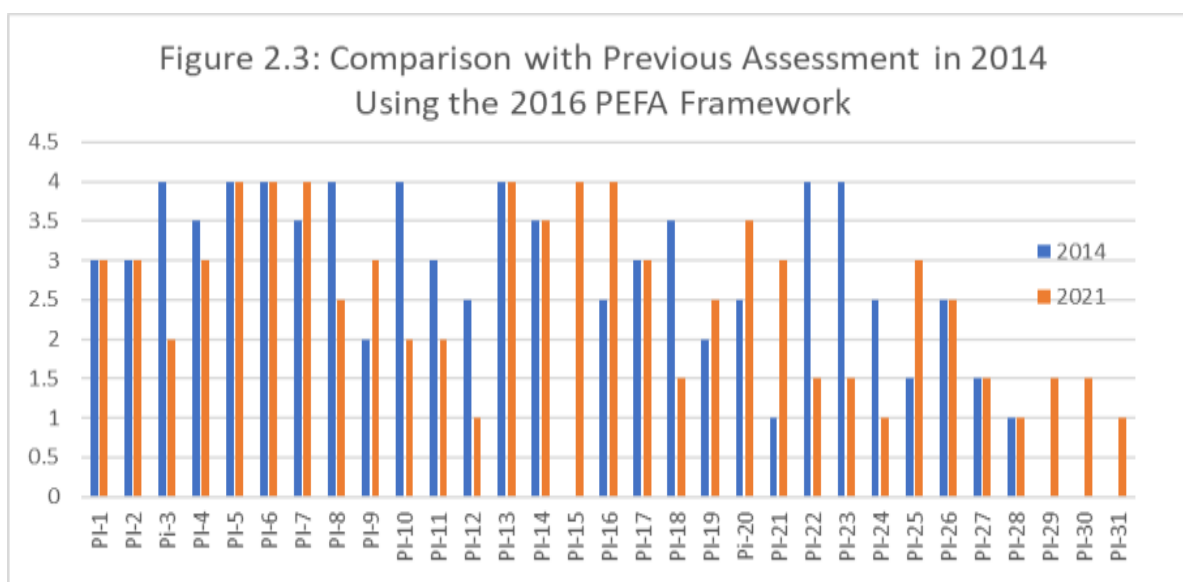
Overall, there have been significant improvements since the last assessment both at the policy and activity level. There is policy coherence having a robust MTFE that is further strengthened by an integrated budget and planning process where the allocation of budget processes is dictated by the national goals and priorities. Institutions in particular MFEM has gone through institutional strengthening to be able to better plan, implement and monitor developments.



**Figure 2.2: Comparison of the distribution of indicator scores between the assessment in 2014 and the assessment in 2021 using the 2016 framework**



**Figure 2.3: Comparison with Previous Assessment in 2014 Using the 2016 PEFA Framework**



Pillar 1 - Budget Reliability	Pillar 2 - Transparency of Public Finances	Pillar 3 - Management of Assets and Liabilities	Pillar 4 - Policy Based Fiscal Strategy and Budgeting	Pillar 5 - Predictability and Control in Budget Execution	Pillar 6 - Accounting and Reporting	Pillar 7 - External Scrutiny and Audit
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At the activity level, significant progress has been achieved in the areas of budget classification and documentation, central government operations, fiscal risk reporting, debt management, fiscal strategy formulation and budgeting, and medium-term budgeting, although there remain areas that need further attention such as procurement, bank account reconciliation, reporting on budget execution, external audit and legislative scrutiny of financial reports.

Figure 2.3 provides a comparison of indicator scores between the 2014 Assessment based on the 2011 Framework and the 2021 Assessment using the 2016 Framework.

## 2.4 Progress in Government PFM reform program

Over the past five years, the Cook Islands government implemented a number of key PFM reforms. The adoption of the MTFs in 2018 was a major reform initiative that sets out the

Government's fiscal commitments over the medium-term, including the fiscal rules that the Government aims to achieve, economic forecasts and the Government's expenditure profile.

The specific objective of the MTFS is to deliver fiscally sustainable budgets. To achieve this the Government committed to the following:

- i. Adherence to the fiscal rules on debt, fiscal balance, expenditure growth and cash reserves.
- ii. The development of, and appropriation into, reserve funds (Stabilization Account and Sovereign Wealth Fund) to improve economic resilience.
- iii. An expenditure profile that is guided by the economic context.
- iv. The Government's fiscal strategy is also underpinned by the following policy elements:
  - Investing in infrastructure that will ensure the sustainability of economic growth and the resilience of the economy to climate change.
  - Increasing revenue without increasing the tax burden on society, through economic growth and by ensuring that tax legislation is enforced in an equitable manner.
  - Investing in the capabilities of Government Agencies to ensure they operate effectively and efficiently.

The Government further committed to four MTFS fiscal rules, performance against which is publicly reported:

- **Net Debt Rule:** net debt should not exceed a soft cap of 30 percent of GDP, and cannot exceed a hard cap of 35 percent of GDP.
- **Fiscal Balance Rule:** the fiscal balance cannot exceed a deficit of 1.9 percent of nominal Gross Domestic Product (GDP).
- **Expenditure Rule:** budgeted expenditure cannot grow by more than 4 percent year-on-year.
- **Cash Reserves Rule:** the equivalent of 3 months of operating expenditure must be held in cash at any one time.

The MTFS also established the Stabilization Account to accumulate excess cash balances in periods of strong economic growth to be used for additional debt repayments, and to cover operational and capital expenditure during periods of economic contraction. In the absence of this policy, Cook Islands would have faced mounting pressures in responding to the COVID-19 pandemic.

The FMIS system is another key reform measure which provides the framework to generate financial data to allow timely analysis of budget performance as well as allowing a more effective system to monitor performance.

## 2.5 Summary of performance indicators

The summary of ratings for each dimension and indicator is presented in Table 2.1 below.

**Table 2.1: Summary of performance indicators**

# 3. ANALYSIS OF PFM PERFORMANCE – Pillars, indicators, and dimensions

The assessment of each of the 31 indicators and 94 dimensions that make up the PEFA framework is presented below. Each dimension score is calibrated to reflect a level of PFM practice as set out

in the table below. Dimension scores are aggregated using PEFA Framework guidance to arrive at indicator-level scores.

PFM PERFORMANCE INDICATOR		SCORING METHOD	DIMENSION RATINGS				OVERALL RATING
			i	ii	iii	iv	
<b>Pillar One: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	B	A	A		B+
PI-3	Revenue outturn	M2	C	B			C+
<b>Pillar Two: Transparency of public finances</b>							
PI-4	Budget classification	M1	B				B
PI-5	Budget documentation	M1	A				A
PI-6	Central government operations outside financial reports	M2	A	A	A		A
PI-7	Transfers to subnational governments	M2	A	A			A
PI-8	Performance information for service delivery	M2	B	C	A	D	C+
PI-9	Public access to fiscal information	M1	B				B
<b>Pillar Three: Management of Assets and Liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	C	A		C
PI-11	Public investment management	M2	C	C	C	C	C
PI-12	Public asset management	M2	D	D	B		D+
PI-13	Debt management	M2	A	A	A		A
<b>Pillar Four: Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	B	B	A		B+
PI-15	Fiscal strategy	M2	A	A	B		A
PI-16	Medium-term perspective in expenditure budgeting	M2	A	A	A	A	A
PI-17	Budget preparation process	M2	B	A	D		B
PI-18	Parliamentary scrutiny of budgets	M1	C	D	C	A	D+
<b>Pillar Five: Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	A	A	D*	D	C+
PI-20	Accounting for revenue	M1	B	A	A		B+
PI-21	Predictability of in-year resource allocation	M2	D	C	A	A	B
PI-22	Expenditure arrears	M1	A	D			D+
PI-23	Payroll controls	M1	A	A	A	D	D+
PI-24	Procurement management	M2	D	D*	D*	C	D
PI-25	Internal controls on non-salary expenditure	M2	B	C	B		B
PI-26	Internal audit	M1	C	B	NA	NA	C+
<b>Pillar Six: Accounting and reporting</b>							
PI-27	Financial data integrity	M2	D	D	C	B	D+
PI-28	In-year budget reports	M1	B	D	C		D+
PI-29	Annual financial reports	M1	A	D	A		D+
<b>Pillar Seven: External scrutiny and audit</b>							
PI-30	External audit	M1	B	D	C	D	D+
PI-31	Parliamentary scrutiny of audit reports	M2	D*	D*	D*	D*	D

SCORE	LEVEL OF PFM PRACTICE
A	High level of performance that meets good international practices.
B	Sound performance in line with many elements of good international practices.
C	Basic level of performance.
D	Either less than the basic level of performance or insufficient information to score (D*).

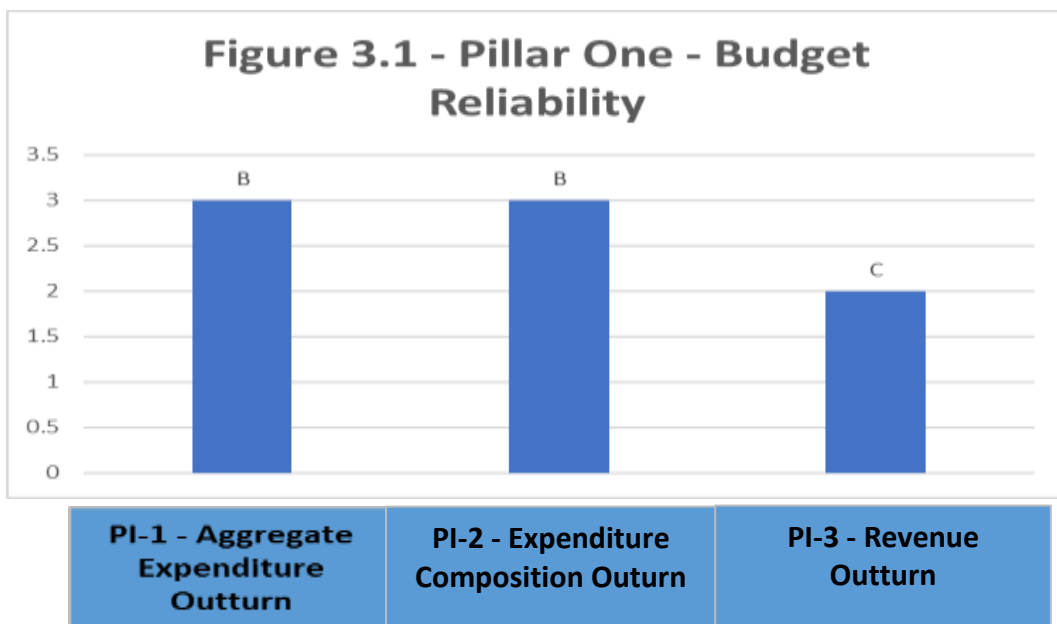
## PILLAR ONE: Budget Reliability

Pillar one measures whether the government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

### Overall performance

Total expenditure outturn for the three fiscal years (FY2017/18; FY2018/19; and FY2019/20) consistently fell short of the budget estimates. This was largely attributed to a combination of factors including the delayed timing of payments, vacant positions being unfilled and delayed capital project payments. It also reflected prudent fiscal management in ensuring all payments comply to the accounting procedures and processes before they can be processed. Actual expenditures fell within 90% and 109% of the approved budget for all the fiscal years; FY17/18, FY18/19 and FY19/20 which satisfies the requirement for a B rating for PI-1.

The small deviation in the actual expenditure composition outturn compared to the original budget in the three years show limited reallocation during execution. Expenditure composition by function was less than 10% in at least two of the last three years which satisfies a rating of B for Dimension PI-2.1. Expenditure composition by economic classification was less than 5% in the three fiscal years which satisfies the requirement for an A. for Dimension PI-2.2. The 13% expenditure variance in 2019/20 by economic classification reflects the government's response to the pandemic. Expenditure from contingency reserves were less than 0.5% of expenditures in each of the three years which satisfies a rating of A for dimension PI-2.3.



Total revenue outturn exceeded the budget forecasts for all the three years. In 2017/18, actual revenues exceeded budget estimates by \$28 million, primarily as a result of improved tax collections. Tax revenue collections also did well in 2018/19 exceeding budget forecasts by 7 percent. As well revenues from fishing licenses resulted in other crown revenues exceeding budget estimates by 67 percent implying that the revenue forecasts for the three years were conservative. Actual revenue was between 92% and 116% of budgeted revenue in 2018/19 and 2019/20 which meets a C rating for dimension PI-3.1. On revenue composition, taxation dominates accounting for around 76% of total revenue in all of the three years. The variance in revenue composition was less than 15% in 2017/18 and 2019/20 as shown in the Results Matrix given below. This satisfies a score of B for dimension 3.2.

### **Possible underlying causes of performance**

The Cook Islands Government has put in place a number of fiscal policies to underpin macroeconomic stability. The implementation of the MTFS provides a solid platform to prudently manage expenditures in support of economic growth. Strong growth was registered over the period 2012/13 to 2018/19, growing at an average of 5.8% per year. This was driven largely by unprecedented tourism growth and high levels of public and private capital investment.

The MTFS sets out the Government’s fiscal commitments over the medium-term, including the fiscal targets the Government aims to achieve. Adherence to the MTFS fiscal rules, including in the use of its exit clause, has allowed the government sufficient buffer to swiftly respond to the downturn as a result of the pandemic.

The government has introduced tax reforms to ensure the taxation structure is conducive to growth, and targeted tourism expenditure to promote Cook Islands as a destination.

The government has also invested in essential infrastructure projects including the submarine cable and water and sanitation projects. These infrastructure investments contribute directly to stimulating growth and improving the quality of life of the population.

### **PI-1 Aggregate expenditure outturn<sup>1</sup>**

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator.

#### **Indicator and dimension scores and analysis**

<b>INDICATORS/ DIMENSIONS</b>	<b>ASSESSMENT OF PERFORMANCE</b>	<b>SCORE</b>
<b>PI-1: Aggregate expenditure outturn (M1)</b>		<b>B</b>
<b>PI 1.1 Aggregate expenditure outturn</b>	Table 1-1 indicates that actual expenditures as a percentage of the budget estimates fell between 90% and 109% for all the fiscal years; FY17/18, FY18/19 and FY19/20. In line with the scoring criteria, this indicator has satisfied the requirement for a B.	B

#### **Evidence for score**

Actual aggregate expenditures for each of the three years accounted for 90% or more of the budget estimates. For the three years, actual expenditures as a percentage of the budget was 90%, 96% and 109% for 2017/18, 2018/19, 2019/20 respectively. With that result, all the three fiscal years fall between 90% and 110% which means this indicator meets the requirements for a B rating.

**Table 1-1: Aggregate expenditure outturn**

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<sup>1</sup> The calculations for PI-1, PI-2 and PI-3 include development partners’ contributions to budget resources (i.e., general budget support and development funds) and expenditures of these funds. However, it excludes ‘in-kind’ resources paid for by development partners which is included in the budget estimates document but not the annual financial statements or unaudited budget execution reports provided to the assessment team.

Aggregate expenditure (\$m)	FY17/18	FY18/19	FY19/20
Approved budget	193581	207476	209016
Outturn	173652	199750	227817
<b>Outturn as a percentage of budget</b>	<b>90%</b>	<b>96%</b>	<b>109%</b>

**Data source:**

Source of 2017/18 Budget, table 3.2 of Book 1 2017/18 Budget, source of 2017/18 Actual, table 4.2 of Book 1 2018 - 2022 Budget.

Source of 2018/19 Budget, table 4.3 of Book 1 2018 - 2022 Budget, source of 2018/19 actual, table 6.3 of Book 1 2019-2023 Budget.

Source of 2019/20 Budget, table 6.3 of Book 1 2019-2023 Budget, source of 2019/20 table 6.4 of Book 1 2020 - 2024 Budget.

## PI-2. Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
<b>PI-2. Expenditure composition outturn (M1)</b>		<b>B+</b>
<b>PI 2.1 Expenditure composition outturn by function</b>	Variance in expenditure composition by budget function was less than 10% in 2018/19 and 2019/20 which implies a score of B. <ul style="list-style-type: none"> <li>• 2017/18 – 22.4%</li> <li>• 2018/19 – 8.8%</li> <li>• 2019/20 – 9.5%</li> </ul>	B
<b>2.2 Expenditure composition outturn by economic type</b>	Variance in expenditure composition by economic classification was less than 5% in the last three years therefore satisfying the requirements for an A: <ul style="list-style-type: none"> <li>• 2017/18 – 4.6%,</li> <li>• 2018/19 – 3.4%</li> <li>• 2019/20 – 4.3%.</li> </ul>	A
<b>2.3 Expenditure from contingency reserves</b>	Expenditure from contingency reserves is restricted to costs that were not reasonably foreseeable when the budget was approved. Contingency expenditures were recorded as zero for all the past three years. This implies a score of A.	A

### Evidence for score

Reallocation between main budget categories during execution is very limited in the Cook Islands. The Budget allocates spending by function, but financial statements do not report on actual spending by function. Budgeted and actual spending by economic classification are reported in both the Budget and financial statements. The government's response to COVID-19 was the largest shift in spending in 2019/20 and in 2020/21. The government invested \$28 million in Economic Response to support the private economy and \$4.5 million in medical assistance to cover extraordinary costs of responding to the pandemic in 2019/21, 18% of total spending. The second phase of the economic recovery plan

increased to \$64 million in 2020/21. The Budget and financial reports document budget and actual spending by economic class and agency and report on spending from contingency reserves.

**Table 2-1: Aggregate expenditure outturn variance compared to approved budget**

Variance	FY-2	FY-1	FY-0
Functional classification	N.A.	N.A.	N.A.
Economic classification	4.6%	3.4%	4.3%

**Data source:** Functional data taken from Tables 6.4 and 6.3 of the 2020/21 and 2019/20 Budgets respectively. Economic classification data taken from Quarterly Financial Reports for June 2018, 2019, and 2020, tables 1, 2 and 3. Data on contingency reserves taken from Schedule 17.1 of Book 1 of the 2020/21 and 2019/20 Budgets.

### PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn.

#### *Indicator and dimension scores and analysis*

Indicators/ Dimensions	Assessment of performance	Score 2021
<b>PI-3. Revenue outturn (M2)</b>		<b>C+</b>
<b>3.1 Aggregate revenue outturn</b>	Actual revenues exceeded budget revenues in each of the past three years: <ul style="list-style-type: none"> <li>• 2017/18 118%</li> <li>• 2018/19 113%</li> <li>• 2019/20 109%.</li> </ul>	C
<b>3.2 Revenue composition outturn</b>	Taxation revenue is approximately ¾ of all revenues, substantially overshadowing variance in other categories of revenues. Variance in revenue composition was less than 10% in 2017.18 and 2019/20 meeting the requirement for a B score... <ul style="list-style-type: none"> <li>• 2017/18 1.6%</li> <li>• 2018/19 11.6%</li> <li>• 2019/20 7.6%</li> </ul>	B

#### *Evidence for score*

Budgeted revenue forecasts appear to be systematically too conservative. In 2017/18, actual revenues exceeded budget estimates by \$28 million, primarily as a result of greater tax collections, which exceeded budget estimates by 10 percent. Other crown revenues and trading revenues also exceeded budget estimates by 20 and 25 percent respectively. In 2018/19, taxation revenues exceeded budget estimates by 7 percent. Revenues from fishing licenses resulted in other crown revenues exceeding budget estimates by 67 percent. In 2019/20, budgeted revenue estimates were adjusted downward in anticipation of lower tax revenues due to the pandemic. Due to timing of the impact of the pandemic on taxation, revenues were not lower in the tax year. Actual taxes exceeded the budget estimate by 14 percent. The cumulative effect over the past three years is that revenues have been higher than anticipated. The fiscal balance has been more

favorable than assumed. This improved fiscal outlook did not result in expanded spending prior to the pandemic but has been a factor in making the response to the pandemic possible.

The Ministry acknowledged that revenues showed symptoms of systematic under-estimation and explained that the underlying reason for the under-estimation was that economic growth consistently outstripped expectations as tourism growth rates continued growing above expectations each year, driving VAT increases. The Revenue Management Division has asked to be engaged in future revenue forecasts which is expected to improve overall revenue forecasts going forward. Uncertainty created by the COVID pandemic, particularly in terms of the restoration of tourism will continue uncertainty in revenue forecasts in the near term.

**Table 3-1: Aggregate revenue outturn**

<b>Total revenue (\$m)</b>	<b>FY-2</b>	<b>FY-1</b>	<b>FY-0</b>
Approved budget	154,534	185,151	179,966
Outturn	182,611	209,936	195,606
<b>(as a % of original budget)</b>	<b>118%</b>	<b>113%</b>	<b>109%</b>
<b>Composition Variance</b>	<b>1.6%</b>	<b>11.6%</b>	<b>7.6%</b>

*Data source: June 2018, 2019 and 2020 Quarterly Financial Reports, tables 1,2 and 3.*



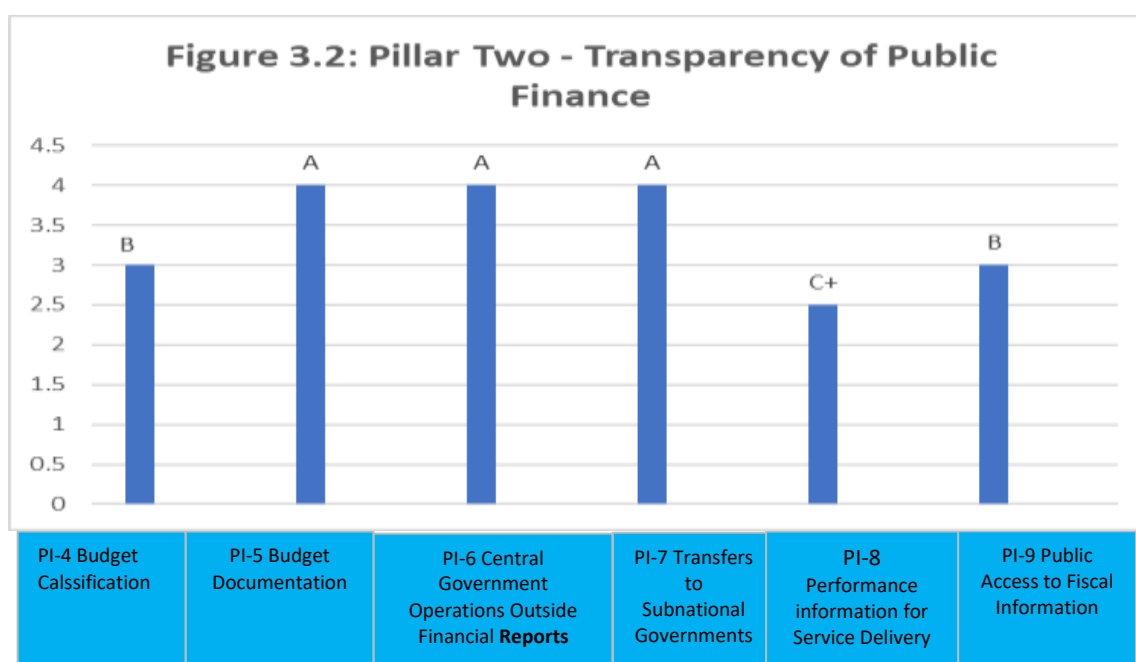
## PILLAR TWO: Transparency of Public Finances

Pillar two assesses whether information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

### Overall performance

Cook Islands recorded high scores for transparency of public finances. Budget formulation, execution, and reporting of results are based on every level of administrative, economic, and functional classification using GFS/COFOG standards. The budget is a comprehensive document that meets all international standards and is clearly presented in a transparent manner. The government's financial reports provide quarterly updates on the budget proposals that supplement the budget information.

All central budgetary government entities submit their reports on the actual versus budgeted revenue and expenditure for the fiscal year 2019-20, and these are included in the consolidated central government financial reports. All revenues of the central budgetary government entities, except for an insignificant (less than 0.1% of central government expenditures) amount of off-budget donations to the public school committee are included in the consolidated financial reports. Except for the Ministry of Justice Trust Accounts, all of the Trust Funds/account are administered by the MFEM Treasury and the balances of these trust funds/accounts are reported in the financial reports.



All transfers to the subnational level to the Outer Islands (PA Enea) are determined by the Island Government Act 2012/2013 which establishes a transparent, rule-based system (Pa Enea Funding model). Fund allocation and transfers to Outer Islands use the regular budget calendar and the budget is approved only by the central government legislative which allows more than six weeks to complete the Outer Islands budget.

The allocation of budget resources is closely aligned to the national development goals where resources are allocated to the broad sector priorities. At the activity level, the ministry and agency business plans are organized by budget output. The plans allocate funding for the budget year and three subsequent years for each output. They specify the work program and deliverables in terms of functions to be completed.

**Possible underlying causes of performance**

Following the PEFA assessment in 2015, a road map for PFM reforms was designed and implemented. Reforms implemented including enhancing the credibility and transparency of the budget; development of the Financial Management Information System (FMIS), increasing information and planning requirements for procurement of capital investments, accounting, recording, reporting and budget execution; and external audits. The FMIS which went live in July 2019 enabled the generation of financial data that allows better planning, implementation and management of the budget. Together with the MTFE, the PFM reforms provided a vehicle to enhance PFM processes including transparency of public finances.

**PI-4. Budget classification**

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator.

**Indicator and dimension scores and analysis**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
		<b>B</b>
<b>4.1 Budget classification</b>	The budget formulation, execution, and reporting of results are based on administrative, economic, and functional classification using GFS/COFOG standards. These are clearly presented in Book 1 of the budget documents for the years 2017/18; 2018/19; and 2019/20.	B

**Evidence for score**

The classification of the Cook Islands government budget and accounts is consistent with international standards. In the budget document, the budget is clearly presented in the GFS format and the Classification of the Functions of Government (COFOG) covering the previous year, the budget year and three outer years. COFOG has 10 main functions at the highest level and 69 functions at the second (sub-functional) level. This indicator is rated less than an A due to the level of reporting of results which are reported on main economic headings.

**Table 4-1. Budget classification and chart of accounts**

Element	Classification structure						
	Administrative (Y/N)	Economic: No. of digits and GFS compliance (Y/N)			Function (Y/N)	Subfunction/ Program (S/P/N)*	COFOG Compliant (Y/N)
		Revenue	Recurrent	Capital			
<b>Chart of accounts</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Budget formulation</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Budget execution and reporting</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes

\* **Note:** S = Subfunction; P = Program; Y=Yes and N = No

**Data source:** Budget Documents – 2017/18; 2018/19; and 2019/20..

## PI-5. Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of four basic and eight additional elements.

### **Indicator and dimension scores and analysis**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
<b>PI-5. Budget documentation</b>		<b>A</b>
<b>5.1 Budget documentation</b>	Budget documentation fills all twelve elements, including all four basic elements. In 2015, the budget filled 8 of 9 benchmarks. In 2021 the budget fulfills all standards.	A

### **Evidence for score**

The Cook Islands Budget is a comprehensive document that meets all international standards for material covered. The budget is clearly presented in a transparent manner. The government's financial reports provide quarterly updates on the budget proposals that supplement the budget information.

**Table 5-1 Budget documentation**

Item	Included (Y/N)	Source of evidence and comments
<b>Basic elements</b>		
1	Yes	Forecast of the fiscal deficit or surplus or accrual operating result. Chapters 1 – 3 of Book 1 of the Budget describe the Budget Overview, Fiscal Strategy and Fiscal Update and Medium-term Outlook
2	Yes	Previous year's budget outturn, presented in the same format as the budget proposal. Summary tables provide actual data in the same format budget proposals for revenues and expenditures
3	Yes	Current fiscal year's budget presented in the same format as the budget. Summary tables show current year data. In 2019/20 the government proposed a substantial budget amendment

	proposal. This can be either the revised budget or the estimated outturn.		to respond to the pandemic. Tables showed both original and updated budget estimates. Financial reports show both.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes	Summary tables for revenue and expenditure for economic classification and functional allocation show current and previous year estimates compared to budget estimates. Agency budget proposals do not show comparisons to current and previous year estimates.
<b>Additional elements</b>			
5	Deficit financing, describing its anticipated composition.	Yes	Chapter 3 of Book 1 on the Fiscal Strategy describes borrowing in the context of fiscal rules, Chapter 6 describes borrowing on a GFS basis, and Chapter 11 provides an analysis of Crown Debt from a variety of contexts.
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes	Chapter 5 of Book 1 provides an Economic Update analyses of economic assumptions, Economic and Fiscal Sensitivity Analysis and analysis of Economic and Fiscal risks.
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	Chapter 11 of Book 1 provides a comprehensive update on debt, including gross debt in the financial statements, current borrowing, financing requirements, and the status of government loans. It also provides an update of the Loan Repayment Fund
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	Chapter 6 of Book 1 presents GFS statements, Chapter 18 provides Financial Statements for government finance.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	Yes	Chapter 4, section 6 of Book 1 provides an overview of Economic and Fiscal Risks, including the quantification of contingent liabilities and an assessment of State-Owned Enterprises.
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	Yes	Chapter 3 of Book 1 provides a description of the government's Fiscal Strategy outlining the government's major policies and providing the Medium-term Fiscal Strategy. Chapter 7 provides an overview of Revenues proposals and budget estimates. Chapter 8 provides the budget proposals by Government Department. Chapter 9 presents Capital Expenditure proposals.
11	Documentation on the medium-term fiscal forecasts.	Yes	Chapter 3 of Book 1 presents the Medium-term Fiscal Strategy. Chapters 7 and 8 provide estimates for revenues and expenditure for the budget year and three out years.
12	Quantification of tax expenditures.	Yes	Chapter 10 of Book 1 identifies Tax Exemptions (Expenditures) – It provides brief descriptions of tax preferences documenting financial parameters where possible, organized by major tax categories.

## PI 6- Central government operations outside financial reports

PI 6 is one of Pillar 2 (Transparency) indicators that measure the extent of revenues and expenditures of budgetary central government (BCG) entities that were unrecorded or unreported, as well as those of extra-budgetary units of central government that were not reported.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI-6. Central government operations outside financial reports (M2)</b>		<b>A</b>
<b>6.1 Expenditure outside financial reports</b>	Expenditures outside of government financial reports is less than 1% of total BCG expenditures in 2019-20. This expenditure outside financial reports refers to the charges made by the local public school committee from donations received. All central budgetary government entities reported their actual expenditure versus the approved budget, and these have been included in the consolidated financial reports.	A
<b>6.2 Revenue outside financial reports</b>	Revenues outside of government financial reports is less than 1% of total BCG revenues in 2019-20. This expenditure outside financial reports refers to the donations received by the local public school committee. All central budgetary government entities reported their actual revenue versus the approved budget.	A
<b>6.3 Financial Reports of Extrabudgetary Units</b>	Detailed financial reports of <b>all</b> extrabudgetary units are submitted to government annually within three months of the end of the fiscal year. These extrabudgetary units of the central government refer to the Trust Funds and donations to the local public school committee as authorized by the government. Only the donations received by the public school committee constituting less than 1% of the total central government extrabudgetary funds were not reported.	A

### Evidence for the Score

**Table 6-1: Identification of Central Government Extrabudgetary Operations**

Existence of Extrabudgetary Operations	Under control of Government	Budget 2019-20	Within Whole of Government Annual Financial Statement	Financial Reporting to Government	Any additional off-budget elements
<b>1. Budgetary Units</b>	yes	128.5M	yes	yes	none
<b>2. Extrabudgetary Entities</b>					
2.1 Trust Funds	Yes	Off-budget	yes	yes	Both charges and credits
2.2 School Committee	Yes	Off-budget	no	no	Donations/fees

**Data source-** Budget Book; Consolidated Government Financial Reports as of June, 2019-20, provided by MFEM.

In Cook Islands, budgetary units under the central government include the line ministries and agencies, and ministerial support offices. Extrabudgetary entities under central government include Trust Funds authorized by

government, as well as small donations to the local school committee. SOEs and Island Governments which are outside of the central government are not included under this indicator.

**Table 6-2: Central Government Expenditure and revenue outside financial reports**

Entity	Type of revenue outside government financial reports	Estimated amount of revenue reported outside government financial reports	Type of expenditure reported outside government financial reports	Estimated amount of expenditure reported outside government financial reports	Evidence and reporting
1. Budgetary Units	none	none	none	none	Consolidated government financial report
2. Extrabudgetary Units					
2.1 Trust Funds	Transfers; Interest from deposit	none	Administrated payments	none	Treasury report; consolidated financial report
2.2 School Committee	Donations	Less than 0.1% of total budget	Committee expenses	Less than 0.1% of total budget	Estimate from Ministry of Education and Ministry of Finance

### Dimension 6.1

The Treasury Division confirmed that all line ministries and agencies included in the budget submitted their reports on the actual versus budgeted revenue and expenditure for the fiscal year 2019-20, and Treasury included them in the consolidated central government financial reports.

The 2019-2020 unaudited financial reports contained Tables 2-4 reporting all expenditures of line ministries and agencies. The expenditures include the payments on behalf of the Crown Government, administrated payment expenditures, and capital expenditures. Table 5 of same report is for payment of borrowings. The Treasury also confirmed that there were no expenditures of budgetary units that were not reported.

Funds coming from development partners also form part of the budget (Chapter 16 of the Budget Book), as Official Development Assistance (ODA). ODAs were also included in the 2019-20 consolidated government reports (Table 6 by Project) reported by the Treasury.

The Note on the Basis of Preparation of the quarterly consolidated reports (cumulative report as of June 2019-June2020) indicated that the report covered all general government entities (central and subnational), and only SOEs were excluded and reported separately.

Extrabudgetary Trust Funds also reported all charges to the Treasury, and Treasury reported them in the consolidated financial report (Dimension 6.3).

### Dimension 6.2

All revenues of the central government entities that were part of the budget were reported to the Treasury, and the Treasury included them in the consolidated government financial reports (see

Table 1 in the report). Examples are the tax and non-tax revenues collected on behalf of the Crown Government.

Grants from development partners, were also included in the revenue budget (see Table 7-1 of the 2019-20 Budget Book) and in the consolidated financial reports (Table 6 ODA by donor).

Extrabudgetary Trust Funds also reported all credits/receipts to the Treasury, and Treasury reported them in the consolidated financial report. The details are discussed in Dimension 6.3

Another extrabudgetary operation is the collection of fees and donations by the local school committee, but these revenues were not reported. The amount is estimated to be less than 1% of the central government budget. These are further discussed in Dimension 6.3.

### Dimension 6.3

During fiscal year 2019-20, there were funds (see List in Table 6.3 below) that operated outside the budget as authorized by government. Except for the Ministry of Justice Trust Accounts, all of these Trust Funds/account are administered by the MFEM Treasury. There were also Trust Accounts composed of deposits held in trust for specific purposes that are temporary in nature. As indicated in the quarterly financial reports, the balances of these trust funds/accounts were reported (Schedule 2 of the 2019-20 consolidated government financial report). The credits and charges were also reported to Treasury. All reports were submitted to Treasury within one month after reference period for inclusion in the consolidated financial report.

However, school fees or small donations collected by the local school committee were not included in the budget nor in the report of the Ministry of Education report to the Treasury. The corresponding school committee expenses charged from these fees were also not reported to the central government. This situation was similarly noted in the previous PEFA Assessment. There is no exact amount provided, but an estimate from the Ministry of Education as relayed by the MFEM indicated the amount is not significant, and less than 1% of the total expenditures of the Ministry of Education. In 2019-20, the ministry budget was \$19.9M,

**Table 6.3. Extrabudgetary Funds**

Name of Trust Fund/Account	Date 2019-20 report completed	Date 2019-20 report submitted	Content of Report (Check Yes or No, or NA if not applicable)			Amount of expenditure/charges, 2019-20
			Credits and Charges	Assets and Liabilities	Contingent Liabilities	
CIG - Land Trust Account	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	0
Ministry of Justice - Land Trust	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	1,669,075.34
Ministry of Justice - Law Trust	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	30,215.07
Penrhyn Is Admin - Hararanga Trust	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	0
CIG - Workers Compensation Trust Fund	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	0

CIG - Disaster Emergency Trust	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	0
RMD - Customs Bond Account	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	28,575.70
Loan Repayment Fund	30-Jun-20	31/07/20	Yes	Cash Bal.	NA	2,241,540.78
<b>Total Reported</b>						<b>\$3,969,406.89</b>
<b>Percent reported</b>						<b>99.5%</b>
<b>Donations to Public School Committee</b>	Not reported	N/A	NA	NA	NA	<b>19,900.00 (estimate)</b>
<b>Percent not reported</b>						<b>0.5%</b>
<b>Total Extrabudgetary Funds</b>						<b>\$3,989,306.00</b>

Data Source: MFEM Treasury; <http://www.mfem.gov.ck>

## PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from the assessed government and whether subnational governments receive information on their allocations in time to facilitate budget planning.

### *Indicator and dimension scores and analysis*

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-7. Transfers to subnational governments (M2)</b>		<b>A</b>
<b>7.1 System for allocating transfers</b>	All transfers to the subnational level to the Outer Islands (PA Enea) <sup>2</sup> , that are the only subnational level from central government in CIS, are determined by the Island Government Act 2012/2013 which establishes a transparent, rule-based system (Pa Enea Funding model) <sup>3</sup> .	A
<b>7.2. Timeliness of information on transfers</b>	Fund allocation and transfers to Outer Islands use the regular budget calendar of CIS and the budget is approved only by the central government legislative. Budget allocation information is informed through a ceiling budget memo that allows more than six weeks to complete Outer Islands budget on time.	A

### *Evidence for score*

<sup>2</sup> Other Islands are: Aitutaki; Atiu; Mangaia; Manihiki; Mauke; Mitiaro; Palmerston; Penrhyn; Pukapuka-Nassau; Rakahanga-

<sup>3</sup> Factors for funding calculation are included in detail in the Budget Book 2019-2023; <http://www.mfem.gov.ck/economic-planning/public-financial-management>



The Outer Islands Government Act 2012 granted more autonomy to the outer island governments but did not give full fiscal independence. Island Administrations are still largely treated like internal agencies for reporting and management purposes, but their allocations in the Budget process and the ability to retain funds across financial years is unique to them.

PA Enea Funding model and budget allocation details are described in the Budget appropriation 2019/2023 that grants the Outer Islands governments autonomy for managing allocated funds, assign functions and responsibilities. Additionally, the Government supports other investments and programs in PA Enea besides the direct transfer allocation of funds detailed in the appropriation estimates but those amounts are negligible. There is no budget approval by the Outer Islands councils.

**Table 7-1: System for allocating transfers**

Name of SNG	Percentage of transfers that are based transparent, rule-based system	Source of rules (eg legislation, regulation etc)	Date of advice on transfers	Source of date of transfers	Date of budget submission to SNG legislature
(Outer Islands) Pa Enea financing model	100 %	2012 Act,	February 27, 2019	Budget ceiling memo	NA

*Data source: Budget Expenditure Ceiling 2019/2020; 2012 Act<sup>4</sup>, Budget Book 2019-2023*

## PI-8. Performance information for service delivery

This indicator examines the service delivery performance information in the executive’s budget proposal or its supporting documentation and in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
<b>PI-8. Performance information for service delivery (M2)</b>		<b>C+</b>
<b>8.1. Performance plans for service delivery</b>	Ministry and agency Business Plans presented in Book 2 of the Budget specify output targets for all agencies, not just those that deliver services. Some delivery plans specify quantitative goals, both for the budget year and for the three following years.	B
<b>8.2. Performance achieved for service delivery</b>	Performance delivery is not reported systematically. Agency presentations in Book 2 do summarize “Significant Achievements and Milestones”. These presentations do not appear to be directly related to output targets. Information is published annually on the activities performed for the majority of ministries.	C
<b>8.3. Resources received by service delivery units</b>	All budgetary resources are allocated within Ministries and agencies by output. Book 1, Chapter 8, provides descriptions of the intended outputs for all spending. Both the Education and Health Ministries outputs are organized by service delivery functions. Funding at the Ministry level is reported by these	A

<sup>4</sup> [http://procurement.gov.ck/wp-content/uploads/2016/02/8\\_Island-Government-Act-2012-2013.pdf](http://procurement.gov.ck/wp-content/uploads/2016/02/8_Island-Government-Act-2012-2013.pdf)

	outputs. Funding from donors is incorporated in the budget. There is virtually no non-public funding in the Cook Islands Budget.	
<b>8.4. Performance evaluation for service delivery</b>	There is no performance evaluation for service delivery on an ongoing basis. In 2018, MFEM undertook a Public Expenditure Review done by a contractor. That review did evaluate the effectiveness of spending.	D

**Note:** Pillar 8 was not part of the 2015 PEFA. Pillar 23 in 2015 reported on availability of information received by service delivery units – scored as an A. This is comparable to dimension 8.3 which also scores as an A. The 2018 Self-Assessment is provided as a comparison.

### **Evidence for score**

The Cook Islands is a very small country. Most of the government agencies operate their programs directly, without subordinate allocation of funds. A few agencies such as Health, Education, Infrastructure Cook Islands, and Tourism do allocate funds among subordinate agencies. Other agencies operate their functions centrally. Funding is tracked for service delivery for those agencies that allocate funds and for the allocation of funds to the outer islands.

The Cook Islands Budget does not systematically track or present information on service delivery. The budget provides substantial information on performance, but much of that information is focused on operational activities of government. Book 1 of the Cook Islands Budget allocates funds to and describes the outputs of government in Chapter 8. There are few quantitative measures identified. Book 2 presents Ministry and Agency Business Plans. The business plans are organized by budget output. The plans allocate funding for the budget year and three subsequent years for each output. They specify the work program and deliverables in terms of functions to be completed. Some specify quantitative measures of services to be provided.

The plans are described as providing “key” performance indicators. The description is misleading. A majority of the measures are operational rather than performance related. The document is far too detailed. Key indicators are obscured by excessive measures on non-programmatic spending. The language used in describing the indicators is repetitive to the extent that it appears unlikely that program officers were involved in developing the business plans. Performance measurement is not targeted on service delivery but presented for all spending by government agencies. Book 2 is developed by the Office of the Public Service Commission. The Ministry and Agency Business Plans are a benchmark against which to measure the performance of the HOMs – Heads of Ministries, not to allocate resources based on services provided. The Cook Islands Budget would be strengthened by placing more emphasis on program service delivery.

The quality of information on performance included in the budget and supporting documents is comprehensive, but should be more focused on programs.

### **Table 8-1 and 8-2: Performance information for the largest service delivery agencies**

Name of service delivery agency	Percentage of service delivery ministries	Program objectives specified (Y/N)	Key performance indicators (Y/N)	PI-8.1 Planned performance		PI-8.2 Actual performance		
				Planned outputs (Y/N)	Planned outcomes (Y/N)	Data on actual outputs produced (Y/N)	Data on actual outcomes achieved (Y/N)	Information on activities undertaken (if no outputs or outcomes) (Y/N)
Education	12.6%	Y	N	Y	N	N	N	Y
Health	11.9%	Y	N	Y	N	N	N	Y
Infrastructure Cool Islands	4.0%	Y	N	Y	N	N	N	Y
Tourism	5.4%	Y	Y	Y	N	Y	N	Y
<b>Total</b>								

**Data source:** No data is available on total spending for service delivery. Budget allocations for ministries providing services are identified in the table.

**Table 8-4: Information on program evaluation**

Ministry	Percentage of service delivery ministries	Program or service evaluated	Date of evaluation	Type of evaluation	Report author	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)

There is no program evaluation for service delivery.

## PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on nine specified elements (five basic and four additional elements) of information to which public access is considered critical.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-9. Public access to fiscal information</b>		<b>B</b>
<b>9.1 Public access to fiscal information</b>	The government makes available to the public 7 elements, including 4 basic elements and 3 additional elements, in accordance with the specified timeframes.	B

## Evidence for score

Table 9-1 Budget documentation

Item	Criteria met within timeframe (Y/N)	Explanation	Source of evidence/ Comments
<b>Basic elements</b>			
1	Yes	The estimates are prepared and published in MFEM website.  (The date of the estimate's communication is June 19 <sup>th</sup> )	MFEM published 2019 FY estimates when the budget was tabled, then replaced them the approved estimate once the budget act is passed retiring the information of the proposal documentation which is within one week of submission to the legislature.
2	Yes	The approved budget documents are published in 24 hours in MFEM website.	MFEM website: <a href="http://www.mfem.gov.ck/economic-planning/public-financial-management">http://www.mfem.gov.ck/economic-planning/public-financial-management</a>
3	Yes	The quarterly and semiannual reports are publicly available in the MFEM website within one months of their issuance.	MFEM website: <a href="http://www.mfem.gov.ck/treasury/crown-accounting/crown-account-financial-reports">http://www.mfem.gov.ck/treasury/crown-accounting/crown-account-financial-reports</a> .
4	Yes	The preliminary annual financial statement is published along with the June 2020 quarterly report within six months of the FY end. The preliminary financial execution document includes a narrative analysis of budget execution.	MFEM website: <a href="http://www.mfem.gov.ck/treasury/crown-accounting/crown-account-financial-reports#2019-20">http://www.mfem.gov.ck/treasury/crown-accounting/crown-account-financial-reports#2019-20</a>
5	No	No audit report has been published of the last completed fiscal year. The audit from FY 2017 was published and then retired from the MFEM webpage because should be published until approved by the parliament.	The Cook Islands Audit Office website is under development with limited information not related to last completed FY.  CIAO website: <a href="http://www.auditoffice.gov.ck/">http://www.auditoffice.gov.ck/</a>

			The latest published in the Cook Islands Audit Office website is from 2014.	
<b>Additional elements</b>				
6	<b>Prebudget statement.</b> The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	Yes	The broad parameters for the executive budget proposal regarding planned expenditure, revenue, and debt are included in Half Year Economic Update published in December each year more than four months before the start of the fiscal year.	Available at Government link:  <a href="http://www.cookislands.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Half_Year_Economic_and_Fiscal_Update.pdf">http://www.cookislands.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Half_Year_Economic_and_Fiscal_Update.pdf</a>
7	<b>Other external audit reports.</b> All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.	No	The external website of the Cook Islands Audit Office is under redevelopment and no other reports have been published there during the last completed fiscal year.	The Cook Islands Audit Office website is under development with limited information not related to last completed FY.  CIAO website: <a href="http://www.auditoffice.gov.ck/">http://www.auditoffice.gov.ck/</a>
8	<b>Summary of the budget proposal.</b> A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	Yes	The citizen budget guide for the last budget approved is published in the MFEM website and in a newspaper with a simple summary of the enacted budget accessible to the nonbudget experts. This is published on passing the Appropriation Act which means within one month of the budget's approval. The citizen budget guide publication replaces the one from the previous years that is no longer available.	MFEM website at:  <a href="http://www.mfem.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Supplementary_Budget_Citizens_guide_English.pdf">http://www.mfem.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Supplementary_Budget_Citizens_guide_English.pdf</a>
9	<b>Macroeconomic forecasts.</b> The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	Yes	The macroeconomic forecasts are included in Half Year Economic Update published in December each year more before their submission to the legislature for approval.	Available at Government link:  <a href="http://www.cookislands.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Half_Year_Economic_and_Fiscal_Update.pdf">http://www.cookislands.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Half_Year_Economic_and_Fiscal_Update.pdf</a>

## **PILLAR THREE: Management of Assets and Liabilities**

Pillar three measures the effectiveness of the government's management of assets and liabilities and the extent to which public investments provide value for money, assets are recorded, and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

### **Overall performance**

Information on the financial performance and associated fiscal risks of the central government's public corporations, subnational governments, and those arising from contingent liabilities are provided effectively in the Budget and financial reports. The Cook Islands created the Cook Islands Investment Corporation, the CIIC, to oversee the management of its SOEs. Between the CIIC and the Budget, the public is informed about the finances and financial risks of the SOEs. The budget also provides comprehensive information on funding to subnational governments. The Cook Islands government has managed fiscal risk well and informs the public on risk on an ongoing basis. The liabilities are reported in the budget and in Statement of Financial Risks within the annual financial statement. SOE's report on financial risks in their financial reports to the CIIC. The CIIC provides a listing of financial risks in its annual financial report.

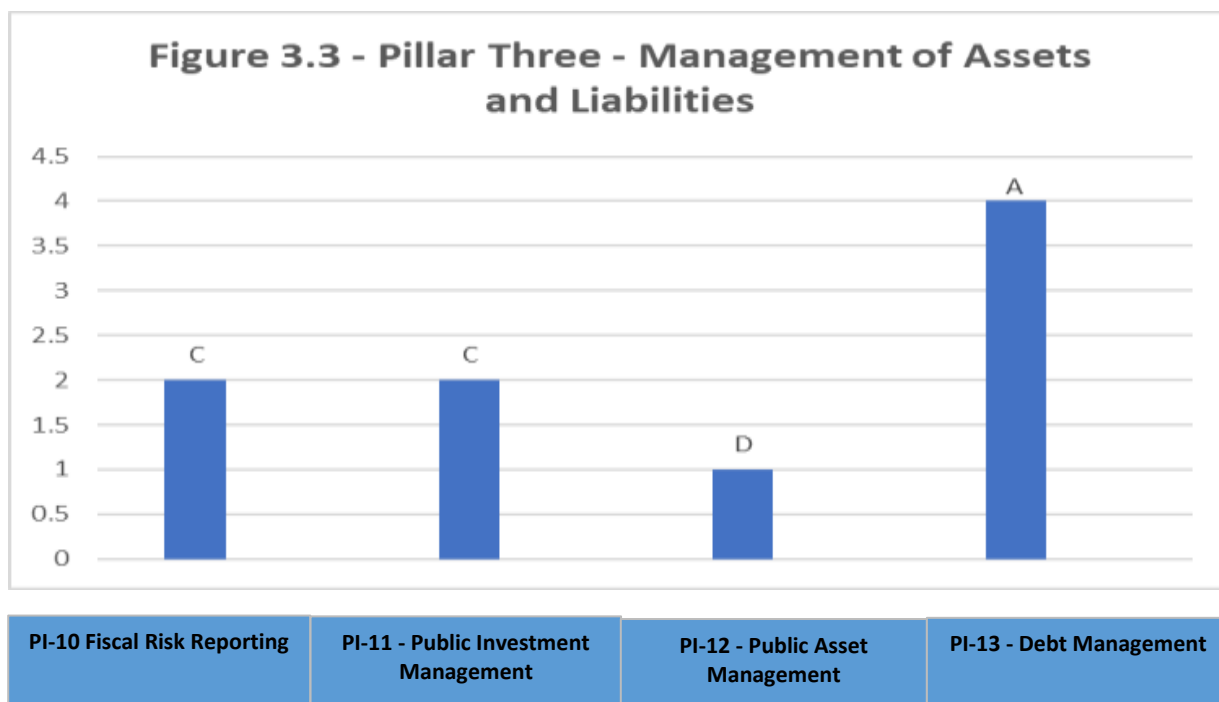
In Cook Islands government, the capital investment process is a joint activity among the MFEM Budget Division and an Infrastructure Committee. The *Infrastructure Committee* reviews capital investment submissions and makes a recommendation to the *Budget Support Group* (Budget Committee) who presents a combined capital and operating recommendation to Cabinet for the national budget. A *Project Coordination Committee* (PCC), consisting of project managers of main agencies in the capital investment space, reports to the Infrastructure Committee monthly. Information on the total life cycle project cost is presently not published in the budget estimates. Presently only capital costs are reported. The project physical progress and total cost at each stage are monitored by implementing units and reported to the PCC. At present, several reforms have been initiated but are still work in progress. Thus, the old procedures implemented during the recent budget reflect the performance rating of this indicator.

Asset management has been a recognized challenge for the Cook Islands government for some time. The Audit Office has cited the failure of government to keep adequate records of assets as a weakness in its financial reports for a number of years. In a press release issued 29 October 2019, the Financial Secretary acknowledged the challenges facing the system and the agencies implementation of the system. The FPP, released in March 2019, provides clear guidance on asset management, fixed asset accounting, depreciation and disposal of fixed assets.

The Budget, quarterly reports and financial statements provide comprehensive information on debt and guarantees, updated in the Treasury accounts on a monthly basis. All debt and guarantees must be reviewed by the Central Agencies Committee, endorsed by the Cabinet and approved by the Minister of Finance and submitted to Parliament for Appropriation. Debt management strategy is presented in concept in the Medium-term fiscal strategy and described in depth in Chapter 11 of Book 1 of the Budget on Crown Debt and Net Worth.

### **Evidence for Scores**

The results of the assessment under this pillar are summarized in the figure below.



**Possible underlying causes of performance**

Fiscal risk in public corporations has been managed by creation of the CIIC which reports collectively on the financial condition of public corporations. Information on the financial condition of the separate institutions should be improved and made more transparent.

Public investment management has had inadequate oversight from the MFEM or other central body. It has also had too little direction in terms of guidelines and or regulations to provide structure to the project appraisal and monitoring procedures.

Agency asset management procedures have not been sufficient to report on or manage assets effectively. The Cook Islands has recognized this issue and is developing systems to track assets and a coordinating group to address management issues.

**Recent and ongoing reform activity**

Cabinet recently approved the expansion of the government investment review process titled Tarai Vaka (TVP, also referred to as TTV) which includes standardized templates and a workflow for review and approval. Previously this was limited to ODA funded projects. TVP includes scoring methodologies to assess submissions. Refer to <https://tetaraivaka.wordpress.com/> for details. Once this improved TVP is approved and implemented in prioritizing and selecting major investment projects in the budget, the PEFA rating could be improved.

In 2014, the government began introducing AssetFinda, a respected asset management system. In September 2019, MFEM established the Asset Management Working Group to put together a plan to remove audit qualifications with property plant and equipment raised by the Audit Office.

**PI-10: Fiscal risk reporting**

This indicator measures the extent to which fiscal risks to central government are reported

### **Indicator and dimension scores and analysis**

<b>INDICATORS/ DIMENSIONS</b>	<b>ASSESSMENT OF PERFORMANCE</b>	<b>SCORE2021</b>
<b>PI-10: Fiscal risk reporting (M2)</b>		<b>C</b>
<b>10.1. Monitoring of public corporations</b>	The Cook Islands created the CIIC to oversee the management of its SOEs. The CIIC monitors public corporations and reports on their finances. It produced a consolidated financial statement for the SOEs: 30 of June 2019. The CIIC statement does not provide data on individual institutions and did not meet the goal of reporting within nine months of the end of the fiscal year.	D
<b>10.2. Monitoring of subnational governments</b>	The Budget provides comprehensive information on financial assistance to the Pa Enua (outer islands) including actual and budgeted spending, funding formulas, other agency support, ODA support and an economic overview of each island. The finances of island governments are incorporated in the Quarterly Financial reports but are not audited or shown separately in the reports. The audit office does audit their annual financial reports.	C
<b>10.3. Contingent liabilities and other fiscal risks</b>	Contingent liabilities are described and quantified in the Budget. Table 4.15 shows contingent liabilities as of June 30. Regulations governing the financial reporting on contingent liabilities are set out in section B 9 of the FPP.	A

#### **Evidence for score**

Information on the financial performance and associated fiscal risks of the central government's public corporations, subnational governments, and those arising from contingent liabilities are provided effectively in the Budget and financial reports. Between the CIIC and the Budget, the public is informed about the finances and financial risks of the SOEs. The statement was issued by CIIC on 16 June 2020. It was audited by KPMG on 18 June 2020. The statement consolidates the finances of the seven SOEs; it does not provide information on the finances of the separate institutions. The government includes a consolidated statement of budget versus actual revenue and spending of SOEs in its quarterly reports, again with no information by institution. Section 8.7.3 of Book 1 of the Budget describes the rationale for subsidies to SOEs. Table 8.7.7 shows actual and budgeted subsidies from 2018/19 to 2023/24. Chapter 13 of Book 1 provides a description of each of the SOEs and of the CIIC. The write ups on each entity provide background, recent milestones, upcoming milestones and a description of social contribution costs and dividends. Chapter 13 does provide the financial profile of the separate SOEs. Data on debt does separately identify SOEs with outstanding debt Rating for monitoring of public corporations depends heavily on the timing of financial statements. The timing of financial statements of the individual public corporations was not available. The CIIC does produce a consolidated annual financial report that is audited. Updates on SOE finances are included in the government's quarterly financial reports. There are only 7 SOEs in the Cook Islands.

The budget provides comprehensive information on funding to subnational governments. Finances of the outer islands are included in the quarterly reports of the government but are not audited. The Audit Office does audit the annual statements of island governments. There are no financial liabilities to island governments. The Audit Office reports have been consistently late for the past several years. The government's quarterly reports including updates on Pa Enua spending, have been timely.



In 2020, contingent liabilities totalled \$25.6 million. Guarantees were less than \$1 million. The Cook Islands government has managed fiscal risk well and informs the public on risk on an ongoing basis. The Financial Policies and Procedures Manual, section B-9 establishes guidance for accounting and reporting on contingent liabilities. The liabilities are reported in the budget and in Statement of Financial Risks within the annual financial statement. The reports cover government, uncalled capital (a government liability) and government’s legal and land compensation risks. There are no EBUs and outer islands do not issue guarantees or have other contingent liabilities. The budget report is comprehensive of fiscal risk. SOE’s report on financial risks in their financial reports to the CIIC. The CIIC provides a listing of financial risks in its annual financial report.

**Table 10-1: Monitoring of public corporations**

Five largest public corporations	Financial turnover (\$m)	Percentage of five largest public corporations	Date of publication of audited financial statement	Date financial statement submitted to govt.	Are contingent liabilities disclosed in financial statement	Consolidated Report Prepared (Y/N)

**Data source:** This information is not available. The CIIC prepares a consolidated report on public corporations, but no reports are available on the separate public corporations. The last CIIC financial statement was issued on 16 June 2020 for the fiscal year ending 30 June 2019.

**Table 10-3: Contingent liabilities and fiscal risk**

Coverage	Data quantified (Y/N)			Included in financial statement (Y/N)	Date published	Consolidated report (Y/N)
	Loan guarantees (Central Government)	State insurance scheme	PPPs			
Budgetary Units	500			N	June 2020	N

**Data source:** Table 4-15, Cook Islands Budget Estimates, Book 1, p.35.

## PI 11- Public investment management

This indicator looks at the key processes in public investment management, an important aspect of Pillar 2- Management of Assets. These key processes include project appraisal, selection and prioritization, monitoring, and reporting. It also looks into the transparency of the project information on cost and implementation progress.

The focus of this indicator are the major investment projects that were approved in the 2019-20 fiscal year budget.

### **Indicator and dimension scores and analysis**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI-11. Public Investment Management (M2)</b>		<b>C</b>
<b>11.1 Economic analysis of investment proposals</b>	Economic analyses are conducted to assess <i>some</i> major investment projects. Copy of the economic analyses of only 3 of the 10 major investment projects included in the 2019-20 budget were provided to the PEFA assessment team. These 3 projects comprise <b>39%</b> of the total four-year cost of the top 10 major investment projects.	C
<b>11.2 Investment project selection</b>	Prior to their inclusion in the budget, major investment projects are prioritized by a central entity, the Infrastructure Committee. However, there are no standardized selection criteria.	C
<b>11.3 Investment project costing</b>	Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents. However, recurrent expenditures of public investments are generally not included in the budget projections.	C
<b>11.4 Investment project monitoring</b>	The total cost and physical progress of major investment projects are monitored by the Project Coordination Committee with inputs from the government implementation unit Project Managers. Summary of project implementation by ministry is published annually in the Budget Book- Table 9. However, a B Rating could not be justified since there are no standard rules and procedures on project implementation that are currently in place. Actual cumulative cost is also not published.	C

### **Overview**

In Cook Islands government, the capital investment budget evaluation process is a joint activity among the MFEM Budget Division, an Infrastructure Committee, and the Budget Support Group. The MFEM makes the initial review and provides inputs to the next level review. The *Infrastructure Committee* (consisting of three private sector and four government ex-officio members) reviews capital investment submissions and makes a recommendation to the *Budget Support Group* (Budget Committee) who presents a combined capital and operating recommendation to Cabinet for the national budget.

The Budget Committee of the Cabinet makes the final recommendation.

A *Project Coordination Committee* (PCC), consisting of project managers of main agencies in the capital investment space, reports to the Infrastructure Committee on a monthly basis.

At present, several reforms have been initiated but are still work in progress. Thus, the procedures implemented during the recent budget still reflect the performance rating of this indicator.

### **Evidence for Scores**

#### **Dimension 11.1**

The Financial Procedures Manual, specifically Section 3.1.2 states that cost/benefit or other such analysis are required to be carried out for all capital projects over \$30,000 before a submission is made for consideration in the budget. However, the current Manual does not prescribe the standard methodology for doing and publishing the analysis.

Notwithstanding the absence of specific guideline for economic analysis, large projects usually include economic analysis. The MFEM provided to the PEFA assessment team, copy of three projects Business Case/Concept Design Reports. The reports discuss the options/alternatives, cost and benefits including potential value for money, affordability and funding sustainability, the risks,

the effects, the impact assessment, including environmental implications assessment. The analysis was submitted to the MFEM for review. Copy of the reports are published usually in the Project websites (example is at <https://www.totatouvai.co/publications>).

The total accumulated cost of the three projects with economic analysis (copy provided to the PEFA assessment team) was only **39%** of the 10 largest investment projects based on the list provided by MFEM (see Table 11.1 below).

Table 11.1. Major Investment Projects 2019-20		Data for 11.1 (economic analysis)				
Name of Project	Total Cost	% to total major projects	With copy of economic analysis-	Published? (Y/N)	Reviewing entity?	Consistent with Guidelines?
1. Roads Asset Management and Improvement Programme	29,000,000	27%	No	No	Jointly by the MFEM Budget Division, an Infrastructure Committee, and the Budget Support Group.	There are no standard procedures/guidelines yet
2. Vaikapuangi Government Building	24,600,000	23%	Yes	Yes		
3. Te Mato Vai - Rarotonga Water Upgrade	13,000,000	12%	Yes	Yes		
4. Bridges and Structures Asset Management and Improvement Programme	12,480,000	12%	No	No		
5. Pa Enea Cyclone Center	7,800,000	7%	No	No		
6. Drainage Improvement	6,300,000	6%	No	No		
7. Land Acquisition	5,000,000	5%	No	No		
8. Mei Te Vai ki Te Vai	4,000,000	4%	Yes	Yes		
9. Pa Enea Marine Infrastructure Improvement	3,650,000	3%	No	No		
10. Pa Enea Water Infrastructure	2,050,000	2%	No	No		
<b>Total 10 Largest Projects</b>	<b>107,880,000</b>	<b>100%</b>	<b>39%</b>			

**Data source:** [www.mfem.gov.ck](http://www.mfem.gov.ck)

The national guideline to standardize the economic analysis processes including project selection criteria, is still to be developed, and implemented. This reform is now being initiated as discussed in Dimension 11.2

### Dimension 11.2

For 2019-20, the Infrastructure Committee determined which of the project submissions are to be recommended to the Budget Committee. Thus, all investment projects included in the budget were selected and recommended by the Infrastructure Committee. However, at the time of selection, there were no documented standard selection criteria.

<b>Table 11.2 Data to assess 11.2 (Project selection)</b>		
<b>Name of Project</b>	<b>Prioritized?</b>	<b>Based on approved criteria?</b>
All major projects listed in Table 11.1	Yes- by the Infrastructure Committee	There are no standard and documented criteria yet

**Data source:** [www.mfem.gov.ck](http://www.mfem.gov.ck)

Standardization of project selection criteria is a work in progress. Cabinet recently approved the expansion of the government investment review process titled *Tarai Vaka (TVP, also referred to as TTV)* which includes standardized templates and a workflow for review and approval. Previously this was limited to ODA funded projects. TVP includes scoring methodologies to assess submissions. Refer to <https://tetaraivaka.wordpress.com/> for details.

### Dimension 11.3

Information on the total life cycle project cost is presently not published in the budget estimates. However, four years of funding per project are published (MFEM provided a copy of the **2019-2023 Capital Schedule**).

Presently only capital costs are reported; may include some recurrent capital expenditure during project lifecycle but not beyond.

Implementation of TVP mentioned above shall soon enable reporting of this nature to be made. Likewise, effective coordination among the Budget Division at MFEM, the Infrastructure Committee and the Project Coordination Committee, would facilitate consolidation and sharing of a more comprehensive project information.

In summary, dimension 11.3 is rated C on the basis of the following key elements of performance (Table 11.3):

<b>Table 11.3- Data to Assess Dimension 11.3</b>			
<b>Projects</b>	<b>Life cycle cost document?</b>	<b>Capital Cost Breakdown?</b>	<b>Recurrent cost Included?</b>
All projects as listed above in Table 11.1	Four years of funding projections by individual project are published (annual and cumulative)-available in the Budget Book	Yes- Published in Budget Book	Not included in general; Some may include recurrent capital expenditure during project lifecycle but not beyond.

**Data Source:** [www.mfem.gov.ck](http://www.mfem.gov.ck)

### Dimension 11.4

The project physical progress and total cost at each stage are monitored internally by implementing units and reported to the PCC. Copy of the report sample shows the following information:

- Name and classification of project
- Implementing agency
- Name of Project Manager/consultant
- Project Stage by quarter
- Completion rate

- Financials
  - Overall budget
  - Remaining Balance
  - Current Budget
  - Expected Funding Requirement
  - Committed expenditure
  - Expenditure to date
  - Remaining Budget Balance
  - Expected Cost to Complete

Summary of project implementation by project and by ministry is published annually in the Budget Book- Table 9. Total capital expenditure is covered in the government quarterly financial reporting.

There is no standardized format, procedures, and rules yet on project monitoring and reporting. Broader reporting is presently being developed through TVP. Once this is approved and implemented, the rating for this dimension could be improved.

In summary, dimension 11.4 is rated C on the basis of the following key elements of performance (Table 11.4):

<b>Table 11.4- Data for assessing Investment Monitoring and Reporting</b>					
<b>Projects</b>	<b>Total cost (Y/N)</b>	<b>Physical progress (Y/N)</b>	<b>Standard rules and procedures exist (Y/N)</b>	<b>High level of compliance with procedures (Y/N)</b>	<b>Information on total cost and physical progress published annually (Y/N)</b>
All projects as listed above in Table 11.1	Yes- total expenditure and budget balance are available in the consolidated quarterly monitoring report	Yes- project stage and completion rate are available in the consolidated quarterly monitoring report	Partially yes- only for reporting purposes to the Project Coordination Committee; no guidelines yet	Partially yes- only for reporting to the Project Coordination Committee; no guidelines yet	Partially yes- annual project stage of implementation is published in the Budget Book. Total cumulative cost is available but not published.

*Data source:* [www.mfem.gov.ck](http://www.mfem.gov.ck)

## **PI-12. Public asset management**

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal.

### **Indicator and dimension scores and analysis**

<b>INDICATORS/ DIMENSIONS</b>	<b>ASSESSMENT OF PERFORMANCE</b>	<b>SCORE 2021</b>
<b>PI-12. Public asset management (M2)</b>		<b>D+</b>
<b>12.1. Financial asset monitoring</b>	Financial assets are reported in the annual financial statements of government, but the Auditor has cited questions about the record keeping and asset inventories used to establish values for the reports.	D
<b>12.2. Nonfinancial asset monitoring</b>	Asset inventories are not fully established. Asset management standards are still being implemented.	D

<b>12.3. Transparency of asset disposal</b>	The FPP issued in March 2019 provides clear guidance on asset disposal – see B 10. Asset disposals are reported in annual financial statements for the government and in CIIC statements for SOEs	B
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**Note:** Public Asset Management was not included in the 2015 PEFA. The score for the 2018 Self-Assessment is provided as a comparison. The score is the same as the current assessment.

**Evidence for score**

**Table 12-1: Financial asset monitoring – check list of record of holdings**

Asset Type	Holdings of financial assets maintained (Y/N)	Acquisition cost recorded (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually. (Y/N)	Source of information
Property plant and equipment	Y	N	N	?	N	
Financial assets	Y	N	N	?	N	
Loan repayment fund	Y	N	N	?	N	
Other assets	Y	N	N	?	N	

**Data source:** Financial Statement of the Government of the Cook Islands for the year ending 30 June 2016, Historical Financial Information.

**Table 12-2: Non-financial asset monitoring – check list of record of holdings**

Register of fixed assets (Y/N)	Information on usage and age (Y/N)	Register of land assets (Y/N)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on performance published annually. (Y/N)
N	N	N	N	N

**Data source:** Information not included in financial reports.

**Table 12-3: Transparency of asset disposal**

Procedures for non-financial asset transfer or disposal established (Y/N)	Procedures for financial asset transfer or disposal established (Y/N)	Information included in budget documents, financial reports or other reports (Full/Partial)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on asset transfer and disposal submitted to legislature (Y/N)
Y	Y	Partial	N	?

**Data source:** Regulations promulgated in the Financial Policies and Procedures Manual, March 2019, Part B, Section 10.

The Audit Office has cited the failure of government to keep adequate records of assets as a weakness in its financial reports for a number of years. The Audit Office found that the government could not confirm that values recorded against property, plant and equipment and infrastructure assets in the statement of financial position were fairly presented. Essential information is not available to enable audits of asset inventories or reporting. In 2014, the government began introducing AssetFinda, a respected asset management system. In a press release issued 29 October 2019, the Financial Secretary acknowledged the challenges facing the

system and the agencies implementation of the system. In September 2019, MFEM established the Asset Management Working Group to put together a plan to remove qualifications with property plant and equipment raised by the Audit Office.

Part B, Section 2 of the FPP, released in March 2019, provides clear guidance on asset management, fixed asset accounting, depreciation and disposal of fixed assets. This guidance covers all assets with a value of \$200 or more. The FPP guidance is primarily intended to insure accurate and consistent accounting and financial reporting on assets. In September 2019, CIIC issued guidance targeted at valuation of large physical assets. The CIIC guidance, the Asset Management Development Plan is targeted at infrastructure assets, scope, current state of asset management, review of support systems, and an improvement program. The FPP guidance and CIIC guidance should be coordinated with the overall goal of strengthening asset management.

### PI-13. Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

#### **Indicator and dimension scores and analysis**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
<b>PI-13. Debt management (M2)</b>		<b>A</b>
<b>13.1. Recording and reporting of debt and guarantees</b>	The Budget, quarterly reports and financial statements provide comprehensive information on debt and guarantees, updated in the Treasury accounts on a monthly basis.	A
<b>13.2. Approval of debt and guarantees</b>	All debt and guarantees must be reviewed by the Central Agencies Committee, endorsed by the Cabinet and approved by the Minister of Finance and submitted to Parliament for Appropriation.	A
<b>13.3. Debt management strategy</b>	Debt management strategy is presented in concept in the Medium-term fiscal strategy and described in depth in Chapter 11 of Book 1 on Crown Debt and Net Worth.	A

**Evidence for score:** At the time of the 2015 PEFA, the Cook Islands Budget did not include a debt management strategy. The 2020 budget does include a debt management strategy. Management of cash balances was included in the PI 17 with debt and guarantees. It is not included in PI 13.

#### **Evidence for score**

The fiscal strategy for the Cook Islands uses four fiscal rules as benchmarks. In developing its response to the COVID-19 pandemic, the Cook Islands set aside its rules on fiscal balance, expenditure, and cash reserves, but retained and lived within its fiscal anchor, the net debt rule. Under the net debt rule, debt should not exceed a soft cap of 30 percent of GDP and cannot exceed a hard cap of 35% of GDP. The government proposed to invest \$70.4 million in phase II of the Economic Recovery Program. Adding that expenditure to the budget resulted in total cash requirements of \$120.5 million: \$73.8 million to be financed from cash reserves and \$46.7 million from new borrowing. This borrowing increased debt to 34.8% of GDP. Chapter 11 of Book 1 of the Budget provides debt headroom, current borrowing, status of the loan repayment fund, financing requirements, status of crown debt by individual loan, exchange rate assumptions, crown debt by source, and SOE debt. Quarterly reports provide updates on borrowings and the status of the loan repayment fund.

The Cook Islands enacted the Loan Repayment Fund Act 2014 to provide guidance on borrowing, issuing new debt, undertaking debt-related transactions, issuing loan guarantees and monitoring debt management transactions. The law requires regular reporting on debt and borrowing, analyses of debt sustainability, and approval of debt transactions by the Cabinet and the

Parliament. The status of the Loan Repayment Fund is reported regularly in the Budget and Financial Statements.

The analysis of debt and net worth included in chapter 11 of 2020/21 Budget addresses the risks raised by the Covid 19 pandemic to revenue from tourism for the Cook Islands. The analysis was based on funding requirements of the pandemic, available cash and borrowing. The outyear estimates showed borrowing falling below targets beginning in 2021/22. The fiscal planning recognized the fiscal risks caused by the pandemic and proposed a fiscal framework to live within the debt constraints.

**Table 13-1: Recording and reporting of debt and guarantees**

Domestic and foreign debt and guarantee records maintained (Y/N)	Frequency of update of records (M/Q/A)	Records are complete and accurate (Y/N)	Frequency of reconciliation M=Monthly Q=Quarterly A=Annually N=Not done (Add whether All; Most; Some; Few)	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) Y/N	Data source
Y	M	Y	M	Q		Budget and financial reports

*Data source:* Quarterly financial reports of the government, annual financial statements, and the Budget. Data is available on the MFEM website on a monthly basis.

**Table 13-2: Approval of debt and guarantees**

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)	Data source
	Guidance to single debt management entity	Guidance to multiple entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity		
MFEM Act section 53, Loan Repayment Fund Act of 2014			Y MFEM, Treasury Division, Funds Management Team	Funds Management Team	Y June 2020	Appropriations Act

*Data source:* Budget Document Book 1; 2017/18; 2018/19; 2019/20 and 2020/21

**Table 13-3: Debt management strategy**

Debt management strategy has been prepared (Y/N)	Date of most recent update	Time horizon (No. of years)	Targets included in debt strategy				Annual report on debt strategy submitted to legislature (Y/N, Date)	Data source
			Interest rates (Y/N)	Refinancing (Y/N)	Foreign currency risk (Y/N)	Evolution of risk indicators only (Y/N)		
Y	June 2020	4	Y	N	Y	Y	Y June 2020	Budget

*Data source:* Budget Document Book 1; 2017/18; 2018/19; 2019/20 and 2020/21.



## PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

This pillar assesses the extent to which the government’s fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

### Overall performance

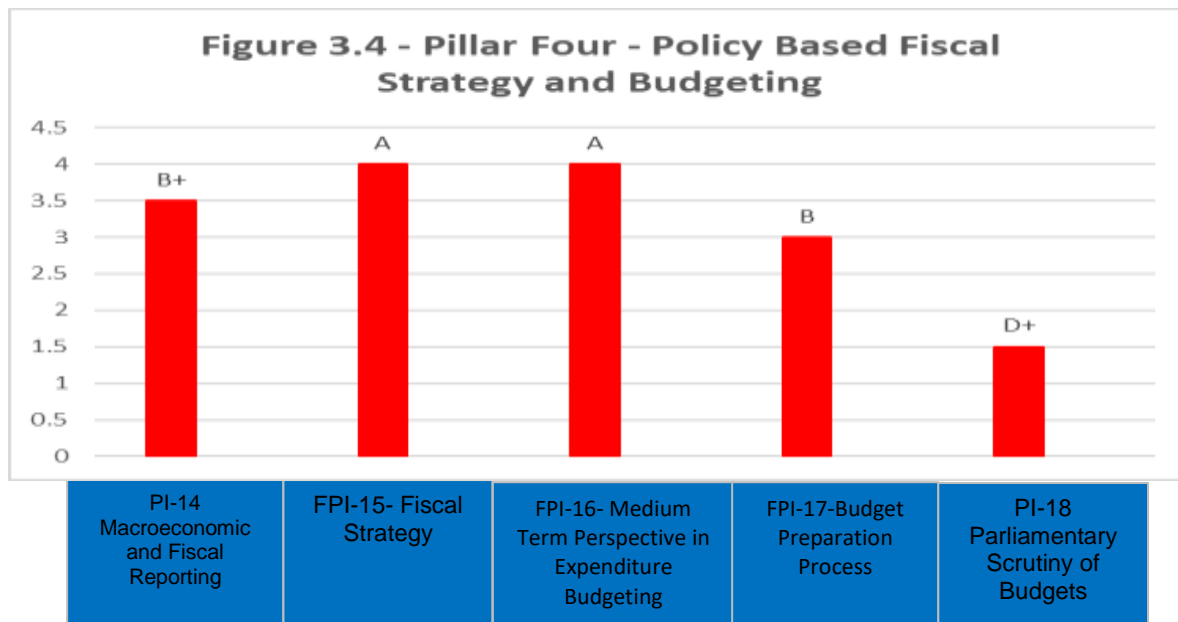
The fiscal strategy clearly articulates the government’s fiscal policy objectives, including the fiscal targets and rules. It provides a framework against which the fiscal impact of revenue and expenditure policy proposals can be assessed. This ensures that budget policy decisions align with fiscal targets thereby supporting aggregate fiscal discipline and the strategic allocation of resources.

The Cook Islands Medium Term Fiscal Framework launched in 2018 is designed to strengthen the strategic focus of the Government’s expenditure and tax decisions by incorporating a more robust medium-term perspective that takes into account interactions with relevant sectors of the economy. It also provides the basis for the fiscal rules and the establishment of reserve funds to cater for times of economic downturns and natural disasters.

The Framework sets out to achieve two key outcomes as follows:

- i. improved long-term fiscal sustainability through responsible fiscal management and;
- ii. debt sustainability and improved medium-term fiscal planning nationally, and within each agency

It also provides the basis for the fiscal rules, the establishment of reserve funds for bad times and future generations; and a Government expenditure profile guided by the economic context.



### Possible underlying causes of performance

Cook Islands has implemented a number of PFM reforms to improve transparency and accountability of the budget. The MTFs provides a solid basis on which the budget parameters are formulated. Consistency of the MTFs with strategic plans at sector level is even made stronger with the integrated business planning and budgeting procedure. Coupled with that is the fact that MFEM closely monitors the implementation of the budget to ensure the fiscal and performance outcome targets and rules are adhered to as closely as possible.

## PI-14. Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-14. Macroeconomic and fiscal forecasting (M2)</b>		<b>B+</b>
<b>14.1. Macroeconomic forecasts</b>	GDP and inflation forecasts are well grounded, taking into account the potential growth sectors in particular tourism and investments. The global environment is also considered in terms of fuel prices and tourism impact. The use of time series ARIMA modelling approach provides a sound framework to forecast GDP. The assumptions are clearly articulated in the budget documents for the three years. The score is short of an A primarily due to the fact that the review of the budget is done by the MFEM itself; not an independent entity.	B
<b>14.2. Fiscal forecasts</b>	The fiscal forecasts are well laid out with assumptions clearly stated. The implementation of the Medium-term Fiscal Strategy (MTFS) beginning in 2019/20 re-confirms Government's commitment to sound fiscal and economic management. Adherence to the fiscal rules are clearly emphasized in the MTFS. The fiscal forecasts meet all the requirements for an A, unfortunately the absence of an explanation of the deviations from the forecasts made in the previous year's budget means this dimension is rated B.	B
<b>14.3. Macro-fiscal sensitivity analysis</b>	Beginning in the 2018/19 budget, sensitivity analysis was provided as part of the fiscal strategy. This considered different scenarios where tourist arrival changes up and down as well as increased imports. Fiscal scenarios were also modelled to assess the impact of changes in forecast expenditure and revenue on the key fiscal responsibility ratios. This dimension meets all the requirements for an A.	A

### Evidence for score

Table 14-1. Macroeconomic and fiscal forecasting

Indicator	Budget document year	Years covered by forecasts			Underlying assumptions provided (Y/N)	Frequency of update  1= once a year 2=more than once a year N=Not updated	Submitted to legislature  1=budget year only 3= budget year plus two following fiscal years N= Not published	Alternative fiscal scenarios prepared (Y/N)	Alternative scenarios published (specify relevant document)
		Budget	Forward year 1	Forward year 2					
<b>Key macroeconomic indicators</b>									
<b>Real GDP growth (YOY %)</b>	FY17/18	2.6	2.3	0.9	Yes	1	3	No	No
	FY18/19	2.3	1.7	1.5	Yes	1	3	Yes	Yes
	FY19/20	3.8	3.8	3.9	Yes	1	3	Yes	Yes
<b>Inflation</b>	FY17/18	1.3	1.0	1.5					
	FY18/19	1.0	1.6	1.5					
	FY19/20	-0.4	1.1	1.6					
<b>Interest rates</b>	FY17/18	No	No	No					
	FY18/19	No	No	No					
	FY19/20	No	No	No					

<b>Exchange rate</b>	FY17/18	N	N	N					
	FY18/19	Yes	Yes	Yes					
	FY19/20	Yes	Yes	Yes					
<b>Fiscal forecasts</b>									
<b>Aggregate expenditure (\$m)</b>	FY17/18	271	212	179					
	FY18/19	261	229	192					
	FY19/20	274	244	224					
<b>Fiscal balance (% of GDP)</b>	FY17/18	-6.2	-4.0	0.4					
	FY18/19	4.7	-1.9	1.3					
	FY19/20	-1.4	-0.5	0.3					
<b>Aggregate revenue (\$m)</b>	FY17/18	154	150	153					
	FY18/19	181	185	191					
	FY19/20	189	192	192					
<b>Revenue by type</b>	FY17/18	Yes	Yes	Yes					
	FY18/19	Yes	Yes	Yes					
	FY19/20	Yes	Yes	Yes					

*Data source: Budget Documents for 2017/18; 2018/19; and 2019/20;*

## PI-15. Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

### *Indicator and dimension scores and analysis*

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-15. Fiscal strategy (M2)</b>		<b>A</b>
<b>15.1. Fiscal impact of policy proposals</b>	The 2017/18, 2018/19 and 2019/20 budgets clearly present the fiscal strategy which covers the budget year and the three outer years as part of the budget documentation submitted to parliament. With the adoption of the government's medium term fiscal framework in 2018, the fiscal strategies for 2018/19 and 2019/20 budgets provided a lot more detailed information than in 2017/18. Estimates of the fiscal impact of the revenue and expenditure policies for each budget year and three outer years are provided and these are submitted to the Legislature as part of the budget submission. This means the requirements for an A rating is satisfied.	A
<b>15.2. Fiscal strategy adoption</b>	The three fiscal years 2017/18, 2018/19 and 2019/20 clearly present the fiscal strategy that includes fiscal rules, fiscal responsibility ratios and assumptions that underpin the strategy. These are provided for the budget year and two outer years and are submitted to the Legislature as part of the Budget estimates. This satisfies the requirements for an A rating.	A
<b>15.3. Reporting on fiscal outcomes</b>	Schedule 1 of the Financial Results for the Year ending June 2020, provides a comparison between the outturn and the budget figures for FY19/20. A brief explanation of the reasons behind the deviations is provided without proposed corrective actions. The Financial Results for the year ending June 2020 is submitted to the legislature. This provides the basis for a B rating.	B

### **Evidence for score**

Under the 2019/20–2022/23 Cook Islands Fiscal Framework that underpins the 2019/20 budget, four fiscal rules to guide the revenue, expenditure and debt objectives are clearly presented. These include the following:

- i. *Net Debt Rule*: net debt should not exceed a soft cap of 30 per cent of GDP, and cannot exceed a hard cap of 35 per cent of GDP;
- ii. *Fiscal Balance Rule*: the fiscal balance cannot exceed a deficit of 1.9 per cent of nominal Gross Domestic Product (GDP);
- iii. *Expenditure Rule*: budgeted expenditure cannot grow by more than 4 per cent year-on-year; and
- iv. *Cash Reserves Rule*: the equivalent of 3 months of operating expenditure must be held in cash at any one time.

A set of fiscal ratios are also provided to measure the compliance of the budget estimates with the fiscal rules. Under the 2019/20 budget, the fiscal estimates for 2019/20 – 2022/23 were in line with the thresholds in the fiscal rules. Table 4.4; Book 1 of the 2019/20 budget document provides a summary of the fiscal indicators reporting on the outturn in 2017/18 and 2018/19; as well as forecasts for the next four outer years. Assumptions underpinning the medium-term outlook are also clearly stated. All these documents are submitted to parliament as part of the budget submission.

**Table 15-1 Fiscal impact of policy proposals**

Estimates of fiscal impact of ALL proposed changes prepared			Data source
Budget year	Two following fiscal years	Submitted to legislature	
2019/20	2020/21 and 2021/22	Yes	2017/18; 2018/19 and 2019/20 Budget Estimates Book 1.

*Data source: 2019/20 Budget Book 1; www.mfem.gov.ck*

**Table 15-2 Fiscal strategy adoption**

Fiscal prepared (Y/N)	Submitted to legislature (Y/N, Date)	Published (Y/N, Date)	Internal use only (Y/N)	Includes quantitative information		Includes qualitative objectives (Y/N)	
				Time based goals and targets	Or objectives only		
					Budget		Forward Years
Yes	Yes,	Yes, published as part of the Budget Estimates	No	Yes	Yes	Yes	

*Data source: 2019/20 Budget Book 1; www.mfem.gov.ck*

**Table 15-3 Reporting on fiscal outcomes**

Progress report completed (Y/N)	Last fiscal year covered	Submitted to legislature (Y/N, Date)	Published with budget (Y/N, Date)	Includes explanation of deviation from target (Y/N)	Includes actions planned to address deviations
Yes	2019/20	Yes	Yes, this is reported in Schedule 1 – Financial Results for the Year ending June 2020.	Yes	No

*Data source: 2019/20 Budget Book 1; www.mfem.gov.ck*

## PI 16- Medium-term perspective in expenditure budgeting

PI 16 evaluates the extent and timeliness of setting medium-term expenditure ceilings/estimates, as well as its linkage with strategic planning at the aggregate and ministry levels. This indicator also

assesses the clarity and transparency of the Budget document in explaining significant changes between annual estimates in the next 2 years.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI-16. Medium-Term Perspectives of Expenditure Budgeting (M2)</b>		<b>A</b>
<b>16.1. Medium-term expenditure estimates</b>	The 20-21 Budget Book presented the medium-term estimates for the budget year and the three following fiscal years allocated by administrative, economic, and program or functional classifications.	A
<b>16.2. Medium-term expenditure ceilings</b>	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued. The initial 2020-2024 medium-term expenditure ceilings were approved by the Cabinet on January 28, 2020, finalized and endorsed to the Parliament on May 19, 2020. These final ceilings have been communicated to the ministries in a letter dated May 23, 2020. The ceilings are at the aggregate and ministry levels, for each year from 2020-21 to 2023-24.	A
<b>16.3. Alignment of strategic plans and medium-term budgets</b>	Medium-term strategic plans are prepared and costed for <i>all</i> ministries. <i>Most</i> expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans. The ministry/agency strategic business planning process is well linked with the medium budgeting process. Changes in the business plan are made in accordance with the approved medium-term budget ceilings. The 2020-2021 Budget Book Volume 2 contains the individual ministry business plans indicating their key outputs and deliverables with cost estimates for each of next 5 years. Each key output is also linked with the National and Agency Strategic Plan Goals.	A
<b>16.4. Consistency of budgets with previous year's estimates</b>	The budget documents provide an explanation of <i>all</i> changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the aggregate and ministry level.	A

## Overview

Medium-term planning and budgeting in Cook Islands Government has significantly improved since the last PEFA assessment. These two processes have now been integrated and well-linked both at aggregate and ministry levels.

Every mid-year, there is an update of the medium-term projections. This update is the basis of the formulation of the new medium-term fiscal strategy and forecasts. As soon as the medium-term fiscal strategy (MTFS) and macrofiscal forecasts (MTFF) are approved by the Cabinet, the MFEM advises the ministries to formulate their medium-term business plans according to the fiscal policy changes and other updated assumptions/parameters.

Guided by the new MTFS and MTFF and with inputs from the ministries, the MFEM then prepares the medium-term expenditure ceilings (MTECs) at the ministry level and approved by the Cabinet. The ceilings are communicated to the ministries so that they can reformulate their business plans. These business plans by key output are costed making sure that the total expenditure estimate is consistent with the medium-term budget ceilings.

## Evidence for Score

### Dimension 16.1

The 2020-2021 Budget Book contains the following summary tables/schedule that shows the breakdown of revenue and expenditure for the budget year (2020-2021) and the next three years:

**Table 16-1: Medium-term expenditure estimates**

Classification	Budget year (Y/N)	Two following fiscal years (Y/N)	Data source
Administrative	Yes	Yes	Schedule 12 and Table 8.5 of 2021 Budget Book- by ministry
Economic	Yes	Yes	Table 6.2, 6.3 of the 2020-2021 Budget Book
Program/Function	Yes	Yes	Table 6.4 of the 2020-2021 Budget Book- using 10 main functional classifications

### Dimension 16.2

As early as March 2019, the MFEM has been sending a series of memoranda to guide the ministries and other government entities on the macrofiscal position of the government and the need to reformulate their business plans due to the fiscal constraints brought about by the pandemic. The memos also announced the budget process and timelines.

The proposed medium-term expenditure ceilings that include the budget ceiling for 2020-2021 and each of the next three years at the aggregate and ministry levels were approved by the Cabinet on January 28, 2020, and finally endorsed to the Parliament on May 19, 2020. The MFEM sent the letters to the agencies about their MTEC including the budget ceiling for 2020-2021 on May 23, 2020, and required them to make the adjustments in their business plan and submit back on May 29, 2020.

**Table 16-2: Summary of Timeline in Informing Medium term Expenditure Ceilings**

Level	Budget year	Three following fiscal years	Date of advice	Source of Evidence
Aggregate ceiling	2020-2021	2021-2024	December 15, 2020- initial May 19, 2020- final	Memo from Cabinet Secretary re Cabinet approval of the Medium-term Fiscal Strategy
Ministry Ceiling	2020-2021	2021-2024	January 30, 2020- initial May 23, 2020- final	Letter to ministries

### Dimension 16,3

As an integral part of its medium-term strategic planning linked with medium-term budgeting, ministries have been required to formulate their medium-term strategic plans which they call business plans. These are published in the Volume 2 of the 2020-2021 Budget Book. The five largest central government entities (Table 16.3) and each ministry business plan presents the following information in Budget Book 2:

- Background on mission, vision, and goals, and summary of previous achievements
- List of key outputs and deliverables in each of the next 5 years linking them with the NSDP and Agency goal

- Cost estimates by year for the next 5 years;

**Table 16-3. Alignment of strategic plans and medium-term budgets**

Ministry (specifying 5 largest ministries/agencies)	Budget Allocation \$m	Medium term strategic business plan prepared	MTSP Costed	Expenditure proposals consistent with MTSP (Most, majority, some, none)	Source of Evidence
1. Ministry of Finance and Economic Management	82.6	Yes	Yes	Yes	2020-2021 Budget book 2
2. Ministry of Education	19.7	Yes	Yes	Yes	
3. Ministry of Health	18.3	Yes	Yes	Yes	
4. Tourism Corporation	8.4	Yes	Yes	Yes	
5. Cook Islands Investment Corporation	7.2	Yes	Yes	Yes	
<b>Sub-Total/Coverage</b>	<b>76.5%</b>	Yes	Yes	Yes	
<b>All Others</b>	<b>23.5%</b>	Yes	Yes	Yes	

Based on this information/evidence, dimension 16.3 is rated A.

#### **Dimension 16.4.**

The aggregate changes in the medium-term estimates from the previous year estimates specifically from the time the supplemental budget was issued, were accounted for by year and explained in Chapter 4 (Fiscal Update and Medium-term Outlook) of Budget Book 2020-2021. Section 4.3 of the Budget classifies expenditure and revenue adjustments according to the following categories:

- Policy decisions leading to new initiatives undertaken by Government;
- Technical adjustments;
- Reclassification of expenses; and
- Parameter changes – movements that occur due to economic changes that are outside of a decision by the Government, including depreciation, movements in welfare beneficiary numbers and the impact of changes in fuel costs on the underwrite.

Examples of changes in the budget year were: top up for COVID Medical Response; deferment of salary increase; policy on centralization of government brand charges; and corresponding adjustments in depreciation and trading revenue.

On the other hand, changes in the medium-term estimates at the Ministry level were also accounted for and explained in Section 8.5 of the Budget Book. The five largest and all others presented a Table called **Baseline and New Budget Measures** to reconcile with previous year's annual and medium-term estimates. It presents a comparison of the baseline estimates for 2020-2021 based on the 2019-20 and 2020-2021 medium-term projections.

Based on this information/evidence (summarized in Table 16.4 below), dimension 16.4 is rated A.

**Table 16-4. Consistency of budgets with previous year's estimates**

Ministry	Explanation of change to previous year's estimates prepared included in budget documents (Y/N)	Reconciled with medium term budget estimates (Y/N)	Reconciled with first year of new budget estimates (Y/N)	Source of evidence
1. Ministry of Finance and Economic Management	Yes	Yes	Yes	Section 8.5 of the 2020-2021 Budget Book
2. Ministry of Education	Yes	Yes	Yes	
3. Ministry of Health	Yes	Yes	Yes	
4. Tourism Corporation	Yes	Yes	Yes	
5. Cook Islands Investment Corporation	Yes	Yes	Yes	
All Others	Yes	Yes	Yes	

## PI-17. Budget preparation process

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

### *Indicator and dimension scores and analysis*

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-17. Budget preparation process (M2)</b>		<b>B</b>
<b>17.1 Budget calendar</b>	There is a Budget Process workplan that clearly stipulates the timelines for the preparation of the FY2020/21 budget. From the documents sighted, ministries and agencies are given four weeks to complete their budget submissions. All ministries and agencies do comply with submitting their budget proposals by the due date. This means this dimension is rated B.	B
<b>17.2 Guidance on budget preparation</b>	According to the budget workplan, agencies' expenditure ceilings are approved by Cabinet before they are sent out to agencies. The 2020-2024 medium-term expenditure ceilings were approved by Cabinet on January 28, 2020 and circulated to ministries and agencies on 30 January 2020. In that circular, ministry ceilings, the constraints facing the budget, and budget timelines were clearly presented. This suggests this dimension satisfies the requirements for an A.	A
<b>17.3 Budget submission to the legislature</b>	This dimension assesses the timeliness of submission of the annual budget proposal to the legislature. For the last two fiscal years 2019/20 and 2020/21, the budget was submitted to the legislature less than a month before the new financial year takes effect. This means this dimension is rated D.	D



## Evidence for score

**Table 17-1: Budget calendar and budget circular**

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)	Data source
Yes	30 January 2020	24 February 2020	Full fiscal year	Around 50% compliance	28 February 2020	Y	Attached

According to the plan, the circular to ministries and agencies was scheduled to get dispatched on 24 January 2020 with the aim to have their final business plans submitted to MFEM by 21 February 2020 allowing 4 weeks for ministries and agencies to complete and submit their business plans. Although the signed circular memorandum was sent out on 30 January 2020, with the submission date unchanged, it was confirmed by the officials that extensions were allowed to ensure four weeks was complied with for ministries and agencies to complete and submit their budget proposals. All ministries and agencies adhered to the four weeks to submit their budget proposals.

The 2020-2024 medium-term expenditure ceilings were approved by Cabinet on January 28, 2020 and circulated to ministries and agencies on 30 January 2020. In that circular, ministry ceilings, the constraints facing the budget, and budget timelines were clearly presented. This suggests this dimension satisfies the requirements for an A.

**Table 17-3: Budget submission to legislature**

Budget year	Date of submission of budget proposal	Data source
2020/21, 2021/22; 2022/23	2019/20 Budget - 5 June 2019	2020/21 Budget Ministerial Statement, 49 <sup>th</sup> Session Hansard; 6 June 2019
	2018/19 Budget – 05 June 2019	
	2017/18 -	

From the above Table 17-3, over the last three fiscal years, the budget was submitted to the legislature less than one month before the new financial years take effect. This means this dimension is rated D.

## PI 18 – Parliamentary Scrutiny of Budgets

PI 18 assesses the extent of review by the Legislative bodies on the proposed government budgets and related fiscal policies. It also looks at how the Executive adheres to rules and regulations regarding adjustments of the budget that has been approved by the Legislative.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI-18. Legislative Scrutiny of the Budget (M1)</b>		<b>D+</b>
<b>18.1. Scope of budget scrutiny</b>	The legislature's review covered details of expenditure and revenue. The medium term Fiscal Policy forecasts and priorities are prepared and submitted to the Parliament but these have not been discussed in Parliament sessions.	C

<b>18.2. Legislative procedures for budget scrutiny</b>	The legislature's procedures (Standing Orders) to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to, except that the review of the economic and fiscal policy on first reading was not done.	D
<b>18.3. Timing of budget approval</b>	The legislature has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years, with 2018-19 budget approval delayed by more than one month, due to the conduct of the national election.	C
<b>18.4. Rules for budget adjustments by the executive</b>	Clear rules exist for in-year budget adjustments by the executive. The rules set stricter limits on the extent and nature of amendments and are adhered to in all instances. The performance improvement from the 2014 PEFA assessment was mainly due to the greater Parliament scrutiny on the budget expansions or supplemental appropriations.	A

### **Evidence for Scores**

#### **Dimension 18.1**

**Table 18-1. Scope of budget scrutiny**

Legislature reviews budget (Y/N)	Coverage (specify)				
	Fiscal policies	Medium-term fiscal forecasts	Medium term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue
<b>Yes, including supplemental budget</b>	No	No	No	No	Yes

Part II of MFEM Act requires the Parliament to review the Fiscal Strategy, the economic and fiscal forecasts, and the budget estimates, prior to the enactment of the Appropriations Bill. The macrofiscal strategy as well as the forecasts are contained in a Budget Policy Statement. The Budget Policy Statement is released through the Half Year Economic and Fiscal Update (HYEFU) which is tabled in Parliament but not voted. The medium-term priorities are part of the budget policy statement.

The fiscal forecasts are updated in the HYEFU and the Budget Estimates, but as confirmed from MFEM Budget Division, the Parliament readings have focused only on the expenditure votes, i.e., what is included in the Appropriations Bill. With the current work on the Public Account Committee (PAC) and the intent to update the standing orders to require referral to the PAC after the first reading, the situation may improve in near future.

Supplemental appropriations are now approved by the Parliament (copy of Appropriations amendment made available in this assessment) not just the Cabinet as practiced during 2014 time.

#### **Dimension 18.2**

**Table 18-2: Legislative procedures for budget scrutiny**

Legislative procedures exist (Y/N)	Approved in advance of budget hearings (Y/N)	Procedures are adhered to (Y/N)	Procedures include organizational arrangements (Y/N)
Yes- based on Parliament Standing Orders and Handbook	Yes	Yes, except for the review and deliberation of the economic and fiscal policy, medium-term forecasts, and priorities	Yes, such as the Committee of Supply

From the Parliament website (<https://parliament.gov.ck>), this assessment was able to download a written compilation of Parliament Standing Orders and the Parliament Handbook. The standing orders applicable to review and passage of the Budget Estimates or Appropriations Bill are found in Part XXXV (Order Nos 304-311). The orders require for first and second readings followed by a debate focusing on the country's economic and financial position, and the government's financial policy. The Estimates shall then be referred to a Parliamentary committee called Committee of Supply. The third shall be the final reading. These stages are held in public in the Parliament. The detailed reading procedures including the time limit for passing the Appropriations Bill (10 days) are found in a Section on Oversight of the Parliament Handbook. Rules of debate and conduct of committee business are likewise detailed in the standing orders.

Parliament debates and Committee hearings were opened to public, but there were no events held where representatives from the public made their oral arguments or opinion to specific concerns.

### Dimension 18.3

Based on copy of the Parliament Appropriations Acts provided by the MFEM Treasury and downloaded from the Parliament Act Library, the Parliament was able to approve the Appropriations Bill before the start of the next fiscal year, except for fiscal year 2018, as follows:

**Table 18.3 Timing of Legislative Approval of the Annual Budget**

Fiscal Year	Date Approved	Remarks
2020-2021	June 30, 2020	On time
2019-20	June 17, 2019	On time
2018-19	October 1, 2018	Delayed by 3 months

As confirmed from MFEM Budget Division, the main reason for the delay of the budget approval by the Parliament in 2018-19 was the conduct of the national election on June 14, 2018, to elect members of the Parliament. The delay was more than one month; hence a B rating could not be justified.

### Dimension 18.4

**Table 18.4: Rules for budget adjustments**

Clear rules exist (Y/N)	Rule include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG budget)	Extent of adherence to rules (All, most, some)
Yes	Yes- based on the 2020 version of the Financial Policy and Procedures Manual	Assumed it is 100%- No case of violation reported as confirmed by Treasury and Audit Office	All- No case of violation reported as confirmed by Treasury and Audit Office

Section 34, Part VII of the MFEM Act allows heads of government departments to transfer appropriations from one to another output, subject to some conditions. The FPPM (See Part B Section 11 - Transfer between Capital Budgets.) have laid out specific budget modifications allowed within the Executive, the limits, and the conditions set forth. The following are examples of the rules:

### *Authorization*

- Transfer of appropriations from one output to another may be authorized by the head of a government department/agency
- Where modifications are requested to approve Capital Expenditure, this shall require the written approval of the Financial Secretary.
- Written approval must be obtained from the Financial Secretary for all transfers of Capital funding between capital projects within an Agency.

### *Limits/Restrictions*

- The transfer of that amount does not conflict with budget policy.
- The total amount appropriated for that financial year for all Outputs for that Government Department is unaltered.
- Each agency must remain within the overall capital budget appropriation for that financial year.
- It is not permissible to transfer expenditure between Capital and Operating Expenditure, or Operating Expenditure and Borrowing Expenditure, or between Depreciation and Operational Expenditure.
- The authority to transfer between capital budgets over \$5,000 was given to the Cabinet, not anymore of the Parliament as mandated during 2014.
- Supplemental appropriations are now approved by the Parliament (copy of Appropriations amendment made available in this assessment) not just the Cabinet as practiced during 2014 time.

These provisions in the Financial Policy and Procedures Manual provided greater extent of Parliament scrutiny in approving major budget expansions, while giving greater authority and responsibility to the Cabinet in approving budget reallocation to capital outlays, and more restrictions/limitations specified. These policy changes resulted to avoidance of ex-post Parliamentary approval. With the restrictions, reallocations by line ministries became more controlled, and budget expansion has been reviewed by the Parliament. As confirmed by MFEM Treasury and Audit Office, there were no instance with their knowledge that these rules have been violated. Thus, the performance rating for this indicator has been improved from C in the 2014 PEFA assessment to A in this year's assessment.

## PILLAR FIVE: Predictability and control in budget execution

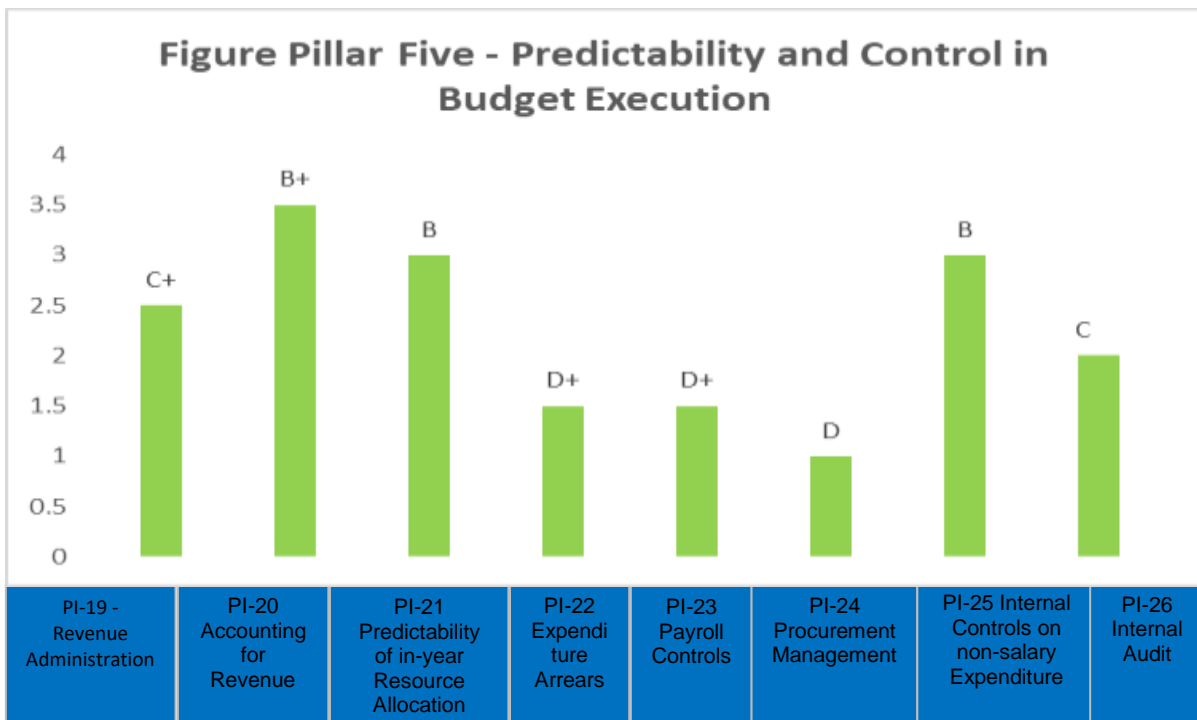
This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

### Overall performance

Budget execution in CIG has benefited from conservative revenue budgets which have resulted in overperformance of revenues in recent years. Revenue collections are well managed and deposited into bank accounts managed by MFEM. This has enabled the release of the full budget at the start of each year, providing the Ministries and Crown Agencies (MCAs) with a degree of certainty of available funding to implement the budget as planned. This in turn has enabled the MCAs to abide by the policy for settling all liabilities in a timely manner (all invoices must be processed and settled by the 10th of the following month). This has enabled CIG to avoid the accumulation of expenditure arrears.

Historically, budget adjustments have been small, for example in FY2018/19 the amendment appropriation amounted to 2% of total budgeted expenditures (before ODA). In FY2019/20 due to measures in response to COVID-19, an amendment approbation was made, amounting to 21% of total budget expenditures. However, this was based on a one-time adjustment during the budget year, maintaining predictability of funding for the MCAs.

The 2020 Financial Policies and Procedures Manual, guides users on standardized process and practices, and sets out clear segregation of duties. Expenditures are currently only controlled at the point of recording the payable rather than the incurrence of the commitment, leaving room for improvement in this area. Furthermore, further work is required to strengthen reconciliation, specifically regarding reconciliation of infrastructure assets and expenditures, and the Audit Office note inadequacies in the monitoring and tracking of accounts payable.



### Possible underlying causes of performance

Whilst the annual accumulation of new tax-revenue arrears is relatively low, the stock continues to grow. The stock of tax-revenue arrears at June 2020 amounted to slightly under 20 percent of total

annual tax-revenues. However, the arrears date back over 11 years, with 92% being older than one year. An assessment needs to be made on the collectability of the older tax debtors. A concerted effort is required either to expedite the collection of these arrears, or to seek authority for write-off for those tax revenue arrears which are uncollectable.

The procurement portal represents a good initiative for transparent procurement. It provides access for potential bidders to lodge their tenders online. Some data is available on current, closed and awarded tenders but it is unclear whether this represents all procurement activity—for example there are just 5 awarded tenders totaling \$9.2m in 2019/20, which suggests this does not represent the totality of procurement activity within government. The MCAs are required to use the portal for all their procurement, but the compliance enforcement measures are not clear. No procurement plans are available (published or otherwise), and no statistics are maintained or published. A “nil-return” on procurement objections and complaints published on the website would give clarity on how this process is managed. As a consequence of these shortcomings, the procurement indicator, PI-24 scored D.

Despite generally good practices on PI-23, payroll controls, this was undermined by the lack of a payroll audit during the reference timeframe. Hence, this scored D+. Although the FMIS has the functionality to manage expenditures at the commitment stage through the purchase order functionality, control is only exercised at invoicing stage. This has the potential (in times of cash constraints) for budget lines to be overcommitted. As the FMIS is rolled out more widely and specifically to the larger MCAs, consideration could be given to strengthening controls at the commitment stage. Internal audit in CIG is still in its infancy and strengthening in this area is ongoing.

Internal Audit is a very new function in CIG, with staff appointed only in 2020. At the time of the assessment, the function had not completed a full annual cycle/program. This area is expected to strengthen over time, including the internal audit coverage of government entities, which currently sits at 57% of budgeted expenditures.

### ***Recent and ongoing reform activity***

The implementation of the FMIS is one of the most significant reforms which will underpin PFM practices across all pillars. The FMIS is currently rolled out to an estimated 20% of MCAs, however, the focus has been on the smaller (less complex) MCAs to start with. The rollout has been impacted by the COVID-19 pandemic, and significant further work is required to complete the full implementation. Specifically, the completion of rollout is expected to facilitate the implementation of the treasury single account (TSA) which will improve the management of cash resources.

Other system reforms include the integrated HRMIS and payroll, bringing operational efficiency and more effective internal controls to the management of human resources and payroll. The revenue management system RMS7 has been supporting improved practices for revenue collections. An upgrade to version RMS10 is expected to deliver additional benefits including the planning, administration and management of revenue audits and investigations.

### **P-19. Revenue Administration**

This indicator relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. The indicator assesses the procedures used to collect and monitor central government revenues.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
<b>PI-19. Revenue administration (M2)</b>		<b>C+</b>
<b>19.1. Rights and obligations for revenue measures</b>	<p>Customs and tax revenues combined accounted for most revenues (82% of total receipts excluding grants).</p> <p>The MFEM website provides comprehensive details of the customs and income tax laws and tariffs, as well as tax guides and videos. The guides provide instruction on how to file online and record keeping. The videos provide instruction on Business structures, Income and provisional tax, Expenses, Depreciation, Registering for VAT and Record Keeping. Specific advice is provided on COVID-19 related support and tax reliefs. Part IV of the income tax act addresses the processes for objecting to assessments.</p> <p>RMD undertakes a significant outreach campaign, visiting the islands and providing phone support to taxpayers, for which a log is maintained. MFEM produces a report covering all the outreach activities. The RMD maintains contact logs recording all the queries made by taxpayers and RMDs responses to them—the log for 2020 represented 9,400 contacts.</p> <p>Outreach</p> <p>Fisheries related revenues accounted for 7.5% of revenues, including fishing licenses, fishing fines and US fisheries treaties. Fisheries licenses are governed under the vessel day scheme rules of the Pacific Island Forum Fisheries Agency.</p>	A
<b>19.2. Revenue risk management</b>	<p>RMD has a structured approach to managing compliance risk, including a the overarching RMD Collections Strategy 2019-2022, the Compliance Improvement Strategy, and Collections Operational Plan.</p> <p>Standardized risk registers have been developed and a Compliance Risk Committee has been established (the framework provides the mandate and TOR and requires meeting on a quarterly basis). RMD manages inland revenue and customs services operations which account for most (83%) of all government revenues. Risk management operations target all categories of revenue—specifically, personal and company income tax, VAT and customs account for all (93%) of total taxation income. The RMD Audit Operational Plan specifically designates staff to audits on the basis of category of taxpayer—Senior Tax Auditors (large taxpayers); Tax Examiners (medium taxpayers); and Tax Officers (small taxpayers).</p> <p>Additionally, RMD prepared a business continuity plan in response to COVID-19.</p>	A
<b>19.3. Revenue audit and investigation</b>	<p>Tax audits are managed using the case management tool. 274 tax audits were planned in 2019/20: 68 for large taxpayers; 128 for medium taxpayers; and 78 for small taxpayers. Planned audits covered 27% of all large taxpayers, which account for 25% of all audits undertaken and 46% of audit resource hours. The operational plan identifies short, medium and long-term investigations (those more complex investigations exceeding 50 hours). Long-term investigations accounted for 43% of total resource hours.</p> <p>The Revenue Management System (RMS7) does not provide statistics on audits undertaken, although an upgrade to RMS10 is planned which should be able to provide all the necessary reporting requirements. Despite having a good planning process for audits and investigations, no data is available on actual audits and investigations undertaken against the plans.</p>	D*

<b>19.4. Revenue arrears monitoring</b>	Total tax revenue arrears amounted to \$29.3 million (19.7% of annual tax revenue), however, 92% of the arrears were older than 1 year.	D
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### **Evidence for score**

Summary was provided in Excel spreadsheet format of the contact logs and outcomes against planned outreach activity. In total for 2020, nearly 9,400 contacts were responded to from taxpayers. Tax outreach activities included: 2 tax seminars; 18 Facebook advertisements; 523 personal outreach contacts; and 2,619 queries responded to by email and phone.

The Revenue Management Division (RMD) Collections Strategy 2019-2022 and RMD Strategy and Business Plan 2020-2024 provide an overarching perspective on strengthening voluntary compliance. These documents are supported by the Compliance Improvement Strategy and Collections Operational Plan. The Compliance Improvement Strategy aims to increase voluntary compliance and breaks down the risks into the four key areas of registration; filing; reporting and payment. Risk registers are at the heart of the process and specifically they prioritize large enterprises and high-wealth taxpayers. The Compliance Committee Framework provides the mandate for the committee, which is required to convene quarterly.

**Table 19-1 Revenue administration (i) rights, obligations and risk management**

Entity	Information available to taxpayers' rights and obligations				Risk management	
	Revenue obligations (Y/N)	Redress (Y/N)	Source of information (Specify)	Is up-to-date (Y/N)	Approach	Coverage
RMD and Customs Service, MFEM	Y	Y	Website and MFEM report	Y	Compliance Improvement strategy, Collections operational plan	All categories

**Data source:** Tax - Cook Islands - Ministry of Finance and Economic Management ([mfem.gov.ck](http://mfem.gov.ck)); Customs - Cook Islands - Ministry of Finance and Economic Management ([mfem.gov.ck](http://mfem.gov.ck))

**Table 19-2 Revenue administration (ii) audit, fraud investigation and arrears**

Entity	Revenues*		Audit and fraud investigations undertaken (Y/N)	In accordance with compliance improvement plan (Y/N)	Compliance improvement plan documented (Y/N)	Stock of arrears	
	\$m	% of all revenue				\$m	% of annual collection
RMD	148	82%	Y	Y	Y	29.3	20%

**Data source:** June 2020 Quarterly Financial Report. [June\\_2020\\_Quarterly\\_Report.pdf](http://cookislands.gov.ck) ([cookislands.gov.ck](http://cookislands.gov.ck)). Compliance Improvement Strategy; RMD Collections Monthly Report. RMD Collections Operational Plan. RMD Audit Operational Plan. RMD Compliance Risk Register. RMD Strategy and Business Plan 2020-2024.



**Table 19-3: Size of revenue collecting agencies**

Entity	Receipts \$'000	%
Taxation Revenue (RMD – Inland Revenue and Customs Service, MFEM)	148,281	82%
Ministry of Marine Resources	13,500	7.5%
Other	19,001	10.5%
<b>Sub Total Before Grants</b>	<b>180,782</b>	100%
Grants	14,825	
<b>Total</b>	<b>195,607</b>	

**Data source:** June 2020 Quarterly Financial Report. [June\\_2020\\_Quarterly\\_Report.pdf \(cookislands.gov.ck\)](#)

**Table 19-4: Execution of Compliance/Audit Plan**

	Plan	Actual	%
Audits of tax returns	274	N/A	N/A
Complex audits	12	N/A	N/A

**Data source:** RMD Audit Operational Plan 2019/20.

## PI-20. Accounting for Revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government.

### *Indicator and dimension scores and analysis*

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-20 – Accounting for Revenue (M1)</b>		<b>B+</b>
<b>20.1. Information on revenue collections</b>	The MFEM receives revenue collection reports from RMD, the Ministry of Marine Resources and other MCAs collecting non-tax revenues. RMD provides a monthly consolidated report of tax revenues, which account for most (83%) of all revenues (excluding grants). Other non-tax revenues are not consolidated on a monthly basis.	B
<b>20.2. Transfer of revenue collections</b>	RMD tax revenue collections are deposited into the central treasury bank account tomorrow on a next day basis. RMD tax revenues account for 83%, i.e. most, of all revenues excluding grants. Fisheries revenues and other MCA non-tax revenues are collected and deposited next day. Revenues from MCAs, including the Ministry of Marine Resources are also deposited to the Treasury bank account daily.	A
<b>20.3. Revenue accounts reconciliation</b>	Assessments, collections, deposits (directly to the treasury bank account) and arrears are managed in real-time through the RMS7. De-facto, this includes transfers, as all deposits are made directly to the Treasury account on a next day basis. The system automates the process of reconciliation at each stage, from assessments, to collections, deposits (transfers), and resulting outstanding payables which are aged for purposes of managing arrears. Data on tax arrears with ageing analysis is reported on.  Bank reconciliation is undertaken monthly, thereby validating the deposits and reconciling them with collections.	A

## Evidence for score

**Table 20.1 – Accounting for revenue**

Entity	Revenue and % of Total CG Revenue	Data collected by Ministry of Finance			Revenue collections deposited:		Reconciliation	
		At least monthly (Y/N) -	Revenue type (Y/N)	Consolidated report (Y/N) –	Frequency	To Treasury of MFEM Account	Frequency	Within
<b>Revenue collected by budgetary units</b>								
Taxation Revenue (RMD and Customs service, MFEM)	\$148m (83%)	Y	Y	Most	Daily	Daily	M	M
Ministry of Marine Resources	\$13m (8%)	Y	Y	-	Daily	Daily	M	M
Other	\$16m (9%)	Y	Y	-	Daily	Daily	M	M
<b>Sub-total</b>	\$177m (100%)							
<b>Revenues collected by Extrabudgetary Units</b>								
N/A								
<b>Sub-total</b>								
<b>TOTAL</b>	\$177m (100%)							

**Data source:** RMD and MCA collection/deposit slips and bank statements. RMD Collections Monthly Report.

## PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the central Ministry of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-21. Predictability of in-year resource allocation (M2)</b>		B
<b>21.1. Consolidation of cash balances</b>	<p>Treasury is planning to consolidate cash balances through the establishment of the treasury single account (TSA). However, this reform is dependent upon the completion of the FMIS rollout. Currently, the FMIS has been rolled out to approximately 20% of MCAs but these exclude the largest entities.</p> <p>MCAs operate separate bank accounts funded by treasury based on the profiling of the budget appropriations in the annual cash plans and unutilized funds are only returned back to the treasury at the end of the financial year.</p> <p>No inventory of bank accounts (including balances) is maintained on a</p>	D

	systemic basis to ascertain the quantum of idle and unremunerated funds sitting in the various accounts. No sweeping or pooling of funds is undertaken.	
<b>21.2. Cash forecasting and monitoring</b>	MCA's prepare an annual cash plan with a monthly profile which are recorded in the FMIS and monitored by MFEM. MCA's make changes to the cash plans on an ad-hoc basis but are not based on actual cash inflows and outflows. Whilst changes to cash plans may be requested when additional funding is required, there is no evidence that cash plans are corrected where planned funding is in advance of needs (i.e. front loaded). No evidence was provided of variance analysis being undertaken, whereby previous projections are compared against actual cash balances and flows—this is something which would be fundamental to progressively improving the quality and reliability of the forecasts.	C
<b>21.3. Information on commitment ceilings</b>	MCA's receive their annual budget appropriations in full at the start of the financial year. They are therefore able to implement the budget with a significant degree of reliability. Expenditures are controlled against the full budget release.	A
<b>21.4. Significance of in-year budget adjustments</b>	<p>Articles 19 and 20 of the PFM Act sets limitations on appropriations and the stipulates the requirements for making transfers between outputs within recurrent appropriations; CIG funded projects in the capital plan; programs within POBOC funding; and transfers of financing amounts. Article 25 of the Act establishes the provisions relating to supplementary appropriations. The 2019/20 appropriation amendment amounted to approximately 21% of total expenditure (excluding ODA) in response to COVID-19—by comparison the 2018/19 amendment appropriation amounted to approximately 2%. The amendment appropriations are made just once per financial year.</p> <p>On a quarterly basis small transfers and additional budget provisions have been made, as reported in the Quarterly Financial Reports—however, these amounts are not significant in 2019/20 amounting to only 0.23% of total expenditure (excluding ODA.). Based on the assessment period 2019/20, there was only one significant amendment to the budget allocation, (amounting to 21% of total expenditure before ODA), which was clearly and transparently presented in the amendment appropriation, and specifically referenced to its purpose of addressing the needs of response measures to COVID. The amendment appropriation expounded government's commitments to fiscal responsibility, providing a financing and applications statement covering the amended budget and three outer years over the medium-term.</p>	A

### **Evidence for score**

**Table 21-1: Consolidation of bank and cash balances**

<b>Extent of consolidation (All, Most, &lt; Most)</b>	<b>Frequency of consolidation (D, W, M)</b>	<b>Data Source</b>
Currently no TSA. Funds held across multiple accounts – limited consolidation only	Ad-hoc	No evidence of consolidation provided.

*Note: D= Daily, W=Weekly, M= Monthly*

**Data source:** N/A

**Table 21-2: Cash flow forecasts, commitment controls and budget adjustments**

Cash flow forecast (Y/N)	Frequency of update (M/Q/A)	Update based on cash	Frequency of release of commitment ceilings	Budget adjustments		
				Frequency	% of BCG expenditure	Transparent
		<b>inflows</b> (Y/N)	(M/Q/A)			
Y	Annual Cash Plan, updated on ad-hoc basis	N No evidence cash plans are compared against actual cash flows	Annual	One budget amendment per year	21%	Yes – In Quarterly Financial Reports

Note: M= Monthly, Q= Quarterly; A=Annually

**Data source:** Sample cash flow statements provided for: the national environment service; the Police Department; Pukapuka/Nassau Island Government. Output from the Planner software – Approved Cash Plans as at 9<sup>th</sup> February 2021. Sources for budget adjustments: Annual Budget and Appropriation Amendment for 2019/20.

## PI-22. Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-22. Expenditure arrears (M1)</b>		<b>D+</b>
<b>22.1. Stock of expenditure arrears</b>	<p>CIG operates the accrual basis of accounting and recognizes payables in its quarterly financial reports and annual financial statements. The Financial Policies and Procedures Manual (FPPM) Part D Section 21 addresses expenditure arrears, setting out the definition, mandatory requirements, and processes for preventing and reporting of arrears. Expenditure arrears are defined as those payments that have not been settled within 30 days from the date of the invoice. The overriding principle is to settle all liabilities in a timely manner. The payments and payables processes are managed through the FMIS. All invoices must be entered into the FMIS upon receipt. However, the FMIS is only partially rolled out (estimated 20% of MCAs), so full reporting of all government arrears with analysis is not yet available through the FMIS. As highlighted in PI-23, below, the payroll is processed fortnightly and all items paid on time. Debt servicing liabilities are always settled on the due date. There are no arrears on payroll, pensions, debt servicing, or goods and services.</p> <ul style="list-style-type: none"> <li>2019/20 Data: 2 separate worksheets of payables, one showing total payables \$94,089 and the other showing \$51 million (this data includes payables relating to intra-government transfers which do not form part off arrears – furthermore the full amount is showing as &gt; 30 days).</li> <li>2018/19 Data: 2 Spreadsheets. First sheet showing a Vendor listing totaling \$45.5 million (including intra-government payables of \$43.7, and other payable \$1.8m). However, this shows no ageing analysis; the second sheet provides a listing of GL sundry creditors</li> </ul>	A

	<p>(payables) totaling \$6.4 million, which was nearly all current.</p> <ul style="list-style-type: none"> <li>2017/18 Data: One sheet contains an Accrual listing totaling \$5.6 million (\$174,000 was in arrears, the balance was current). The second sheet presents a payables-listing totaling \$787,710 (all of which is current)</li> </ul> <p>The stock of arrears of arrears was below two percent of total expenditures for two of the three years in question, i.e. 2017/18 and 2018/19. Payables data in the statements of financial position (June Quarterly Financial Reports) for these two years is commensurate with their being largely current. No comparable (aged) data was available for 2019/20, and the June 2020 Quarterly Financial Report did not contain a statement of financial position.</p>	
<b>22.2. Expenditure arrears monitoring</b>	<p>In accordance with the FPPM all Ministries and Crown Agencies (MCAs) are required to maintain aged payables ledgers, submitted to the MFEM with the Monthly Variance Report by the 10<sup>th</sup> of the following month. This is facilitated by the FMIS allowing MFEM oversight on all payables, including their ageing—but only for those entities where FMIS has been rolled out. CIG operates the accrual basis of accounting and requires all invoices to be entered into the FMIS when they are received and all accruals to be entered as part of the month end closing process within 10 days of the month end. However, the FMIS is only partially rolled out (approximately 20% of entities), so comprehensive system generate data and analysis is not available.</p> <p>CIG has not had a problem with expenditure arrears in recent times, so the need for reporting and analyzing arrears is not seen as a priority at this point in time. No arrears data was available was available for FY2019/20.</p>	D

### Evidence for score

**Table 22-1. Stock and monitoring of expenditure arrears**

Stock of arrears		Arrears monitoring		Data source
Year	As % of expenditure	Stock age and composition Y/N/NA	Frequency of reports (M/Q/A)	
2017/18	0.0%	N/A	M	MFEM spreadsheets
2018/19	0.0%	N/A	M	
2019/20	N/A	N/A	M	

**Data source:** Arrears data provided in spreadsheet format by MFEM. Total Expenditure figures extracted from June Quarterly Financial Reports. [Crown Account Financial Reports - Cook Islands - Ministry of Finance and Economic Management \(mfem.gov.ck\)](#)

**Table 22-1a**

Stock of arrears			
Year	Total Expenditure \$m	Total (Payables) Arrears \$m	%
2017/18	159	0.174 (20)	<1%
2018/19	182	0.001 (22)	<1%
2019/20	208	N/A	N/A

**Data source:** Quarter 4 Financial Reports for each financial year – Expenditure figures include capital expenditure and exclude depreciation. Figures in brackets are total payables per the position statements. The Financial Reports for 2019/20 do not contain a statement of financial position. The annual financial statements for the years in question have not yet been published.

## PI-23. Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-23. Payroll controls (M1)</b>		<b>D+</b>
<b>23.1. Integration of payroll and personnel records</b>	<p>The HRMIS is fully integrated with the payroll ensuring data consistency of staff records vis-à-vis human resource (HR) and payroll functions— updates to human resource records automatically reflect in the payroll.</p> <p>The approved establishment as the actual staffing complement are incorporated into the HR system. OSPC manages the actual staffing in the system, ensuring that new hires, promotions, etc. are consistent with the approved staffing list. The payroll covers central government, including extrabudgetary units, which are treated as agencies.</p> <p>Separate user profiles have been setup for HR and payroll responsibilities, with HR falling under the OPSC and payroll under MFEM. Timesheets are processed through the payroll self-service function and must be approved by the head of the ministry. OPSC is responsible for processing amendments to employee records, including new appointments, terminations, and other changes to employees’ records. MFEM has overall responsibility for managing payroll processing. HRMIS and payroll systems cover all government employees.</p>	A
<b>23.2. Management of payroll changes</b>	<p>In accordance with the Financial Policies and procedures manual, timesheets and other payroll adjustments are processed fortnightly for the whole payroll of central government. Once HR records are updated and approved by OPSC, MFEM input payroll data for the employee and process payroll fortnightly. This happens as a matter of course and retroactive adjustments are rarely required, so MFEM does not maintain data on late payment of payroll items. From experience, there are never more than two payroll amendments which are processed and paid in the subsequent fortnightly payroll, and usually there are none.</p>	A
<b>23.3. Internal control of payroll</b>	<p>There are currently three separate active responsibility profiles, SUPER (2 named users); HRADMIN (6 named users); PRADMIN (2 named users). A system generated audit trail is produced highlighting the HR and payroll</p>	A

	activity for editing and inserting new data for the whole payroll of central government.	
<b>23.4. Payroll audit</b>	The last dedicated payroll audit undertaken was in 2015/16, by Internal Audit. (for the whole payroll of central government) The purpose of a payroll audit is to specifically identify systemic HR/Payroll issues, and identify payroll data anomalies, including possible ghost workers.	D

### **Evidence for score**

**Table 23-1. Payroll controls**

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list (Central Government)	Y	OSPC	Realtime
Reconciliation of payroll and personnel database (Central Government)	Y	Automated by integrated system HRMIS and payroll	Realtime
Documentation maintained for payroll changes (Central Government)	Y	Via audit trails of all amendments made to HRMIS and Payroll	Realtime
Payroll checked and reviewed for variances from last payroll	N/A	N/A	N/A
Updates to personnel records and payroll. (Central Government)	Y	OPSC HRM	As required
Updates includes validation with approved staff list. (Central Government)	Y	OPSC	As required
Audit trail of internal controls (Central Government)	Y	OPSC/MFEM from the system	As required
Payroll audits in last three years. Define coverage. (Central Government)	N	None undertaken since 2015/16	None

**Data source:** HRMIS/Payroll User Manual; Audit Trails of HR and Payroll Amendments; System Security Profiles.

## **PI-24. Procurement management**

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

### **Indicator and dimension scores and analysis**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
<b>PI-24. Procurement (M2)</b>		<b>D</b>
<b>24.1. Procurement monitoring</b>	Procurement is managed through the Procurement Portal Cook Islands (PPCI). The Purchase and Sale of Goods and Services Policy (4 <sup>th</sup> October	D

	<p>2016) and Fleet Management Policy (2018) are posted on the portal. Data is provided on current tenders, closed tenders, awarded tenders and asset sales. Data provided on awarded tenders, includes: Procuring agency; title of project; procurement method; successful tenderer; and contract price.</p> <p>However, the data is not readily downloadable from the website. Furthermore, analysis of the website shows that only 5 contract awards totaling \$9.2m are shown for (2019/20) – this total value does not represent the majority of procurement.<sup>5</sup></p>	
<b>24.2. Procurement methods</b>	In the absence of comprehensive data on procurement, it is not possible to determine the totality of all procurement activity, with analysis by procurement method.	D*
<b>24.3. Public access to procurement information</b>	<p>(1) The MFEM Act is published on the MFEM website and Procurement Policy is published on the Procurement Portal.</p> <p>(2) MFEM views the capital budget as a proxy for procurement plans. However, the budget may include spending on projects/contracts awarded in previous years; similarly spending in the current year may not reflect the full value of contracts awarded in that year.</p> <p>(3) Bidding opportunities are undertaken through the Procurement Portal. However, in the absence of procurement plans and other published data on procurement activity, it cannot be verified that the portal includes all bidding opportunities.</p> <p>(4) Contract awards on the portal reflect: 2019/20 - 5 awards totaling \$9.2m; 2018/19 - 17 awards totaling \$13.2m. This would appear to be an incomplete record of all procurement undertaken.</p> <p>(5) No data is published on resolution of procurement complaints or the absence of such complaints. It is purported that there have been no objections or complaints in recent times. A nil-return published on the website would clarify this.</p> <p>(6) No procurement statistics are published.</p> <p>The available data satisfies information element one only.</p>	D*
<b>24.4. Procurement complaints management</b>	<p>Section 11 of the Procurement Policy addresses the procurement complaints process.</p> <p>(1) The policy provides an escalating three-tier approach for redress from (i) the agency; (ii) the tender committee; (iii) the ombudsman. The ombudsman is not involved in the process of awarding contracts.</p> <p>(2) Bidders are not charged for submitting a complaint.</p> <p>(3) The Policy (which is published) clearly defines the processes involved for lodging a complaint. Templates for the complaints form and the complaints register are maintained on the procurement portal website.</p> <p>(4) The ombudsman does not have or exercise authority to suspend a procurement process.</p> <p>(5) The Policy provides timeframes for actions and decisions, but no register is maintained of the complaints. It is purported that to date</p>	C

<sup>5</sup> The Purchase and Sale of Goods and Services Policy explicitly covers the whole public sector, including SOEs, whereas the Fleet Management Policy explicitly excludes commercial SOEs. The procurement portal includes some tenders from SOEs as well as MCAs.



	<p>all complaints have been resolved without need for recourse to the ombudsman, but no complaints forms or registers are published.</p> <p>(6) The Policy is not explicit that the Ombudsman’s decision will be binding on either party.</p> <p>The procurement complaints system meets requirements (1) to (3) above but none of (4) to (6).</p>	
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**Evidence for score**

Procurement is guided by the Procurement Policy<sup>6</sup> which is issued in accordance with Article 63 of the MFEM Act 1995/96 which empowers MFEM to issue instructions to ministries and line agencies to ensure compliance with financial disciplines. The Policy can be found on the procurement portal website along with various templates for bidders to submit tenders. The portal is used to advertise new tenders and interested bidders can sign up and submit their tenders on-line, after registering on electronic Government Procurement (eGP). The portal website provides guidance on how to register and submit tenders.

**Table 24-1 Procurement**

Database of records maintained A=All; M=Most; Ma=Majority	Percentage of procurement awards through competitive methods (%)	Public access to procurement information (Y/N)				
		Legal/regulatory framework	Procurement plans	Bidding opportunities	Data on complaints	Statistics
Procurement data not comprehensive and no procurement plans maintained	Data not available	Y	N	Y	N	N

Data source: <http://procurement.gov.ck/>.

**Table 24-2 Procurement complaints mechanism**

Characteristics of procurements complaints body (Y/N):					
Not involved in procurement	Fees charged for lodging complaint	Clearly defined and publicly available complaints process	Has authority to suspend procurement process	Decisions made within timeframe specified in rules/regulations	Issues are binding
Y Ombudsman	No Procurement Policy Section 11	Y In the 2016 Procurement Policy	N Not explicit in Procurement Policy	N No evidence of complaints registers <sup>7</sup>	N Not explicit in Procurement Policy

Data source: <http://procurement.gov.ck/>

<sup>6</sup> Purchase and Sale of Goods and Services Policy, 4<sup>th</sup> October 2016, which updated and replaced the 2<sup>nd</sup> December 2014 policy. [http://procurement.gov.ck/wp-content/plugins/ck\\_procurement/uploads/033338\\_18-10-2016\\_Procurement%20Policy%202016.pdf](http://procurement.gov.ck/wp-content/plugins/ck_procurement/uploads/033338_18-10-2016_Procurement%20Policy%202016.pdf)

<sup>7</sup> It is claimed that there have been no formal objections in recent years – hence there are no formally maintained complaints or objections.

## PI-25. Internal controls on non-salary expenditure

PI 25 assesses the government control rules and procedures on non-personnel expenditures, such as overhead and non-recurring operating expenses, as well as capital expenditures, their effectiveness, and the extent of compliance by ministries. Other related indicators such as PI 1, 2, 22, and 26, would have to be looked at, as they may be either symptoms or causes of the adequacy or inadequacy of the controls.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI 25 – Effectiveness of Controls on Non-Salary Expenditures (M2)</b>		<b>B</b>
<b>25.1 Segregation of Duties</b>	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for <i>most</i> key steps while further details may be needed in a few areas. More precise definition of important responsibilities particularly in reconciliation of infrastructure project expenditures may be needed.	B
<b>25.2 Effectiveness of expenditure commitment controls</b>	Expenditure commitment control procedures exist which provide partial coverage and are partially effective. Commitments are controlled against the budget and cash flow only at the time accounts payable is recorded upon receipt of the invoice. Rating can be improved in future once commitments are controlled and monitored at the purchase order stage.	C
<b>25.3 Compliance with payment rules and procedures</b>	<i>Most</i> payments are compliant with regular payment procedures. There were audit qualifications in some ministries involving lack of documentation of transactions in other expenses, and monitoring and tracking of accounts payable. There were no exceptions reported.	B

Segregation of duties		
Prescribed throughout the process (Y/N)	Responsibilities C= Clearly laid down M= Clearly laid down for most key steps N= More precise definition needed	Evidence
Yes	M- clearly laid down for most steps. The Audit Office noted however, an inadequate clarity and need to better define responsibilities on the reconciliation of infrastructure projects of the Cook Islands Investment Corporation. This exception was estimated to have a value of around 9%.	2020 version of Financial Policy and Procedures Manual; Observations from Treasury and Audit Office

### Evidence for the Score

#### Dimension 25.1 Table 25-1: 2019-20 Performance on Segregation of duties

The 2020 Financial Policies and Procedures Manual, specifically in Sections B, C, and D, describe several rules on segregation of duties, with the following examples:

*Authorization-* The 2020 Financial Policies and Procedures Manual, specifically in Sections B, C, and D, describe several rules on what type of expenditures are subject to the authorization/approval at different levels- sector ministry management; MFEM; Cabinet; or Legislative.

*Cash and asset custody*- Section 3.5 of the Government Manual states that where possible, given staff numbers, that a different staff member should do each of the following tasks: Receiving/receipting of cash/Preparation of the banking deposit form/slip/Processing of accounting transactions and the reconciliation of accounts.

*Reconciliation*- Section 3.4- stock take needs to be verified by the Treasury Division of MFEM and the Audit Office. Reconciliations state that it should be performed at least monthly, preferably by a staff member different from the person/s receipting and banking the cash.

The Treasury has observed that compliance has improved and that there were no significant issues raised by audit. However, the Audit Office has observed that for infrastructure assets/expenditures in the Cook Islands, the reconciliations have not been performed adequately between the Cook Islands Investment Corporation (CIIC) and the MFEM. The value of the affected capital budget for 2019-20 was \$18.47M or 9% of the total government budget of \$210.9M for that year.

With this audit observation, it can be concluded that in at least 91% equivalent value of expenditures in 2019-20, segregation of duties for most key steps was clear, while more precise definition of important responsibilities may be needed in one specific area as described in the above paragraph; hence a B rating is deemed appropriate.

## **Dimension 25.2**

### *Current Situation*

Controls in expenditures for purchase of goods and services, including those from contingency funds (Section 20) are described in the FPPM. The Policy Manual details the procedures for procurement tenders until supplier selection, contracting, delivery, and payment. The accounts payable which is a recognition of the government's financial obligation to pay, is recorded upon delivery and receipt of invoice. The amount of payables and payments recorded are controlled against the budget allocation and cash flow. Commitments at purchase order stage are not recognized in the system. The amount of pending expenditure from procurement tenders not yet completed, is not being tracked versus the available budget and cash, hence partially ineffective.

In preparing the procurement/tender request, the required Background portion includes a description of the appropriation/funding details. However, as to whether that appropriation funding is available up to the time of payment, is not ensured. In Cook Islands, suppliers in general, do not sign a Purchase Order, and wait till the Payment Order is issued by the government entity before delivery is made.

### *Going Forward*

The FMIS (Unit4) is currently configured for an end to end Procure to Pay process.

Requisition > Purchase Order > Receipt > Invoice

This function is currently being rolled out to a smaller agency, Police, as a test pilot before rolling out to all other agencies. Negotiations with suppliers has also commenced to ensure the new CIG purchase orders are accepted when presented in store.

**Table 25-2: 2019-20 Performance on Commitment Controls**

<b>Commitment controls</b>			
<b>In place</b> (Y/N)	<b>Limited to cash availability</b> A= All expenditure M= Most expenditure P= Partial coverage	<b>Limited to approved budget allocations</b> A= All expenditure M= Most expenditure P= Partial coverage	<b>Evidence</b>
Yes, Partial	A- All expenditures	P- Partial coverage; The new FMIS module is still being developed and tested to a small agency.	Financial Policy and Procedures Manual Email from MFEM re FMIS Plan and ongoing activities as well as Observations from Treasury, and Audit Office

**Dimension 25.3**

The FPPM contains comprehensive payment procedures in cash and using credit and debit cards. Payment of expenditure arrears are also prescribed under Section 21.

A summary of audit opinion rendered by the Audit Office in 2019-20 reveals that two government entities<sup>8</sup> got a Disclaimer due to lack of supporting documents in transactions tested regarding other expenses. Likewise, two entities were issued a qualified audit opinion. The Audit Office noted inadequacies in monitoring and tracking of accounts payables. These entities had a total budget of \$22M or 11% of the total government budget in 2019-20. These audit issues were not authorized payment exceptions. There were no exceptions reported. Rather, these were inadvertent omissions or inadequacies in documentation and monitoring, due to personnel negligence and inefficiency.

**PI 26- Internal Audit**

Internal audit is a support function to management that is primarily focused on assuring the adequacy and effectiveness of internal controls: the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations and programs; the safeguarding of assets; and compliance with laws, regulations, and contracts. PI 26 measures the scope, quality, and effectiveness of internal audit function in government.

<sup>8</sup> For confidentiality reason, the names of the entities are not disclosed in this report.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI-26. Internal Audit (M1)</b>		<b>C+</b>
<b>26.1 Coverage of Internal Audit</b>	Internal audit is operational for central government entities representing the <b>majority (57%)</b> of budgeted expenditures and for central government entities collecting the majority of budgeted government revenue.	C
<b>26.2 Nature of audit and standards applied</b>	Recently completed and ongoing internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls in the cash handling system of key agencies. Application of international standards has been mandated in the IA Charter but still in nascent stage; and quality assurance arrangements, have been identified, but not yet fully operational.	B
<b>26.3 Implementation of audit and reporting</b>	There were no audit activities in last fiscal year, as it was a transition period to setting up an IA process. IA processes started in 2020-2021. Performance during current year as of the time of assessment was noted though in this report.	NA
<b>26.4 Management response to internal audit</b>	No audit was done in last 3 years, IA processes started in 2020-2021. Performance during current year as of the time of assessment was noted though in this report	NA

### Overview

The central IA function in Cook Islands government was just established and still considered nascent at the time of assessment.

The internal audit function was introduced in Cook Islands Government in 2016 with the issuance of an IA Charter. The Charter described the scope, procedures, roles and responsibilities, standards, reporting arrangements, and quality assurance.

An Internal Audit Committee was formed with functions based on the IA Charter which are to review work plan and progress, completed audits, implementation of audit recommendations, including state of internal control in government. The function started by initially outsourcing a local private auditing company to assist the Internal Audit Committee. Examples of audit work conducted in 2016 was on payroll controls and taxation processes. In 2018, an audit of the Revenue Management Division was started, but not completed, as the people working on it have left.

In 2019, it was a transition period from outsourced to own government IA structure and staff, hence there was no audit activity. It was only in 2020 that internal audit staff were hired to man the central Internal Audit Unit which is based at MFEM and administratively reporting to the Treasury Management. The MFEM plans to carry out internal audit reviews across government agencies with an initial focus on those agencies that are handling cash receipts over the counter to ensure that payments are receipted properly and not misappropriated.

### Evidence for Scores

#### Dimension 26.1

Assessment of this dimension is based on the current situation. The IA function is considered operational, with its audit coverage as shown in the ongoing 2020-2021 IA Work Plan as summarized in the table below:

<b>Ministry</b>	<b>Agency Budget</b>		<b>Completed as of assessment</b>
	<b>Expenditure</b>	<b>Revenue</b>	<b>Revenue</b>
Agriculture	1,400,581	45,535	
Business Trade and Investments (BTIB)	779,662	28,000	28,000
Environment	1,724,067	35,000	
Finance	83,041,178	383,500	
Justice	2,805,001	550,000	550,000
Infra Cook Islands	6,184,000	300,000	
Police	5,806,000	141,783	141,783
<b>Total IA Coverage</b>	<b>101,740,489</b>	<b>1,483,818</b>	<b>719,783</b>
Total for All Ministries	180,719,773	2,596,349	
<b>% Covered by IA</b>	<b>56%</b>	<b>57%</b>	<b>49%*</b>

\*The percentage is to the value of programmed audits for 2020-2021.

**Data source:** <http://www.mfem.gov.ck>

Once a comprehensive risk assessment is conducted, and clear strategic plan is formulated and translated into a medium-term audit plan, IA is expected to be operational in most of the ministries, and the rating could be improved.

## **Dimension 26.2**

**Table 26-2: Audits planned**

<b>Audit Plan – Audits Planned (subject area)</b>	<b>Reports issued related to subject area</b>	<b>Comprehensive report prepared consistent with audit plan (Y/N)</b>
Cash Handling	Yes- 3 reports	Yes
Revenues on Behalf of the Crown (Roboc)	Not yet; ongoing audit	Planned to be completed in next fiscal year
Payroll Report	Not yet; ongoing audit	Planned to be completed in next fiscal year

Ongoing and recently completed internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls in the cash handling system of key agencies. Based on copy of the audit reports shared to the assessment team, it can be concluded that the audit has been focusing on the adequacy and effectiveness of internal controls at the audited entity, such as on segregation of duties, extent of oversight and supervision, effectiveness of safeguarding procedures, timeliness, completeness and reliability of documentation and reconciliation. The reports highlighted the adverse effects and the risk implications of the lack of or deficiency of effective internal controls.

Application of international standards has been mandated in the IA Charter but still in nascent stage; and quality assurance arrangements, have been identified, but not yet formalized. For example, verification with the Audit Office reveals that as a member of the central government IA Committee, it has not yet received copy of the IA work plan and audit reports, and has not officially participated in Committee meeting to discuss them. Interaction with the Audit Office has been informal and on ad hoc basis to seek views on particular issues,

A continuing and government-wide coverage of internal audit focusing on high risk areas as well as regular/periodic Committee meetings to review the status of the IA work plan and audit reports could lead to a higher rating in the next PEFA assessment.

### Dimension 26.3

No audit activity was conducted in 2019 as it was a transition period prior to setting up an IA function/process in government. IA processes started in 2020-2021. Hence, measuring this dimension's performance in the last fiscal year is Not Applicable (NA).

Partial performance during current year as of the time of assessment was noted though in this report, for purposes of reform planning. The above Table 26.1 showed that three (3) activities and entities representing 49% (in terms of value of estimated revenues for 2020-2021 of the programmed activities, have been completed and report delivered. As verified with the IA Unit, the completed audit reports have been received by the management of the audited entities.

### Dimension 26.4

No audit was undertaken in the last 3 years, IA processes started in 2020-2021. Hence, measuring this dimension's performance in the last fiscal year is Not Applicable (NA).

Partial performance during current year as of the time of assessment was noted though in this report for purposes of reform planning statements from the IA Unit confirmed that response was taken from the audited entities from receipt of the reports. Here is a summary of the response/action taken during 2020-2021 as of this assessment:

<b>Name of Entity</b>	<b>Date of Report</b>	<b>Management Response/Actions Taken as of Time of Assessment- Less than 12 months from report date</b>
Ministry of Police	August 2020	<p><b>Full response.</b></p> <p>All recommendations were accepted.</p> <p>MOU between MFEM and Police was signed August 2020 to implement changes.</p> <p>An Internal Audit Committee was established comprising of the five superintendents of the Police Department.</p> <p>Changes were made to the financial management and staff of the Police Department.</p> <p>Full integration into FMIS has been implemented</p>
BTIB	December 2020	<p><b>Partial response.</b></p> <p>The IA recommendations was fully accepted and a final interview with the previous CEO is to be finalized by the Chairperson of the Board.</p>
Ministry of Justice	February 2021	<p><b>Partial response.</b></p> <p>All recommendations were accepted by the Secretary of Justice to be implemented by the Finance Manager.</p>

**Data source:** <http://www.mfem.gov.ck>

## PILLAR SIX: Accounting and Reporting

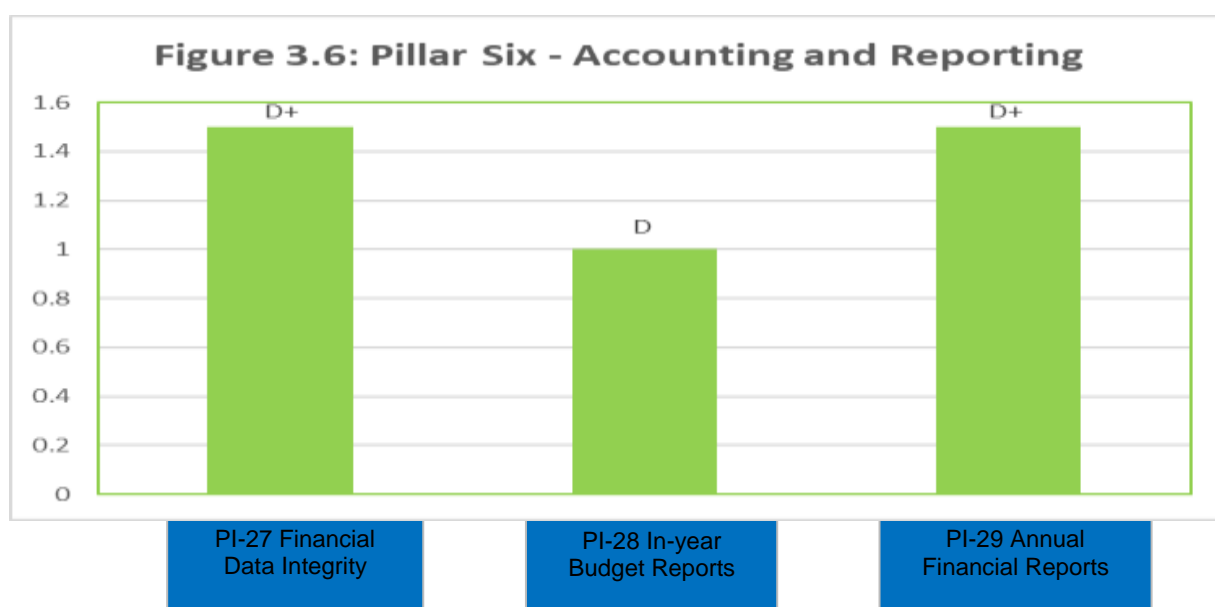
This pillar measures whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

### **Overall performance**

The adoption of accrual-based accounting provides complete information on the Government of the Cook Islands' operation and financial position and more transparent disclosure on how resources have been used and accounted for. The preparation of the financial statements in accordance with the provisions of relevant legislation and complying with recognized international accounting standards demonstrates good accounting practice.

However, there are weaknesses in the reconciliation of accounts, data integrity, the accuracy of in-year and annual reports, and the timing of preparing the in-year reports and annual financial statements.

The results of the assessment under this pillar are summarized below:



### **Possible underlying causes of performance**

Operating a decentralized accounting system needs an effective financial management information system (FMIS), well-resourced capacities, and good coordination of relevant agencies. Where the FMIS is operational positive improvements have been recognized—however current coverage of MCAs in the FMIS is estimated to be only 20 percent. Delays in rolling out the FMIS (since its commencement in 2018) contributed to the issues identified regarding reconciliation, the integrity of data, and timing of reporting.

Many agencies are not yet operating through the FMIS, and therefore they maintain their own bank account and operate outside the monitoring and oversight processes of the Treasury. This causes delay in accounts reconciliations and difficulties in identifying payments to clear at the end of a period. Bringing all agencies onto FMIS will mean transparent payment processing and receipting, improved reconciliations, and streamlined reporting.



Consolidation of accounts is a challenge where agency accounts are audited at different times. Therefore, intercompany transactions are not matching, which is contributory factor in the delayed production of annual financial statements.

Communicating to agencies through Treasury circulars, as recently adopted, effectively informs financial managers and agencies of their financial management responsibilities. Equally important, establishing the regular financial managers' forum is a positive development in improving the capacities of these key staff to strengthening controls, enhancing cash management, and improving accounting and reporting in their respective agencies. However, there is still the need to consolidate all bank accounts, roll out the FMIS to all agencies to ensure an effective monitoring and oversight function by Treasury, and streamline reporting,

**Recent and ongoing reform activity**

The implementation of the FMIS Project is critical. The focus on the ongoing deployment of FMIS to the rest of the Government in the short to medium term and avoiding further delays is also crucial.

Further, the reporting will be more streamlined and produced timely as agencies on FMIS will receive automated monthly reporting generated by the system ready for producing their respective management reporting on variance explanation and analysis. The annual financial reporting and consolidation will be more coordinated where all intercompany transactions are captured and identified. This will also allow Treasury to address key issues raised by the auditors and expressed in the audit opinion on the government financial statements.

**PI-27. Financial data integrity**

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

**Indicator and dimension scores and analysis**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI-27. Financial data integrity (M2)</b>		<b>D+</b>
<b>27.1. Bank account reconciliation</b>	The reconciliations for all active government bank accounts were prepared for each month but were carried out within one to six months from the end of the month. However, there are still variances in the total balances of these reconciliations compared to in-year budget reports, and there are still large unreconciled balances in most active accounts.	D
<b>27.2. Suspense accounts</b>	There are three suspense accounts used to temporarily record certain expenses in advance of the underlying transaction – as a mechanism to ensure the availability of funds. These are reconciled within four weeks of each month. The balances were not cleared by year-end. Justifications for not clearing these balances have yet to be provided.	D
<b>27.3. Advance accounts</b>	The main use of advance accounts is for CIIC Advance and Ports Authority Advance. There was only one transaction in January 2020. The reconciliation was done only within one month from the end of the financial year. Justification for not clearing these balances has yet to be provided.	C

<b>27.4. Financial data integrity processes</b>	The information on Payroll/HRMIS /PayGlobal system/Unit4 Business World (UBW) was provided. A user profile list with restricted and full access to information and authority to changes to records by creation and modification. There are audit trails from the Payroll/HRMIS/PayGlobal system, with an audit trail report for payroll amendments, same report can be tailored for user profiles. Similarly, with the UBW. The Internal Audit Body carries out the verification of data.	B
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**Evidence for score**

The bank reconciliation statements were prepared on a monthly basis but delayed with a time-lag of more than six months. The total cash balances in the bank reconciliation statements showed variances compared to the cash and bank balances amount reported in the Quarterly reports (September 2019, March 2020, and June 2020). The Suspense and Advance accounts also have balances at year-end (June 2020) and are not yet cleared. There have been no explanations on why these balances were not cleared.

Cook Islands Government (CIG) uses Unit4 Business World (UBW) as its centralized ERP system of recordkeeping for all Government financial transactions. The system is currently ongoing, implementing a single platform financial management information system for all 43 agencies, ministries and support offices. The project is delivered by the locally resourced CIG Project Team, with service and support from Agilyx NZ / Agilyx Group out of NZ and Australia. Every Masterfile and transaction update is date-stamped in UBW with the latest update and user\_id. The ability to retain a history of all changes is configured via the amendment logging screen. The authority for the changes is configured via workflow processes where these have been established. Where workflow has been established, the historical authorizations are held in the system and can be reported on. Training is being undertaken to develop procedures and processes optimized as more CIG Agencies, Ministries and Support Offices on-boarded to the new CIG FMIS system.

**Table 27-1 Bank account reconciliation**

<b>All active accounts</b> (Y/N)	<b>Frequency</b> (W/M/Q)	<b>Within</b> (1/4/8 weeks)	<b>Aggregate and detailed level</b> (Y/N)
Y	M	1 – 6 months	Y

**Data source:** Reconciliation reports produced by Treasury. Template completed by Treasury and sent via email on 25 February 2021.

**Table 27-2 Suspense and advance accounts**

<b>Suspense accounts reconciliation</b>			<b>Advance accounts reconciliation</b>		
<b>Frequency</b> (M/Q/A)	<b>Within</b> 1/2 months; N = > 2	<b>Timeliness of clearance</b> Y= no later than end of fiscal year (unless justified)/N	<b>Frequency</b> (M/Q/A)	<b>Within:</b> 1/2 months; N = > 2	<b>Accounts cleared timely</b> A= All w/o delay M= Most w/o delay F= Frequent with delay N= <F
M	1	N	M	1	N

**Data source:** Reconciliation reports produced by Treasury. Template completed by Treasury and sent via email on 5 March 2021

**Table 27-3 Financial data integrity**

Access and changes to records		
Restricted and recorded (Y/N)	Results in audit trail (Y/N)	Financial integrity verified by operational team (Y/N)
Y	Y	Y

*Data source: Treasury response via email on 25; Security documents on Payroll. Information from Treasury provided by email of 25 February 2021*

## PI-28. In-year budget reports

This indicator assesses the comprehensiveness, accuracy, and timeliness of the information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

### Indicator and dimension scores and analysis

INDICATOR S/ DIMENSION S	ASSESSMENT OF PERFORMANCE	
<b>PI-28. In-year budget reports (M1)</b>		<b>D+</b>
<b>28.1. Coverage and comparability of reports</b>	In-year budget reports are highly aggregated, showing y administrative, economic, and functional classification including cash and debt. Outer-island analysis and Ministries' Monthly report are provided and show administrative headings but not consolidated. The financial position is consolidated at the end of the financial year report.	B
<b>28.2. Timing of in-year budget reports</b>	In-year budget reports are produced quarterly. Ministries/Agencies submitted individual monthly budget report. Crown Team also prepares a monthly High-level report as a result of cash balance requirements during the Cook Islands COVID-19 Pandemic. Treasury provides a weekly Cash update. Timing of issuing these reports from the end of quarter and months varies, with monthly reports available within one to two weeks, whereas quarterly reports were available within three to four months after period end.	D
<b>28.3. Accuracy of in-year budget reports</b>	In-year budget reports provided information on payment and commitment, Analysis of budget execution is also provided in the quarterly report. However, reconciliation issues raised on bank accounts, suspense accounts, and advance accounts may impact data accuracy.	C

### Evidence for score

The quarterly reports provided were for September 2019, March 2020, and June 2020. The submission of these reports to Cabinet were as follows:

September 2019 Quarterly report – No cabinet minute on hand however, it was submitted to Cabinet after 17 December 2019

March 2020 Quarterly report – 2 June 2020

June 2020 Quarterly report – 14 October 2020

The Ministries' Monthly Spending reports are received within every 10th working day of the month after reporting date, and Treasury consolidates these into the Quarterly reports. Ministry/Agency

Financial reports are submitted to the Crown Team of Treasury Management Division. This submission comprises the: i) Profit and Loss Statement; ii) Balance Sheet Statement; iii) Bank reconciliation Report with a copy of the bank statement; iv) Accounts Receivable Reconciliation; v) Accounts Payable Reconciliation; vi) Fixed Asset Report; vii) Cashflow projections for the financial year with monthly splits. The Crown accounting team receives over 80-90% of the agencies' monthly financial reports on time. The remaining agencies submit the reports up to five days late.

Apart from the Agencies Monthly Variance Report, the Crown also prepares a monthly high-level report. The report only includes Expenses and Revenues for Crown Parent. The report goes to the Director of Treasury Management Division of MFEM. The Crown high-level reports (monthly) were produced as a result of cash balance requirements during the Cook Islands COVID-19 Pandemic. Treasury provides a weekly Cash update as at 27th April to the Budget Planning/Economics team and MFEM management for the purpose of knowing the cash position during the COVID-19 period. From the period of April 2020 – May 2020 reports were produced weekly, June 2020 – February 2021 monthly reports were produced five working days after the end of the month.

**Table 28-1 In-year budget reports**

Coverage and classification			Timeliness		Accuracy		
Allows direct comparison to original budget (Y/N)	Level of detail	Includes transfers to de-concentrated units (Y/N)	Frequency	Within:	Material concerns	H/Y Analysis prepared (Y/N)	Payment info
	A=All budget items P= Partial aggregation M= Main administrative headings E=Main economic headings		W/M/Q  N= >Q'ly	2/4/8  weeks N= >8weeks	(Y/N)		E=Exp C=Commit
Y	E	Y	M/Q	N	Y	Y	E/C

**Data source:** Government of the Cook Islands Quarterly Reports; Ministries Monthly Spending reports; Outer Islands Analysis

## PI-29. Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards.

### Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2021 SCORE
<b>PI-29. Annual financial reports (M1)</b>		<b>D+</b>
<b>29.1. Completeness of annual financial reports</b>	Financial Statements are prepared annually on an accrual basis and are consistent with the approved budget. The financial statements include a statement of financial performance showing revenue and expenditure, a statement of financial position showing financial and tangible assets, liabilities, guarantees, and long-term obligations. A reconciled cash flow statement is also prepared. Notes to the accounts include information on guarantees as well as some long-term obligations.	A
<b>29.2. Submission of reports for external audit</b>	Financial reports are late and submitted for audit more than 12 months after the financial year for the last three completed fiscal years. The preparation of the 2019-20 financial statements is still in progress.	D
<b>29.3. Accounting standards</b>	The financial statements are stated to be prepared according to the Ministry of Finance and Economic Act 1995-96. Financial statements comply with International Public Sector Accounting Standards unless otherwise specified in the financial statements. A Statement of Compliance is also included in the Financial Statements. There is a deviation from IPSAS regarding disclosure of low-interest concession loans. This is explained in the Notes to the Accounts, and policies are applied consistently over time.	A

### Evidence for score

The completeness of annual financial reports scored highly. However, the Audit Opinion qualification basis should be noted relating to property, plant and equipment and infrastructure assets, taxation revenue and taxation receivables, consolidations, and disclosure of low-interest concessional loans. The submission of the financial reports for external audit for the following three financial years were as follow:

#### Financial Year Submission date to audit

- 2017-18 April 2020
- 2018-19 13 August 2020
- 2019-20 Not yet submitted

The notes explaining the deviation from IPSAS regarding disclosure of low-interest concession loans are stated and explained in the Statement of Accounting Policies, Note 2 – Key assumptions and judgements under Borrowings in the 2017-18 accounts (p. 46) and the 2018-19 accounts (p. 47).

**Table 29-1 Annual financial reports**

Completeness					Date of submission for external audit	
Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Information F=Full P=Partial B=Basic	Cash flow statement (Y/N)	Balance Sheet C=Cash only FO=Financials only F=Full	Date of submission	Within: (3/6/9 months)

Y	Y	F	Y	F	13 August 2020 (for 2018-19)	More than 12 months
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**Data source:** 2016/17, 2017/18, 2018/19 Audited Financial Statements; Cook Islands Audit Office Management Letters 2015-2017, 2-18 & 2019; Information provided by the Treasury Office (Cook Islands) by emails on 25 February 2021, and 5 March 2021.

**Table 29-2 Accounting standards**

Accounting standards applied to all financial reports				
Type of standard	Consistency	Disclosure on standards (Y/N)	Disclosure on variations (Y/N)	Gaps explained (Y/N)
I= International C= Country	M=Most IS applied Mj= Majority IS applied C=Consistent over time only			
I & C	M	Y	Y	Y

**Data source:** 2016/17, 2017/18, 2018/19 Audited Financial Statements; Cook Islands Audit Office Management Letters 2015-2017, 2-18 & 2019; Information provided by the Treasury Office (Cook Islands) by emails on 25 February 2021.

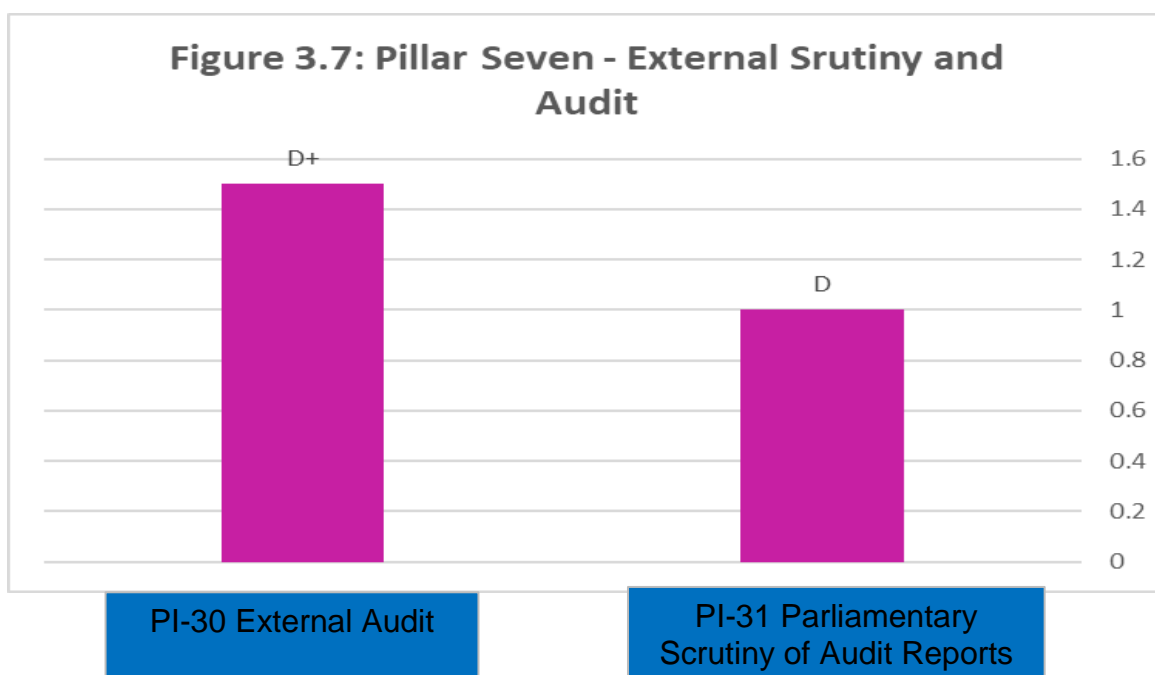
## PILLAR SEVEN: External scrutiny and audit

Pillar seven assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

### Overall Performance

External scrutiny and audit are currently performed by the Audit Office which reports annually to Parliament on the Cook Islands Government Account, other accounts and funds. There is also the establishment of a Public Expenditure Review Committee & Audit (PERCA) with sufficient powers to investigate expenditure from the Cook Islands Government Account, other accounts and funds. The Director of Audit, the head of the Audit Office, is responsible to PERCA in the external scrutiny and audit of public finances.

The Audit Office had reduced the backlog of audits of the Financial Statements of Government and all the public entities to the year ending 30<sup>th</sup> June 2019. As the focus was more on updating the audits, there was a delay in reporting annually to Parliament. The Audit Office had submitted some other types of reports to Parliament relative to specific performance audits, compliance audits and reviews. The follow up work of audit recommendations was undertaken at the subsequent audit. There was no evidence of parliamentary scrutiny of other types of reports submitted. The absence or lack of Parliamentary oversight of the Audit Office poses significant risks relative to the effectiveness and credibility of the external audit function promoting proper accountability and transparency.



### Possible Underlying causes

For external audit, the main cause for the reduction from a C+ in the last assessment to D+ is due to Dimension 4, Independence which is new to the PEFA 2016 methodology and did not exist in the previous assessment. The appointment and removal of the Director of Audit is contingent on the advice of Cabinet, the influence of PERCA in the work of the Audit Office, the absence of autonomy relative to operations, planning of the audits, approval and execution of the budget are all factors that impair and compromise the independence of the Audit Office, resulting in a score of D. Dimensions (i)-(iii) have been scored B, D, and C respectively, hence the score of D+ for the Indicator.

For Legislative Scrutiny of Audit Reports, there was no evidence to show that Parliament scrutinised the other types of reports submitted hence an overall score of D.

### Recent and ongoing reform activity

The Audit Office is working to submit a report to Parliament on its operations in the last five years before the end of the current financial year. They will also follow up with Parliament their committee work and proceedings in scrutinising the audit reports submitted. Parliament had passed an amendment to the PERCA Act allowing the publication of audit reports after two weeks of submission to Parliament irrespective whether they are tabled and discussed before Parliament.

## PI-30. External audit

PI 30 examines the characteristics and measures the scope, nature and follow up of the external audit function of government. External audit is a function outside of government performed by the Auditor General (Director of Audit), to audit all the public funds or accounts of government including all ministries, offices of executive government, public, statutory and local authorities and shall report at least once annually to Parliament on the government accounts. It has four dimensions and uses the M1 (WL) method for aggregating dimension scores:

### Indicator and dimension scores and analysis

**Table 30: Summary of Scores and Performance**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
<b>PI-30. External audit (M1)</b>		<b>D+</b>
<b>30.1. Audit coverage and standards</b>	Audits are done in line with audit standards and 100% of government entities in operation have been audited up to 2019. 29 Government entities financial statements were audited in accordance with ISSAI <sup>9</sup> , 17 were reviewed in accordance with ISRE <sup>10</sup> 2400 and 12 State owned entities financial statements were audited in accordance with ISA <sup>11</sup> . The audit of the consolidated accounts of government for 2018 and 2019 were finalised on 30 <sup>th</sup> November 2020, up to more than two years after period end. Overall, the scope is estimated at over 90% of total expenditure as of last audit.	B
<b>30.2. Submission of audit reports to the legislature</b>	The Audit Office has not submitted annual audit reports to Parliament for the years 2015-2019.	D
<b>30.3. External audit follow-up</b>	Follow up is normally done at the next audit. Given the backlog in the audit, the audit issues raised in the audit of 2015-2017 were the same issues raised in 2018-2019.	C
<b>30.4. Supreme Audit Institution (SAI) independence</b>	The appointment and removal of the head of SAI is subject to the executive government. The appointment and removal of the Director or Audit is contingent on the advice of Cabinet and the Prime Minister. The involvement of the Prime Minister and Cabinet impairs the independence of the Director of Audit from the executive government. The legislation does not provide independence for the Director of Audit.	D

The overall rating for this indicator is measured at D+, downgraded from a C+ in the last

<sup>9</sup> ISSAI - International Standards of Supreme Audit Institutions

<sup>10</sup> ISRE - International Standards on Review Engagements 2400 Engagements to Review Historical Financial Statements. All Government entities which have been assessed as lower risk and not material are subject to reviews.

<sup>11</sup> ISA – International Standards on Auditing



assessment. This is mainly affected by the rating of dimension (ii) and (iv). The Mandate of the Audit Office is provided under Section 71 of the Constitution and the PERCA Act 1996 with its amendments to 2020.

### Dimension 1 - Audit coverage and standards

Audits of all 58 government entities in operation for the financial year ending 30<sup>th</sup> June 2019 had been completed, as the Audit Office is progressing well in reducing the backlog of audits. Of the total audits completed for the period ending 30<sup>th</sup> June 2019, 50% were financial audits in line with ISSAI standards, 29% were review engagements in line with ISRE 400 standards, and 21% were financial audits in line with ISA. About 90% of government expenditure are audited in line with ISSAIs and the remaining 10% are subjected to other reviews.

The audit of the government financial statements for the years 2015, 2016, and 2017 were finalised in December 2019. The audit of the government financial statements for the years 2018 and 2019 were finalised in November 2020.

Audit coverage and standards remains at B for even though the backlog of audits have been reduced, 29% of completed audits (review engagements) representing about 10% of government expenditure have limited scope.

### Evidence for score

**Table 30-1: Audit coverage, standards and submission to legislature**

Fiscal Year	Date submitted to external audit	Date Audit was completed	Date submitted to legislature	Standards applied:	Issues highlighted:	Data source
				ISSAI/ National (consistent)/ National (other)	M = Material/ Systemic/ Control OR S = Significant	
2016	22 July 2019	20 December 2019	November 2020	29 Government entities financial statements were audited in accordance with ISSAI. 17 Government entities financial statements were reviewed in accordance with ISRE 2400. 12 State owned entities financial statements were audited in accordance with ISA and these were outsourced to the private sector.	Asset Management Working Group set up to properly manage Property, Plant & Equipment.  Internal Review organised to incorporate processes and timelines in preparing consolidated financial statements promptly.  MFEM working with Revenue Management on reports required for future audits of taxation revenue and receivables.	Audit Office
2017	22 July 2019	20 December 2019	November 2020			Audit Office
2018	8 April 2020	30 November 2020	Not Yet submitted			Audit Office
2019	13 August 2020	30 November 2020	Not Yet submitted			Audit Office

### Dimension 2 - Submission of audit reports to the legislature

There were no audit reports submitted to Parliament for the financial years 2015 to 2019. On this basis, the rating is reduced from a B to a D. There were no audit reports submitted to Parliament for the financial years 2015 to 2019. On this basis, the rating is reduced from a B to a D.

### Dimension 3 - External audit follow-up

The effectiveness of following up of the audit recommendations is largely influenced by the delay in the preparation and audit of the Government Financial Statements. All issues raised in the previous year were to be followed up during the subsequent audit. The audit of the Government Financial Statements for years 2015-2017 was completed in 2019 and the management letter was issued then detailing the recommendations for improvement. The Ministry of Finance & Economic Management submitted responses. It shows that there is little evidence of progress or appropriate changes to implement the audit recommendations. On this basis, the rating remains at C.

### Dimension 4 - Supreme Audit Institution (SAI) independence

The appointment and removal of the Director of Audit is contingent on the advice of Cabinet and the Prime Minister. The appointment is made by the Queen's representative in accordance with a decision of Cabinet. The Director of Audit may be removed by the Queen's Representative acting on the advice of the Prime Minister. Special investigations or special audits by the Audit Office are subject to the approval of the Public Expenditure Review Committee and Audit (PERCA), whose members are appointed by the Minister of Finance and Cabinet. The involvement of the Prime Minister and Cabinet in the appointment and removal of the Auditor General impairs the independence of the Director of Audit from the executive government. The annual budget of the Audit Office to carry out its mandate is still subject to the budget consideration at the Ministry of Finance & Economic Management. Based on the analysis and supporting evidence, the score for this dimension is D.

**Table 30-4: SAI Independence – requirements**

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of head of SAI	<p>s71 of the Constitution states that the Audit Office of the Cook Islands is the Auditor (referred to as Director of Audit under the PERCA Act) for the government account, public funds and all offices of government. Auditor must report annually to Parliament on the performance of his/her duties.</p> <p>S21 of the PERCA Act 1996 with amendments 2020 provides that the Director of Audit is appointed in accordance with a Cabinet decision.</p> <p>S23 of the PERCA Act provides that the Director of Audit can be removed or suspended on the advice of the Prime Minister.</p> <p>The appointment and removal of the head of SAI is subject to the executive government of the day. Therefore, the legislation does NOT provide independence for the Director of Audit.</p>
Planning audit engagements	The SAI has a Strategic Plan which expired in June 2020. Their new Strategic Plan is in draft form. The Audit Office has a workplan for the financial year ending 30 June 2021 outlining the work to be done. PERCA has some control over audit work carried out by the Audit office.
Arrangements for publicizing reports	There is no documented Plan and no communication strategy of how and when to publish reports. An amendment was made to the PERCA Act to publish Audit Reports 14 days after submission to Parliament regardless of whether they are reviewed or debated in Parliament.
Approval of budget	The Budget for the Audit Office to carry out its mandate is considered with the government budget prepared by the Ministry of Finance. They do not submit a separate budget appropriation bill directly to Parliament.
Execution of budget	The execution of the office budget of 1.1 million is partially done at the Ministry of Finance with other functions being done at the Audit Office. The payroll is processed with all public servants at the Ministry of Finance but all other payments are processed at the Audit Office.

Legal basis for independence	The Constitution and PERCA Act do not provide the legal framework for SAI independence. They have extensive powers to audit but the appointment and removal of the SAI head is subject to a decision of the executive government. For special audits and special investigations, the SAI requires approval from the PERCA Committee.  Members of the PERCA Committee are appointed by the executive government (Chairman is appointed by the Minister of Finance, S5 of PERCA Act and 2 Committee Members are appointed by Cabinet, S9 of PERCA Act)
Unrestricted/timely access to records	S31 of the PERCA Act provides powers to the Auditor General and staff to do audits with unrestricted and timely access to records.

## PI-31. Legislative scrutiny of audit reports

PI-31 focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It has four dimensions and uses the M2(AV) method for aggregating dimension score:

**Table 31: Indicator and dimension scores and analysis**

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
<b>PI-31. Legislative scrutiny of audit reports (M2)</b>		<b>D</b>
<b>31.1. Timing of audit report scrutiny</b>	There is no evidence that Parliament scrutinized the reports from the Audit Office	D*
<b>31.2. Hearings on audit findings</b>	There is no evidence from Parliament of any hearings relative to the audit reports.	D*
<b>31.3. Recommendations on audit by the legislature</b>	There is no evidence that legislature acted on the recommendations of the last audit report.	D*
<b>31.4. Transparency of legislative scrutiny of audit reports</b>	There is no evidence of any Parliamentary proceedings on audit reports.	D*

There is no evidence of Parliamentary scrutiny and oversight of audit reports. There have been other types of reports submitted by the Audit Office to Parliament in the last five years but there is no evidence that Parliament scrutinized the reports or make recommendations on the reports. The absence or lack of Parliamentary oversight of the Audit Office poses significant risks relative to the effectiveness and credibility of the external audit function promoting proper accountability and transparency. On this basis, the overall rating is D

### Dimension 1 - Timing of audit report scrutiny

S71 of the Constitution provides for the Audit Office to report at least annually to Parliament. There were no audit reports submitted to parliament. The Audit Office submitted other types of reports to Parliament in the last five years but there is no evidence that Parliament scrutinised these reports. On this basis, the rating is D\*.

# Annex 1: Assessment management and quality assurance arrangements

<b>Oversight Team</b>		
<b>Name</b>	<b>Position/Organization</b>	<b>Role</b>
Mr Kai Berlick	Budget Director	Leader
Ms Alexandria Mackenzie-Hoff	Budget Analyst	Member
Ms Rufina Teulilo;	Senior Budget Analyst.	Member
<b>Assessment Team</b>		
<b>Name</b>	<b>Position/Organization</b>	<b>Role</b>
Iulai Lavea	PFM Adviser; PFTAC	Lead
Paul Seeds	PFM Adviser; PFTAC	Member
Richard Emery	Short Term Expert	Member
Chita Marzan	Short Term Expert	Member
Esther Lameko Poutoa	PASAI Representative	Member
Tiofilusi Tiueti	PASAI Representative	Member
PEFA Secretariat	PEFA Secretariat	Member
<b>Quality Assurance</b>		
<b>Reviewers:</b>		
Government of Cook Islands - Mr Kai Berlick		
PEFA Secretariat		
NZ Ministry of Foreign Affairs and Trade – Withdrew due to competing priorities		
ADB – Mr. James Webb		
IMF – Ms. Majdeline El Rayess/Ms. Laura Doherty		
<b>Concept Note</b>		
Date submitted for review:	<b>December 9, 2020</b>	
Date of final CN:	<b>Jan 4, 2021</b>	
<b>PEFA Report</b>		
Date submitted for review:	May 15, 2021	
Date submitted for follow-up:	July 4, 2021	
Date of final draft:	August 12, 2021	
Proposed date of publication:		

## Annex 2: Public sector agencies covered by the assessment

<b>Table 2: Structure of the public sector (list)</b>			
<b>Budgetary units (All)</b>	<b>Extrabudgetary units (five largest) *</b>	<b>Public corporations (five largest)</b>	<b>Social Security Funds (part of public sector)</b>
Ministry of Agriculture	Business Trade and Investment Board	Ports Authority	
Public Expenditure Review Committee and Audit Office	Cook Islands Tourism Corporation	Airport Authority	
Crown Law Office	Cook Islands Investment Corporation	Bank of the Cook Islands	
Ministry of Cultural Development	Cook Islands Seabed Minerals Authority	Avaroa Cable Ltd	
Ministry of Education	Financial Services Development Authority	Te Aponga Uira	
National Environment Service	Pa Enea Island Administration Offices (x10)	Te Mana Uira o Araura	
Ministry of Finance and Economic Management		To Tatou Vai Ltd	
Ministry of Foreign Affairs and Immigration			
Head Of State			
Ministry of Health			
Infrastructure Cook Islands			
Ministry of Internal Affairs			
Ministry of Justice			
Ministry of Corrective Services			
Ministry of Marine Resources			
Office of the Ombudsman			
Parliamentary Services			
Cook Islands Police Service			
Prime Minister's Office			
Public Service Commission			
Ministry of Transport			

## Annex 3: Evidence for scoring indicators

Indicators (PEFA 2016 framework)	Evidence
1. Aggregate expenditure out-turn	Budget Documents Book 1; 2017/18; 2018/19; 2019/20; 2020/21; <a href="http://www.mfem.gov.ck/economic-planning/public-financial-management">http://www.mfem.gov.ck/economic-planning/public-financial-management</a>
2. Expenditure composition out-turn	Functional data taken from Tables 6.4 and 6.3 of the 2020/21 and 2019/20 Budgets respectively. Economic classification data taken from Quarterly Financial Reports for June 2018, 2019, and 2020, tables 1, 2 and 3. Data on contingency reserves taken from Schedule 17.1 of Book 1 of the 2020/21 and 2019/20 Budgets.
3. Revenue out-turn	Quarterly Financial Reports June 2018; 2019; & 2020 Tables 1, 2, and 3
4. Budget classification	Budget Documents Book 1 – 2017/18; 2018/19; and 2019/20..
5. Budget documentation	Budget Documents Book 1; 2017/18; 2018/19; 2019/20; 2020/21
6. Central government operations outside financial reports	2019/20 Budget Document Book 1.
7. Transfers to sub-national governments	Budget Book 1; 2019-23;
8. Performance information for service delivery	Budget Documents Book 1 & 2; 2018/19; 2019-23
9. Public access to fiscal information	<a href="http://www.mfem.gov.ck/treasury/crown-accounting/crown-account-financial-reports">http://www.mfem.gov.ck/treasury/crown-accounting/crown-account-financial-reports</a> ; <a href="http://www.auditoffice.gov.ck/">http://www.auditoffice.gov.ck/</a> ; <a href="http://www.cookislands.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Half_Year_Economic_and_Fiscal_Update.pdf">http://www.cookislands.gov.ck/images/documents/economics_docs/Budget_Books/2019-20_Half_Year_Economic_and_Fiscal_Update.pdf</a> ;
10. Fiscal risk reporting	Budget Documents Book 1 & 2; 2018/19; 2019-23; Quarterly Financial Reports 2018/19; 2019/20
11. Public investment management	Budget Document 2019/20; Financial Procedures Manual; 2019-23 Capital Schedule, Sample Economic Analysis of major investment projects
12. Public asset management	Annual and Quarterly Financial Reports 2018, 2019. 2020
13. Debt management	Budget Documents Book 1; 2017/18; 2018/19; 2019/20; 2020/21; <a href="http://www.mfem.gov.ck/economic-planning/public-financial-management">http://www.mfem.gov.ck/economic-planning/public-financial-management</a>
14. Macroeconomic and fiscal forecasting	Budget Documents Book 1 & 2; 2017/18; 2018/19; 2019-23;
15. Fiscal strategy	2019/20 Budget Document Book 1;
16. Medium term perspective in expenditure budgeting	2020/21 Budget Document Book 1 & 2.
17. Budget preparation process	Budget Documents Book 1 & 2; 2018/19; 2019-23
18. Legislative scrutiny of budgets	Legislative Standing Orders' Budget Documents Book 1 & 2; 2018/19; 2019-23
19. Revenue administration	MFEM website <a href="http://www.mfem.gov.ck">www.mfem.gov.ck</a> - tax and customs data tabs. June 2020 Quarterly Report.pdf. <a href="http://www.mfem.gov.ck/economic-planning/public-financial-management">http://www.mfem.gov.ck/economic-planning/public-financial-management</a> . Documents on website: Revenue Management Charter; Tax forms and guides; tax legislation and policy; Customs revenue and border protection act and regulations; Customs Tariff Act; Customs Forms; RMD Compliance Improvement Strategy; MS Excel summaries of taxpayer contact logs and outreach; RMD Operational Plan; Tax Compliance Risk Register; Compliance Risk Committee Framework; Collections Operational Plan; Compliance Improvement Strategy; (COVID-19) Business Continuity Plan; RMD Collections Strategy; RMD Strategy and Business Plan 2020-2024.
20. Accounting for revenue	RMD and MCA deposit slips. RMD Collections Monthly Report.

21. Predictability of in-year resource allocation	Sample cash flow statements provided for: the national environment service; the Police Department; Pukapuka/Nassau Island Government. Output from the Planner software – Approved Cash Plans as at 9th February 2021. Sources for budget adjustments: Annual Budget and Appropriation Amendment for 2019/20.
22. Expenditure arrears	Arrears data provided in spreadsheet format by MFEM. Total Expenditure figures extracted from June 2020 Quarterly Financial Reports. <a href="http://www.mfem.gov.ck">Crown Account Financial Reports - Cook Islands - Ministry of Finance and Economic Management (www.mfem.gov.ck)</a>
23. Payroll controls	HRMIS/Payroll User Manual; Audit Trails of HR and Payroll Amendments; System Security Profiles
24. Procurement management	<a href="http://procurement.gov.ck/">http://procurement.gov.ck/</a> . The portal contains details of a few tender awards. The site also hosts the policies and procedures – Procurement Policy 2016; and the Government Fleet Management Policy 2018.
25. Internal controls on non-salary expenditure	2020 Financial Policies and Procedures; Audit Observations 2019-20
26. Internal audit	2020/21 Internal Audit Work Plan; IA Charter; Copy of completed reports and management response 2020
27. Financial data integrity	Reconciliation Reports Feb-Mar 2021; Payroll Information from MFEM;
28. In-year budget reports	Ministry/Agency Monthly Reports; Quarterly Reports; Ministries Monthly Spending reports; Outer Islands Analysis Reports;
29. Annual financial reports	2016/17, 2017/18, 2018/19 Audited Financial Statements; Cook Islands Audit Office Management Letters 2015-2017, 2-18 & 2019; Information provided by the Treasury Office (Cook Islands) by emails on 25 February 2021, and 5 March 2021.
30. External audit	2015-2019 Cook Islands Government Management Reports; Cook Islands Government Financial Statements (Audited) 2018 and 2019; Cook Islands Audit Office – Portfolio of Government Entities Audits 2014-2020, CIG Record of the Audit of Government Financial Statements 2010-2020; Audit Reports submitted to Parliament; Audit Office, Annual Plan 2020-2021, Strategic Plan 2015-2020, Budget Estimates 2020-2021
31. Legislative scrutiny of audit reports	Audit Reports submitted to Parliament;

## Annex 4: Sources of data – persons interviewed

Name	Position
<b>Ministry of Finance</b>	
Garth Henderson	Financial Secretary of the Ministry of Finance and Economic Management
Xavier Mitchell	Collector, Comptroller and Director of Revenue Management Division
David Toleafoa	Senior Tax Advisor, Revenue Management Division
Angelia Williams	Director of Major Projects and Procurement Services
Taina Iro	Procurement Manager, Major Projects and Procurement Services
Teu Teulilo	Director Treasury Operations, Treasury Management Division
Peerui Tepuretu	Shared Services Manager, Treasury Management Division
Terry Piri	Funds Manager, Treasury Management Division
Mii Lemalu	FMIS Project Manager, Treasury Management Division
Ana Narovu	Senior Crown Accountant, Treasury Management Division
Don Buchanan	Advisor- Treasury Operations, Treasury Management Division
Mani Mate	Director Development Co-ordination Division
Natalie Cooke	Director of Economic Planning Division
Tristan Metcalfe	Senior Macroeconomist, Economic Planning Division
Kai Berlick	Budget Manager, Economic Planning Division
Rufina Teulilo	Senior Budget Analyst, Economic Planning Division
Tekura Ringi	Budget Analyst, Economic Planning Division
Alex Mackenzie-Hoff	Budget Analyst, Economic Planning Division
<b>Office of the Auditor General</b>	
Allen Parker	Director of Audit
Desmond Wildin	Audit Advisor
<b>Parliament</b>	
Jeannine Daniel	Acting Clerk of Parliament
Sarah Takairangi	Senior Administration and Chamber Clerk
Margaret Numanga	Committee Secretary
<b>Other Agencies</b>	
Teresa Tura	Corporate Services Manager, Office of the Public Service Commissioner
Maxine Kokaua	Asset and Infrastructure Analyst, Cook Islands Investment Corporation
Allan Jensen	Chief Executive Officer, Cook Islands Investment Corporation



## Annex 5: Observations on internal control

Internal control components and elements	Summary of observations
<b>1. Control environment</b>	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	<p>There is a clear commitment of MFEM management staff to ensure proper and effective management of the budgeting process, expenditure controls and revenue management. Implementing the PFM reforms and the progress achieved over the past five years is a clear demonstration of that commitment.</p> <p>This is further facilitated by the 2020 Financial Policies and Procedures Manual (FPPM), specifically in Sections B, C, and D, where clear rules are stipulated on segregation of duties, expenditure authorization/approval at different levels; reconciliations to be performed at least monthly by a staff member different from the person/s receipting and banking the cash; controls in expenditures for purchase of goods and services, as well as the procedures for procurement tenders until supplier selection, contracting, delivery, and payment.</p> <p>Having the FMIS operational (although not 100% coverage yet) provides the system to ensure these controls are effectively put into practice.</p>
1.2 Commitment to competence	The Government is committed to capacity building and institutional strengthening to ensure competence in the implementation of PFM reform initiatives.
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	<p>There is commitment at the top-level management to ensure there’s efficiency in financial management and the way the budget is formulated and managed taking into account the views of stakeholders.</p> <p>There is good coordination between MFEM and line agencies as well as with stakeholders outside central government.</p>
1.4 Organisational structure	There is good collaboration between the various parties involved in financial management recognising the independence required for effective financial control. All ministries and agencies are required under the MFEM Act and the FPPM to adhere to the financial controls in the execution of their budgets.
1.5 Human resource policies and practices	Investment in human capital is one of the key national objectives in Cook Islands Economic Development Strategy 2030 with focus on strengthening career pathways and providing ongoing training and development of public sector employees to have the required skill set across the various disciplines including PFM.
<b>2. Risk assessment</b>	
2.1 Risk identification	<p>The following Indicators are associated with the risks that were identified.</p> <p><b>Economic Analysis of Investment Proposals is rated ‘C’ in 11.1.</b> Economic analyses are not conducted for every project above the \$30,000 threshold. The absence of a national guideline to standardize economic analysis processes is a concern.</p> <p><b>Debt Management Strategy is rated ‘A’ in 13.3</b> – The Debt Strategy is presented as part of the medium-term fiscal strategy</p> <p><b>Macroeconomic sensitivity analysis is rated ‘A’ in 14.3</b> – Beginning in the 2018/19 budget, sensitivity analyses were presented as part of the fiscal strategy.</p> <p><b>Revenue Risk Management is rated ‘A’ in 19.2</b> – The Revenue Management Division (RMD) has a structured approach to managing compliance risk, including the overarching RMD Collections Strategy 2019-2022, the Compliance Improvement Strategy, and Collections Operational Plan.</p> <p><b>Cash Flow Forecasting and Monitoring is rated ‘C’ in 21.2</b> - MCAs make changes to the cash plans on an ad-hoc basis, not on actual cash inflows and outflows. No evidence was provided of variance analysis being undertaken, whereby previous projections are compared against actual cash balances and flows.</p>
2.2 Risk assessment (significance and likelihood)	Refer to 2.1 above

2.3 Risk evaluation	The internal audit function was introduced in Cook Islands Government in 2016 with the issuance of an IA Charter. An Internal Audit Committee was formed with functions based on the IA Charter which are to review work plan and progress, completed audits, implementation of audit recommendations, including state of internal control in government. The function started by initially outsourcing to a local private auditing company to assist the Internal Audit Committee. In 2019, it was a transition period from outsourced to own government IA structure and staff. It was only in 2020 that internal audit staff were hired to man the central Internal Audit Unit which is based at MFEM and administratively reporting to the Treasury Management. The MFEM plans to carry out internal audit reviews across government agencies with an initial focus on those agencies that are handling cash receipts over the counter to ensure that payments are receipted properly and not misappropriated.
2.4 Risk appetite assessment	The identification and assessment of risk suggests there is appetite for risk-based assessment which will grow as the Internal Audit function is strengthened.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	The Office of the Public Service Commission is responsible for HR policies that responds to the risks of mismanagement by staff.
<b>3. Control activities</b>	
3.1 Authorization and approval procedure	<p><b>Financial data integrity processes are rated 'B' in 27.4.</b> The financial management information system (FMIS), is now operational but it only covers 20 percent of total MCAs. The delay in the roll out of the FMIS affects reconciliation, the integrity of data, and timing of reporting. Operating outside FMIS, means MCAs maintain their own bank accounts and operate outside the monitoring and oversight processes of the Treasury. This causes delay in accounts reconciliations and difficulties in identifying payments to clear at the end of a period. Consolidation of accounts is a challenge where agency accounts are audited at different times. Therefore, intercompany transactions do not match, which contributes to the delay in the production of annual financial statements.</p> <p><b>Recording and reporting of debt and guarantees are rated 'A' in 13.1.</b> The Budget, quarterly reports and financial statements provide comprehensive information on debt and guarantees, updated in the Treasury accounts on a monthly basis.</p> <p><b>Approval of debt and guarantees are rated 'A' in 13.2.</b> All debts and guarantees are reviewed by the Central Agencies Committee, endorsed by the Cabinet and approved by the Minister of Finance and submitted to Parliament for Appropriation.</p> <p><b>Effectiveness of expenditure commitment controls is rated 'C' in 25.2.</b> Expenditure commitment control procedures exist which provide partial coverage and are partially effective. Commitments are controlled against the budget and cash flow only at the time accounts payable is recorded upon receipt of the invoice. This can be improved in future once commitments are controlled and monitored at the purchase order stage.</p> <p><b>Integration of payroll and personal records is rated 'A' in 23.1.</b> The HRMIS is fully integrated with the payroll ensuring data consistency of staff records vis-à-vis human resource (HR) and payroll functions—updates to human resource records automatically reflect in the payroll. The approved establishment as the actual staffing complement are incorporated into the HR system. OSPC manages the actual staffing in the system, ensuring that new hires, promotions, etc. are consistent with the approved staffing list.</p> <p><b>Management of payroll changes is rated 'A' in 23.2.</b> In accordance with the Financial Policies and procedures manual, timesheets and other payroll adjustments are processed fortnightly. Once HR records are updated and approved by OPSC, MFEM input payroll data for the employee and process payroll fortnightly. This happens as a matter of course and retroactive</p>

	<p>adjustments are rarely required, so MFEM does not maintain data on late payment of payroll items.</p> <p><b>Compliance with payroll payment rules and procedures is rated 'A' in 23.3.</b> There are currently three separate active responsibility profiles, SUPER (2 named users); HRADMIN (6 named users); PRADMIN (2 named users). A system generated audit trail is produced highlighting the HR and payroll activity for editing and inserting new data.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p><b>Segregation of duties is rated 'B' in 25.1.</b></p> <p>Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for most key steps while further details may be needed in a few areas. More precise definition of important responsibilities particularly in reconciliation of infrastructure project expenditures may be needed.</p>
3.3 Controls over access to resources and records	<p><b>Compliance with payment rules and procedures is rated 'B' in 25.3.</b></p> <p>Most payments are compliant with regular payment procedures. The majority of exceptions are properly authorized and justified. There were audit qualifications in some ministries involving lack of documentation of transactions in other expenses, and monitoring and tracking of accounts payable.</p>
3.4 Verifications	<p><b>Accuracy of in-year budget reports which is rated 'C' in 28.3.</b> In-year budget reports provided information on payment and commitment, Analysis of budget execution is also provided in the quarterly report. However, reconciliation issues raised on bank accounts, suspense accounts, and advance accounts may impact data accuracy.</p>
3.5 Reconciliations	<p><b>Bank account reconciliations are rated 'D' in 27.1.</b> The reconciliations for all active government bank accounts were prepared for each month but were carried out within one to six months from the end of the month. However, there are still variances in the total balances of these reconciliations compared to in-year budget reports, and there are still large unreconciled balances in most active accounts.</p> <p><b>Suspense account reconciliations are rated 'D' in 27.2.</b> There are three suspense accounts used to temporarily record certain expenses in advance of the underlying transaction – as a mechanism to ensure the availability of funds. These are reconciled within four weeks of each month. The balances were not cleared by year-end. Justifications for not clearing these balances have yet to be provided.</p>
3.6 Reviews of operating performance	<p>Recently completed and ongoing internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls in the cash handling system of key agencies. Application of international standards has been mandated in the IA Charter and quality assurance arrangements, have been identified, but not yet fully operational.</p>
3.7 Reviews of operations, processes and activities	<p>Business processes, operations, and activities are included within the scope of internal and external audit and these are reviewed periodically.</p>
3.8 Supervision (assigning, reviewing and approving, guidance and training)	<p>An Internal Audit Committee was formed with functions based on the IA Charter which are to review work plan and progress, completed audits, implementation of audit recommendations, including state of internal control in government. There are plans to carry out internal audit reviews across government agencies with an initial focus on those agencies that are handling cash receipts over the counter.</p> <p>Training is a key component of the audit work.</p>
<b>4. Information and communication</b>	
	<p><b>Integrity of financial data scored B in Dimension 27.4.</b> The information on Payroll/HRMIS /PayGlobal system/Unit4 Business World (UBW) was provided including a user profile list with restricted and full access to information and authority to changes to records by creation and modification. There are audit trails from the Payroll/HRMIS/PayGlobal system, with an audit trail report for payroll amendments, same report can be tailored for user profiles. Similarly, with the UBW. The Internal Audit Body</p>

	<p>carries out the verification of data.</p> <p><b>The volume of performance information assessed in Dimension 8.2 scored C.</b> Performance delivery is not reported systematically. Agency presentations in Book 2 do summarize “Significant Achievements and Milestones”. These presentations do not appear to be directly related to output targets. Information is published annually on the activities performed for the majority of ministries.</p>
<p><b>5. Monitoring</b></p> <p>5.1 Ongoing monitoring</p>	<p><b>Resources received by service delivery units in Dimension 8.3 is rated A.</b> All budgetary resources are allocated within Ministries and agencies by output. Book 1, Chapter 8, provides descriptions of the intended outputs for all spending. Both the Education and Health Ministries outputs are organized by service delivery functions. Funding at the Ministry level is reported by these outputs</p> <p><b>Monitoring of public corporations in Dimension 10.1 is rated D.</b> Cook Islands Investment Corporation is responsible for overall management of the seven SOEs in the Cook Islands. The CIIC produced a consolidated financial statement for the SOEs: 30 of June 2019. The statement was issued by CIIC on 16 June 2020. It was audited by KPMG on 18 June 2020. The statement consolidates the finances of the seven SOEs; it does not provide information on the finances of the separate institutions. The government includes a consolidated statement of budget verses actual revenue and spending of SOEs in its quarterly reports, again with no information by institution.</p> <p><b>Monitoring of SNGs in Dimension 10.2 is rated C.</b> The Budget provides comprehensive information on financial assistance to the Pa Enea (outer islands) including actual and budgeted spending, funding formulas, other agency support, ODA support and an economic overview of each island. The finances of island governments are incorporated in the Quarterly Financial reports but are not audited or shown separately in the reports. The audit office does audit their annual financial reports.</p> <p><b>Contingent liabilities and other fiscal risks in Dimension 10.3 is rated A.</b> Contingent liabilities are described and quantified in the Budget. Regulations governing the financial reporting on contingent liabilities are set out in section B 9 of the FPP.</p> <p><b>Investment project monitoring in Dimension 11.4 is rated C.</b> The total cost and physical progress of major investment projects are monitored by the Project Coordination Committee with inputs from the government implementation unit Project Managers. Summary of project implementation by ministry is published annually in the Budget Book- Table 9. However, there are no standard rules and procedures on project implementation that are currently in place.</p> <p><b>Quality of central government financial asset monitoring in Dimension 12.1 is rated D.</b> Financial assets are reported in the annual financial statements of government, but the Auditor has cited questions about the record keeping and asset inventories used to establish values for the reports.</p> <p><b>Quality of central government non-financial asset monitoring in Dimension 12.2 is rated D.</b> Asset inventories are not fully established. Asset management standards are still being implemented.</p> <p><b>Revenue arrears monitoring in Dimension 19.4 is rated D, Total tax revenue arrears amounted to \$29.3 million (19.7% of annual tax revenue), however, 92% of the arrears were older than 1 year.</b></p> <p><b>Expenditure arrears monitoring in Dimension 22.2 is rated D.</b> In accordance with the FPPM all Ministries and Crown Agencies (MCAs) are required to maintain aged payables ledgers, submitted to the MFEM with the Monthly Variance Report by the 10th of the following month. This is facilitated by the FMIS allowing MFEM oversight on all payables, including their ageing—but only for</p>

	<p>those entities where FMIS has been rolled out. CIG operates the accrual basis of accounting and requires all invoices to be entered into the FMIS when they are received and all accruals to be entered as part of the month end closing process within 10 days of the month end. However, the FMIS is only partially rolled out (approximately 20% of entities), so comprehensive system generate data and analysis is not available.</p> <p><b>Procurement monitoring in Dimension 24.1 is rated D.</b> Procurement is managed through the Procurement Portal Cook Islands (PPCI). The Purchase and Sale of Goods and Services Policy (4th October 2016) and Fleet Management Policy (2018) are posted on the portal. Data is provided on current tenders, closed tenders, awarded tenders and asset sales. Data provided on awarded tenders, includes: Procuring agency; title of project; procurement method; successful tenderer; and contract price. However, the data is not readily downloadable from the website.</p>
5.2 Evaluations	<p><b>Performance evaluation for service delivery in Dimension 8.4 is rated D.</b> There is no performance evaluation for service delivery on an ongoing basis. In 2018, MFEM undertook a Public Expenditure Review done by a contractor. That review did evaluate the effectiveness of spending.</p> <p><b>Evaluation practices by implementing agencies for Investment project selection in Dimension 11.2 are rated C.</b> The Infrastructure Committee determines which project submissions are to be recommended to the Budget Committee. Thus, all investment projects included in the budget were selected and recommended by the Infrastructure Committee. However, at the time of selection, there were no documented standard selection criteria.</p> <p>Standardization of project selection criteria is a work in progress. Cabinet recently approved the expansion of the government investment review process titled Tarai Vaka (TVP, also referred to as TTV) which includes standardized templates and a workflow for review and approval.</p>
5.3 Management responses	<p><b>Response to IA recommendations. iAlthough not applicable for the last three years as there has been no audit reports submitted, the current year's accomplishments were noted in the report.</b> Management provides a partial response to audit recommendations for most entities audited. Since no audit was done in last 3 years, management response was assessed for audits completed as of time of the assessment. Management provided a full response to audit recommendations for 1 of 3 entities audited, and partial response to 2 of 3 audited entities.</p> <p><b>External audit follow-up in Dimension 30.3 is rated C.</b> Follow up is normally done at the next audit. Given the backlog in the audit, the audit issues raised in the audit of 2015-2017 were the same issues raised in 2018-2019</p>

## Annex 6: Tracking performance since previous PEFA assessment using PEFA 2005/2011 framework

Indicator/Dimension	Previous Assessment Year 2014	Current Assessment Year 2021	Change	Description of requirements met and progress between 2014 and 2021 using 2005/2011 PEFA methodology
<b>A. PFM OUT-TURNS: CREDIBILITY OF THE BUDGET</b>				
<b>PI-1 Aggregate expenditure out-turn compared to original approved budget</b>	<b>B</b>	<b>B</b>	↔	Actual expenditures as a percentage of the budget estimates fell between 90% and 109% for all the fiscal years; FY17/18, FY18/19 and FY19/20.
<b>PI-2 Composition of expenditure out-turn compared to original approved budget</b>	<b>B+</b>	<b>B+</b>	↔	:
(i) Extent of the variance in expenditure composition during the last 3 years	<b>B</b>	<b>B</b>	↔	Variance in expenditure composition by budget function was less than 10% in 2018/19 and 2019/20 which suggests a score of B. <ul style="list-style-type: none"> <li>• 2017/18 – 22.4%</li> <li>• 2018/19 – 8.8%</li> <li>• 2019/20 – 9.5%</li> </ul>
(i) Average amount of expenditure actually charged to the contingency vote over the last 3 years	<b>A</b>	<b>A</b>	↔	Expenditure from contingency reserves is restricted to costs that were not reasonably foreseeable when the budget was approved. Contingency expenditures were recorded as zero for all the past three years. This implies a score of A.
<b>PI-3 Aggregate revenue out-turn compared to original approved budget</b>	<b>A</b>	<b>C</b>	↓	Actual revenues exceeded budget revenues in each of the past three years
<b>PI-4 Stock and monitoring of expenditure payment arrears</b>	<b>B+</b>	<b>D+</b>	↓	Data on expenditure arrears is incomplete because not all Ministries and agencies are connected to the FMIS.
(i) Stock of expenditure payment arrears and a recent change in the stock.	<b>A</b>	<b>A</b>	↔	The Financial Policies and Procedures Manual (FPPM) Part D Section 21 addresses expenditure arrears, setting out the definition, mandatory requirements, and processes for preventing and reporting of arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	<b>B</b>	<b>D</b>	↓	The FMIS is only partially rolled out (approximately 20% of entities), so comprehensive system generate data and analysis is not available.
<b>B. COMPREHENSIVENESS AND TRANSPARENCY</b>				
<b>PI-5 Classification of the budget</b>	<b>C</b>	<b>B</b>	↑	PI-4 in 2016 Methodology; No change. The budget formulation, execution, and reporting of results are based on every level of administrative, economic, and functional classification using GFS/COFOG standards
<b>PI-6 Comprehensiveness of information included in budget documentation</b>	<b>A</b>	<b>A</b>	↔	PI-5 in 2016 Methodology; Budget documentation fills all twelve elements, including all four basic elements. In 2015, the budget filled 8 of 9 benchmarks. In 2021 the budget fulfills all standards.
<b>PI-7 Extent of unreported government operations.</b>	<b>C+</b>	<b>A</b>	↑	
(i) Level of unreported government operations	<b>A</b>	<b>A</b>	↔	Central government t operations outside financial reports are very minimal at less than 1%.
(ii) Income/expenditure information on donor-funded projects	<b>C</b>	<b>NA</b>		NA
<b>PI-8 Transparency of inter-governmental fiscal relations.</b>	<b>A</b>	<b>A</b>	↔	
(i) Transparency and objectivity in the horizontal allocation amongst Sub national Governments	<b>B</b>	<b>A</b>	↑	All transfers follow a transparent and rules-based system

Indicator/Dimension	Previous Assessment Year 2014	Current Assessment Year 2021	Change	Description of requirements met and progress between 2014 and 2021 using 2005/2011 PEFA methodology
(ii) Timeliness and reliable information to SN Governments on their allocations	A	A	↔	Six months is allowed to prepare Outer Islands budgets.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	NA		NA
<b>PI-9 Oversight of aggregate fiscal risk from other public sector entities.</b>	<b>C</b>	<b>D+</b>	<b>↓</b>	
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	D	↓	The CIIC statement does not provide data on individual institutions and did not meet the goal of reporting within nine months of the end of the fiscal year.
(ii) Extent of central government monitoring of SN government's fiscal position	C	C	↔	The finances of island governments are incorporated in the Quarterly Financial reports but are not audited or shown separately in the reports. The audit office does audit their annual financial reports.
<b>PI-10 Public access to key fiscal information</b>	<b>A</b>	<b>B</b>	<b>↓</b>	The government makes available to the public 6 elements, including 4 basic elements and 2 additional elements, in accordance with the specified timeframes.
<b>C. BUDGET CYCLE</b>				
<b>C (i) Policy-Based Budgeting</b>				
<b>PI-11 Orderliness and participation in the annual budget process</b>	<b>B</b>	<b>B</b>	↔	
(i) Existence of, and adherence to, a fixed budget calendar	A	B	↓	Ministries and agencies are given four weeks to complete their budget submissions.
(ii) Guidance on the preparation of budget submissions	C	A	↑	The budget circular provides clear information on , ministry ceilings, the constraints facing the budget, and budget timelines.
(iii) Timely budget approval by the legislature	C	D	↓	For the last two fiscal years 2019/20 and 2020/21, the budget was submitted to the legislature less than a month before the new financial year takes effect.
<b>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>C+</b>	<b>A</b>	<b>↑</b>	
(i) Multiyear fiscal forecasts and functional allocations	C	A	↑	The 20-21 Budget Book presented the medium-term estimates for the budget year and the three following fiscal years allocated by administrative, economic, and program or functional classifications.
(ii) Scope and frequency of debt sustainability analysis	A	A	↔	The medium-term expenditure ceilings were approved by the Cabinet, finalized and endorsed to the Parliament on May 19, 2020. These final ceilings have been communicated to the ministries in a letter dated May 23, 2020.
(iii) Existence of costed sector strategies	C	A	↑	The 2020-2021 Budget Book Volume 2 contains the individual ministry business plans indicating their key outputs and deliverables with cost estimates for each of next 5 years. Each key output is also linked with the National and Agency Strategic Plan Goals.
(iv) Linkages between investment budgets and forward expenditure estimates	C	A	↑	The budget documents provide an explanation of all changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the aggregate and ministry level.
<b>C (ii) Predictability and Control in Budget Execution</b>				
<b>PI-13 Transparency of taxpayer obligations and liabilities</b>	<b>A</b>	<b>A</b>		

Indicator/Dimension	Previous Assessment Year 2014	Current Assessment Year 2021	Change	Description of requirements met and progress between 2014 and 2021 using 2005/2011 PEFA methodology
(i) Clarity and comprehensiveness of tax liabilities	A	A	↔	PI-19.1 (discontinued) (2018 rating A)
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	↔	PI-19.1 Only comparable at subject level.
(iii) Existence and functioning of a tax appeal mechanism.	C	A	↑	PI-19.1. Clear guidance given to taxpayers on process for objecting to assessments
<b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>B+</b>	<b>NR</b>		
(i) Controls in the taxpayer registration system	B	A	↑	PI-19.3 (2018 Rating D). Audits are well planned but no evidence of follow up to oversee implementation of the audit plans
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	A	↑	Risk management operations target all categories of revenue—specifically, personal and company income tax, VAT and customs account for all (93%) of total taxation income.
(iii) Planning and monitoring of tax audit and fraud investigation programs	A	NR	↓	Despite having a good planning process for audits and investigations, no data is available on actual audits and investigations undertaken against the plans.
<b>PI-15 Effectiveness in collection of tax payments</b>	<b>NR</b>	<b>B</b>		
(i) Collection ratio for gross tax arrears	NR	D	↓	PI-19.4 (2018 Rated D). As at June 2020, 92% of arrears was older than 1 year.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	↔	All tax and non-tax revenue collections are deposited into the central treasury bank account on a daily basis.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	B	A	↑	PI-20.3 The assessments, collections, deposits to Treasury and arrears are managed in real-time. Bank reconciliation is undertaken monthly.
<b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>	<b>C+</b>	<b>C+</b>	↑	
(i) Extent to which cash flows are forecasted and monitored	C	C	↔	PI-21.2 (2018 Rating B). There was no evidence that cash forecasts were updated on the basis of actual cash balances and flows.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	A	A	↔	PI-21.3 (2018 Rating A). MCAs receive their annual budget appropriations in full at the start of the financial year.
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A	↔	PI-21.4 (2018 Rating C). Minor budget transfers are made quarterly, but these amount to only 0.23% of the budget.
<b>PI-17 Recording and management of cash balances, debt and guarantees</b>	<b>B</b>	<b>B</b>		
(i) Quality of debt data recording and reporting.	A	A	↔	PI-13.1 (2018 Rating A) The Budget, quarterly reports and financial statements provide comprehensive information on debt and guarantees, updated in the Treasury accounts on a monthly basis.
(ii) Extent of consolidation of the government's cash balances.	D	D	↔	PI-21.1 (2018 Rating D). Limited consolidation of cash balances – no TSA.
(iii) Systems for contracting loans and issuance of guarantees.	A	A	↔	PI-13.2 (2018 Rating A) All debt and guarantees must be reviewed by the Central Agencies Committee, endorsed by Cabinet and approved by the Minister of Finance and submitted to Parliament for Appropriation.
<b>PI-18 Effectiveness of payroll controls</b>	<b>B+</b>	<b>D+</b>	↔	



Indicator/Dimension	Previous Assessment Year 2014	Current Assessment Year 2021	Change	Description of requirements met and progress between 2014 and 2021 using 2005/2011 PEFA methodology
(i) Degree of integration and reconciliation between personnel records and payroll data.	A	A	↔	PI-23.1 (2018 Rating A) The HRMIS is fully integrated with the payroll ensuring data consistency of staff records vis-à-vis human resource (HR) and payroll functions—updates to human resource records automatically reflect in the payroll.
(ii) Timeliness of changes to personnel records and the payroll.	A	A	↔	PI-23.2 (2018 Rating A) In accordance with the Financial Policies and procedures manual, timesheets and other payroll adjustments are processed fortnightly for the whole payroll of central government.
(iii) Internal controls of changes to personnel records and the payroll.	A	A	↔	PI-23.3 (2018 Rating A) A system generated audit trail is produced highlighting the HR and payroll activity for editing and inserting new data for the whole payroll of central government.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	B	D	↓	PI-23.4 (2018 Rating B). No dedicated payroll audits undertaken in the reference period, i.e. past 3 years.
<b>PI-19 Competition, value for money and controls in procurement</b>	<b>C</b>	<b>D</b>		
New	C	D	↓	PI-24.1 (2018 Rating C).
(i) Evidence on the use of open competition for awards of contracts that exceed the nationally established monetary threshold or small contracts (percentage of the number of contract awards that are above the threshold).	NR	D		PI-24.23 (2018 Rating C) Information available on the website is incomplete.
(ii) Extent of justification for use of less competitive procurement methods.	C	D	↓	PI-24.3 (2018 Rating C) Incomplete data available
(iii) Existence and operation of a procurement complaints mechanism.	D	C	↑	PI-24.4 (2018 Rating C) The complaints mechanism in place is not sufficiently robust to address all the issues involved.
<b>PI-20 Effectiveness of internal controls for non-salary expenditure (M1)</b>	<b>C+</b>	<b>C+</b>	<b>-</b>	<b>Under the 2011 version, the aggregated rating methodology of this indicator is M1.</b>
(i) Effectiveness of expenditure commitment controls	C	C	↔	PI-25.2: Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B	B	↔	Commitments are controlled against the budget and cash flow only at the time accounts payable is recorded upon receipt of the invoice.
(iii) Degree of compliance with rules for processing and recording transactions	B	B	↔	PI-25.3: Most payments are compliant with regular payment procedures. The majority of exceptions are properly authorized and justified.
<b>PI-21 Effectiveness of internal audit</b>	<b>D</b>	<b>C+</b>	<b>↑</b>	The main improvement is starting 2020, IA became operational.
(i) Coverage and quality of the internal audit function.	D	C	↑	Internal audit is operational for central government entities representing the majority (57%) of budgeted expenditures and for central government entities collecting the majority of budgeted government revenue.
(ii) Frequency and distribution of reports	NA	B		Recently completed and ongoing internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls in the cash handling system of key agencies. Application of international standards has been mandated in the IA Charter but still in nascent stage; and quality assurance

Indicator/Dimension	Previous Assessment Year 2014	Current Assessment Year 2021	Change	Description of requirements met and progress between 2014 and 2021 using 2005/2011 PEFA methodology
				arrangements, have been identified, but not yet fully operational.
(iii) Extent of management response to internal audit findings.	NA	NA		Management provides a partial response to audit recommendations for most entities audited. Since no audit was done in last 3 years, management response was assessed for audits completed as of time of the assessment. Management provided a full response to audit recommendations for 1 of 3 entities audited, and partial response to 2 of 3 audited entities.
<b>C (iii) Accounting, Recording and Reporting</b>				
<b>PI-22 Timeliness and regularity of accounts reconciliation</b>	<b>A</b>	<b>D</b>	<b>↓</b>	
(i) Regularity of bank reconciliation	A	D	↓	The reconciliations for all active government bank accounts were prepared for each month but were carried out within one to six months from the end of the month.
(ii) Regularity and clearance of suspense accounts and advances	A	D	↓	There are three suspense accounts used to temporarily record certain expenses in advance of the underlying transaction – as a mechanism to ensure the availability of funds. These are reconciled within four weeks of each month. The balances were not cleared by year-end. Justifications for not clearing these balances were not provided.
<b>PI-23 Availability of information on resources received by service delivery units</b>	<b>A</b>	<b>A</b>	<b>↔</b>	PI-8.3; All budgetary resources are allocated within Ministries and agencies by output. Book 1, Chapter 8, provides descriptions of the intended outputs for all spending. Both the Education and Health Ministries outputs are organized by service delivery functions. Funding at the Ministry level is reported by these outputs. Funding from donors is incorporated in the budget. There is virtually no non-public funding in the Cook Islands Budget.
<b>PI-24 Quality and timeliness of in-year budget reports</b>	<b>C+</b>	<b>D+</b>		
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	C	B	↑	PI-28.1; In-year budget reports are highly aggregated, showing only economic classification, including cash and debt. Outer-island analysis and Ministries' Monthly report are provided and show administrative headings but not consolidated. The financial position is consolidated at the end of the financial year report
(ii) Timeliness of the issue of reports	B	D	↓	PI-28.2; In-year budget reports are produced quarterly. Ministries/Agencies submitted individual monthly budget report. Crown Team also prepares a monthly High-level report as a result of cash balance requirements during the Cook Islands COVID-19 Pandemic. Treasury provides a weekly Cash update. Timing of issuing this report from the end of quarter and months varies, with monthly reports available within one to two weeks, whereas quarterly reports were available within three to four months after period end.
(iii) Quality of information	B	C	↓	PI-28.3; In-year budget reports provided information on payment and commitment, Analysis of budget

Indicator/Dimension	Previous Assessment Year 2014	Current Assessment Year 2021	Change	Description of requirements met and progress between 2014 and 2021 using 2005/2011 PEFA methodology
				execution is also provided in the quarterly report. However, reconciliation issues raised on bank accounts, suspense accounts, and advance accounts may impact data accuracy.
<b>PI-25 Quality and timeliness of annual financial statements</b>	<b>D+</b>	<b>D+</b>	↔	
(i) Completeness of the financial statements	A	A	↔	Financial Statements are prepared annually on an accrual basis and are consistent with the approved budget. The financial statements include a statement of financial performance showing revenue and expenditure, a statement of financial position showing financial and tangible assets, liabilities, guarantees, and long-term obligations. A reconciled cash flow statement is also prepared. Notes to the accounts include information on guarantees as well as some long-term obligations.
(ii) Timeliness of submissions of the financial statements	D	D	↔	Financial reports are late and submitted for audit more than 12 months after the financial year for the last three completed fiscal years. The preparation of the 2019-20 financial statements is still in progress.
(iii) Accounting standards used	A	A	↔	Financial statements comply with International Public Sector Accounting Standards unless otherwise specified in the financial statements. A Statement of Compliance is also included in the Financial Statements. There is a deviation from IPSAS regarding disclosure of low-interest concession loans. This is explained in the Notes to the Accounts, and policies are applied consistently over time
<b>C (iv) External Scrutiny and Audit</b>				
<b>PI-26 Scope, nature and follow-up of external audit</b>	<b>C+</b>	<b>D+</b>	↓	
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	B	↔	PI-30.1; Audits are done in line with audit standards and 100% of government entities in operation have been audited up to 2019. 29 Government entities financial statements were audited in accordance with ISSAI, 17 were reviewed in accordance with ISRE 2400 and 12 State owned entities financial statements were audited in accordance with ISA. Overall, the scope is estimated at over 90% of total expenditure as of last audit.
(ii) Timeliness of submission of audit reports to the Legislature	B	D	↓	PI-30.2; The Audit Office has submitted some reports to Parliament including reviews, performance audits and special reports. There have been no Annual Reports for the years 2015-2020. They have submitted a report to Parliament in February 2021 highlighting management issues raised during the audits for the financial years 2015 to 2017 completed in December 2019.
(iii) Evidence of follow up on audit recommendations	C	C	↔	Follow up is normally done at the next audit. Given the backlog in the audit, the audit issues raised in the audit of 2015-2017 were the same issues raised in 2018-2019.
<b>PI-27 Legislative scrutiny of the annual budget law</b>	<b>D+</b>	<b>C+</b>	↑	

Indicator/Dimension	Previous Assessment Year 2014	Current Assessment Year 2021	Change	Description of requirements met and progress between 2014 and 2021 using 2005/2011 PEFA methodology
(i) Scope of the legislature scrutiny	C	C	↔	The legislature's review covered details of expenditure and revenue. The medium-term Fiscal Policy and priorities are prepared and submitted to the Parliament but these have not been discussed in Parliament sessions.
(ii) Extent to which the legislature's procedures are well established and respected.	C	C	↔	The legislature's procedures (Standing Orders) to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to, except that the review of the economic and fiscal policy on first reading was not done.
(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)	D	C	↑	The legislature has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years, with 2018-19 budget approval delayed by more than one month, due to the conduct of the national election.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	A	↑	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances.
<b>PI-28 Legislative scrutiny of external audit reports</b>	<b>D</b>	<b>NR</b>		
(i) Timeliness of examination of audit reports by the legislature	D	NR		There is no evidence that Parliament scrutinized the reports from the Audit Office
(ii) Extent of hearing on key findings undertaken by the legislature	D	NR		There is no evidence from Parliament of any hearings relative to the audit reports
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	NR		There is no evidence that legislature acted on the recommendations of the last audit report

# Annex 7: Calculation of budget outturns for PI-1, PI-2 and PI-3

## PEFA 2016 METHODOLOGY

Calculation Sheet for Dimensions PI-1.1, PI-2.1 and PI-2.3						
Step 1: Enter the three fiscal years used for assessment in table 1.						
Step 2: Enter the <b>administrative OR functional</b> head for up to 20 heads.						
The 21st line will be the sum of figures for all remaining heads (if any).						
Step 3: Enter <b>budget</b> and <b>actual</b> expenditure data for each of the three years in tables 2, 3, and 4 respectively.						
Step 4: Enter <b>contingency</b> data for each of the three years in tables 2, 3, and 4 respectively.						
Step 5: Read the results for each of the three years for each indicator in table 5.						
Step 6: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.						
<b>Table 1 - Fiscal years for assessment</b>						
Year 1 =	2017/18					
Year 2 =	2018/19					
Year 3 =	2019/20					
<b>Table 2</b>						
Data for year =	2017/18					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Services	43,486	33,816	39,008.9	-5,192.5	5,192.5	13.3%
Public Order and Safety	5,927	7,741	5,316.9	2,423.6	2,423.6	45.6%
Economic Affairs	55,928	59,083	50,170.4	8,912.3	8,912.3	17.8%
Environmental Protection	4,616	2,035	4,140.9	-2,106.1	2,106.1	50.9%
Housing and Community Amenities	26,219	11,330	23,519.8	-12,189.8	12,189.8	51.8%
Health	15,083	15,070	13,530.0	1,540.5	1,540.5	11.4%
Recreation, Culture and religion	1,903	2,195	1,706.9	488.1	488.1	28.6%
Education	20,367	22,171	18,270.5	3,901.0	3,901.0	21.4%
Social Protection	20,052	20,210	17,987.5	2,222.9	2,222.9	12.4%
			0.0	0.0	0.0	#DIV/0!
12			0.0	0.0	0.0	#DIV/0!
13			0.0	0.0	0.0	#DIV/0!
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0.0	#DIV/0!
17			0.0	0.0	0.0	#DIV/0!
18			0.0	0.0	0.0	#DIV/0!
19			0.0	0.0	0.0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	193581.3	173651.8	173,651.8	0.0	38,976.9	
interests						
contingency						
total expenditure	193581.3	173651.8				
aggregate outturn (PI-1)						89.7%
composition (PI-2) variance						22.4%
contingency share of budget						0.0%
<b>Table 3</b>						
Data for year =	2018/19					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Services	38,279	41,701	36,853.8	4,847.2	4,847.2	0.131525
Public Order and Safety	8,912	8,804	8,579.9	224.1	224.1	0.02612
Economic Affairs	58,998	50,044	56,800.7	-6,756.7	6,756.7	0.118955
Environmental Protection	3,670	2,080	3,533.4	-1,453.4	1,453.4	0.411335
Housing and Community Amenities	33,337	34,265	32,095.2	2,169.8	2,169.8	0.067605
Health	17,056	17,156	16,421.0	735.0	735.0	0.044761
Recreation, Culture and religion	5,526	4,713	5,320.0	-607.0	607.0	0.114104
Education	20,860	20,088	20,083.5	4.5	4.5	0.000224
Social Protection	20,838	20,899	20,062.4	836.6	836.6	0.041699
			0.0	0.0	0.0	#DIV/0!
10			0.0	0.0	0.0	#DIV/0!
11			0.0	0.0	0.0	#DIV/0!
12			0.0	0.0	0.0	#DIV/0!
13			0.0	0.0	0.0	#DIV/0!
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0.0	#DIV/0!
17			0.0	0.0	0.0	#DIV/0!
18			0.0	0.0	0.0	#DIV/0!
19			0.0	0.0	0.0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	207476	199750	199,750.0	0.0	17,634.3	
interests						
contingency						
total expenditure	207476	199750				
aggregate outturn (PI-1)						96.3%
composition (PI-2) variance						8.8%
contingency share of budget						0.0%
<b>Table 4</b>						
Data for year =	2019/20					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Public Services	40,874	50,665	44,550.6	6,114.4	6,114.4	0.137246
Public Order and Safety	8,954	9,749	9,759.4	-10.4	10.4	0.001067
Economic Affairs	66,633	73,022	72,626.6	395.4	395.4	0.005444
Environmental Protection	3,561	3,004	3,881.3	-877.3	877.3	0.226035
Housing and Community Amenities	24,883	21,794	27,121.2	-5,327.2	5,327.2	0.196423
Health	18,485	24,461	20,147.7	4,313.3	4,313.3	0.214082
Recreation, Culture and religion	2,149	2,057	2,342.3	-285.3	285.3	0.121804
Education	20,630	19,930	22,485.7	-2,555.7	2,555.7	0.113658
Social Protection	22,847	23,135	24,902.1	-1,767.1	1,767.1	0.070961
			0.0	0.0	0.0	#DIV/0!
10			0.0	0.0	0.0	#DIV/0!
11			0.0	0.0	0.0	#DIV/0!
12			0.0	0.0	0.0	#DIV/0!
13			0.0	0.0	0.0	#DIV/0!
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0.0	#DIV/0!
17			0.0	0.0	0.0	#DIV/0!
18			0.0	0.0	0.0	#DIV/0!
19			0.0	0.0	0.0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	209016	227,817.0	227,817.0	0.0	21,646.0	
interests						
contingency						
total expenditure	209016	227817				
aggregate outturn (PI-1)						109.0%
composition (PI-2) variance						9.5%
contingency share of budget						0.0%
<b>Table 5 - Results Matrix</b>						
year	for PI-1.1 total exp. outturn		for PI-2.1 composition variance		for PI-2.3 contingency share	
2017/18	89.7%		22.4%		0.0%	
2018/19	96.3%		8.8%		0.0%	
2019/20	109.0%		9.5%		0.0%	

**Calculation Sheet for Expenditure by Economic Classification Variance PI-2.2**

Step 1: Enter the three fiscal years used for assessment in table 1.

expenditure data for each of the three years

Step 3: Read the results for each of the three years for each indicator in table 5.

**Table 1 - Fiscal years for assessment**

Year 1 =	2017/18
Year 2 =	2018/19
Year 3 =	2019/20

**Table 2**

Data for year = 2017/18						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry outputs	76282	70269	71,991.3	-1,722.3	1,722.3	2.4%
Personnel			0.0	0.0	0.0	#DIV/0!
Operating			0.0	0.0	0.0	#DIV/0!
Administered payments	39467	33233	37,247.1	-4,014.1	4,014.1	10.8%
Depreciation			0.0	0.0	0.0	#DIV/0!
POBOCC	25919	24851	24,461.1	389.9	389.9	1.6%
Debt interest			0.0	0.0	0.0	#DIV/0!
Crown Infrastructure & Contingency Depreciation			0.0	0.0	0.0	#DIV/0!
Transfer to Emergency Trust Fund						
Contingency Funds - Operating		682				
Other expenses and financing	12382	16350				
<b>Total expenditure</b>	<b>154050</b>	<b>145385</b>	<b>#####</b>	<b>-5,346.5</b>	<b>6,126.2</b>	
composition variance						4.6%

**Table 3**

Data for year = 2018/19						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry outputs	84,769	79,389	78,662.9	726.1	726.1	0.9%
Personnel			0.0	0.0	0.0	#DIV/0!
Operating			0.0	0.0	0.0	#DIV/0!
Administered payments	46,170	41,213	42,844.3	-1,631.3	1,631.3	3.8%
Depreciation			0.0	0.0	0.0	#DIV/0!
POBOCC	25,580	26,262	23,737.4	2,524.6	2,524.6	10.6%
Debt interest			0.0	0.0	0.0	#DIV/0!
Crown Infrastructure & Contingency Depreciation			0.0	0.0	0.0	#DIV/0!
Transfer to Emergency Trust Fund						
Contingency Funds - Operating		308				
Other expenses and financing	9,559	6,943				
<b>Total expenditure</b>	<b>166,078</b>	<b>154,115</b>	<b>#####</b>	<b>1,619.4</b>	<b>4,882.0</b>	
composition variance						3.4%

**Table 4**

Data for year = 2019/20						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry outputs	167,099	146,416	#####	971.2	971.2	0.7%
Personnel	63,001	57,911	54,836.8	3,074.2	3,074.2	5.6%
Operating	20,655	19,209	17,978.3	1,230.7	1,230.7	6.8%
Administered payments	76,447	61,928	66,540.3	-4,612.3	4,612.3	6.9%
Depreciation	6,996	7,368	6,089.4	1,278.6	1,278.6	21.0%
POBOCC	28,190	27,008	24,536.9	2,471.1	2,471.1	10.1%
Debt interest	2,228	1,785	1,939.3	-154.3	154.3	8.0%
Crown Infrastructure & Contingency Depreciation			0.0	0.0	0.0	#DIV/0!
Transfer to Emergency Trust Fund	6,776	1,786				
Contingency Funds - Operating	50	50				
Other expenses and financing	850	586				
<b>Total expenditure</b>	<b>372,292</b>	<b>324,047</b>	<b>#####</b>	<b>4,259.3</b>	<b>13,792.4</b>	
composition variance						4.3%

**Table 5 - Results Matrix**

year	composition variance
2017/18	4.6%
2018/19	3.4%
2019/20	4.3%

**Calculation Sheet for Revenue outturn (Oct 2018)**

Step 1: Enter the three fiscal years used for assessment in table 1.  
 Step 2: Enter **budget** and **actual** revenue data for each of the three years in tables 2, 3, and 4 respectively.  
 Step 3: Read the results for each of the three years for each dimension in table 5.

**Table 1 - Fiscal years for assessment**

Year 1 =	2017/18
Year 2 =	2018/19
Year 3 =	2019/20

**Table 2**

Data for year = 2017/18						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxation revenue	118,409	140,587	#####	664.5	664.5	0.5%
Other Crown revenue	22,190	26,587	26,221.7	365.3	365.3	1.4%
Trading revenue	6,169	7,707	7,289.8	417.2	417.2	5.7%
Interest on loans to subsidiaries			0.0	0.0	0.0	#DIV/0!
Dividends			0.0	0.0	0.0	#DIV/0!
Interest on balances			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Core Sector Support	7,766	7,730	9,177.0	-1,447.0	1,447.0	15.8%
Grants from international organizations			0.0	0.0	0.0	#DIV/0!
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income			0.0	0.0	0.0	#DIV/0!
Sales of goods and services			0.0	0.0	0.0	#DIV/0!
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0.0	0.0	0.0	#DIV/0!
Sum of rest			0.0	0.0	0.0	#DIV/0!
<b>Total revenue</b>	154534	182611	#####	0.0	2,894.0	
overall variance						118.2%
composition variance						1.6%

**Table 3**

Data for year = 2018/19						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxation revenue	148,153	159,060	#####	-8,925.3	8,925.3	5.3%
Other Crown revenue	22,622	37,862	25,650.3	12,211.7	12,211.7	47.6%
Trading revenue	6,646	5,284	7,535.7	-2,251.7	2,251.7	29.9%
Interest on loans to subsidiaries			0.0	0.0	0.0	#DIV/0!
Dividends			0.0	0.0	0.0	#DIV/0!
Interest on balances			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Core Sector Support	7,730	7,730	8,764.8	-1,034.8	1,034.8	11.8%
Grants from international organizations			0.0	0.0	0.0	#DIV/0!
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income			0.0	0.0	0.0	#DIV/0!
Sales of goods and services			0.0	0.0	0.0	#DIV/0!
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
insurance and standardized guarantee			0.0	0.0	0.0	#DIV/0!
Sum of rest			0.0	0.0	0.0	#DIV/0!
<b>Total revenue</b>	185151	209936	#####	0.0	24,423.5	
overall variance						113.4%
composition variance						11.6%

**Table 4**

Data for year = 2019/20						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxation revenue	130,554	148,281	#####	6,381.2	6,381.2	4.5%
Other Crown revenue	25,115	24,790	27,297.6	-2,507.6	2,507.6	9.2%
Trading revenue	4,927	3,422	5,355.2	-1,933.2	1,933.2	36.1%
Interest on loans to subsidiaries	830	360	902.1	-542.1	542.1	60.1%
Dividends	2,070	960	2,249.9	-1,289.9	1,289.9	57.3%
Interest on balances	1,740	2,968	1,891.2	1,076.8	1,076.8	56.9%
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Core Sector Support	14,730	14,825	16,010.1	-1,185.1	1,185.1	7.4%
Grants from international organizations			0.0	0.0	0.0	#DIV/0!
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income			0.0	0.0	0.0	#DIV/0!
Sales of goods and services			0.0	0.0	0.0	#DIV/0!
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
insurance and standardized guarantee			0.0	0.0	0.0	#DIV/0!
Sum of rest			0.0	0.0	0.0	#DIV/0!
<b>Total revenue</b>	179966	195606	#####	0.0	14,915.9	
overall variance						108.7%
composition variance						7.6%

**Table 5 - Results Matrix**

year	total revenue deviation	composition variance
2017/18	118.2%	1.6%
2018/19	113.4%	11.6%
2019/20	108.7%	7.6%