# INTERNATIONAL MONETARY FUND

Pacific Financial Technical Assistance Center

# COOK ISLANDS

## PUBLIC FINANCIAL MANAGEMENT—PERFORMANCE REPORT

**Prepared by a PEFA Assessment Team from the Cook Islands Government, the IMF/Pacific Financial Technical Assistance Center, and the Australian Department of Finance**

**August 2015**

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# ABBREVIATIONS

| | |
|---|---|
| ADB | Asian Development Bank |
| AGA | Autonomous Government Agencies (known as Crown-funded agencies in the Cook Islands) |
| AMD | Aid Management Division of MFEM AusAID Australian Agency for International Development |
| BPS | Budget Policy Statement |
| CIG | Government of the Cook Islands |
| CIGFPPM | Cook Islands Government Financial Policies and Procedures Manual |
| CIIC | Cook Islands Investment Corporation |
| DSA | Debt Sustainability Analysis |
| EU | European Union |
| FMIS | Financial Management Information System |
| GAAP | Generally Accepted Accounting Principles |
| GDP | Gross Domestic Product |
| GFS | Government Finance Statistics |
| HYEFU | Half Year Economic and Fiscal Update |
| HRMIS | Human Resources Management Information System |
| IPSAS | International Public Sector Accounting Standards |
| IMF | International Monetary Fund |
| MoE | Ministry of Education |
| MFEM | Ministry of Finance and Economic Management |
| MFEM Act | Ministry of Finance and Economic Management Act 1995-96 |
| MoH | Ministry of Health |
| MDAs | Ministries, Departments, and Agencies under the CIG |
| MTBF | Medium Term Budgetary Framework |
| N/A | Not applicable (for given indicator) |
| NR | Not rated (for given indicator) |
| NSDP | National Sustainable Development Plan |
| NZAID | New Zealand's International Aid and Development Agency (now referred to as the NZ Aid Programme |
| OECD | Organization of Economic Co-operation and Development |
| OPM | Office of the Prime Minister |
| PAYE | Pay As You Earn taxation |
| PE | Public enterprise |
| PEFA | Public Expenditure and Financial Accountability |
| PERC | Public Expenditure Review Committee |
| PERCA | Public Expenditure Review Committee and Audit (generally refers to the Audit Office) |
| PFM | Public Financial Management |
| PFM-PR | Public Financial Management – Performance Report |
| PI | Performance Indicator |
| POBOC | Payments on behalf of the Crown |
| OPSC | Office of the Public Service Commission |
| ROBOCs | Revenue on Behalf of the Crown |
| RMD | Revenue Management Division of MFEM |
| SOE | State Owned Enterprise |
| SNG | Sub-National Government |
| TMD | Treasury Management Division of MFEM |
| VAT | Value Added Tax |

## Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for the Cook Islands Government final report dated August 2015. The actual assessment period was from November 24, 2014 to December 12, 2014. This is a repeat of the previous assessment conducted in 2011. It was initiated by the Cook islands Ministry of Finance and Economic Management, with technical assistance from the Pacific Financial Technical Assistance Center (PFTAC), and the Australia Department of Finance.

### *1. Review of Concept Note and/or Terms of Reference*

Since October 2014, the drafting of the concept note and/or terms of reference were initiated jointly by PFTAC and the Ministry of Finance and Economic Management, Cook Islands. Draft concept note dated November 30, 2014 was submitted for review on same date to the following reviewers:

1) Richard Neves, Ministry of Finance and Economic Management, Cook Islands

2) Richard Bontjer, Department of Foreign Affairs and Trade, Government of Australia

3) Eliko Pedastsaar, Fiscal Affairs Department, International Monetary Fund

4) Holy Tiana Rame, PEFA Secretariat

Comments were received by PFTAC from PEFA Secretariat on December 3, 2014, and from Mr. Richard Bontjer of DFAT on December 2, 2014. PEFA Secretariat clarified whether development partners would include other organizations aside from IMF and DFAT. This comment was noted and other development partner in addition to IMF and DFAT was sought as report reviewer, see Section 2 below.

DFAT suggested (i) to explain how the consultations will occur and the amount of time proposed to be taken to demonstrate it is sufficient for a legitimate consultation and how any feedback will be documented and taken into account within the report (for transparency back to those consulted). (ii) Summary Assessment should cover the likely overall impact of identified PFM weaknesses (low scores) on fiscal discipline, strategic allocation of resources and efficient service delivery rather than simply being descriptive. It should also explain why these should be priorities. PFTAC responded saying that the Assessment Team is take note of the suggestions while conducting the consultations and in the drafting of the report.

### *2. Review of draft report*

Draft report dated December 2014 was submitted for review on February 1, 2015, to the following reviewers:

1) Richard Bontjer, Department of Foreign Affairs and Trade, Government of Australia name and entity/organization]

2) Eliko Pedastsaar and Ha Vu, Fiscal Affairs Department, International Monetary Fund name and entity/organization]

3) Ron Hackett, PFTAC

4) Jean Michel Champomier, PEFA Secretariat

5) Vinayak Nagaraj, of the New Zealand Ministry of Foreign Affairs and Trade (On March 5, 2015, Mr. Vinayak Nagaraj, of the New Zealand Ministry of Foreign Affairs and Trade, volunteered to also review the report, and on same date the draft report was forwarded to him for review).

All the above reviewers submitted their individual comments to the draft report.

***3. Review of final draft report***

A revised final draft assessment dated August 2015 was forwarded to reviewers on August 4, 2015 and included a summary table showing the proposed changes to the original scores, and other response to comments raised by all reviewers. No other comments were received.

***4.*** This form, describing the quality assurance arrangements is included in the revised draft report.

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The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK'**.

PEFA Secretariat
August 19, 2015

## PREFACE

As part of its efforts to improve the Public Financial Management (PFM) performance, the Ministry of Finance and Economic Management (MFEM) of the Cook Islands Government (CIG) initiated a Public Expenditure and Financial Accountability (PEFA) assessment from November 24 to December 12, 2014. This assessment has undergone a quality assurance mechanism (see Disclosure in Annex 4). The CIG Assessment Team (see names in Annex 4) includes an oversight group led by Mr. Richard Neves, Financial Secretary, MFEM, and a technical team led by Ms. Lavinia Tama, head of Budget Division, MFEM. The assessment was done jointly with an External Advisors Assessment Team led by Ms. Chita Marzan, PFM Adviser, of the IMF's Pacific Financial Technical Assistance Center (PFTAC), and composed of PFTAC's PFM experts-- Messrs. Stephen Mayes and Savenaca Narube, and Ms. Lindell McConnell, of the Australian Department of Finance.

This 2014 PEFA assessment is an update of the 2011 assessment. Prior to the 2014 assessment, the MFEM in consultation with key stakeholders in the CIG, and with guidance from Messrs. Mayes and Narube of PFTAC, performed an interim self-assessment in 2013 using the PEFA framework. Based on the results of the 2013 interim assessment, an indicative reform roadmap for internal use by MFEM was formulated. This interim exercise served as a hands-on training of the MFEM staff on the use of the PEFA framework, and served as basis of prioritizing and implementing reforms in the short-term.

During this 2014 assessment, consultative meetings (see Annex 5 of Names of Persons Met) were held with various stakeholders in the CIG, including development partners such as the Asian Development Bank (ADB) and New Zealand High Commission, and organizations from the, private sector, and civil society, such as the Chamber of Commerce and the Red Cross Society. The consultation with CIG stakeholders was intended to assess the current level of development of the concerned PFM policies, systems or processes, vis-à-vis the PEFA framework, the changes in performance from 2011, as well as the factors that contributed to these changes or no change. As part of the quality assurance mechanism, comments to the initial draft of the report were sought from peer reviewers: Mr. Ron Hackett of PFTAC, Ms. Eliko Pedastsaar and Ms. Ha Vu, of the Fiscal Affairs Department, IMF; the PEFA Secretariat, Mr. Vinayak Nagaraj, Ministry of Foreign Affairs and Trade, New Zealand, and Mr. Richard Bontjer of the Australia Department of Foreign Affairs and Trade.

The Joint Assessment Team would like to thank all the Cook Islands (CI) institutions and stakeholders as well as the above peer reviewers for their guidance and support to this 2014 PEFA assessment. Particular thanks are due to the staff of MFEM for the excellent support in coordinating the preparation of meetings and provision of documents needed.

## SUMMARY ASSESSMENT

1. **In the last three years, Public Financial Management (PFM) performance in Cook Islands Government (CIG) has improved in terms of budget credibility mainly due to improved budget execution, monitoring, and reporting.** Upgrading of information systems has significantly contributed to the improvement. However, challenges are still noted in multi-year fiscal planning and budgeting, as well as on 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, there has not been significant improvement in timeliness of external audit and scope of legislative scrutiny. These challenges have in one way or another affected fiscal discipline, strategic allocation of resources, and efficiency of service delivery. Details are further discussed below.

### Integrated Assessment of Performance

***Areas That Improved in Performance***

2. **The 2014 assessment shows that several improvements have been made since 2011.** The improvements were noted in the following areas: budget credibility, arrears monitoring; comprehensiveness of budget documentation, transparency of allocation to sub-national governments, public access to reports on resources received by service delivery units, adherence to the budget preparation calendar; debt sustainability analysis; transparency of taxpayers obligations; effectiveness of taxpayers registration and collection system, frequency and timeliness of debt reporting; payroll controls; publication of bid opportunities and contract awards; completeness and timeliness of bank reconciliation processes; completeness of financial statements, and consistency of accounting policies.

**3. Improvements in budget execution and reporting can be attributed mainly by the increased frequency of monitoring by Treasury.** It was also in 2012 that Treasury started monitoring arrears. The improved payroll controls was due to the new integrated payroll and HR system. Improvements on revenue administration were due to the amendment of tax laws and upgrading of the Revenue Management System**.**

***Current Strengths***

4. **The current strengths of the PFM systems in CIG as shown by 14 indicators that were rated at least B were found in the following areas:** budget documentation, adequacy of time allowed for ministries/departments/agencies (MDAs) in budget preparation, budget credibility, monitoring of expenditure arrears, transparency of inter-governmental fiscal relations, providing public access to fiscal information, revenue administration systems including transparency of tax legislations and tax information, debt recording and reporting, payroll controls, timeliness of accounts reconciliation, and availability of information on resources and expenditures of service delivery units.

*Remaining Challenges*

5. **The 15 indicators that were rated C or C+ and D or D+ reflect the remaining challenges.** Among them are: lack of multi-year perspective in fiscal planning; lack of commitment reporting and control, and inadequacy of internal control on payroll and other expenditures; inability to consolidate daily cash balances; monitoring and reporting of consolidated fiscal risks from state-owned enterprises; implementation of the new procurement policy framework; delayed release of consolidated financial statements and audit reports; lack of internal audit function; and inadequate legislative scrutiny. There were two indicated that were not rated (PI 15(i) and PI D1 (i)) due to lack of data at the time of assessment.

6. **The lack of automated commitment control at the ministry level is due to limitations in the line ministries' accounting systems.** In Cook Islands, there is no common accounting system or FMIS. A future direction on this could be to develop a common accounting system which can be accessed by all line ministries in the main and outer islands. This system should have a commitment control facility.

7. **The inability to consolidate daily cash balances is due to the lack of a Treasury Single Account System.** Aside from the Treasury-administered accounts, all ministries have their own bank accounts to which funds are transferred on a monthly basis. In the absence of a single Treasury account, a modern banking technology to determine balances on real time and sweep daily balances into the Consolidated Fund, could serve the purpose in the near future.

8. **The full implementation of the new legal and policy framework on procurement is another key challenge in the coming years.** A strong oversight unit at the Ministry of Finance and continuous training to line ministries would be useful to strengthen the implementation.

9. **On reporting, the consolidated financial statements has been completed on time, but was not submitted for audit until all ministries' reports have been audited.** This practice will be changed starting FY2014/15 where the consolidated financial statements will be submitted for audit once completed. On the other hand, state-owned enterprises have been regularly reporting. However, the Cook Islands Investment Corporation has not been producing a consolidated report of fiscal risks from SOEs.

10. **On external scrutiny, the limited number of audit staff has caused delay in the audit of ministries, and the consolidated financial statements.** A catch-up strategy is now being implemented. On the other hand, legislative scrutiny remained weak due to limited time for review, and lack of staff support to the Public Accounts Committee.

### Assessment of Performance according to each of the 6 Core Dimensions of PFM

11. **Measured along the 6 core dimensions of public financial management, the PFM performance in the Cook Islands is summarized as follows**:

*On Credibility of the budget (PI 1-4)*

12. **Budget credibility in both aggregate and ministry level expenditures has improved with the amount of deviations not exceeding 10% unlike the ones observed in the 2011 assessment.** During these years, a mid-year update of the forecasts has been reported, and based on that update, a supplementary budget has been submitted and approved by the Parliament to cover unforeseen expenditures. However, the overall expenditure level in two of the last 3 years was below the budgeted amount mainly due to downward change in depreciation as a result of asset valuations, and airline underwrite which are difficult to forecast during the budgeting exercise. Use of the contingency reserves remained minimal (less than 1% of total expenditure) over the past three years.

13. **During budget execution, fiscal discipline has been fairly strong.** The stock and monitoring of payment arrears was scored for the first time in this assessment as monthly monitoring of arrears data began in July 2012. The level of arrears at 30 June 2013 was less than 1% of total expenditure.

*On Comprehensiveness and transparency of the budget (PI 5-10)*

14. **The budget document is generally quite comprehensive and transparent.** The budget has been based on administrative and economic classifications, and a functional classification in line with COFOG[1] was introduced during the 2014/15 budget. The budget documentation in 2014/15 for the first time has included a comparison with previous year's data, and described and quantified fiscal implications of new expenditure and revenue policy initiatives. It also contained annual report of the public accounts that provide comprehensive information on revenues, expenditures, assets and liabilities using accrual basis of accounting.

15. **Forward estimates by Ministry and budget information on MDAs output objectives and performance indicators were also presented in the current year budget documents.** Horizontal allocation of the outer island governments were transparently set out in the Budget document starting in 2013/14.

16. **The scope of information made accessible to the public has expanded.** Aside from the budget documents, in-year financial reports, annual financial statements and audit reports, information on bid opportunities and tender awards including resources available to service delivery units such as schools and health centers, have been disseminated. Nevertheless, the usefulness of the consolidated annual financial statements information has been undermined by the delays in their submission for audit, in completing the audit and tabling by the Parliament.

[1] COFOG (Common Functions of Governments) refers to the UN standard classification of functions of government.

**17. Moreover, quarterly monitoring of the financial performance and financial position of state-owned public enterprises, and Island Governments is undertaken but a consolidated annual report on fiscal risks from these two sectors is not currently produced**. Likewise, information on donor-funded projects still lacks the disclosure of projected and actual donor funding inflows for each project.

***On Policy-based budget (PI 11-12)***

18. **The budget timetable, budget processes and guidance are generally adhered to, and legislative approval is usually provided prior to the commencement of the budget year.** However, the budget ceilings for operating and minor capital expenditures issued to the MDAs are not pre-approved by the Cabinet. Across the government[2], sector strategies are also not costed. There is no clear linkage of the financial implications between capital investments and subsequent recurrent cost requirements, as the budget evaluation process for donor-funded capital expenditures is done separately from recurrent expenditures.

19. **The level of debt financing from year to year has been assured** however by performing a Debt Sustainability Analyses (DSAs) annually over the past two years, and in the current year.

***On Predictability and control in budget execution (PI 13-21)***

20. **The amended tax laws and intensified information campaign improved the clarity of taxpayers' obligations and limiting discretion of the tax collector.** Daily remittance of tax collections, provide reasonable controls on tax receipts. The improved system of the Revenue Management Division now allows the tracking and reconciliation of receivables and arrears from each taxpayer.

21. **Monthly cash flows for the whole year are forecasted at the beginning of the year, and on that basis the Ministry of Finance and Economic Management (MFEM) is able to plan the government's financial investments.** Annual warrants are issued, the amounts of which are equivalent to the approved budget, thus enabling line ministries to have confidence in their budget allocations for the whole year as basis for entering into expenditure commitments. However, a comprehensive and an active cash management is limited by the lack of consolidation of daily cash balances due to the absence of a Treasury Single Account system.

22. **A clear and well-documented process for budgetary virement at the MDA level is in place.** Better internal controls on salary expenditures came as a result of the new payroll system which now fully integrates with the personnel database.

23. **There were also weaknesses in the implementation of procurement policies, as well as in the procedure themselves, leading to complaints on award of non-competitive**

[2] Only the Ministry of Education and Health were reported to have their costed medium-term sector strategies.

**tenders.** There is also a need to introduce and publish Line Ministry annual procurement plans, and establish an independent procurement appeals mechanism. A new procurement policy and procedures manual has been approved for implementation starting in December 2014.

24. **Bank account reconciliations have been performed regularly.** But the Government's financial systems do not support fully automated control over expenditure during the commitment stage[3]. A significant weakness in the control framework is the lack of an operational internal audit (IA) function. The government has recognized this need and has undertaken preparatory activities to establish an IA unit at MFEM, such as the drafting of a terms of reference for its outsourcing and provision of an initial budget.

***On Accounting, recording and reporting (PI 22-25)***

25. **CIG is one of the few Pacific Island Countries (PICs) that are using accrual accounting and consolidating the whole of public sector (central government, island governments, and State-Owned Enterprises)**. Except for a few advanced international public sector accounting standards (IPSAS), its national accounting standards are generally consistent with IPSAS and have been applied consistently for the last three years. The annual financial statements include all the IPSAS-prescribed statement of financial performance, statement of financial position, cash flow statements, statement of changes in equity, including relevant disclosures such as contingent liabilities, long-term commitments, and some fiscal risks of the central government. Information on resourcing of primary service delivery units is also routinely collected by Health and Education and published in their websites.

26. **However, there have been continuous delays in the release of unaudited consolidated financial statements, due to previous practice of waiting for the audit of all individual ministry financial statements.** Starting 2013/14, a new policy has been adopted, which is to release the consolidated unaudited statements and submit to audit as soon as they are available. In-year reports sustained the timeliness but due to capacity issues of some ministries and island governments, auditors and MFEM accountants noted that there were still some errors detected, but in general, and compared to situation in 2011 assessment, an improvement was noted in the last three years.

***On External scrutiny and audit (PI 26-28)***

27. **The current auditing practice is based on international standards.** However, the limited staff (currently, there are only 3 auditors) covering the whole of the public sector, has

[3] Commitment refers to the stage where Purchase Orders or contracts are approved and signed by the proper authorities. It is the stage before expenditure accrual which is when goods/services have been delivered. Only the Ministry of Education was reported of having a system with a commitment control module.

been a key factor in the delays of auditing the individual MDAs' and consolidated accounts. Starting last year, the Audit Office has implemented a "catch-up" strategy by doing a selective and risk-based audit of MDAs.

28. **Historically, Parliamentary oversight of public finances has been weak**. This area could have been strengthened since 2012 by the establishment of the Public Accounts Committee (PAC). However, while the PAC has commenced its oversight work, there is yet a need to establish the routine practice of conducting robust hearings into Budget proposals and Audit reports. There is a commensurate need to establish a formal mechanism to follow-up on the implementation of Audit and PAC recommendations.

### Summary of Scores

29. **Of the 31 indicators, 14 were rated B and up, and 23 of the 28 country performance indicators have actually improved in actual performance as a whole**. Two indicators were not rated (NR) due to lack of data at the time of assessment, and 15 were rated C and down. Of the other five country indicators, three appeared to have without change in the scores (PI 24, 25, and 27), but actually improved in performance, and this was due to either a difference in interpretation from the last assessment, or an improvement in some but not all of the dimensions. No indicator showed a reduction in performance. All the donor-related indicators did not improve, except for the dimension on timeliness of providing information to the government authorities for budget formulation purposes.

**30. A comparison of the 2011 and 2014 assessment of each of the dimensions in the 31 indicators is shown in Table 1.**

Table 1- Summary of Cook Islands PEFA Scores, 2011 and 2014

| PFM Performance Indicator | | Overall rating 2011 | Dimension Ratings-PEFA 2011 | | | | Overall Rating PEFA 2014 | Dimension Ratings-2014 | | | | **Key Performance Change** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | 1 | 2 | 3 | 4 | |
| A. PFM-OUT-TURNS: Credibility of the budget | | | | | | | | | | | | |
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | C | C | | | | B | B | | | | Performance improved. None of the last three years has a deviation of more than 10%. |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | C+ | C | A | | | B+ | B | A | | | Performance improved. The variance in expenditure composition over the budget exceeded 5%, but lower than 10%, in all of the last 3 years<br><br>And less than 2% charges to Contingency Fund. |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | B | B | | | | A | A | | | | Performance improved. Actual collection was between 97% and 106% of budgeted revenue in 2 of the last 3 years. |
| PI-4 | Stock and monitoring of expenditure payment arrears | N/R | N/R | D | | | B+ | A | B | | | Performance improved due to monitoring and aging of accounts payable which started in 2012 .The stock of arrears as of June 2013 is 0.7% |
| **B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency** | | | | | | | | | | | | |
| PI-5 | Classification of the budget | A | A | | | | C▲ | C▲ | | | | Performance improved; difference in rating is due to assessors' interpretation. COFOG adopted but started only in 2014/15 budget |

| PFM Performance Indicator | | Overall rating 2011 | Dimension Ratings-PEFA 2011 | | | | Overall Rating PEFA 2014 | Dimension Ratings-2014 | | | | Key Performance Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | 1 | 2 | 3 | 4 | |
| | | | | | | | | | | | | formulation. |
| PI-6 | Comprehensiveness of information included in budget documentation | B | B | | | | A | A | | | | Performance improved with the inclusion of previous year actual data and summarized tables in the budget document. |
| PI-7 | Extent of unreported government operations | B+ | A | B | | | C+ | A | C | | | No change in performance; Rating difference is only a difference in interpretation on how to rate dimension 2; Lacks comparison between projected and actual inflows by project |
| PI-8 | Transparency of inter-governmental fiscal relations | N/A | N/A | N/A | N/A | | A | B | A | A | | Performance improved with horizontal allocation formula used starting 2013/14. Considered Not Applicable in the 2011 assessment. |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities | C | C | N/A | | | C | C | C | | | No significant change in performance as fiscal risks are still not reported for both SOEs and outer island governments. But there is intention to expand report on this in 2015/16. |
| PI-10 | Public access to key fiscal information | B | B | | | | A | A | | | | Performance improved; Resources available to schools and health centers are now posted online government |

| PFM Performance Indicator | | Overall rating 2011 | Dimension Ratings-PEFA 2011 | | | | Overall Rating PEFA 2014 | Dimension Ratings-2014 | | | | Key Performance Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | 1 | 2 | 3 | 4 | |
| | | | | | | | | | | | | websites. |
| **C. BUDGET CYCLE** | | | | | | | | | | | | |
| **C(i) Policy-Based Budgeting** | | | | | | | | | | | | |
| PI-11 | Orderliness and participation in the annual budget process | C | B | D | C | | B | A | C | C | | Performance improved due to observance of fixed budget calendar, baseline ceiling for recurrent budget included in budget circular, and more timely approval from legislature. |
| PI-12 | Multi-year perspective in fiscal planning, expenditure policy and budgeting | D+ | C | C | D | C | C+ | C | A | C | C | Performance improved due to annual DSA and costed strategies in Education and Health. |
| **C(ii) Predictability and Control in Budget Execution** | | | | | | | | | | | | |
| PI-13 | Transparency of taxpayer obligations and liabilities | B | B | B | B | | A | A | A | C | | Performance improved due to better clarity in the amended tax laws, limited discretion, information campaign intensified, and outreach to islands. |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | C+ | C | B | C | | B+ | B | B | A | | Performance improved due to improved system with linkages to bank accounts registration, and implementation of risk-based audit. |
| PI-15 | Effectiveness in collection of tax payments | NR | NR | A | B ▲ | | NR | NR | A | B | | Performance improved due to more frequent reconciliation as a result of system enhancement, except that reference period of collected arrears could not be |

| PFM Performance Indicator | | Overall rating 2011 | Dimension Ratings-PEFA 2011 | | | | Overall Rating PEFA 2014 | Dimension Ratings-2014 | | | | **Key Performance Change** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | 1 | 2 | 3 | 4 | |
| | | | | | | | | | | | | distinguished whether previous or current year. |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | A | A | A | NA | | C+ | C | A | A | | No change in performance; Lack of cash flow forecast for ODA projects were not considered in the 2011 assessment. |
| PI-17 | Recording and management of cash balances, debt and guarantees | C | C | D | B | | B | A | D | A | | Performance improved: Debt data are reported quarterly and clearer rules and criteria on loan guarantees have been included in the Loan Repayment Fund Act. |
| PI-18 | Effectiveness of payroll controls | D+ | D | B | A | D | B+ | A | A | A | B | Performance improved; The new payroll system (HRIMS) Human Resources Information Management System is now integrated with Personnel (PSC) system, changes made within a month, and one payroll audit conducted. |
| PI-19 | Competition, value for money and controls in procurement | D | C | D | D | D | C | C ▲ | NR | C | D | Performance improved due to better clarity of legal framework, compliance; and access to awards information. No data available on total value of |

| PFM Performance Indicator | | Overall rating 2011 | Dimension Ratings-PEFA 2011 | | | | Overall Rating PEFA 2014 | Dimension Ratings-2014 | | | | **Key Performance Change** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | 1 | 2 | 3 | 4 | |
| | | | | | | | | | | | | awards and non-competitive awards justified. |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | C+ | C | B | B | | C+ | C | B | B | | In general, except for the Ministry of Education, there is no evidence of significant change in performance. |
| PI-21 | Effectiveness of internal audit | NA | NA | NA | NA | | D | D | NA | NA | | No significant change in performance as there is still no Internal Audit function. But MFEM plans to establish starting in 2015. |
| **C(iii) Accounting, Recording and Reporting** | | | | | | | | | | | | |
| PI-22 | Timeliness and regularity of accounts reconciliation | B | B | B | | | A | A | A | | | Performance Improved; All central government accounts reconciled monthly; Only one suspense account and rare cash advances with small balances which are cleared quarterly; |
| PI-23 | Availability of information on resources received by service delivery units | B | B | | | | A | A | | | | Performance improved; Both Ministries of Education and Health compile and report on total resources received by schools and health centers. |
| PI-24 | Quality and timeliness of in-year budget reports | C+ | B | B | C | | C+ | C | B | B | | Performance improved due to improved quality as confirmed by auditors.; |

| PFM Performance Indicator | | Overall rating 2011 | Dimension Ratings-PEFA 2011 | | | | Overall Rating PEFA 2014 | Dimension Ratings-2014 | | | | Key Performance Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | 1 | 2 | 3 | 4 | |
| | | | | | | | | | | | | difference from previous rating for dimension (i) is due only to interpretation, as commitments are still not reported; |
| PI-25 | Quality and timeliness of annual financial statements | D+ | B | D | B | | D+ | A | D | A | | Improved in performance as island council reports have been included, and accounting policy has been consistently applied. |
| **C(iv) External Scrutiny and Audit** | | | | | | | | | | | | |
| PI-26 | Scope, nature and follow-up of external audit | C+ | A | B | C | | C+ | B | B | C | | Due to the backlog in auditing the annual financial statements, the scope of financial audits have been reduced for smaller MLAs under the agreed upon procedures |
| PI-27 | Legislative scrutiny of the annual budget law | D+ | C | C | D | D | D+ | C | C | D | C | Performance improved as supplementary budget was approved during and not after the fiscal year. |
| PI-28 | Legislative scrutiny of external audit reports | D | D | D | D | | D | D | D | D | | No significant change in performance. |
| **D. DONOR PRACTICES** | | | | | | | | | | | | |
| D-1 | Predictability of Direct Budget Support | NA | NA | | | | NR | NR | D | | | There is direct budget support modality but no available data comparing projected and actual cash inflows. Donors disbursed based on |

| PFM Performance Indicator | | Overall rating 2011 | Dimension Ratings-PEFA 2011 | | | | Overall Rating PEFA 2014 | Dimension Ratings-2014 | | | | Key Performance Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | | 1 | 2 | 3 | 4 | |
| | | | | | | | | | | | | completed milestones, but no quarterly estimates from donors. |
| D-2 | Financial information provided by donors for budgeting and reporting on project and program aid | D | D | D | | | D+ | B | D ▲ | | | Performance improved as at least half the donors provide projections prior to start of budget preparation processes and do not impose different classifications. |
| D-3 | Proportion of aid that is managed by use of national procedures | D | D | | | | D | D | | | | No significant change in performance; Slightly less than 50% of aid disbursed is managed by the use of CIG procedures. |

## Impact of PFM Weaknesses

31. **The PFM weaknesses have affected the desired outcomes.** These weaknesses were on the following**:** consolidated reporting of fiscal risks from SOEs, linkage between investment decisions and recurrent expenditure planning, consolidation of daily cash balances, implementation of the new Procurement legal framework, implementation of commitment control on non-salary expenditure, internal audit function, timeliness of release and audit of the financial statements, and legislative scrutiny of the budget and audit reports. In the past 3 years, these weaknesses have affected the desired PFM strategic outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficiency in service delivery, as described below.

*Aggregate fiscal discipline*

32. **In general, the CIG managed to be within the target fiscal indicators[4] as reflected in the government's Budget Policy Statement.** This was despite the potential risks that it has been exposed to in the last three years due to some deficiencies of its planning, budgeting, procurement and in-year execution of the budget. And due to frequent monitoring of budget execution, the CIG managed to limit supplementary budgets at a level which did not significantly affect the targeted levels, in two of the last three years. Performance could be better if these deficiencies can be resolved.

33. **It was in 2013/14 when the actual (2.9%) ratio of fiscal balance/deficit to GDP has exceeded the original target of 1.5%,** If left uncontrolled, the large budget deviation could have made a more significantly negative impact. Likewise, budgets for some expenditures such as depreciation and underwrite subsidy were overestimated in 2 of the last 3 years. Had projections been better, the budgeted revenue could have been planned to increase allocation for improving services.

34. **The lack of an automated commitment control as a module in the financial management information systems across the government, also posed a risk to the fiscal targets, and undermined the effectiveness of other existing internal controls.** Due to this system deficiency, it could have been possible to approve a purchase order or contract off the system even beyond the budget. Nevertheless, due to the close monitoring of accounts, and with cash surplus during each month, large amount of arrears was prevented. In the coming years however, this problem needs to be resolved to minimize the risks. It is expected that MFEM will expand the analysis on fiscal risk, particularly more focus on SOE's and the Pa Enua. The next budget will include specific analysis on these key areas.

35. **The lack of information on fiscal risks from island governments and SOEs not only was a fiscal transparency and budget credibility issue, but has created a gap in decision-making by the policy-makers, as well as in forecasting the medium-term fiscal requirements of the government.** Fiscal risks information is supposed to provide early warning tool to be able to mitigate or minimize the impact in case these risks actually happen. If there were actual risks, they could have been detected earlier with the use of this early warning information. Even if there was no actual risks, the report of no risks could have served as an assurance to policy-makers.

36. **Preventing fiscal risks could have been stronger if an Internal Audit function operating effectively has been established in the past**. Due to the limited staff of the Treasury and Audit Office, there was limited time for checking and inspection of the ministry and island accounts. Payroll audit has been done only once in the last three years. Thus, system risks on expenditures have not been adequately looked at.

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[4] Examples of these fiscal indicators being monitored are: personnel expenditures to revenue, total operating underlying revenue and expenditure, underlying operating balance, and fiscal balance/deficit as a percentage to GDP.

37. **The delay in the release of the consolidated financial statements, including the audit report, has caused a gap in the planning, budgeting, and policy-making process**. The lack of timely audit of financial information on the annual budget outturn, financial performance and financial position of the whole of government created a gap on quality assurance and external oversight which is a basic requirement to ensure public confidence on the credibility of information.

**38. The delays in external audit from the Audit Office have undermined the usefulness of the audit recommendations, which if duly implemented would have improved the level of fiscal discipline.**

**39. Legislative scrutiny is a necessary element in public financial management to ensure independent evaluation of the executive decisions in the past years and also to serve as inputs in the review of the budget tabled to the Parliament.** However, this did not prove effective during the past years for several reasons: very limited time for budget debate, and lack of an operational Public Accounts Committee. Due to a limited external scrutiny from the legislative, the cost-efficiency and effectiveness of executive decisions have not been evaluated adequately. These issues indicated a significant break in the accountability chain.

***Strategic allocation of resources***

40. **With limited resources, it is necessary for governments to set priorities not only in their planning, but also in the allocation of resources**. Strategic decisions need to be formulated before the start of the budget process and should emanate from top policy-making level structures which are the Cabinet and Parliament. The above section on Budget Outcomes showed how resources have been allocated by sector and revealed that education and health sectors were among those who got bigger shares. However, the implications of top level directions could have been analyzed better and that accountability could have been strengthened if there was more time and opportunity for the Cabinet to do a more detailed review prior to issuance of the Budget Circular, , and for the Parliament to fully exercise its power to scrutinize the budget and the actual use of resources.

**41. Limited scrutiny by the Parliament of the macrofiscal framework has caused an opportunity loss to consider long-term implications to fiscal sustainability and effectiveness of the expenditure proposals to achieve priority development objectives.** Best practice suggests that the legislature should be able to review the macrofiscal framework even before the start of the annual budget debate.

42. **The Budget Policy Statement (BPS) referred to the National Sustainable Development Plan (NSDP) goals as the overriding premise of the budget policies.** The BPS is pre-approved by the Cabinet. However, the lack of a pre-approved medium-term expenditure framework at least at the sector level failed to visibly demonstrate in financial terms the linkage between the NSDP priorities and the annual budget framework. The ability to do this more effectively is constrained by the limited government control on donors funding/official development assistance (ODA). A realistically-costed sector strategy could have been useful for this exercise, but only the Education and Health sectors were able to

prepare. The functional classification in the final budget document has been arrived at once the budget is endorsed by the Cabinet.

43. **Moreover, the lack of functional classification in the Chart of Accounts implied that there was no assurance that the end results would have been consistent with the desired sector prioritization.** The annual reports were not able to verify that in the last 3 years because the functional budget classification started only in 2014/15.

***Efficient Service Delivery***

44. **The programmatic allocation of the budget and information on output targets in the budget document reflects a performance orientation of the budget.** This good practice was however undermined by the inadequacy of parameters in forecasting the recurrent expenditure level for each ministry to be able to produce the recurring services and outputs. The lack of integration between the capital and recurrent budgeting processes also implied a non-assurance of the sustainability of some recurrent operating costs of completed capital projects maintained by island governments or ministries. Likewise, the lack of a formal baseline budget for ongoing projects implied a non-assurance on the continuation and/or completion of these projects. These issues somehow posed a risk to the adequacy and quality of service delivery.

45. **Likewise, the limited scrutiny by Parliament resulted to a lack of independent evaluation of the efficiency of service delivery.** The Parliament could have evaluated more deeply the scope and extent of services, the target and actual beneficiaries given the amount of funds released, and whether the services have resulted to better education and health status of the population. The absence of such review has lessened the pressure to the executive branch of the government to improve on service delivery.

46. **The lack of a Treasury Single Account system implied a risk of leakage of funds, and opportunity loss of not being able to invest idle funds in bank accounts outside the public accounts on a daily or weekly basis during the past years**. Moreover, the lack of predictability of resources coming from development partners for development expenditures has posed difficulty in estimating the budget during budget preparation, and also to the line ministries during budget execution. A cash flow forecast on development funds has not been prepared, which may have caused problem in entering into commitments during project implementation.

47. **Although a new procurement policy and procedures manual have been approved recently, the lack of competitive bidding requirements including an independent administrative procurement complaints system in the past implied a risk of procured goods and services being unduly costly, thus undermining value for money**. Substantive amount of these procurements were on donor-financed projects.

48. **The delay in the release of the consolidated financial statements, including the audit report, caused a gap in the planning, budgeting, and policy-making process**. The lack of timely audit of financial information on the annual budget outturn, financial performance and financial position of the whole of government created a gap on quality

assurance which is a basic requirement to ensure public confidence on the credibility of information. This delay in the audit of financial statements consequently delayed external scrutiny from the legislature. This would mean reduced pressure to the national government to improve its procurement/budget execution and financial reporting.

**Prospects for Reform Planning and Implementation**

49. **The PFM Reform Plan has been one of the key points in the Good Governance Chapter of the NSDP.** On the basis of the 2013 self-assessment, MFEM has identified some of the priority reforms; among them the strengthening of fiscal responsibility among public entities through an effective decentralization of accountabilities, and review of legal frameworks to reflect current situation, address legal issues, and provide legal authority for future reforms. Undertaking this repeat PEFA assessment was also an initiative of the CIG through the MFEM. It is planned by MFEM that an updated PFM Reform Plan will be formulated on the basis of the 2014 PEFA assessment, and other institutional, operational, and technical factors. MFEM plans to prepare a PFM road map to prioritize and sequence PFM reforms more appropriately.

50. **Based on the 2014 PEFA assessment, reforms could likely be focused on the following challenges**: implementing commitment control; establishing a Treasury Single Account; monitoring and reporting of consolidated fiscal risks from state-owned enterprises; improving timeliness of financial statements and audit reports; strengthening external audit and legislative scrutiny.

51. **Like any other small islands, capacity is a major constraint in implementing future reforms.** Strengthening organizations and systems capacity and continuing skills development will be among the key focus in the new PFM reform plan. Assistance from development partners is envisioned in the formulation and implementation of appropriate capacity-development programs.

52. **Development partners are consistently appreciative of improving PFM as part of the country's development priorities.** Aside from PFTAC, other development partners like the Australian government, World Bank, and the Asian Development Bank have demonstrated a continuing interest to support Cook Islands in improving PFM.

# I. INTRODUCTION

53. This **2014 PEFA assessment for the Cook Islands Government that was conducted from November 24 to December 12, 2014,** is an update of the previous assessment that was conducted in May 2011, also with PFTAC and Australian support. The main objectives of this assessment are**:** (i) to provide an update of the situation in the various PFM systems and processes in terms of key indicators of the PEFA Framework, and how they fare vis-à-vis the criteria in each dimension; (ii) identify, measure, and explain performance changes from the 2011 PEFA assessment; and (iii) identify areas of progress or remaining weaknesses, including new challenges that could be the focus of further PFM reforms.

54. **In the 2011 assessment, the major areas of weaknesses were budget credibility, fiscal oversight of other public entities, medium-term fiscal planning and budgeting, internal controls, timeliness of financial statements, and legislative scrutiny.** A PFM Roadmap for the period 2011-2015 was formulated to address these issues, and implementation was periodically monitored on a semi-annual basis[5].

55. **The 2014 assessment was based on the PEFA Framework, (version revised in January 2011).** Under six core dimensions of PFM, 28 government-related performance indicators (PI) were used as criteria in rating the level of PFM performance of the central government (CG). In addition, this framework also includes 3 indicators of donor practices which impact the performance of country PFM system. A complete listing of the 31 individual indicators of PEFA is found at Table 1. A four-point rating scale (A, B, C, D) with A as the highest and D as the lowest (each with specific requirement in every sub-dimension), was used in scoring. The overall rating methodology for indicators with more than one dimension is of two types: M1 or "weakest link" method and M2 or simple averaging method[6]. This version of the PEFA framework was also the one used in the 2011 assessment. More details of the PEFA framework and methodology are available from the PEFA website (www.pefa.org).

56. **Assessment was focused on the PFM operations of the Cook Islands central government which includes the ministries and line agencies that are included in the annual budget document.** It has also taken into account the central government's financial relationships with entities outside the central government such as public enterprises and island governments, particularly in the context of making inter-governmental transactions more transparent and monitoring fiscal risks.

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[5] There were 5 periodic review reports from 2011 to April 2014, all are posted in the MFEM website.

[6] Indicators whose dimensions are interrelated which means that the performance of one dimension affects the other, make use of M1 method by starting from the weakest score, and if the other dimension/s are rated higher, a plus sign is added, e.g., D+. Indicators whose dimensions are independent and performance of one does not affect the other; make use of M2, e.g., a 3 dimension- B, B, A, equals B+.

57. **The assessment methodology involved the following steps: (i) self-assessment by the CIG Team; (ii) consultation through interviews of key implementers, oversight agencies, development partners, and representatives from private sector and civil society; and (iii) review of supporting evidence.** The CIG demonstrated a strong ownership of this activity by actively participating in all the processes from the conceptualization to the consultation, compilation of evidence, assessment of ratings, and report writing.

58. **Changes to the 2013 interim assessment were also noted.** The self-assessment a year ago has benefited this formal assessment process by providing CIG finance staff with better understanding and appreciation of the rationale of the PEFA indicators. This appreciation is indicated by major improvements that have taken place between that time of self-assessment to the date of this formal PEFA assessment. These reforms were a a result of the "mini PFM roadmap" formulated during the 2013 self-assessment.

59. **The main references of the 2014 assessment include the 2011 formal assessment and the 2013 self-assessment report, relevant financial reports and documents as well as background information and clarifications provided by various stakeholders.** The documents include legal and regulatory frameworks, the latest budget documentation, annual financial statements, budget execution report, ODA management and other fiscal reports, and supporting data analysis.

60. **Other reference used throughout the assessment includes**:

| |
|---|
| The fiscal year runs from 1 July to 31 June. Official currency in Cook Islands is the NZ dollar.<br><br>Latest exchange rate as of assessment time (average estimate) wass .818 (USD/NZD).<br><br>The reference period of the assessment covered the performance for the last three years prior to Fiscal Year 2014-15, or last completed fiscal year, or at the time of assessment depending on the indicator[7]. |

61. **On-going reforms were noted for information only, not for ratings purposes.** Examples of these are the improvement of the procurement processes, the "catch-up" strategy of the Audit Office to fast track the completion of audit of the consolidated financial statements, and planning for the establishment of an internal audit function. The results of the 2014 assessment will benefit the CIG in its efforts to update the PFM Reform Roadmap for the medium-term.

[7] The reference period varies from one indicator to another. For indicators requiring the last 3 year performance, the period 2011, 2012, and 2013 were used as the general reference. However, for indicators requiring audited financial statements, the most recent audited statements were used as the reference. For other indicators requiring actual data, preliminary and unaudited, 2013 data were used. If no preliminary data are available, the latest 3 years available data were adopted. For indicators concerning the most recently approved budget (e.g. the indicator on budget documentation (PI-6)) the most recent budget passed by Parliament, which is the budget for the 2014/15 fiscal year (July-June), wass the reference point.

62. **Quality assurance (see details in Disclosure of Quality Assurance Mechanism page 4) was enabled through an external review made by designated peer reviewers.** After the field mission in December 2014, the draft was prepared and in February 1, 2015, sent to peer reviewers from PFTAC, DFAT of the Government of Australia, MFAT of the Government of New Zealand, IMF, and the PEFA Secretariat. Comments from reviewers were sent to the Assessment Team, and the last set of comments was received on July 27, 2015. On August 4, 2015, after considering these comments, a revised draft has been submitted to the reviewers together with a summary of their comments and actions taken by the Assessment Team. Final comments including the PEFA Check endorsement were received from PEFA Secretariat on August 20, 2015. Final version of the report was sent to the Secretariat on September 7, 2015.

# II. COUNTRY BACKGROUND

63. **The Cook Islands (CI) comprise 15 islands and atolls in the South Pacific, with a total land area of 237 sq. km. spread across 2 million sq. km. of ocean.** Its Constitution defined the country's geographical coverage which includes all islands in the South Pacific Ocean lying between the 8th and 23rd degrees of south latitude and the 156th and 167th degrees of longitude west of Greenwich; and each island of the Cook Islands shall be deemed to include all smaller islands lying within 10 miles of the coasts thereof. As of the 2011 Census, the Cook Islands has a total resident population of 14,974, of which, 10,572 live in Rarotonga, the capital.

64. **Based on the 1964 amendment to its Constitution, the CI is a self-governing state in free association with New Zealand.** This association provides New Zealand citizenship to Cook Islanders, allowing them to travel freely into New Zealand using New Zealand passports. The New Zealand dollar has also been adopted as the Cook Island official currency. The Cook Islands is a parliamentary democracy, and a member of the British Commonwealth, with the Queen of England as the Head of State.

## A. Economic Situation

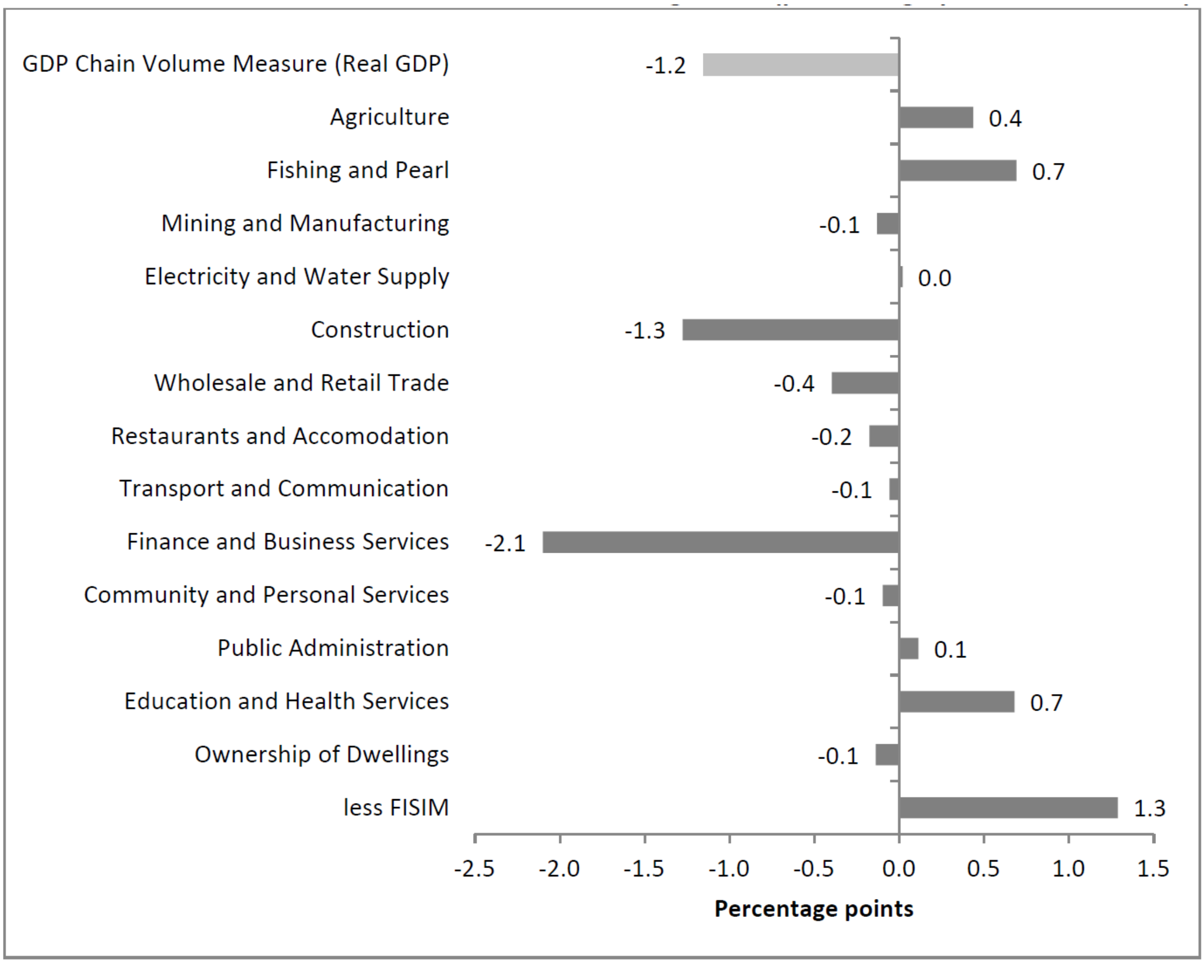
65. **Despite being one of the smallest (even by Pacific standards), the Cook Islands is one of the most prosperous countries per capita in the Pacific, behind New Zealand and Australia.** The Cook Islands has enjoyed a sustained period of economic prosperity following the rapid growth of the tourism industry and a series of public sector reforms following the economic crisis of the mid-nineties. The economic dependency on tourism has benefitted the Cook Islands greatly. Despite this success, the lack of economic diversity or economies of scale can make any progress fragile and reversible. Labor market constraints across various areas of the economy still present major limitations on economic growth. One key factor is the issue of depopulation where a large portion of the labor force has been migrating to Australia and New Zealand (see section on Social Indicators in this report).

66. **Based on pprovisional estimates provided by the Statistics Office, the real GDP for the Cook Islands declined 1.2 per cent for 2013/14.** Major contributors to this decline were falls in finance and business services (contributing -2.1 percentage points) and construction (-1.3 percentage points). Partially offsetting the declines were gains in financial intermediation (1.3 percentage points), education and health services (0.7 percentage points), and fishing and pearls (0.7 percentage points).

Table 2- Key Economic Indicators, 2010-2015

| Particulars | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| **Real GDP Growth rate (%)** | -2.6 | 4.1 | -1.7 | -1.2 | 2.1 |
| **Inflation rate (year average, %)** | 0.6 | 2.8 | 2.6 | 1.6 | 3.8 |
| **Exchange rates(USD/NZD), average** | 0.757 | 0.805 | 0.822 | 0.830 | 0.818 |

### Chart 1. GDP Growth by Industry, 2013/14




*Source:* Chart 5.2 in the 2014/15 Cook Islands Budget

### Tourism

67. **Tourism remains the largest industry in the Cook Islands, accounting for around 65 per cent of the economy.** The Cook Islands has experienced record tourism arrival numbers almost every year since 2001 and 2013/14 was no exception, with another record year. However, as predicted at the time of the 2014 Policy, Economic, and Fiscal Update

(PEFU), growth in tourism arrivals continued to slow from 3.2 per cent growth in 2012/13 to 1.6 per cent growth in 2013/14 (2013/14 was forecast to grow at 1.7 per cent). Supporting tourism are the pearl, fish, and other marine resources exports.

68. **The strong growth in tourism experienced from the major markets- New Zealand and Australia, is likely to have peaked over 2010 to 2012 and a return to double digit growth in the near term is unlikely.** Subsequently, tourist arrival forecasts have been further revised downwards due mainly to slower growth out of New Zealand. Reflecting ongoing softness in key markets, tourist arrivals are forecast to contract 1.0 per cent in 2014/15, the first annual fall in arrivals since 2007/08.

**Inflation**

69. **Year average inflation from September 2013 to September 2014 was 1.9 per cent (Table 2 figure is for June 2013 to June 2014).** With the exception of the one-off increase in the VAT, inflation is expected to adjust towards its long-term trend of around 3 per cent. The year average CPI is forecast to increase to 3.8 per cent in 2014/15 due to the change in VAT, before increasing to 2.6 per cent in 2015/16. The reliance on imports to support local consumption makes the Cook Islands extremely vulnerable to external price shocks – particularly in regards to fuel as transport costs affect the price of almost all goods.

**Social indicators**

70. **The free movement of Cook Islanders to New Zealand and beyond has made depopulation an ever-present feature of the Cook Islands social and economic landscape since the opening of Rarotonga International Airport in 1974.** Depopulation has numerous cultural, social, and economic implications, although formal studies of the overall impacts on Cook Islands society are not widespread. Geographically, depopulation is focused in the Pa Enua (the Outer Islands), with Pa Enua Tonga (the Southern Group) particularly affected. Rarotonga is the only island to experience population growth.

71. **Of those who identify themselves as ethnic Cook Islanders, 60,255 are in New Zealand and 15,726 are in Australia.** When combined with those residing in the Cook Islands, there are almost 91,000 individuals identifying as ethnic Cook Islanders across the three countries.

**72. Using census information, calculations done by MFEM and the Ministry of Education[8] suggest that the Cook Islands would have a Human Development Index (HDI) of around 0.780.** In terms of a ranking, this would place the Cook Islands slightly higher than the next sovereign Pacific Island Country, Palau (HDI: 0.775, ranked 60).

[8] As the Cook Islands is not part of the UN exercise it is difficult to make comparisons without first calculating an index for the Cook Islands.

**National Sustainable Development Plan**

73. **The country's vision and development goals for the next five years are presented in the National Sustainable Development Plan (NSDP).** The latest NSDP (Te Kaveinga Nui) finishes in 2015. The annual Budget Policy Statement (BPS) linkage with the current NSDP is through the adoption of consistent core objectives.[9] Likewise, reforms on PFM were formulated and implemented as part of the good governance reform objectives and strategies as mentioned in the 2011-2015 NSDP (improve accountability and transparency of public financial management).

74. **Preparations for the upcoming NSDP 2016-2021 are under way.** It is planned that the medium-term Budget Strategy will form part of the new NSDP, and the development strategies will be linked with the annual budgeting exercise. PFM reforms will continue to be part of the good governance strategic plan.

## B. Budgetary Outcomes

*Fiscal Indicators*

75. **Compared to the fiscal indicators reported during the 2011 assessment, the fiscal performance for the last three years reflect a more stable scenario with non-interest expenditures growing less than the government's own revenues.** From 37.3% in 2009, total non-interest expenditures in 2014/15 is only 31.1% of GDP. Revenues on the other hand, grew from 38% in 2009 to 47.2% of GDP in 2014/15. Thus, the resulting surplus. Due to the improved situation, starting 2009, the CIG did not contract any new external and domestic debt.

[9] These are: improving well-being of the people, revitalizing growth in the Pa Enua, facilitating income and economic growth, maximizing benefits of infrastructure investments to communities, taking precautionary approach to economic development, promoting safety and justice, and improving public service productivity.

Table 3: Overview of Central Government Budgetary Operations, 2012/13-2014/15

| Central Government Budget (in Per cent of GDP) | | | |
|---|---|---|---|
| | 2012/13 | 2013/14 | 2014/15 |
| Total Revenue | | | |
| - *Own revenue* | 27.7 | 31.2 | 31.1 |
| - *Grants* | 11.56 | 8.8 | 16.1 |
| Total expenditure | | | |
| - *Non interest expenditures* | 27.7 | 30.0 | 31.1 |
| - *Interest expenditures* | 0.2 | 0.3 | 0.3 |
| Aggregate Surplus (including grants) | 11.36 | 9.7 | 15.8 |
| Primary Deficit | 2.2 | 2.9 | 3.6 |
| Net Financing | | | |
| - *external* | N/A | N/A | N/A |
| - *domestic* | N/A | N/A | N/A |
| Note: 1. Excludes debt service payments, and external financing.<br>Source: Annual budget documents for 2007/08, 2008/09, 2009/10. Cook Islands Statistics office (GDP) | | | |

*Allocation by sector/functional classification*

76. **After getting the highest allocation in 2009/10 mainly to meet the requirement of the Pacific Games, Infrastructure sector slid down to the 5th in 2014/15 in favor of governance, health and education.** This is also because some infrastructure projects are now at completion stage. In the 2013/14 Budget, the Government increased spending to progress social development. After many decades of outlining issues in the levels of salaries of service delivery agents such as health practitioners, teachers and school support staff, were increased. In the health sector, the Government increased appropriation to address non-communicable diseases; boosted funding for pharmaceuticals and also for the referral of patients. A significant achievement for the 2013/14 financial year will be the re-establishment of the Cook Islands Nursing School.

77. **The increasing allocation to the outer islands has been a manifestation of the government's objective to revitalize growth in the Pa Enua**. Focus of attention will be on improving infrastructure, transportation, social outcomes, and governance.

**Table 3.1 Actual Budgetary Allocations by Sectors (as a percentage of GDP), 2012/13-2014/15**

| Sector | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| Economic Development | 2.70 | 2.48 | 2.79 |
| Governance | 7.77 | 7.01 | 9.54 |
| Infrastructure | 1.79 | 2.51 | 3.08 |
| Health | 3.02 | 2.97 | 3.29 |
| Education | 3.34 | 3.35 | 3.67 |
| Social welfare | 3.89 | 3.64 | 4.70 |
| Law and Order | 1.54 | 1.45 | 1.54 |
| Rural Development (outer islands) | 2.96 | 2.71 | 2.95 |
| Social Development | 0.43 | 0.24 | 0.39 |
| Environment and conservation | 0.26 | 0.23 | 0.25 |

Notes on definition of sectors:
**Economic Development** Includes: Business Trade and Investment Board; Ministry of Agriculture; Ministry of Marine Resources; Cook Islands Tourism Corporation; Cook Islands Pearl Authority; Financial Services Development Authority
**Governance** includes: Office of the Prime Minister; Office of the Public Service Commissioner: Ministerial Support; Ombudsman; Crown Law; Parliament and Parliamentary Services; Head of State Office
**Infrastructure** includes: Ministry of Infrastructure and Planning; Ministry of Transport; Road and Water Upgrade, CIIC
**Health** includes: Ministry of Health
**Education** includes: Ministry of Education
**Social Welfare** includes: Ministry of Internal Affairs; Welfare Payments
**Law and Order** includes: Ministry of Police; Ministry of Justice
**Social Development** includes: Ministry of Culture
**Environment & Conservation** includes: National Environment Service

Source: Annual budget documents, Cook Islands Statistics office for data on GDP

**Table 3.2 Actual Budgetary Allocations (as percentage of total expenditures)**

| | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| **Total Expenditures** | **100%** | **100%** | **100%** |
| - Compensation of employees | 28% | 26% | 23% |
| - Use of goods and services | 26% | 20% | 20% |
| - Depreciation | 4% | 5% | 5% |
| - Interest | 1% | 1% | 1% |
| - Subsidies | 10% | 9% | 7% |
| - Social benefits | 8% | 8% | 8% |
| - Other expense | 2% | 2% | 3% |
| Capital Expenditures | 22% | 30% | 33% |

Capital Expenditures include all capital items funded by the Cook Island Government and Donor funded.
Source: Source: Annual budget documents for 2012/13, 2013/14, 2014/15 (Schedule 20 – GFS Operating Statement)

## C. Legal and Institutional Framework

**Legal Framework**

78. **The Constitution (Part V) provides for public moneys to 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 also governs parts of the PFM pertaining in particular to the government's ability to spend over and above its appropriation, provided that "The total amount of all sums issued and paid shall not exceed a 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 an audit of all public entities by the government's Audit Office. The Constitution also provided for a Public Expenditure Committee to investigate public funds accounts.

79. **Articulating the Constitutional provisions, the main legal framework of PFM in Cook Islands is the Ministry of Finance and Economic Management (MFEM) Act 1995-96.** This Act prescribed the submission to the Parliament of economic and fiscal policies and strategies, use of public funds via the Appropriations Act, and authorization for loans and guarantees from government. It also empowered the Ministry to issue financial instructions to public entities, and sets out budgeting procedures, reporting requirements, and limits to authorities. As authorized under this Act, the MFEM issued the Cook Islands Government Financial Policies and Procedures Manual (FPPM), the latest version of which is as of December 2014.

**80. The other guiding legislations include the following:**

- Public Expenditure Review Committee, and Audit (**PERCA) Act (1995-96),** which outlines procedures for external scrutiny by the Public Expenditure Review Committee, and the Audit Office. The Committee reviews policies procedures, and reports affecting public accountability. It reviews the annual financial statements including the audit opinion thereon. The Audit Office performs audit of all public sector entities.

- The tax system is governed by the **Income Tax Act (1997),** and supported by the **Value Added Tax Act (1997),** and the **Customs Act (2012).** 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.

- The governance of public enterprises is covered under the Cook Islands and Investments Corporation (**CIIC) Act (1997/98).** The main objective of the CIIC is the efficient, profitable and professional management of assets and statutory corporations. Each State Owned Enterprise (SOE) also has its own legislation.

- **Island Government Act (2012)** (initial act was passed in 1987, and several amendments were done up to 2004) gave more powers to the Outer Islands Governments (Kavamani Enua, often referred to as simply Pa Enua). The Act clarified the structure and staffing, functions and powers, including on financial accountability. In general, the Outer Island Governments are obliged to abide by the same financial regulations and instructions applied to all central government agencies. They may borrow, invest, or implement capital projects, but all with prior approval from the Minister of Finance/Financial Secretary.

- A more recent legislation passed in 2014 is the **Loan Repayment Fund Act** which authorized the annual transfer of estimated amortizations to this Fund, and its investment. Provisions on new debt and guarantees are also part of the Act. It also prescribed reporting and audit requirements to ensure transparency. The Act also isolates monies allocated to debt servicing from general government reserves.

**Institutional structure**

81. **The legislative branch consists of a Legislative Assembly (Parliament) of 24 members operating predominantly under a two-party system.** The Cook Islands use the Westminster, first-past-the-post system of government. Throughout the last decade, the country was governed by six different coalition governments, with periods of occasional uncertainty. Amendments were made to the Electoral Act in 2007 following the 2006 elections to address the issues of instability with coalition governments. Elections are held every four years. The departure of two members of the majority party in 2014 led to snap elections, which took many months and court hearings to resolve. While the political situation remains uncertain with neither party holding the majority of seats in Parliament.

82. **There exists an electoral system for local government on each island (as outlined by the Outer Island Government Act 2012)**, but almost all public goods and services are provided for by central government (local governments have limited options for local revenues and rely on the central government for funding).

83. **The Constitution also provides for a House of Ariki comprising up to 14 Ariki (traditional leaders) appointed by the Queen's Representative.** Ariki are normally determined by hereditary title. The House of Ariki advises on traditional matters but has no legislative powers.

84. **The Constitution establishes a High Court, which considers civil, criminal and land matters.** The Chief Justice of the High Court is appointed by the Queen's Representative.

85. **The head of state is known as the Queen’s Representative.** He is responsible for the swearing in of the Parliament, signing of the warrant for the Prime Minister and Cabinet, and the endorsement of all legislation. The Prime Minster appoints Cabinet. There are six cabinet ministers that share 27 different portfolios.

**Ministry of Finance and Economic Management (MFEM)**

86. **The Ministry of Finance and Economic Management (MFEM) is responsible for much of the maintenance of the PFM systems**. There are four divisions within MFEM:

Treasury Management Division (TMD); Revenue Management Division (RMD), Statistics, and Development Coordination Division (DCD).

- TMD is responsible for: (i) administration of Public Funds – This includes reporting on Government financial performance and position, numismatics, government payroll, debt obligations, funds management and financial management of the Ministry; (ii) budgeting and planning – this includes the preparation of the annual Parliamentary appropriations, the development of the MTBF and the provision of timely analysis through the monthly and six monthly updates or as required; (iii) reporting of the Crown Accounts; and (iv) provision of fiscal and economic advice.

- RMD is responsible for: (i) administration of tax and customs; and (ii) collection of taxes, customs and levies.

- The Statistic's office is responsible for collating and publishing national statistics on a monthly, quarterly, annual and 5 yearly basis.

- DCD is responsible for: the management and disbursement of donor funding.

**Other Oversight Institutions**

- Office of the Prime Minister (OPM)

  The Office of the Prime Minister (OPM) is responsible for the co-ordination of policy and planning. They are also responsible for the drafting and monitoring of the National Sustainable Development Plan and work with MFEM on the drafting of the Budget Policy Statement. The OPM is also responsible for the co-ordination and development of sector planning.

- Office of the Public Service Commission (OPSC)

  The Office of the Public Service Commissioner reviews the machinery of the government, issue policies on the conduct of the public service, ensures compliance with the code of conduct, reviews the performance of the heads of departments, and determines the salary ranges for positions in the public service.

- Public Expenditure and Review Committee and Audit (PERCA) Office

  The Audit Office is responsible for overseeing all public sector audits. The Office actively conducts the audits of all ministries and agencies and most SOEs. All audit reports are reviewed by the Public Expenditure Review Committee (PERC). PERC members are appointed by the PERCA Minister. All PERC and Audit reports are submitted to Parliament for tabling.

**Line Ministries, departments, and agencies**

87. **In total there are 20 ministries, departments, and agencies (MDAs).** MLAs are responsible for keeping their own accounts and must provide monthly accounts to MFEM, including an analysis of actual to budget against appropriation, the year to date profit and loss statement, and balance sheet.

**Crown-funded Agencies**

88. **Crown Agencies are subject to the same financial reporting requirements as MDAs.** They differ in that they are not governed by the PSC in terms of performance monitoring. These entities report directly to a board whose members are appointed by and responsible to a Minister of the Crown.

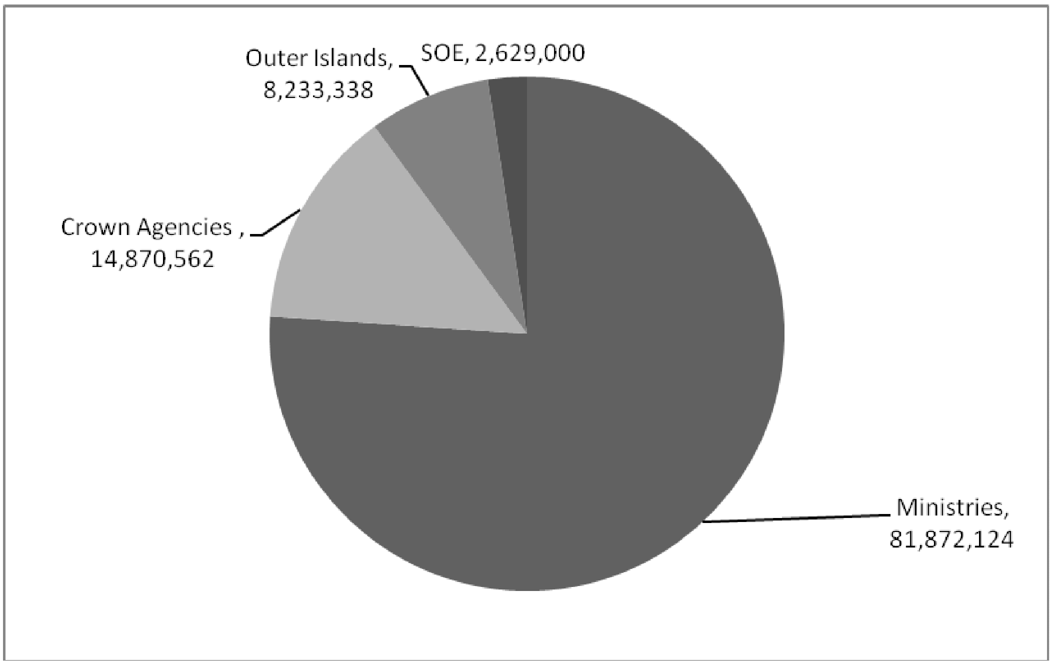
**State-owned enterprises (SOEs)**

89. **There are 5 SOEs- Most SOEs are subsidiaries of the Cook Islands Investment Corporation (CIIC).** These boards in turn report to CIIC on a quarterly basis with annual accounts submitted to and consolidated by CIIC. The consolidated CIIC position is included in the annual Crown Account. All SOEs report to their boards on a monthly basis.

**Island Governments**

90. **There are 10 Outer Island Governments –** one for each inhabited island of the Cook Islands (although Pukapuka and Nassau share an Island Administration). They are collectively the responsibility of the Minister for the Outer Islands, but financial responsibility lies with each island's Executive Officer and Mayor. They are subject to the same financial reporting requirements as Line Ministries and Crown Funded Agencies.

**Chart 2. 2014/15 Budget Allocation by administrative classification (Ministries, crown agencies, outer island governments, SOEs)**




*Source: MFEM, Cook Islands*

## Key Features of the PFM System

91. **The PFM system in the Cook Islands covers not only the central government, but also the local governments, and transfers to state-owned enterprises.** The Ministry of Finance and Economic Management is the central agency responsible for PFM. The fiscal year runs from 1 July to 31 June. Section 3 below provides details for each element of the PFM system.

*Budget Formulation*

92. **The Budget Policy Statement (BPS) is a key document that Government releases on an annual basis prior to each budget process.** The document emphasizes the broad strategic priority areas for next financial year. These broad strategic priority areas are reflective of the NSDP 2011/15 goals. The Budget Policy Statement will be used by all Government departments in aligning objectives and new potential initiatives to the 'focus areas' of Government for the Budget 2014/15.

93. **All public moneys accrue to the Public Account, except for trust funds and trading revenue of ministries and local governments which are deposited in their authorized bank accounts.** Except for small trust funds, all revenues including grants from donors are considered and included in the budget process. All trust funds are disclosed in the annual budget appropriation document. The total budget includes all public expenditures including debt service, subsidies, depreciation, and social benefits. The CIG budget is formulated on an accrual accounting basis, and, as such, depreciation (a non-cash item), is included in the appropriations.

*Budget Execution*

94. **Apart from the use of centralized payment systems for personnel and capital expenditures, the management of non-personnel recurrent expenditures including asset management are decentralized to each of the public entities**. A monthly cash flow forecast is prepared at the beginning of the year based on inputs from agencies (which includes MLAs, Crown agencies and Island Governments), and allocated according to the expenditure limits in the budget. Funds estimated to come from trading revenues account as well as the Public Account are shown in the forecast.

*Debt Management*

95. **Public debt transactions are administered by the MFEM according to the rules and regulations in the MFEM Act and Financial Policies and Procedures Manual**. In 2014 the enactment of the Loan Repayment Fund (LRF) Act means that the majority of future debt management will occur through this fund, with reporting and appropriations to occur through the Budget.

*Official Development Assistance (ODA) Administration*

96. **The procedures on negotiation, allocation, disbursement, accounting and reporting of donor-funded programs/projects are administered according to an approved ODA policy.** The MFEM is the institutional entry point for all development partners, implementing agencies and stakeholders to engage in the management and delivery of ODA activities and investments. This role is undertaken by the Development Coordination Division of MFEM. The DCD is the central authority with oversight and monitoring of all government and ODA activity as well as evaluating progress towards development outcomes.

*Accounting and Reporting*

97. **CIG has been using accrual basis of accounting and produces a whole of government financial statements and other in-year reports.** It has well-defined accounting standards which are generally aligned to IPSAS. SOEs are however using the IFRS as a reporting standard. The national accounting standards provide for a consolidation procedure. There is no integrated financial management information system, as each ministry runs its own accounting system/FMIS.

# III. ASSESSMENT BY PERFORMANCE INDICATOR

## A. Budget Credibility

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

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-1. Aggregate expenditure out-turn compared to original approved budget | C | B | In two of the last three financial years the deviations are greater than 5% (see Table 4_). None of the last three years has a deviation of more than 10%. Due to frequent monitoring of budget execution, the CIG managed to limit supplementary budgets at a level which did not significantly affect the targeted levels, in two of the last three years.<br><br>2011/2012- 7.3%<br>2012/13- (6.6%)<br>2013/14- (2.7%)<br>These figures are not audited. The last audited financial account was 2010/11. |

98. **The MFEM Act (Section 23) specifies that the CIG operating budget should not be in deficit if the sustainability of the debt position is uncertain.** The government has generally complied with this provision. The government takes one Supplementary Budget to Parliament each year around the middle of the fiscal year. The MLAs are allowed within certain conditions to vire funds between their allocations with the exception of depreciation. There is also a provision of the Constitution of the Cook Islands (Article 70 (3) (b) that allows the government to exceed appropriation by 1.5% of the total expenditure based on the previous year's approved budget during the year with the approval of Cabinet. These are regularized through the Supplementary Budgets the following year.

99. **The aggregate primary expenditure outturns compared to the original budget has exceeded 5% but below 10% of total expenditure in two of the last three years (computation details in Annex1).** This merits a score of B which is an improvement from the 2011 PEFA assessment.

100. **Except in 2011/12, the actual budget spent was less than the original budget mainly influenced by the underwrite of the airline route to Los Angeles and Sydney which is understandably difficult to predict.** The over expenditure in 2011/12 was due to hosting of the Pacific Leaders Forum, the Te Maeva Nui Constitution Celebrations Payment of which the major component was the transportation cost to the northern group and the higher airline underwrite. The under spending in the 2012/13 was largely due to the lower airline underwrite. In 2013/14, the under spending was due the lower infrastructure depreciation following a valuation of the government assets.

Table 4: Budget variance, 2011/12-2013/14

| Fiscal Year | Primary Budget Expenditure (NZ$m) | Actual Budget Expenditure (NZ$m) | Variation in % | Major causes |
|---|---|---|---|---|
| 2011/12 | 104.26 | 111.88 | 7.3% | Hosting of the Leaders Forum and higher airline underwrite |
| 2012/13 | 114.21 | 106.66 | -6.6% | Lower airline underwrite |
| 2013/14 | 118.99 | 115.82 | -2.7% | Reduction in infrastructure depreciation following a valuation of assets |

*Source: MFEM, Cook Islands*

101. **The primary budget expenditure for the purpose of the PEFA assessment computation, excludes debt servicing and donor funded expenditures.** It includes however, government own funding of capital expenditures which are relatively small. The supplementary budget within a year is reflected in the actual figures for that fiscal year. It should be noted that the data remains unaudited at the time of assessment.

102. **The major factors that contributed to the improved budget credibility compared to the 2011 assessment include a more rigorous monthly variance monitoring, and disciplinary measure by limiting the number of supplemental budget**. During the 2014 assessment, there was only one supplemental budget for the last 3 years, as explained below. In the 2011 assessment, it was reported that in 2008/09 alone, there were three supplementary budgets, partly due to the effect of the economic crisis.

**PI-2: Composition of expenditure out-turn compared to ori*ginal approved budget***

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-2. Composition of expenditure out-turn compared to original approved budget | C+ | B+ | Performance improved as indicated by the reduced variance of expenditure composition. This was mainly due to more frequent monitoring. |
| (i) Extent of the variance in expenditure composition during the last 3 years | *C* | B | The percentage variances in the composition of primary expenditures across budget heads (excluding contingency) in the last three fiscal years were:<br>2011/12: 8.3%<br>2012/13: 8.9%<br>2013/14: 6.0%<br>The variance in expenditure composition over the budget exceeded 5% but lower than 10% in all of the last 3 years. Performance improved compared to previous assessment.<br>These figures are not audited. The last audited accounts were 2010/11. |
| (ii) Average amount of expenditure actually charged to the contingency vote over the last 3 years | A | A | The percentage variances in the actual expenditures charged to contingency vote over the last three fiscal years were:<br>2011/12--0.2%<br>2012/13--0.2%<br>2013/14—0.3%<br>The average charge to the contingency vote was less than 1% (0.26%). These figures are not audited. The last audited accounts were 2010/11. |

103. **Similar to PI 1, the deviation in the actual expenditure composition compared to the original budget in all of the last 3 years, exceeded 5% but below 10%.** This has improved from the deviations of more than10% in the 2011 PEFA. The percentage of charges to contingency budget remained less than 2% of the total primary budget. Hence, an overall rating of B+ is assigned.

*Dimension (i): Extent of the variance in expenditure composition during the last 3 years*

**104. The composition of the variance in actual expenditure from the original budget measures the deviations in the largest 20 MDAs on administrative classification**. Examination of minutes of Cabinet meetings confirms that the MDAs can ask Cabinet for more funding above the appropriation in consultation with the MFEM under the relevant provision of the Constitution. These proposals are then regularized in the next Supplementary Budget presented through Cabinet to the Parliament. The expenditure used in this indicator excludes debt servicing, donor funded expenditures and contingency. The details of the variance of the major 20 ministries/agencies are in Annex 1.

**105. The variations between primary expenditure of the largest 20 ministries/agencies were above 5% but not exceeding 10% in all of the last three years**. This merits a score of B, higher than the rating in 2011 PEFA of C. These figures were unaudited at the time of the assessment.

*Dimension (ii) Average amount of expenditure actually charged to the contingency vote over the last 3 years*

106. **The government appropriates an annual amount to the contingency vote for unforeseen events during the year which is controlled by MFEM**. MDAs can bid for the use of this vote under certain conditions which are clearly outlined in the Financial Policy and Procedures Manual. The contingency vote will cover events resulting in significant costs which were not reasonably foreseeable when the budget was approved and which cannot be reasonably avoided. The contingency will not fund wages and salaries, any aspect of Ministerial Support Office activities, constituency expenses and capital expenditure. The contingency fund can only be authorized by a parliament appropriation.

107. **The CIG also maintains another disaster relief funds but this is partially funded by the donors and can therefore be treated as a Trust Fund and not included as contingency charges for purposes of computing this indicator**. Likewise, the CIG has a Loan Reserve Fund[10] earmarked for the payment of debt and as such is treated as a Special Fund and also not included in the computation of this sub indicator.

**108. The actual levels of the contingency vote in the last three fiscal years are in the table below.**

Table 4.1: Contingency allocation, 2011/12-2013/14

| **Fiscal Year** | **Actual contingency vote ($m)** | **% of total expenditure** |
|---|---|---|
| 2011/12 | 228.882 | 0.2% |
| 2012/13 | 213.866 | 0.2% |
| 2013/14 | 309.000 | 0.3% |

*Source: MFEM, Cook Islands*

The actual amount spent from the contingency fund averaged less than 1% of primary expenditure in the last three financial years. A score of A has therefore been assigned, the same as in the 2011 PEFA.

[10] The Government used to allocate 0.5 per cent of taxation revenues to a Loan Reserve Fund but the amount allocated is now determined by the new Loan Reserve Fund Act which was passed by Parliament in April 2014.

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

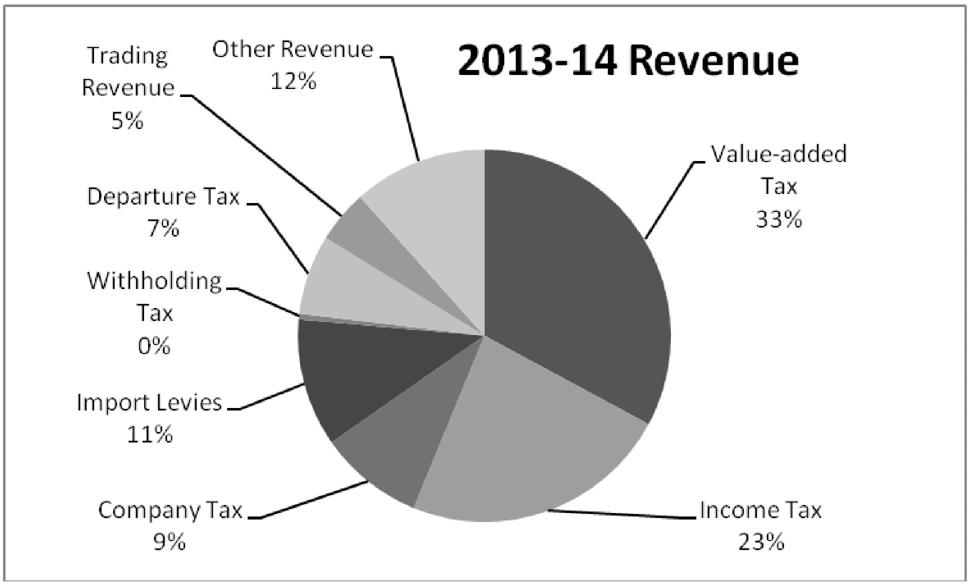
109. **The deviations of the actual domestic revenue from the original budgeted amounts exceeded the bounds of 106% to 97% in only one year**. Details are shown in Annex 2. An overall score of A is therefore assigned, which is an improvement from the 2011 PEFA.

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-3. Aggregate revenue out-turn compared to original approved budget | B | A | The proportion of actual revenue collected to the original budgeted level in the last three fiscal years were:<br>2011/12--99%<br>2012/13--96%<br>2013/14—101%<br>Actual domestic revenue collection was between 97% and 106% of budgeted domestic revenue in at least two of the last three fiscal years. Performance improved compared to previous assessment.<br>These figures are not audited. The last audited accounts were 2010/11. |

110. **The CIG main revenue sources are from taxes which are administered and collected by the Revenue Management Division (RMD) of the MFEM**. The authorities to collect these taxes are in the Value Added Tax (VAT), Income Tax and Customs legislations. These Acts have been amended from time to time to keep abreast of global practices and advancement in technology. The government recently completed a tax reform aimed at simplifying the tax system and shifting the burden of taxation towards consumption-based tax and away from income-based taxation. The elements of this reform have been fully implemented. The revenue administration and management are discussed in the sections on PI-13-15.

**111. The composition of the revenue collection is shown below (Chart 2).**

*Chart 2: Composition of government revenue*




*Source of data: MFEM Cook Islands*

112. **As evident from the chart above, the major source of domestic revenue is from VAT (33%) followed by income taxes (23%) and import levies (11%).** Non tax revenue is relatively small. The administration of the VAT is efficient with minor exemptions. There was no sale of major assets in the last three fiscal years.

**PI-4: Stock and monitoring of expenditure payment arrears**

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-4. Stock and monitoring of expenditure payment arrears | NR | B+ | |
| (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock | NR | A | The stock of arrears as at 30dh June 2013 to total primary expenditure was 0.7%. The data on expenditure arrears are not audited as the last audited financial statement is 2010/11.<br><br>This indicator was not rated in 2011 PEFA since no data on stock of arrears were recorded at that time. |
| (ii) Availability of data for monitoring the stock of expenditure payment arrears | D | B | Performance improved. The ministries have been submitting arrears reports routinely from 2012/13 which includes aging. The ministries cleaned up their arrears starting in 2013/14 which has improved the quality of data. However, there is no independent verification of the information on arrears due to the delay in external auditing and the absence of internal audit functions. |

113. **Payment arrears can be used as means of concealing actual level of government expenditure which affects the credibility of the entire budget**. The maintenance of efficient information on arrears is therefore essential to accurately measure the government's ability to stay within the budget appropriations.

**114. Since the stock of arrears is less than 2% of total expenditures, a score of A is assigned to dimension (i).** However, because data have not been audited, dimension ii was assigned only a "B". Hence the overall rating is B+. Data on the stock of payment arrears were not available at the time of the 2011 PEFA.

*Dimension (i): Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock*

115. **Since the CIG uses accrual accounting, these payment arrears are adequately captured in the accounts payable data.** In addition, the MFEM usually recalls all cash balances from ministries at the end of the year and uses these balances to clear the accounts payable. Therefore, under these arrangements and procedures, the risks to government finances from these expenditure arrears are not as severe as in a purely cash accounting system.

116. **This dimension was not rated in the 2011 assessment due to lack of data, as MDAs and Outer Islands were not required then to report payables listing.** In 2012, this was made compulsory through a revision to the reporting policies of MDAs and Outer Islands to Treasury (refer to D4 Financial Reporting of the Financial Instructions). Since then, MDAs and Outer Islands have been submitting aged payables reports on a monthly basis. When these reports are not submitted, Treasury suspends monthly operating (bulk) funding until the required information is received. It was in 30 June 2013, when the first full year of aged payables data became available.

**117. The table below shows the level of arrears at the end of the fiscal years 12/13 and 13/14.**

Table 5 Level of expenditure arrears, 2012/13-2013/14, in NZ$million

| Fiscal years | Total Payable | 0-30 days | 31-60 days | 61-90 days | +90 days | Total Arrears (30+) | Total Expenditure | % of total expenditure |
|---|---|---|---|---|---|---|---|---|
| 30 June 2013 | 8.16 | 7.15 | 0.09 | 0.16 | 0.76 | 1.02 | 107.21 | 0.95% |
| 30 June 2014 | 6.96 | 6.140 | 0.08 | 0.03 | 0.71 | 0.82 | 114.13 | 0.72% |

*Source: MFEM Cook Islands*

118. **The major payable within the 0-30 days is the Payment on Behalf of the Crown (POBOC) for airline subsidy which undergoes a screening and evaluation process before it is paid.** This represents about 75% of total payables. Arrears are those payables that remain unpaid after 30 days the amount of which is low. It is also noteworthy that the arrears are not due to cash flow difficulties as the government maintains a high level of cash reserves. Government, when required, pay utility bills of the MLAs and offset these with the next cash flow released to MLAs. There are no payroll arrears.

119. **The stock of arrears currently stands at less than 2% at the end of 2013/14.** Therefore **a score of A is assigned**.

*Dimension (ii) Availability of data for monitoring the stock of expenditure payment arrears*

120. **Since 2012/13, the ministries are now submitting routine quarterly reports to MFEM through the accounting system MYOB and QuickBooks**. MFEM undertakes a high level reconciliation. An aged profile was available for 2 financial years for 30 June 2013 and 30 June 2014. The aged profile showing expenditure arrears is done monthly at the MDA and Outer Island level whereas PEFA only requires annually. There is no statutory definition of arrears however MFEM has issued a new policy to define expenditure arrears (Policies and Procedures Manual, D22, Expenditure Arrears) which provides that "Normal business practice for the settlement of invoices in the public sector is payment by the 20$^{th}$ of the month following the date of the invoice". Training on the accounting of arrears of MLAs is also undertaken from time to time.

**121. There were relevant concerns on the quality of arrears data early in their collection process.** In response to this, TMD issued a government wide memo for the cleaning of debtors and creditors ledgers (T4461314 Debtors & Creditors Reconciliation 24 March 2014). This was completed in May 2014 for most ministries. Training on the management of subsidiary ledgers was also undertaken to ensure that MDAs and Outer Islands properly use their accounting systems once data cleaning has been achieved (power point presentation Training for Finance Staff). TMD believes that these initiatives have greatly improved the quality of arrears data. Unfortunately, the absence of internal audit function and the lag in the completion and auditing of financial accounts could not be used to validate these numbers. **A score of B has therefore been assigned**.

**PI-5: Classification of the budget**

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-5. Classification of the budget | A | C▲ | Performance has improved. The budget is formulated, executed and reported by administrative, economic and program (output) classifications. The 2014/15 budget included the COFOG classification for the first time. But there is still no sub functional classification and budget programs do not fully satisfy the criteria of sub functional classification under COFOG (a difference of interpretation from the 2011 assessment). Likewise, it did not merit a B because the PEFA framework requires the use of consistent classifications for both budget formulation and execution for the last completed fiscal year A score of C has therefore been assigned with an arrow up to acknowledge use of functional classification in the current year budget formulation. |

122. **A robust classification system allows the analysis of budget and actual out-turn according to important dimensions- economic, administrative and functional.** To promote comparability among countries, this indicator aims to evaluate whether the classification system is compatible with international standards (IMF GFSM 1986/2001 and COFOG for functional). It is important to underline that for the framework requirement to be met, for all scores: (i) the classification system has to be applied in all three stages: formulation, execution and reporting;[11] (ii) the standard used for classification needs to be aligned to the international standards or produce *consistent* documentation according to those standards. The framework allows for "program classification to substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional".[12]

123. **The classifications produced consistent budget documents, executed budgets, and financial reports**. The budget of the CIG is classified in several different ways. It is classified administratively with ministries, Crown agencies, and outer islands. It is also classified economically according to GFS classification. In the 2014/15 budget the functional classification according to COFOG was introduced for the first time. However, due to current capacity constraint, the sub functional classification has not been developed yet.

**124. The previous assessment assigned a score of A to this indicator on the premise that ministry budgets were broken down into programs or outputs which could be equated to sub functional classification.** The 2014 PEFA assessment does not concur on the ground that these programs/outputs were unique to each ministry and do not match with the

[11] The PEFA *Field Guide* specifies that often PEFA Assessments have only focused on "budgetary classification for "formulation", but execution and reporting are part of the requirement" (PEFA *Field Guide*, page 69).

[12] *PEFA Framework*, January 2011, page 17.

sub functional classification according to COFOG. **Therefore, the 2014/15 budget's administrative, economic and functional classifications merit a score of C with an upward arrow** to reflect the use of functional classification in the recent year's budget formulation**.** If this functional classification will be used in coding transactions during budget execution, and reports will present expenditures according to this classification, it will merit a "B" score in the next assessment. **.**

## B. Transparency and Comprehensiveness

**PI-6: Comprehensiveness of budget documentation**

| **Indicator (M1)** | **Score 2011** | **Score 2014** | **Brief Explanation** |
|---|---|---|---|
| **PI-6: Comprehensiveness of information included in budget documentation** | B | A | The annual budget documents contain 8 of the 9 information benchmarks required by PEFA. Performance has improved. The 2011 assessment fulfilled only 6 information items. |

125. **The budget documentation includes a total of 3 Budget Books – Budget book 1: The Budget Estimates, appropriation and commentary, Budget book 2: Ministry Statements and Budget book 3: Capital Plan.** These documents present the appropriation, the allocation and the macroeconomic projections. Sensitivity analyses are presented of exchange rate scenarios on debt repayments. The national accounting standard is aligned to IPSAS. Improvements have been made in the recent budget to include prior year's outturn and summarised fiscal tables. Information on donor project includes revenue and expenditure for each project.

126. **The budget documents fully meet 8 of the 9 PEFA requirements with one partially satisfied.** While the budget outlines the new expenditure and revenue initiatives, it was not evident from the examination of Cabinet decisions that it includes implications of all significant policy decisions approved during the last fiscal year. The satisfaction of 8 of the 9 requirements of this indicator merits a score of A (see Table 6 below). This is an improvement over the 2011 PEFA due to the changes mentioned above.

Table 6: Completeness of Budget Documentation

| Item | Included in budget documentation? | | Relevant Section of Appropriation Bill |
|---|---|---|---|
| | 2011 | 2014 | |
| Macro-economic assumptions (aggregate growth, inflation, and exchange rate)[2] | Yes | Yes | Part I, Section 4 - Fiscal strategy report to include all requirements of the PEFA |
| Fiscal deficit (IPSAS standards) | Yes | Yes | Part I, Section 4 - Fiscal strategy report |
| Deficit financing (includes anticipated composition) | Yes | Yes | Part I, Section 4 - Fiscal strategy report |
| Debt stock (includes detail for current year) | Yes | Yes | Part I, Section 5 – Schedules analyzing the appropriations |
| Financial assets (includes detail for current year) | Yes | Yes | Part I – Section 6 – Financial update |
| Prior year's budget outturn | No | Yes | The prior year's budget outturn is included in the 2014/15 budget |
| Current year's budget, presented in the same format as the budget proposal | Yes | Yes | Part I – Section 2 – Appropriation Bill 2014 (Schedule 1) |
| Summarized budget data | No | Yes | Summarized data for previous years are now included alongside current year and coming budget year |
| Explanation of budget implications of new policy initiatives | Some | Partial | An explanation of financial implications of new policy initiatives is provided in Part I, Section 7 Revenue and Section 8 Expenditure. However, these were deemed not too comprehensive. |
| **Rating** | **B** | **A** | **The annual budget documents contain 8 of the 9 information benchmarks required by PEFA.** |
| Notes: 1. Information based on current year budget documents (2014/15)<br>2. The Cook Islands use the NZ dollar as their currency. | | | |

## PI-7: Extent of unreported government operations

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|

| | | | |
|---|---|---|---|
| PI-7. Extent of unreported government operations | B+ | C+ | No change in performance. The difference in the assessment approach caused the difference in score. |
| (i) Level of unreported extra-budgetary expenditure | A | A | Estimates of unreported government operations represent less than 1% of total government expenditures. No performance change. |
| (ii) Income/expenditure information on donor-funded projects | B | C | No performance change, only a difference in assessors' interpretation. Complete income and expenditure data of donor-funded projects covering all loans and grants were reported in the budget and financial reports, except for a project-wise comparison of the projected and actual inflow. This was not considered in the interpretation of the 2011 assessment. A "D" rating was not considered as the missing information was not seriously deficient. The projected and actual inflows at aggregate level were reported. |

127. **The same conditions in the unreported government operations existed in the previous and current assessment**. However, the rating in dimension (ii) differed from the previous assessment as the unreported comparison of actual versus projected inflow from donors was apparently not considered. PEFA Field Guide requires that MDAs in charge of implementing donor funded projects should at least be able to provide adequate financial reports on the receipt and use of donor funding received in cash. Hence the overall rating changed from B+ to C+.

*Dimension (i) Level of unreported extra-budgetary expenditure*

128. **From the consultations and examination of fiscal reports, it shows that the level of extra- budgetary expenditures in the Cook Islands is low**. The annual financial and the quarterly reports are comprehensive with the inclusion of the whole of government covering central government, SOEs and the Outer Islands.

Table 7: Estimate of Total Unreported Government Operations

| **Agency or Crown Entity** | Unreported Government Operations, 2012/13 (NZ$'000) |
|---|---|
| School Committees | 835 |
| Total expenditures for 2012/13 | 114,127 |
| % Unreported Activities | 0.73% |

*Source: MFEM Cook Islands*

129. **The level of unreported extra budgetary expenditure represented less than 1% of total expenditure in 2013/14.** A score of A has therefore been assigned which is the same score as the 2011 PEFA. The 2011 assessment computed extra budgetary expenditure at 0.62% of total expenditure.

*Dimension (ii) Income/expenditure information on donor-funded projects*

130. **Income/expenditure information of all donor-funded projects is reported in the budget, as well as in the in-year and annual financial reports.** The budget document presents all grants and loans from donors, including the budgeted and actual expenditures for each project. The consolidated annual financial statements prepared by the Treasury include all revenues (grants), borrowings, and expenditures related to donor-funded projects. The DCD report also presents a comparison of budget and actual expenditures in every project. However, a project-wise comparison of actual versus projected revenue inflow was not reported. From the consultations, the information on actual cash inflow is readily available from DCD and will be included in future. A score of C has therefore been assigned, not because the reports do not capture grants, but because information on grants does not show comparison of actual and projected inflow for each individual project. A score of D is not appropriate as aggregate information on donor funded projects (both grants and loans) is complete and well presented in fiscal reports including the budget.

131. **It is noteworthy that the lower score of C from that of B in the 2011 PEFA is not due to reduced performance of this sub indicator.** The difference is in the interpretation of the details required for reporting on donor funded projects.

**PI 8 Inter-governmental Fiscal Relations**

| **Indicator (M2)** | **2011** | **2014** | **Brief Explanation** |
|---|---|---|---|
| PI 8 Inter-governmental Fiscal Relations | **N/A** | **A** | |
| (i ) Transparency and objectivity in the horizontal allocation amongst Sub National Governments | **N/A** | **B** | Allocation formula is based on objective variables, published in the annual budget document starting 2013/14, and used for more than 95% of the actual transfers. The actual values of these variables in each year are not however disclosed. |
| (ii) Timeliness and reliable information to SN governments on their allocations | **N/A** | **A** | The island governments are notified of their budget ceiling prior to formulating their budget proposal, and once the budget is approved, they are also notified of the approved allocations before the start of the budget year. Outer islands use the same calendar as used by central government. |
| (iii) Extent of consolidation of fiscal data for general government | **N/A** | **A** | Island governments use the same reporting framework as central government. Budget document and execution reports include consolidated data for general government (central plus island governments) and available within 6 weeks after end of period. |

132. **This indicator was considered Not Applicable in the 2011 PEFA assessment.** It was because the Outer Islands were not considered by the assessment team as sub-national government bodies (they were funded like agencies, with no fiscal autonomy).

133. **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. The local government sector is composed of the 10 Island Administrations, with the rules-based allocation of operational funding occurring in the 2013/14 and 2014/15 national Budgets.

134. **The passing of the Island Government Act in 2012 marked the commencement of a new approach towards governance in the Pa Enua (Outer Islands).** Island Councils, and their communities are now empowered to determine development priorities for their respective islands. This new law represents the most thorough and comprehensive review of, and reform of, the system of governance for the Pa Enua of the Cook Islands since the enactment of the Outer Islands Local Government Act 1987.

135. **Due to the provisions of the 2012 Act, the outer island governments are considered as sub-national governments, and the overall rating is an "A".** Compared to the situation in 2011, performance improved mainly because of the use of horizontal allocation model which is disclosed in the budget document starting 2013/14.

*Dimension (i) - Transparency and objectivity in the horizontal allocation amongst Sub National Governments*

136. **As in any of the budgetary entities, each of the Island Administrations received information on their baseline budget (for operating and capital expenditures) allocation ceiling from the Budget Circular issued at the start of the budget process.** The allocation for operating budget was derived by the MFEM and approved by the Cabinet on the basis of a funding model that includes factors such as administration, cost of basic utilities--water and electricity, road and building maintenance, waste management, etc. (see Table 8) below. For each factor, a standard parameter used in calculation such as population as per the census, kilometers of road and runway, values of registered assets, etc. is also published. The specific model used each year is approved by Cabinet (and subsequently, Parliament) through each Appropriation Bill.

137. **The rule based system was first introduced in the 2013/14 Budget to ensure, firstly, a fairer and more transparent allocation of financial resources across the Pa Enua, and secondly, a provision of basic levels of service delivery at a broadly comparable level**. The formula is published in the both the previous (2013/14) and current year (2014/15) budget documents. The Funding Model does not include depreciation (as this is a non-cash item and is not appropriated to agencies or Island Governments) or capital spending (which goes through the Infrastructure Committee process).

**Table 8. Cost factors of the 2013 Outer Island Funding Model Used in FY2013/14**

| Factor/Output | What determines the amount of funding for the relevant factor |
|---|---|
| Administration | Population as per the Census |
| Councils | The number and wages of councilors, Ui Ariki and Aronga Mana as per the *Outer Islands Local Government Act 2012/13* |

| | |
|---|---|
| Water | Fixed amount per person / household |
| Road maintenance | Per km of road |
| Sealed | Per km of road |
| Unsealed | Per km of road |
| Maintenance (of machinery and vehicles) | Per cent of the values of registered assets |
| Airstrip | Per km or runway |
| Waste Management | Fixed amount per person |
| Literage (unloading of boats) | Island Administrations to cost recover |
| Beautification | Per km of road |
| Building maintenance | Funding and services provided through the Cook Islands Investment Corporation |
| Energy (electricity generation) | Estimation of generation cost (varies between Northern and Southern Group) ; Estimated trading revenue from appropriate usage charges |
| Other costs | Varies by island |

*Source: MFEM Cook Islands*

138. **These rules have been explained to the Outer Island Administrations and training has been conducted**. In terms of transparency, the parameters are well documented and published in the budget document, and the values assigned to each parameter come from official sources of statistics, but these values are not published or made available to the Island Governments.

139. **In the last fiscal year, actual transfers from the central government are in Table below**.

Table 8.1. Actual Transfers to Island Councils, FY2013/2014

| **Expenditure Category** | **Total Transfers** | **Using Formula** | **Not using Formula** |
|---|---|---|---|
| Recurrent Expenditure | 7,012,000 | 6,893,000 | 119,000 |
| Capital Expenditure | 193,000 | 0 | 193,000 |
| **Total for Island Administrations** | **7,205,000** | **6,893,000** | **312,000** |

*Source:* June 2014 Quarterly Financial Statement, MFEM

140. **Based on the above table, the percentage of transfers made in FY2013/14 that were subject to the horizontal allocation formula is more than 95%.** On this basis, and given the clarity of the rules, the rating is supposed to be an “A”**.** However, because the values assigned to each parameter were not published, or made available to the Island

Governments, **the rating assigned is a "B".** Although the 2011 assessment considered this indicator as not applicable at that time which is not the case, there is actually an improved performance as there was no clear formula used in 2011.

*Dimension ii- Timeliness and reliable information to SN governments on their allocations from the central government for the coming year*

**141. The fiscal year of Island Governments is the same as that of the central government, hence the budget calendar (including reporting schedules) is consistent.** The island governments are therefore notified of their budget ceiling prior to formulating their budget proposal, and once the budget is approved, they are also notified of the approved allocations before the start of the budget year. As discussed in PI 16, the cash transfers for all entities are fully based on the approved budget; hence, the information received on the amount of allocation is reliable. Therefore, **the rating is "A".**

*Dimension iii- Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.*

142. **The rating for dimension iii is "A".** As discussed in PI 24 and 25, monthly, quarterly, and annual reporting includes the whole of government including all the 10 Island Governments. The consolidation is facilitated through the use of a standard chart of accounts and reporting frameworks for both central and island governments.

143. **The monthly and cumulative quarterly report shows a consolidated financial performance (revenues and expenditures) of the general government and state-owned enterprises (SOEs).** The general government includes the central government and all the 10 Island Governments. This last quarter cumulative report is made available within 6 weeks after end of the period.

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

| Indicator (M1) | 2011 | 2014 | Brief Explanation |
|---|---|---|---|
| **PI 9- Oversight of aggregate fiscal risk from other public sector entities.** | **C** | **C** | |
| (i) Extent of central government monitoring of AGAs/PEs | **C** | **C** | All 5 SOEs submit fiscal report but there is no consolidated report on fiscal risks.<br>No significant change in performance as fiscal risks are still not reported. |
| (ii) Extent of central government monitoring of SN governments' fiscal position | **N/A** | **C** | All island governments submit quarterly and annual reports to MFEM. However, there is no consolidated report on the analysis of the financial performance and financial position of the island governments |

144. **The other public sector entities referred to in this indicator are the state-owned enterprises (SOEs) and sub-national governments.** The overall rating is a "C" which is the same as the previous assessment. The extent of central government monitoring of SOEs is

still rated at “C” as there is no consolidated report of fiscal risks produced. There are no other autonomous government agencies[13]. Monitoring of SN government’s fiscal position is rated for the first time in this report, and the rating is also a “C” for the same reason as the SOEs.

*Dimension i- Extent of central government monitoring of SOEs*

145. **As in the previous assessment, there are five SOEs- the Cook Islands Investment Corporation (CIIC), Ports Authority, Bank of the Cook Islands, Airport Authority, and Te Aponga Uira.** All SOEs provide their monthly and quarterly reports including audited annual Financial Statements to CIIC which submits the reports including its own to MFEM and Parliament through the Minister responsible for the CIIC.

**146. The functions of the CIIC are to:**

- Administer and manage Crown assets and shareholding interests;
- Control and manage the undertakings of statutory corporations; and
- Negotiate and facilitate the disposal of assets and any property of undertaking of a statutory corporation.

147. **Currently, there is no unit at MFEM monitoring and analyzing fiscal risks from SOEs.** On the other hand, CIIC’s evaluation has been mostly on accounting and reporting issues, and not on financial risks. The consolidated quarterly report and annual financial statements of the government includes a consolidated data for the whole of the SOE sector. The audited accounts of each entity are also up to date. However, there is no consolidated report on the analysis of the financial performance and financial position of the SOEs that includes financial indicators of profitability, liquidity, stability, and solvency.

148. **The State Owned Enterprises can take loans directly without Government guarantee.** Likewise, they undertake community service obligations (CSOs) on behalf of the central government but the extent to which the costs of these CSOs are affecting their financial performance in the future is not clear. In addition to financial underperformance, these are examples of fiscal risks that could be monitored and reported.

149. **The annual budget document includes a section on a Statement of Financial Risks.** This describes and quantifies the following fiscal risks:

[13] The crown agencies that operate outside of the ministries have their own statutory boards, but do not have fiscal autonomy as their budgets are reviewed and approved, and subject to the same financial instructions as in any government entity. So they were not included in this indicator.

- Guarantees and Indemnities
- Uncalled capital shares
- Legal Proceedings and Disputes

150. **However, the amounts are for the whole of government, and do not specify how much pertains to SOEs.** As there is no consolidated report of fiscal risk issues prepared, a **“C” rating has been assigned.**

*Dimension ii- Extent of central government monitoring of SN governments’ fiscal position*

151. **Under the Island Government Act, the Island Governments can borrow, invest, acquire properties, and enter into contracts but with prior approval from the Minister of Finance/Financial Secretary.** Although no such permission was given yet, there is potential fiscal risk in the future as they can generate fiscal liabilities for the central government. All island governments submit quarterly and annual reports to MFEM. However, there is no consolidated report on the analysis of the financial performance and financial position of the island governments. Likewise, while there is mention of consolidated risks for the whole of government in the budget documents, the risks coming from island governments are not identified separately. The Mid-year update for 2014/15 indicated that MFEM has not approved any of the Island Governments to take out any contract or security that could result in a potential liability for the Crown, but the consolidated financial performance and financial position of each of the outer island government could have been prepared as basis for assessment. **A score of “C” is therefore assigned**.

**PI-10: Public access to fiscal information**

| **Indicator (M1)** | **Score 2011** | **Score 2014** | **Brief Explanation** |
|---|---|---|---|
| PI-10. Public access to key fiscal information | B | A | Government provides the public with access to all the 6 types of information required by PEFA within the specified time. Performance has improved compared to only 3 information elements in 2011 assessment. |

152. **Public access to fiscal information is essential for the transparency and accountability of government operations.** The Cook Islands has progressively made fiscal reports available to the public since the 2011 PEFA which include the publication of quarterly reports, awards of tenders above $30,000, audit reports and resources available to primary delivery units of primary education and community health centers. Many of these reports are posted on websites and the access to internet is improving throughout the Cook Islands.

153. **The Cook Islands fulfills five of the six criteria required of this indicator (Table 9). A score of A has therefore been assigned.** This is higher than the score of the 2011 PEFA reflecting more information that is now published. The only criterion not completely

fulfilled is on the timeliness of in-year budget execution reports. PEFA framework requires a timelag of one month within which the reports must be made available to public after their completion. Current performance is 6 weeks or over a month.

154. This indicator specifically measures the timeliness of the publication of these reports rather than their completion. This timeliness is measured from the time the report was completed rather than from the end of the period being monitored. For instance, the year-end financial statements are required to be published within six months from the date of the completion of the audit and not from the end of the financial year. This technical issue reconciles the higher rating of this indicator from the other relevant indicators in this PEFA assessment.

Table 9: Public Access to Fiscal Information

| **Item** | **With Public Access?** | **Information timeliness** | **Currently on website?** | **2014 assessment** | **2011 assessment** |
|---|---|---|---|---|---|
| 1. Annual budget documentation – Appropriation Bill, (3 volumes) Minister's Budget Speech | Yes. The budget documents are published on MFEM website and hard copies printed and available on request. | The Budget documents are made available to the public when the Appropriation Bill is tabled in Parliament. | Yes | Yes | Yes |
| 2. In-year budget execution report – monthly variance report and quarterly reports. | Yes. The quarterly reports are published after tabling in Cabinet. The monthly reports are for internal use only and are not published. | Quarterly reports are published within 6 weeks from completion. | Yes | No | No |
| 3. Year-end financial statements | Yes. The audited financial statements are published on MFEM website. | The audited financial statements are published after tabling in Parliament within 6 months of completed audits. Latest available is 2010/11. | Yes | Yes | No |

| | | | | | |
|---|---|---|---|---|---|
| 4. External audit reports | Yes. Quarterly and annual audit reports and special review audits are on PERCA website; hard copies for latest audit reports (including special audits) are posted in the Post Office. | External audited reports are posted on the PERCA website after they are tabled in Parliament within six months of completed audits. | Yes | Yes | Yes |
| 5. Contract awards | Yes | The awards for tenders over 30k is now published on the MFEM website at least quarterly | Yes | Yes | No |
| 6. Resources available to primary service units | Yes. | These reports are published on the websites by the Ministries of Health and Education respectively. | Yes | Yes | Yes |
| Rating | | | | A | B |
| Notes: 1. Information based on fiscal year 2010/11.<br>2. Soon after its tabling in Parliament.<br>3. The score is based on the availability in hard copy of the latest reports in the central Post Office in Rarotonga. | | | | | |

## C. Policy-based Budgeting

### PI-11: Orderliness and participation

**155. All dimensions have improved in their performance, hence the overall rating went up to B.**

| Indicator (M2) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-11. Orderliness and participation in the annual budget process | C | B | |
| (i) Existence of, and adherence to, a fixed budget calendar | B | A | A fixed budget calendar exists and is generally adhered to. For all the last 3 years, it has allowed MDAs at least 6 weeks to complete their budget submission, a performance improvement from the 2011 assessment. Largely, the submissions are detailed and submitted on time with few exceptions. |
| (ii) Guidance on the preparation of budget submissions | D | C | The budget instructions through a circular circulated to MLAs contain ministry ceilings (baselines), an improvement from the 2011 assessment. However, the ceilings are not approved by Cabinet prior to circulation to the MDAs. Ministries submit bids on new expenditure initiatives which are prioritized by the Budget Support Group. |
| (iii) Timely budget approval by the legislature | C | C | The budget was approved by Parliament before the start of the budget year in two of the last 3 years. The 2014/15 budget could not be approved before the 2014/15 budget year because of the absence of Parliament which, due to the general elections, was dissolved before the 2014/15 budget could be approved. It was approved only 3 months after beginning of 2014/15. The timeliness of Parliament approval has improved since the 2011 PEFA where, in two years, the budget was approved after the beginning of the new financial year. |

*Dimension (i): Existence of, and adherence to, a fixed budget calendar*

156. **The CIG budget process is clear and well understood.** The budget timetable (Table 10) for the recurrent budget and small capital spending is tabulated below:

Table 10. Timeline 2013/14 recurrent budget

| Timing | Milestones |
|---|---|
| October | Budget Templates circulated to all Departments |
| October | Budget Consultation Document release approved by Cabinet |
| November | Business Plan and Budget Submission Training to Departments (Sectors) |
| December | Public Release: Half Year Economic & Fiscal Update & Budget Policy Statement |
| December | One on one Budget training with Departments |
| January | Business Plans & Budget submissions submitted to MFEM |
| February | Donor Round Table |
| February | Final Business Plans & Budget submissions submitted to MFEM |
| February | Supplementary Budget to Parliament |
| February | Budget Submissions and Budget Secretariat Analysis to BSG |
| March | Independent BSG review of Budget submission documents |
| March | BSG Review Budget Submissions and Business Plans |
| April | Budget interview with HOM's & Portfolio Ministers |
| April | Budget Recommendation 2013/14 tabled in Cabinet |
| April | HOM’s response to Budget Recommendation 2013/14 to MFEM/Minister |
| May | Cabinet deliberate over Budget Recommendation 2013/14 |
| May | Budget 2013/14 finalised and approved by Cabinet |
| May | Citizen Guide Provided in News Paper |
| June | Budget 2013/14 tabled in Parliament |

**157. The recurrent budget timetable starts with the issuance by the Finance Secretary around December of the first budget circular which outlines the budget timetable and the recurrent baseline for each MDA.**

Table 10.1: Recurrent Budget Timeline 2011/12-2013/14

| Budget year | Circulation of Budget Instructions by MFEM to MDAs | Date for Final Submission of Estimates by MDAs to MFEM | Number of Weeks given to MDAs for Submission of Estimates |
|---|---|---|---|
| 2011/12 | 26th February 2011 | 16th March 2011 | 6 weeks |
| 2012/13 | 9th February 2010 | 30th March 2010 | 12 weeks |
| 2013/14 | 8th October 2012 | 31st January 2013 | 18 weeks |

158. **Almost all MDAs complied with the instructions of the budget circular with a few exceptions mainly by smaller ministries due to lack of budgeting capacity**. The level of compliance by the bigger ministries like Health and Education is high. The consultations

confirmed that the Ministries are satisfied with the time allocated for the preparation of their budgets and that the instructions are clear and well understood.

159. **The MDAs are allowed at least 6 weeks after the issue of the circular and they submit their bids on a timely basis with a few exceptions**. **A score of A has therefore been assigned**. This is an improvement from the score of B in the 2011 PEFA due to inclusion of ceilings in the first budget circular to all MDAs.

*Dimension (ii) Guidance on the preparation of budget submissions*

160. **The MFEM prepares a Budget Policy Statement (BPS) which is submitted to Cabinet around December each year and includes amongst other things, the macroeconomic projections and areas of government priorities.** It identifies the level of fiscal balances that will satisfy the provision of the MFEM Act. The BPS provides high level guidance for the new budget. The BPS makes reference to the NSDP which are neither costed nor prioritized. For instance, the 2013/14 BPS identified the following priority areas:

- continue economic development, ensuring a vibrant Cook Islands economy;
- invest in infrastructure to provide for further economic growth;
- ensure energy security for the long term;
- provide opportunity for all who reside in the Cook Islands through social development;
- build resilient and sustainable communities;
- maintain ecological sustainability;
- apply the principles of good governance; and
- institute law and order, ensuring a safe, secure, just and stable society.

The BPS does not provide specific indicators on sectoral priorities to help in screening the bids from the MDAs.

161. **The baselines are derived from the previous budget allocations adjusted for one off expenditure and revenue items.** They are considered to be synonymous with ceilings on recurrent spending. However, the ceilings are not approved by Cabinet prior to their circulation to the MDAs. MFEM is however of the view that since Cabinet had approved the current year's budget, they have also, by default, deemed to have approved the baselines for the following year's budget. It is the opinion of the 2014 assessment that the PEFA requires that the Cabinet approval be explicit and not implicit. The MFEM has agreed to make this approval explicit in the next budget.

162. **The MDAs submit bids to MFEM only on new expenditure initiatives above the allocated baselines.** No indication of the overall envelope of these bids is provided to the MDAs. The bids are screened and prioritized by the Budget Support Group which is chaired by the Minister for Finance who also appoints the members annually in consultation with MFEM. In practice, however, the Finance Secretary chairs the meetings of the Group. Other members are the Heads of central agencies like Public Service Commission (PSC) and Office of the Prime Minister (OPM) with one private sector representative. The Group screens the

bids of the MDA based on the fiscal strategy in accordance with the provision of the MFEM Act and government priorities.

163. **It is noteworthy that Cabinet is not involved at this stage although MFEM points out that the Minister for Finance represents Cabinet in this Committee**. After the Budget Support Group has decided the allocation of new expenditure initiatives, MFEM submits the budget to Cabinet for decision after which a second circular is issued to the MDAs advising them of their allocation. It is important to note that there is no prior consultation with the MDAs before the budget is presented to Cabinet. From the consultations in this PEFA assessment, ministries had expressed their concerns on finding out their allocations after Cabinet had already approved the budget. While it is understood that agreeing with Ministries on a reduced allocation may, at times, tenuous, the 2014 PEFA assessment is of the view that more transparency will add value to the allocation made by the Budget Support Group prior to Cabinet approval.

164. **The recurrent budget ceilings are not explicitly approved by Cabinet before the MDAs prepare their budgets**. Furthermore, the Cabinet is not directly involved in slicing up the national budget cake to the MDAs based on costed sector strategies. **A score of C is therefore assigned.** This has improved from the 2011 PEFA score due to the inclusion of budget ceilings.

165. **It is also noted that this indicator focuses on the guidance on the preparation of budget submissions**. Clearly there is guidance provided to the MDAs on the recurrent budget, but this has no explicit Cabinet approval before the Circular is issued. Similarly, there is no Cabinet pre-approved guidance provided to MDAs on their capital budget. It is however understood that the capital budget process involved consultations with donors and MDAs on their ongoing projects. New capital projects are determined in line with government priorities, viability and availability of funding.

*Dimension (iii): Timely budget approval by the legislature*

166. **MFEM finalizes the budget documents and submits the final version to Cabinet and, on approval, to the legislature**. In the past three financial years (Table 10.2) the budget was approved by Parliament before the start of the new financial year. However, the 2014/15 budget was approved three months after the beginning of the financial year. This was due to the impact of the election held in July 2014 which necessitated the dissolution of parliament in April 2014 before they could pass the budget. This is an unusual event entirely beyond the control of MFEM. In normal years, the budget is passed by parliament before the end of the current fiscal year.

Table 10.2: Dates of Approval of Appropriation Bill, 2011/12-2013/14

| Fiscal year | Type of Budget | Date of Parliamentary approval[2] |
|---|---|---|
| 2011/12 | Original Appropriation Bill | 8 July 2011 |
| | Supplementary Budget | 15th February 2012 |
| 2012/13 | Original Appropriation Bill | 7 June 2012 |
| | Supplementary Budget | 21 February 2013 |
| 2013/14 | Original Appropriation Bill | 5 June 2013 |
| | Supplementary Budget | Feb 2014 |

**167. Although the budget has been approved by Parliament before the beginning of the financial year in two of the last 3 years, it did not merit a B score due to a delay of up to three months in one of the last fiscal years, hence a score of C has been assigned.** The timeliness of Parliament approval has improved since the 2011 PEFA where, in two years, the budget was approved after the beginning of the new financial year.

**PI-12: Multi-year perspective**

168. **Overall performance has improved mainly due to the regularity of debt sustainability analysis, and availability of costed sector strategies in some sectors**. As a result, the rating has improved from D+ to C+.

| Indicator (M2) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting | D+ | C+ | Performance improved due to annual DSAs, and costed strategies in Health and Education. |
| (i) multi-year fiscal forecasts and functional allocations | *C* | C | MFEM prepares aggregate fiscal forecasts each year on a rolling basis for three forward years for the main categories in the economic and administrative (an improvement from 2011 assessment) classification, but not in functional classification. |
| (ii) scope and frequency of debt sustainability analysis | *C* | A | Annual debt sustainability analyses (DSA) have been undertaken annually in the last 3 years. This is an improvement over the 2011 PEFA when DSA were not completed annually. |
| (iii) existence of costed sector strategies | *D* | C | Only the Ministries of Education and Health have costed sector strategies and their combined expenditure makes up 12% of government's primary expenditure. Performance improved as these strategies were not costed during the 2011 assessment. |
| (iv) linkages between investment budgets and forward expenditure estimates | *C* | C | Investment decisions have weak links to sector strategies (which themselves are limited in number) and their recurrent cost implications are not systematically included in forward planning, except in a few cases. Recurrent costs of investment spending are not linked to baseline. No performance change. |

*Dimension (i): Multi-year fiscal forecasts and functional allocations*

169. **Multi-year budget projections are essential to enhance the integration between budget and planning.** In CIG, planning is undertaken in the OPM who prepares and monitors the National Sustainable Development Plan (NSDP), a 10 year national plan which expires at the end of calendar 2014. It is a high level strategic document with over 80 performance indicators. Work is now underway to prepare the new plan. At this time, the link to the NSDP to the Budget is through the Budget Policy Statement which is submitted to Cabinet by OPM to guide the preparation of the next financial budget. While this linkage is taken into account by the Budget Support Group in prioritizing expenditures above the budget ceilings (see PI-11), the linkage is considered weak and unstructured. Alternative structure to the existing NSDP is being considered by OPM where a costed strategic plan

could be the link from the NSDP to the annual budget. This will strengthen the linkage between planning and budgeting.

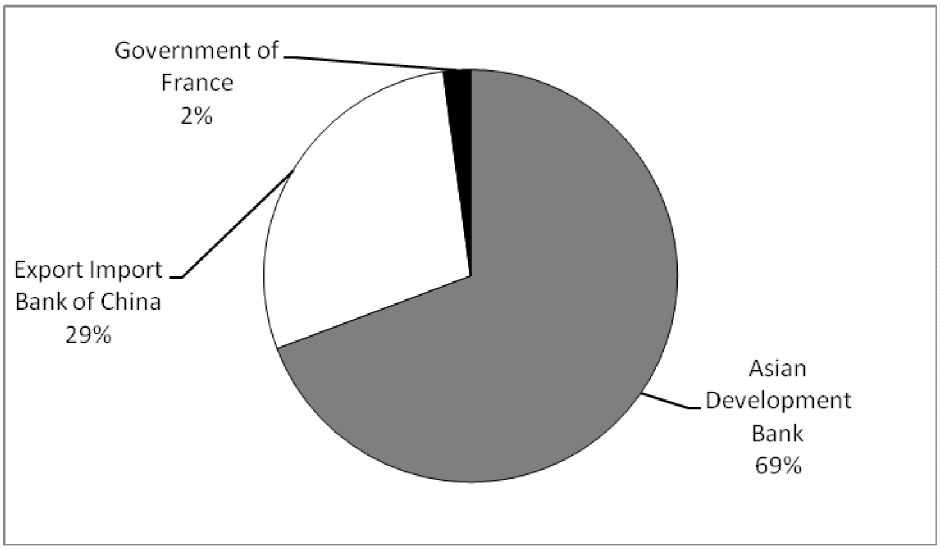
170. **The MFEM maintains a Medium Term Budget Framework (MTBF) which has been converted to the GFS format**. The Budget estimates has the next year plus three future years which is understood to be based on the MTBF. The medium term projections on revenue vary over the years which imply some linkages to the trend in their revenue bases. However, medium term recurrent expenditure projections, do not show variance which imply that they are not indexed to the expected trends in costs of goods and services. MFEM argues that this is strategic and they expect MDAs to find efficiency savings to keep the total costs relatively constant over the medium term. The assessment team considers that some upward movements in costs are inevitable in the medium term and credibility of these multiyear projections will improve if the relevant items are linked to changes in costs.

171. **The Budget medium term projections are in economic and administrative classifications.** However, there are no similar projections by functional classification. **Therefore, a score of C has been assigned** which remains the same as the 2011 PEFA.

*Dimension (ii): Scope and frequency of debt sustainability analysis*

172. **The debt of the Cook Islands is entirely foreign.** There is no local debt. The composition of debt is in the pie chart below. The major sources are ADB (69%) followed by China (29%).

*Chart 3: Composition of government debt, Year2014/15*




*Source of data: MFEM, Cook Islands*

173. **The management of debt is undertaken by the Treasury Management Division (TMD) of MFEM and improvements have been made minimizing the exchange rate risk by converting USD denominated debt to NZD.** In addition, MFEM is seeking expression of interest for contracted service to further hedge its debt position. At the same time, a new Loan Repayments Fund Act was recently passed by Parliament which has allowed MFEM to charge a fee on government guarantees to SOEs and to regulate the process of raising new

debt. These commendable improvements have significantly strengthened the sustainability of the debt position in the Cook Islands as required under the Section 23 of the MFEM Act.

174. **In the 2011 assessment, it was reported that only one DSA was undertaken**. MFEM is now undertaking annual DSA. **This merits a score of A** which is higher than the 2013 score due to the improvements explained above.

*Dimension (iii): Existence of costed sector strategies*

175. **Sector strategies are generally absent in the Cook Islands**. Only Health, Education and Infrastructure have developed medium term strategies. The 10 year Infrastructure Plan is being revised with the help of the ADB's Pacific Regional Infrastructure Facility (PRIF).

176. **Health and Education has costed sector medium term strategies**. Combined, the two ministries account for 12% of the government's total primary expenditure. **A score of C** is therefore assigned. This is higher than the 2011 PEFA score due to the costing of the education and health sectors.

*Dimension (iv): Linkages between investment budgets and forward expenditure estimates*

**177. Medium term budgeting allows direct linkages between investment and recurrent budgets which, if not recognized and planned, can impose pressures on future revenue streams.** While some exchange of information occurs at the informal level, the processes for the recurrent and investment budgets are separate. The investment budget is prepared by DCD based on the consultation with donors and submitted to the Budget Division who may still make adjustments. However, it is understood that these adjustments are not material to affect the level of integration between the two processes. At the same time, while the budget captures recurrent costs of each project in the next three years, the recurrent costs are not analyzed beyond the life of the project. **Based on the above, a score of C has been assigned, the same as the 2011 PEFA score.**

## D. Predictability and Control in Budget Execution

### PI-13: Transparency of taxpayer obligations and liabilities

| Indicator (M2) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-13. Transparency of taxpayer obligations and liabilities** | **B** | A | |
| (i) Clarity and comprehensiveness of tax liabilities | B | A | Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary power of government entities after the amendments to the tax |

| | | | |
|---|---|---|---|
| | | | Acts were passed in December 2013.<br><br>Clarity has also been strengthened through the issuing of Tax Rulings. |
| (ii) Taxpayer access to information on tax liabilities and administrative procedures | B | A | Information dissemination is done in various modes such as website, printed materials, seminars, and periodic visits to the outer islands. The RMD also visited homes and businesses to assist taxpayers.<br>Revenue Management also answers issues through email so taxpayers have easy access to tax liability information. In addition there were periodic communications through newspapers, television, and radio and community meetings. This practice covers all types of taxes. Compared to the 2011 assessment, visits to outer islands became more regular. |
| (iii) Existence and functioning of a tax appeals mechanism | B | C | No performance change. There is a tax appeals mechanism using the High Court where judges are tax specialists from New Zealand. However, there is no formal structure of a tax court within the High Court. The Ombudsman also investigates tax complaints but scope is limited to investigating the tax administration process. |

178. **The Cook Islands Government operates a relatively simple tax system, with the main taxes being Valued Added Tax (VAT), Personal Income Tax (a four-tier progressive system), Company Tax and Departure Tax**. The administration of the legislation is carried out by the Revenue Management Division (RMD) of MFEM. In addition to the four main taxes listed above, other revenues come from Customs duties and licensing and registrations. The legislation is based on similar New Zealand tax legislation.

**179. The overall rating has improved from B to A.** This reflects an improvement from B to A in Dimension ( i); and an improvement from B to A in Dimension ( iii). The rating of dimension (iii) remains the same at B.

*Dimension (i) Clarity and comprehensiveness of tax liabilities*

180. **The country's tax system is regulated by the Income Tax Act (1997) Value Added Tax (1997), Customs Revenue and Border Protection Act (2012), International Departure Tax Act (1984) and amendments.** A tax review was undertaken in December 2013 and there were recommendations and implementations made in regard to tax rates and procedures. The amendment to the Acts was passed in December 2013. The amendments have resulted in clearer legislations, thereby minimizing scope of discretion by the revenue collector. The amendments also removed the Minister's discretion to vary customs duties.

181. **The four main Acts together with rulings provide a comprehensive and clear picture of clarity of taxpayer responsibilities and liabilities, together with processes and procedures to be followed.** Clarity has also been strengthened through the issuing of Tax Rulings, putting tax information on the website and the appointment of a new outreach officer. There is also an electronic screen at the office entrance, and tax brochures available for the public to access information. The Business Trade and Investment Board (BTIB) holds seminars for small business to which RMD provides speakers. RMD also holds meetings in the community to help the older community understand their tax obligations, and occasionally talk back sessions are held on radio to discuss and clarify tax liabilities and procedures.

182. **The amended Income Tax Act and the Value Added Tax Act provide limited discretionary powers and the discretionary powers are limited to the Collector of Inland Revenue.** Rates and penalty amounts are set out in the legislation and the Collector's discretion mostly relates to written submissions made to the Collector. In the process of assessments and in the imposition of penalties, there is provision for granting relief. In general, the Collector has reasonably limited discretionary powers that allow him to apply his judgment. The Collector occasionally exercises discretion using the prescriptive formula established within the legislation in most instances or the use of judgment in limited cases. An objection register is maintained. The number of objections over the past twelve months has been minimal (less than 20). Objections are delegated to senior staff. When an objection is signed off by the senior staff this is then checked by the Collector.

**Due to these legal and procedural amendments, the performance in terms of clarity of taxpayers' liabilities has improved compared to the 2011 assessment; a score of A is assigned.**

*Dimension (ii) Taxpayers' access to information on tax liabilities and administrative procedures*

183. **In addition to the mode of dissemination mentioned in the 2011 assessment such as website, printed materials, seminars, and periodic visits to the outer islands, the RMD also visited homes and businesses more regularly to assist taxpayers.** Likewise, there were periodic communications through newspapers, television, radio and community meetings. A web lodgment system is currently being developed to have people submit tax return online to the Collector or RMD. A Community outreach program is underway and a new outreach officer started recently.

184. **RMD officers make periodic visits (up to bi or tri-annually) to the outer islands to undertake audits and carry out tax awareness and education**. With the high cost of travel to, and the low value of, economic activity in these remote communities, outreach program is concentrated on the main island where 90-95% of the total tax revenues comes from.

**185. The additional outreach activities implemented have increased the performance in terms of providing information access to taxpayers. A score of A is assigned.**

*Dimension (iii) Existence and functioning of a tax appeals mechanism*

186. **The Tax legislation in CIG remains the same wherein if the taxpayer does not agree with the Collector's decision, the taxpayer may lodge an appeal with and have their cases considered by, the Cook Islands High Court.** However, there is no formal structure of a tax court that can preside on the appeal before going to the High Court. The High Court judges presiding over tax cases are specialists in the tax field and preside over similar cases in the New Zealand jurisdiction. All of the Cook Islands High Court Judges are sourced from the New Zealand High Court and appointed to the Cook Islands High Court by warrant under the aegis of the Cook Islands Queens Representative. Although the Ombudsman currently handles tax complaints, the Ombudsman's scope is limited to investigating the tax administration process, and Ombudsman staff may not have full technical knowledge and experience in taxation law and administration.

**The assigned rating is a C, on the ground that there is a functioning tax appeals mechanism, but a formal tax court structure is lacking within the High Court, hence needs to be established in the future. . Performance remains the same,**

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

| Indicator (M2) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-14. Effectiveness of measures for taxpayer registration and tax assessment** | **C+** | B+ | The overall rating has improved from C+ to B+. This reflects an improvement from C to B in Dimension ( i) Controls in taxpayer registration system; and an improvement from C to A in Dimension ( iii) Planning and monitoring of tax audit. Dimension (ii) effectiveness of penalties for non-compliance remains the same at B. |
| (i) Controls in taxpayer registration system | C | B | A complete taxpayers' database is found in the RMD system which is linked to the following: the Government's payroll system<br>• the Government's pension system<br>• the goods entry records system maintained by Customs<br>• for new bank accounts being opened at Cook Island banks.<br>The RMD system linkage to other systems is an improvement from the 2011 assessment. However, the score did not merit an "A" because at this stage, the registration and gazettal of new businesses by the Ministry of Justice is managed manually and the RMD number is not assigned to business registrations. |
| (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations | B | B | Penalties for non –compliance exist for all tax types. and are considered significant by RMD. However, in terms of measuring the overall effectiveness of the tax penalties, it was not possible to collect data on registration, lodgment, assessment and payment compliance over the past three years. No evidence of performance change. |
| (iii) Planning and monitoring of tax audit and fraud investigation programs | C | A | Tax audits are managed and reported according to a well-documented audit plan with clear risk assessment criteria for all major taxes. The improved score in 2014 reflects the introduction of the new risk-based approach to the tax audit program. To date around 100 audits including fraud investigations have been completed against the risk-based audit plan, and the audit reports are submitted to the Collector. |

*Dimension (i) Controls in the taxpayer registration system*

187. **At this stage, RMS does not provide for direct interfacing and interrogation of other government databases or the financial sector systems,** but good progress has been made over the past several years with developing linkages with other government databases and financial sector systems through establishing the unique taxpayer RMD codes as part of those databases. These linkages include:

- The RMD number is included in the Government's payroll system
- The RMD number is included in the Government's pension system
- The RMD number is used in the goods entry records system maintained by Customs
- The RMD number is required for new bank accounts being opened at Cook Island banks. In order to strengthen the linkages with the financial sector, from 1 Jan 2015 if RMD numbers are not provided for Cook Island bank accounts, a 30% withholding tax will be applied on interest on those accounts.

188. **The linkages enable information to be collected from these other databases and cross referenced to the taxpayer information maintained in RMS**. **Due to this progress, the rating was upgraded from "C" to "B".** However, the score did not merit an "A" because the RMD system is not yet directly linked to the business registration system. Currently, the registration and gazettal of new businesses by the Ministry of Justice is managed manually and the RMD number is not assigned to business registrations.

*Dimension (ii) Effectiveness of penalties for non-compliance with registration and tax declarations*

189. **Penalties for non –compliance exist for all tax types.** The same individual Acts as mentioned in the 2011 assessment are currently implemented**.** Penalties are charged in accordance with the Income Tax Act (1997) on late payment of VAT, PAYE, Company and Provisional taxes at the rate of 5% for late filing and a further 1% on the outstanding amount at the end of each month from the due date. In practice, the full annual rate of penalties can be as high as 16% in the first year (5% initial plus 11% monthly charge) and then 12% per annum thereafter, as opposed to the current base commercial lending rate of 9.95%. The levels of the penalties are in line with the NZ tax penalty regimes and are considered by RMD to be significant enough to deter non-compliance. The penalties are consistently administered. In terms of measuring the overall effectiveness of the tax penalties, it was not possible to collect data on registration, lodgment, assessment and payment compliance over the past three years.

**The score therefore remains unchanged at B.**

*Dimension (iii) Planning and monitoring of tax audit programs*

190. **Tax audits are managed and reported according to a well-documented audit plan with clear risk assessment criteria for all major taxes**. The new risk –based audit plan was approved for the 2014/15 year and the program of audits against the risk-based plan commenced in July 2014. The plan is published on the RMD website. To date, around 100 audits have been completed against the plan, and the audit reports were submitted to the Collector.

191. **Under the plan, RMD undertakes tax audits on a continuous basis and focuses its resources on the audit of higher risk sectors and individual taxpayers**. Tax returns are assessed using risk based criteria. The plan will be updated on an annual basis. At present there are 12 staff including 3 senior tax auditors that are available to conduct tax Audits.

192. **A score of A is assigned**. A score of C was assigned in 2011. The improved score in 2014 reflects the introduction of the new risk-based approach to the tax audit program.

**PI-15: Effectiveness in collection of tax payments**

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-15. Effectiveness in collection of tax payments** | **NR** | **NR** | |
| (i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year | *NR* | NR | The system is not yet capable of tracking collection of arrears by year. |
| (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration | A | A | Tax collections are remitted/deposited to the Treasury account and reconciled on a daily basis. Amounts from the remote outer islands may be collected and banked monthly, but taxes collected from these islands are estimated to be only 1% of total tax collection therefore insufficiently material to affect the overall score. |
| (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury | *B*◢ | B | All these information (tax assessments, collections, arrears records and receipts by the Treasury) are available in the RMD system, except for bad debt, as it could not track the reference year of each of the arrears and the collection made.<br><br>Reconciliation is done on a monthly basis. No performance change. |

*Dimension (i) Collection ratio for gross tax arrears*

**193. The RMS system collects assessment, collections and arrears data by unique taxpayer code for all types of taxes including income tax, company tax, value added tax and Customs.** However, the sample of reconciliation provided does not clearly identify the collection of arrears by year. Hence, same as the 2011 assessment, the collection ratio for each year could not be calculated. **This indicator was therefore Not Rated (NR).**

*Dimension (ii) Effectiveness of transfers. of tax collections to the Treasury by the revenue administration*

194. **Tax collections for all types of taxes received in the main centers by RMD are transferred directly into the public bank account controlled by the Treasury each day.** A system generated banking schedule based on tax type is produced from RMS and

reconciled daily back to the physical deposit book. This schedule is provided to Treasury each day. Treasury performs the reconciliation of the public account at least monthly. Amounts from the remote outer islands may be collected and banked monthly, but taxes collected from these islands are estimated to be only 1% of total tax collection therefore insufficiently material to affect the overall score.

**A score of A is assigned. The same score was given in the 2011 assessment.**

*Dimension (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury*

**195. The accounts reconciliation is being done on a monthly basis summarizing the opening tax receivable position, adds assessments, removes payments during the month, to come to a closing tax receivable position.** There is also a report that showed a reconciliation between monthly collection and receipts by Treasury. **On this basis, the rating assigned was a "B", same as in the 2011 assessment.**

196. **The rating could have been an "A", but due to the lack of information on bad debt, the rating was downgraded to "B".** The clarification in the PEFA Field Guide (page 93) says that "The Revenue Authority should be able to aggregate such information, so that it can report how much of the assessed taxes is (a) not yet due, (b) in arrears, and out of that, how much is (b1) in dispute in appeals or other legal system, (b2) considered bad debt, and (b3) in principle collectable, (c) collected and transferred to Treasury." All these information are available in the RMD system, except for b2 (bad debt), as it could not track the reference year of each of the arrears collected. A rating of "D" was not considered appropriate as the information captures tax assessments, collections, arrears, and receipts.

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

197. **Overall the score has moved from A to C+. This does not reflect a change in performance; it mainly reflects a difference on how Dimension (i) which assesses the government's cash flow forecasting systems, is to be rated**. In 2014 this has been rated as C to reflect the fact that systemic cash flow forecasts are not prepared for the development budget. The 2011 assessment assigned a rating of A to this dimension but they were considering only the recurrent budget, and did not take into account the lack of cash flow projections for the development budget. Dimension (ii) is unchanged with a rating of A. Dimension (iii) has been assigned a rating of A. The 2011 Assessment viewed Dimension (iii) as not applicable, as it did not consider the supplementary budget adjustment as an adjustment to budget allocations above the level of management.

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-16. Predictability in the availability of funds for commitment of expenditures** | **A** | C+ | There is no change in performance. Rating difference is due to a difference in the scope of information used as basis during the 2011 assessment. |
| (i) Extent to which cash flows are forecast and monitored | A | C | An annual cash flow forecast with monthly breakdown is updated on a monthly basis. But the scope of the forecast is incomplete as it does not include cash flow projections for ODA projects. The existing cash forecast is only for expenditures funded from Treasury-administered funds. This was not considered in the 2011 assessment. There is no change in performance. Rating difference is due to a difference in the scope of information used in the previous assessment. |
| (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure | A | A | MDAs can plan their expenditures for the full fiscal year (i.e. up to 12 months in advance) in accordance with the annual appropriations. Treasury transfers funding each month to MLA bank accounts in accordance with their monthly cash flow projections. No Change from 2011. |
| (iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MDAs | *N/A* | A | In-year adjustments to budget allocations decided above the level of MDA management take place only once a year following consultative procedures that require approval by Cabinet and are presented to the Parliament.<br><br>The 2011 Assessment viewed Dimension (iii) as not applicable, as it did not consider the supplementary budget adjustment as an adjustment to budget allocations above the management of MDAs. |

*Dimension (i) Extent to which cash flows are forecast and monitored,*

198. **Following the passage of the Appropriation Act, MDAs' annual forecasts that show monthly projected cash flows are sent to MFEM (Treasury Department).** This

forecast document includes only government-funded activities and does not include ODA projects.

199. **During the year, MDAs make monthly updates of their cash flow forecasts in line with revised forecasts and cash requirements.** The forecasts are required to remain within their approved annual appropriation. Adjustment usually occur to reflect changes in actual cash flows, and movements between operating and personnel budgets, as well as adjustments made to reflect changes made to appropriation during the supplementary budget. These adjusted forecasts must receive Head of Ministry approval before adjustment is made by MFEM. Physical monitoring of cash flows is carried out by both Treasury and the MDAs on a monthly basis. The Treasury transfers funding to MDA bank accounts each month via monthly bulk funding in accordance with MDA's monthly cash flow forecasts.

200. **In addition to maintaining the monthly consolidated cash flow forecasts, the Treasury division also maintains daily cash forecasts, updated on a daily basis, over a period of 5 weeks.** Identified short term cash surpluses are invested in short –term deposits and redeemed as required to meet cash needs.

201. **With relation to the government's development budget, which primarily funded by donors, at this stage there is no formal centralized consolidated cash flow forecasting system.** While some ministries maintain their own cash forecasts of ODA programs, other ministries do not. Ministries informally provide cash forecasts of expected outlays under ODA programs to Treasury for it to coordinate donor funding drawdowns, but this is not done on a regular, systemic basis and the Treasury does not produce consolidated cash forecasts as it does for the recurrent budget. It was noted that the ODA financial management unit has recently moved from the Development Coordination Division (DCD) to the Treasury Division and it is anticipated that in future a cash flow forecasting system will be developed for ODA programs along the same lines as the recurrent forecasting system. The ODA programs generally account for approximately 25% of total Government expenditure.

202. **In light of the current situation a score C is assigned to reflect that cash flow projections are partially conducted.** The 2011 assessment assigned a rating of A to this dimension but they were considering only the recurrent budget, and did not take into account the lack of cash flow projections for the development budget.

*Dimension (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment*

**203. MDAs are able to plan their commitments reliably for the entire fiscal year (i.e. up to 12 months in advance), in accordance with the annual appropriations.** After the annual budget has been passed, MFEM provides spending warrant to MDAs for the full twelve months of the year. This means that the MDAs are not constrained or limited in terms of commitment or spending within any particular period, monthly or quarterly. Therefore the horizon of information to MDAs on ceilings for expenditure commitment is normally the full 12 months period, and the reliability of the 12 month ceiling is very high. As noted above, at the beginning of the year, the MDAs provide a full year cashflow forecast of monthly revenues and expenditures to the Treasury. **A score of A has been assigned.**

204. **MDAs make the commitments for all types of expenditures, but payments for payroll, POBOCs, and ccapital expenditures are processed centrally by the Treasury.** The Treasury transfers funding to MDA bank accounts each month via monthly bulk funding in accordance with MLA's monthly cash flow forecasts. MDAs are able to update their cash forecasts on a monthly basis to reflect their changing cash projections and requirements. Bulk funding transfers exclude the personnel expenditure which is processed through the central integrated payroll system and directly charged by the MFEM Treasury Division against the Consolidated Fund. It also excludes POBOCs and Capital expenditure which are processed through the Treasury division directly from the Consolidated Fund.. Depreciation is also excluded from the monthly bulk funding process.

*Dimension (iii) Frequency and transparency of adjustments to budget allocations, decided above the level of management of MDAs*

205. **In-year adjustments to budget allocations decided above the level of management take place only once a year through the mid-year review and supplementary estimates process which usually occurs after 31st of January each year.** The Supplementary budget is used to meet the cost of emergencies and other unforeseen events, as well as new initiatives and adjustments which have been given priority through the year. Hence, not all MDAs are given supplementary budget. A supplementary budget for the government is considered only if the mid-year update shows an upward estimate in revenues.

206. **The process involves prior consultation by MFEM management with the concerned MDAs management, to agree on proposed changes.** These proposed changes are then presented to the Cabinet for approval, then submitted in an appropriation Bill for consideration and passage by Parliament.

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

**207. The overall score of B is an improvement from the rating of C in 2011**. This reflects an improvement in Dimension (i) quality of Debt data reconciliation and reporting from C to A. The rating of Dimension (ii) consolidation of cash is unchanged at D. The rating of Dimension (iii) has improved from B to A. This reflects the passage of the new Loan Repayment Fund Act which sets out criteria and rules for issuing loans and guarantees.

| Indicator (M2) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-17 Recording and management of cash balances, debt and guarantees** | **C** | B | Performance improved as debt data have been updated on a monthly basis. Likewise, there is no daily consolidation of government bank balances. |
| (i) Quality of debt data recording and reporting | C | A | Performance was improved. Over the 3 year cycle, records of both foreign and domestic loans are reconciled on a regular monthly basis to the General ledger. The debt balances are also reconciled every six months to formal creditor statements sent by creditors during agreed debt servicing schedule. Comprehensive information on the Government's debt is provided through the regular quarterly financial reports to Cabinet |
| (ii) Extent of consolidation of the government's cash balances | D | D | The same situation as in 2011 assessment exists as of this assessment. There is only one consolidation of government cash balances each year – this consolidation occurs at the end of each year through the annual recall of MDA bank balances. Currently the Cook Islands domestic banking system does not have facility for daily or periodic consolidation of Government bank balances. . |

| | | | |
|---|---|---|---|
| (iii) Systems for contracting loans and issuance of guarantees | B | A | The new Loan Repayment Fund Act was passed in April 2014. The act sets out the criteria for assessing loan proposals, including the requirement to undertake a DSA taking into account the proposed new debt.<br><br>In 2011 a score of B was assigned. The 2014 score of A has been assigned in because the criteria/rules for approving loans and guarantees, including a DSA, as set out in the new Loan Repayment Fund Act have been implemented for all loans.<br><br>. |

*Dimension (i) Quality of debt data recording and reporting*

208. **Records on both domestic and foreign loans are now reconciled on a regular monthly basis to the General ledger.** The debt balances are also reconciled to formal creditor statements during a fixed debt servicing schedule set by creditors- every six months. Comprehensive information on the Government's debt is provided through the regular quarterly financial reports to Cabinet, which are published on the MFEM website. TMD continuously monitors exchange rates and brings to account unrealized exchange rate adjustments on a regular basis in-year. Data accuracy and comprehensiveness is of high quality. Files on each loan agreement and financial schedules are well maintained. The Treasury Management Division (TMD) is responsible for recording and reporting on the Government's debt.

209. **In the previous assessment cycle, Treasury used the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) to manage its debt information.** For several years now the Treasury has been maintaining the debt portfolio using a spreadsheet-based system. This is because over the 3 year cycle, the number of loans maintained has been between 15 to 20 loans, and the debt servicing schedule is on a fixed six monthly basis, so the functionality of CSDRMS is not required.

210. **Due to this improvement in performance, a rating of A is assigned.** The rating in 2011 reflected the fact that the in-year reconciliation of debt was not undertaken on a regular systemic basis.

*Dimension (ii) Extent of consolidation of government's cash balances*

211. **The government maintains 36 bank accounts in total.** Each of the 30 ministries and agencies maintains a single operating account for operating disbursements and collection of trading revenue. The Treasury maintains six central bank accounts – three accounts are for

central cash management of the recurrent budget; three accounts are for the central cash management of the development budget.

**212. There is only one consolidation of government cash balances each year –** this consolidation occurs at the end of each year through the annual recall of MDA bank balances. Currently the Cook Islands domestic banking system doesn't provide for daily or periodic consolidation of Government bank balances. **The rating in this dimension remains at D.**

213. **Efforts to consolidate the bank accounts of the central government on a more regular basis may not be possible without a change in the decentralized banking arrangements.** Two possible solutions in the future depending on the banking system infrastructure would be:

- Centralizing the government bank accounts.
- Sweeping Line ministry overnight bank balances to MFEM account.

*Dimension (iii) Systems for contracting loans and issuance of guarantees*

214. **The Government follows systematically a set of fiscal responsibility ratios which set an upper limit on net debt/GDP, in accordance with the MFEM Act which provides that the Government should maintain a set of fiscal ratios to guide the management of fiscal sustainability.** The thresholds for debt levels are approved by the Cabinet supported by regular DSAs. The government maintains these ratios and are published in the budget document. The targets cover both loans and government guarantees. The list of government guarantees is contained in the notes to the budget appropriations each year.

**215. The MFEM Act (Section 53) provides that all new loans must be reviewed by the Central Agencies Committee (CAC) for comment, then endorsed by Cabinet, and signed by the Minister of Finance.** The MFEM Act also sets out a similar process for the issuance of guarantees. The process to approve guarantees requires a review by the CAC, followed by approved by Cabinet and signed by the Minister of Finance.

216. **The central government contracting of loans and guarantees is made within the fiscal limits for total debt and total guarantees.** The debt stock is currently at 19.6% of GDP which is well below its threshold of 35%. There is only one guarantee currently in place. This guarantee is for the Ports Authority and is valued at 23 million. All loans and guarantees must be approved by the Finance Minister with the concurrence of Cabinet and are required to go through Parliamentary appropriation.

217. **The new Loan Repayment Fund Act was passed in April 2014.** The main provisions of the legislation talk about the allocation and transfer of forthcoming loan amortizations to a Loan Reserve Fund, in order to ensure the debt payment on time. The act also sets out the criteria for assessing loan proposals, including the requirement to undertake a DSA taking into account the proposed new debt. The provisions relating to the assessment of new debt and guarantee proposals are set out in the Act.

**A rating of A is assigned.**

## PI-18: Effectiveness of payroll controls

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-18. Effectiveness of payroll controls | D+ | B+ | The significant improvement in the overall rating from D+ to B+ is due mainly to the implementation in 2013 of the new integrated human resource management and payroll system. |
| (i) Degree of integration and reconciliation between personnel records and payroll data. | *D* | A | With the implementation of the integrated HR/Payroll system in late 2013, the Government now has in place a fully reconciled and consistent personnel and payroll data. The HR system at OPSC is now fully integrated with payroll processes administered by MFEM. |
| (ii) Timeliness of changes to personnel records and the payroll | *B* | A | All changes to personnel and payroll records are made within the fortnight and are therefore included in the following fortnight payroll. There were no delays during the review period. |
| (iii) Internal controls of changes to personnel records and the payroll. | *A* | A | Internal controls have clear audit trails providing evidence of the preparer, the checker and the authorizer. Two separate officials within OPSC review and check all personnel data added on the centralized HRMIS system. |
| (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers. | *D* | B | One dedicated payroll audit was conducted during the last three years. The payroll audit was conducted by the MFEM Internal Audit Unit in September 2012. In addition, the Cook Islands Audit Office audits the payroll system as part of the Crown audit. However this audit does not separately identify the payroll component of the overall audit, nor does it issue a separate audit opinion in respect of the Government's payroll function. |

*(i) Degree of integration and reconciliation between personnel records and payroll data*

218. **In the 2011 assessment where a D score was given, public entities maintain three lists of personnel and payroll records: (**i) payroll, maintained by MFEM and the line

ministries; (ii) detailed personnel records (staff records), maintained by the line ministries; and (iii) establishment list (ministry structure with all posts) and personnel biodata and remuneration data maintained centrally for all departments by OPSC.

**219. With the implementation of the integrated Human Resources Management Information System (HRMIS) in late 2013, the Government now has in place a fully integrated human resource management and payroll administration system, which provides for integrated internal control and reconciliation of human resource and payroll authorizations, transactions and data.** Each head of line ministry approves personnel payroll changes within their scope of authority and sends documents to OPSC for input on the HRMIS. OPSC checks for appropriate authorization and ensures employees are included on approved organizational staffing structures and paid within the salary range for the role. Once structural changes are approved by OPSC, MFEM input payroll data for the employee and process payroll on fortnightly basis. Because the HRM and payroll functions are fully integrated through HRMIS, the integrated system performs an automatic reconciliation between the HRM data authorized by OPSC.and the payroll data produced by MFEM. The HRMIS system is owned by PayGlobal, a subsidiary of Eclipse – a UK based firm.

**220. A score of A is assigned to this dimension.** There has been a remarkable improvement in performance due to the integration of HR and Payroll systems.

*Dimension (ii) Timeliness of changes to personnel records and the payroll*

**221. In past years, (score of B in the 2011 assessment), there were occasional delays in recording personnel changes, but this has improved strongly with the introduction of HRMIS.** Adjustments on the system are made within the same day if all supporting documents are in order, and time lags in entering personnel changes are now rare. If on rare occasions a change is not entered in time for the current payroll cycle, it will usually be entered via HRMIS and paid during the next fortnight. As a result, retroactive adjustments are now rare as errors in processing are minimized with the integrated HR/Payroll system administered by MFEM and OPSC**. A score of A is assigned to this dimension due to the improved timeliness.**

*Dimension (iii) Internal controls of changes to personnel records and the payroll*

222. **As in the previous assessment where an A rating was given, internal controls have clear audit trails providing evidence of the preparer, the checker and the authorizer.** Two separate officials within OPSC review and check all personnel data added on the centralized HRMIS system. The centralized HR/Payroll database (HRMIS) is backed up daily in line with the Government's centralized ICT network arrangements. All new employees are verified by OPSC on the same day if documents are in order and processed for inclusion on payroll for the next fortnight. **A score of A is assigned to this dimension**, same as in 2011.

*Dimension (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers*

223. **One dedicated payroll audit was conducted during the last three years. The payroll audit was conducted by the MFEM Internal Audit Unit in September 2012.** The audit conducted a program of testing to ensure that payments were made only to valid employees; that all inputs to the payroll system are correct and properly authorized; that payments are correctly calculated in accordance with approved pay scales; that payroll is correctly recorded in the financial management system and that payroll data is adequately protected and securely stored.

224. **In addition, the Audit Office audits the payroll system as part of the Crown audit.** However, this audit does not separately identify the payroll component of the overall audit, nor does it issue a separate audit opinion in respect of the Government's payroll function. The most recent Crown audits were done in respect for the 2009/10, 2010/11 and 2011/12 years.

225. **On this basis, a score of B is assigned to this dimension.** A score of A can be given only if there is a regularly conducted audit on an annual basis. In the 2011 assessment, it was reported that there was no clear evidence of systematic payroll audits. Hence, there is an improved performance.

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

| **Indicator (M2)** | **Score 2011** | **Score 2014** | **Brief Explanation** |
|---|---|---|---|
| **PI-19. Competition, value for money and controls in procurement** | **D** | **C** | |
| (i) Transparency, comprehensiveness and competition in the legal and regulatory framework | C | C▲ | The legal and regulatory framework for procurement meets 2 out of 6 of the PEFA criteria, same as in 2011. Improved procurement guideline has been adopted since December 2014. |
| (ii) Use of competitive procurement methods | D | NR | Of the 5% that did not undergo open tender, only a small amount was deemed not justified. This presumption was based only on statements given by the authorities that MDAs are normally complying because sanction has been actually enforced by withholding fund release. Due to lack of concrete data this dimension is not rated (NR). |
| (iii) Public access to complete, reliable and timely procurement information | D | C | The public has access to at least two elements of information bidding opportunities and contracts awarded through the Procurement website. |

| | | | |
|---|---|---|---|
| | | | Performance improved. |
| (iv) Existence of an independent administrative procurement complaints system | D | D | The complaints system does not meet criteria (i). The independent administrative complaints body is the Ombudsman and does not include any representatives of the private sector and civil society. No performance change. |

226. **A review of the Cook Islands' public procurement systems was conducted in May 2012 which highlighted a number of weaknesses that needed redress.** In the past two years, many of the issues raised in the review have been addressed in a gradual and methodical process. The major areas addressed are:

- The creation of standard procurement templates and contracts which are now available
- Revision of the government procurement policy which was published in December 2014 and is now implemented and available to the public
- Development of a central procurement information portal at www.procurement.gov.ck
- Development of a job description for a procurement officer, and recruitment of a full time senior procurement officer with MFEM
- Continual publication of the capital plan – Budget Book 3 to aid in procurement planning
- Publication of contracts awarded through the public tender process
- Training and development on best procurement practices for MDAs
- Annual procurement planning sessions being conducted.

*Dimension (i) Transparency, comprehensiveness and competition in the legal and regulatory framework*

227. **Public sector procurement in the Cook Islands is a decentralized process**. The responsibility for procurement is predominantly conducted by agencies who are guided by the policies and procedures provided by MFEM. Section 63 of the MFEM Act (1995-96) empowers the Ministry (MFEM) to issue instructions to MDAs to ensure compliance with financial disciplines. These instructions are documented in the Cook Islands Government Procurement Guidelines. This policy forms part of the overall Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM) which guides agencies with their public financial management practices. The policy applies to all Ministries, Island Administrations, and Crown Funded Agencies. The policy is readily available to members of the public and can be downloaded from the procurement portal (procurement.gov.ck) or emailed upon request. Hard copies are also available for collection from the Treasury Division office.

228. **A new set of procurement guidelines was published and released on 2 December 2014, with the following key features**:

- The process set out is highly prescriptive and details a step by step approach on how a procurement or tender process should be administered by MDAs.
- The procurement policy consolidates the procurement guidance in one area and incorporates a number of changes to the overall procurement policy framework specifically aiming to ensure more activities go to the market and that local suppliers are aware of those opportunities. This is balanced by the need to ensure value for money is being achieved and the provision of information relating to the final outcome of the tender process. Additionally, a mechanism to manage complaints is a major feature of the new framework.
- The new procurement procedures follow a hierarchical structure which applies to the use of all government funds, and precedence is clearly established through the MFEM Act. The FPPM procedures clearly define when departures from procurement processes are allowable and require MDAs to seek written approval for any departures from the policy from the Tender Committee. A waiver of the requirements of the Cook Islands Government procurement policy will only be considered in the following special circumstances:
    - There is an urgent need to proceed with a project in order to protect life or property, e.g. as an immediate response to a natural disaster; or
    - There is an urgent need for the project to be carried out due to unforeseen events; or
    - No tenders have been received for a particular project; or
    - There is a restriction on trademark goods.
- A lack of forward planning by agencies is not an acceptable reason for urgency nor will it be considered an exceptional circumstance' for a tender.
- A staged tender review process for handling procurement complaints by participants at any stage of the tender process is clearly defined.

229. **The new guidelines has been adopted and initially implemented as of the time of the assessment.** However, as the PEFA Guide requires that the assessment reference point is as of the last completed fiscal year, this assessment did not consider this new policy yet in the rating. As in the 2011 and as of the end of 2013/14, Cook Islands' procurement procedures met only 2 of the 6 PEFA criteria (Table 12). **In recognition of the new improved procurement guidelines now implemented, an arrow up was assigned**.

**Table 12: Overview of Comprehensiveness of Procurement Legislative Framework**

| Item | 2011 assessment | 2014 assessment |
|---|---|---|
| (i) be organized hierarchically and include clearly-established precedence | No (precedence) | No<br>This has been included in the new procurement guidelines released on 2 December 2014 |
| (ii) freely and easily accessible to the public | Yes (through internet) | Yes |
| (iii) apply to all procurement undertaken using government funds | Yes | Yes |
| (iv) make open competitive procurement the default method of procurement and define clearly the situation in which other methods can be used and how this is to be justified | No | No<br>This has been included in the new procurement guidelines released on 2 December 2014 |
| (v) provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints | No | No<br>Annual procurement plans are yet to be developed by Ministries noting that the whole-of-government Government Capital Plan is the first step |
| (vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature | No | No<br>Not before contract is signed |
| **Overall Rating** | **C** | **C▲** |

*Dimension (ii) Use of competitive procurement methods*

230. **The previous guidelines on procurement extracted from the FPPM provided for the use of non-competitive methods of procurement.** It did not clearly define when departures are applicable, but provided for the use of discretionary power by the Finance Secretary, who chairs the 2 person Tender Committee and sits with the Solicitor-General to decide what is appropriate under exceptional “circumstances” or reasons of “urgency”. There have been noted issues relating to the lack of clarity, including what constitutes urgent and exceptional circumstances, and how these exceptions are applied. As indicated above, stakeholders interviewed for the assessment indicated frequent and non-transparent use of such exceptions. This matter has been addressed in the new policy so in future waivers to the tender process should see a decline.

231. **In 2013/14, all reported procurement processes were undertaken in accordance with policy requirements.** The proposals submitted to the Tender Committee were either conducted as open tenders (95%), closed tender or sought agreement from the Tender Committee to deviate from an open tender process (5%)- see Annex 3. It is acknowledged that some MDAs may conduct some tender processes that are not reported and do not meet the procedures. These would only represent a small percentage of the overall expenditure as otherwise MFEM would have withheld funding until the correct procedures were followed. An example of this process was evidenced in an audit report provided into a process to provide drainage and road repairs work undertaken by the Ministry of Infrastructure and Planning (Ref # CIAO - 12/13 - 07). The actual number and value of these unreported procurement is not however known as there is no monitoring mechanism, but on the basis of the discussions, the assessment team estimated it to be less than 5%. **However, due to lack of concrete data of total value of contracts awarded, and total value of non-competitive awards that were justified, a No Rating (NR) has been applied.** In the previous assessment, the report indicated an overwhelming majority of contract awards which did not undergo the legal procedures.

*Dimension (iii) - Public access to complete, reliable and timely procurement information*

232. **Ttransparency around the procurement process has been a significant issue in the past.** Only bidding opportunities were published as of the 2011 assessment. As of time of assessment, public access to procurement information complied 2 of the 4 PEFA categories (see Table 12.1), which now includes access to contract awards. Information on bidding opportunities is advertised publicly. Now users can register to get email notifications on current tenders and registration for details of latest bidding opportunities will soon be available via the site. All MDAs are now required to publish all tender opportunities on the portals. The procurement portal (http://procurement.gov.ck ) aims to improve access for all stakeholders including the public and private sector to tender opportunities, procurement policies, Capital and National Investment Plans, contract awards, and other procurement related activities.

233. **However, the MDAs do not produce or publish procurement plans**. Though capital procurement was provided for in the budget there seems to be no clear indication to interested parties of a holistic list of projects that will be tendered with a given period (the financial year), i.e. MDAs' procurement plans.

234. **There is also no reporting of complaints**; however, the revised policy includes a defined process for receiving and managing complaints as well as the need to publish all complaints' resolutions.

**Table 12.1: Overview of Public Access to Procurement Information**

| Item | 2011 assessment | 2014 assessment |
|---|---|---|
| Government procurement plans | No | No<br>Capital Book developed and annual procurement planning session have been held with Infrastructure Implementing Agencies |
| Bidding opportunities | Yes (though not always timely) | Yes |
| Contract awards | No | Yes |
| Data on resolution of procurement complaints | Not available | Not yet available |
| **Overall Rating** | **D** | **C** |

*Dimension (iv) Evidence of an independent administrative procurement complaints system*

235. **A formalized complaints procedure has been developed and included in the new procurement policy in order to guide stakeholders on how complaints should be managed and the required documentation needed.** As the policy is so recent there is no data available on the resolution of complaints as yet.

**236. The policy is a multi-stage process where the complainant must initially register the complaint with the MDA managing the procurement process.** An appeal may be made to the Tender Committee if the complainant is not satisfied with the outcome. The final, independent body to which an appeal may be made before resorting to the judicial system is the Office of the Ombudsman which is constituted under the *Ombudsman Act (1984).* The Act provides for the decisions of the Ombudsman to be binding on all parties and gives the authority for the Ombudsman to recommend the suspension, cancellation or variation of any decision, procedure or process investigated. Since the Office of Ombudsman does not include members from the private sector and civil society, it does not meet even a rating of C; **hence a score of D is assigned.**

Table 12.2 Features of the Present Procurement Complaints System

| Item | Required by policy? |
|---|---|
| (i) Is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government | No<br>(no representatives of private sector and civil society) |

| | |
|---|---|
| (ii) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions | Yes |
| (iii) Does not change fees that prohibit access by concerned parties | Yes |
| (iv) Follows processes for submission and resolution of complaints that are clearly defined and publicly available | Yes |
| (v) Exercises the authority to suspend the procurement process | Yes |
| (vi) Issues decisions within the timeframe specified in the rules/regulations | Unknown |
| (vii) Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority) | Yes |

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

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-20. Effectiveness of internal controls for non-salary expenditure** | **C+** | **C+** | There has been no change in the rating of this indicator. |
| (i) Effectiveness of expenditure commitment controls. | C | C | As in 2011, commitment controls for MLAs' recurrent expenditures centre on the monthly cash allocation/forecast; There is no automated commitment control. In the absence of internal audit, the controls are not subject to internal monitoring and compliance checks. |
| (ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures. | B | B | The FFPM includes a comprehensive set of internal rules and procedures, which appear to be understood by finance officers and MDA managers in most MDAs, but, there is still some evidence of misunderstanding of the rules. |
| (iii) Degree of compliance with rules for processing and recording transactions. | B | B | Compliance with rules has been fairly high except for some cases of non-compliance or errors in recording of transactions. There has been no significant use of simplified emergency procedures. |

237. **Only minor changes have occurred for this Indicator since 2011.** The procedures in the CIGFPPM have been tightened and were issued in January 2014 and include managing and reporting contingent liabilities. The processes in place at the 2011 Assessment remain in place.

238. **The major issue for assessing the effectiveness of expenditure commitment controls and other internal control rules and procedures is the lack of internal audit function to review them.** While annual audits are used to highlight issues, the backlog of audits still to be performed mean that it is not possible to truly assess how well the controls work or whether there are significant breaches.

*Dimension (i) Effectiveness of expenditure commitment controls*

239. **Rating remains a "C".** Aside from the Appropriations Act, the release of funds by the Treasury through a monthly cash flow forecast submitted by MDAs serves as the commitment controls on MDAs. Likewise, the Treasury reviews monthly reports submitted MLAs and focus on variances. MFEM holds the cheque-book for POBOCs and capital funding and do not make payments without the required supporting documentation. However, these are only ex-post controls.

240. **Some MDAs are utilizing automated accounting systems which required commitment of expenditure before purchase orders can be created (e.g. Ministry of Educations) but this is a minority of MDAs and not for all expenditure across CIG**. In addition, any expenditure which is undertaken through a procurement process that is required to be reviewed by the Tender Committee under the policy must have sufficient commitment before the approval to approach the market is given. However, due to the lack of automated commitment control system, the control is not fully effective. Moreover, the lack of internal audit does not allow for a full assessment of the compliance and effectiveness of internal controls.

*Dimension (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures*

**241. The existing Financial Instructions and Procedures Manual is comprehensive and relevant.** Based on consultations with Treasury and the Audit Office, continual training of the smaller MLAs, particularly those in the remote outer islands, has resulted in some improvement in compliance with internal control rules/procedures, however, there are still some cases of misunderstanding on the procedures. In the absence of internal audit, and delay in external audit, it is not possible to substantiate any progress in implementing these procedures. **The rating remains a "B".**

*Dimension (iii) Degree of compliance with rules for processing and recording transactions*

242. **Rating remains a "B".** Based on consultations with the Treasury and the Audit Office, the degree of compliance has improved among the smaller ministries and outer islands, but there are still errors in recording.

**PI-21: Effectiveness of internal audit**

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-21. Effectiveness of internal audit** | **N/A** | **D** | The PEFA Field Guide states that if there is no internal audit function, dimension (i) should be rated a "D", and the other dimensions as Not Applicable (N/A). |
| (i) Coverage and quality of the internal audit function | N/A | D | CIG does not operate an internal audit function. |
| (ii) Frequency and distribution of reports. | N/A | N/A | Not applicable because there is no internal audit function. |
| (iii) Extent of management response to internal audit findings. | N/A | N/A | |

243. **As in 2011, CIG does not currently operate an internal audit function.** While a position was approved and funded after the 2011 PEFA Assessment, no suitable candidate was found to fill it after the post had been vacant for over 12 months the funding was returned to the crown. MFEM has received a budget appropriation in the 2014/15 financial year and approval to outsource the internal audit function. A scope of requirement, outlining a 3 year program, has been developed and MFEM expects to approach the market in early 2015 to outsource the function to the private sector.

## E. Accounting, Recording and Reporting

### PI-22: Timeliness and regularity of accounts reconciliation

| Indicator (M2) | Score 2011 | Sore 2014 | Brief Explanation |
|---|---|---|---|
| **PI-22. Timeliness and regularity of accounts reconciliation** | **B** | A | The overall rating has improved from B to A. This comes from an improved performance for Dimension (i) regularity of Bank reconciliations and Dimension (ii) reconciliation and clearance of suspense accounts and advances. |
| (i) Regularity of bank reconciliations | B | A | Reviews of month-end bank reconciliations by the Treasury confirmed that reconciliations were regularly performed at month-end within the 10-day time period by all MLAs. The same procedures have been reported in the 2011 assessment. The 2011 assessment assigned a B rating on the ground that one agency did not systematically submit their bank reconciliations (based on a review of the last six months. |
| (ii) Regularity of reconciliation and clearance of suspense accounts and advances | *B* | A | The Government has only one suspense account which is maintained by the Central Treasury. Cash advances are very rarely used within Government A review of monthly reporting confirmed that cash advance reconciliations were regularly performed at month-end within the 10-day time period and that TMD systematically monitors the reconciliations on a monthly basis.<br>The same procedures have been reported in the 2011 assessment. The 2011 assessment gave a “B” on the ground that there was one which used a suspense account but cleared at year-end. |

*Dimension (i) Regularity of bank reconciliations*

244. **The government maintains 36 bank accounts in total.** Each of the 30 ministries and agencies maintains a single operating account for operating disbursements and collection of trading revenue. The Treasury maintains six central bank accounts – three accounts are for central cash management of the recurrent budget; three accounts are for the central cash management of the development budget.

245. **In line with the FPPM, all accounts are required to be reconciled within 10 working days of month end**. Reviews of month-end bank reconciliations confirmed that reconciliations were regularly performed at month-end within the 10-day time period by all

MLAs, and that there were no unexplained reconciling items for any of the line agencies or material unexplained deposit items in the large recurrent expenditure treasury accounts. Review of the monthly financial reports received by the central Treasury from MLAs confirmed that TMD systematically monitors the receipt of bank reconciliations on a monthly basis and checks the reconciliations against bank statements for accuracy.

**246.** **A score of A is assigned.** The same procedures have been reported in the 2011 assessment. The 2011 assessment assigned a B rating on the ground that one agency did not systematically submit their bank reconciliations (based on a review of the last six months

*Dimension (ii) Regularity of reconciliation and clearance of suspense accounts and advances*

247. **The Government has only one suspense account which is maintained by the Central Treasury.** Line ministries do not operate suspense accounts nor are suspense accounts contained in the line ministries' charts of accounts. The annual activity of the central suspense account was reviewed and found to contain very few transactions through the year. The Government's policy is to clear the suspense transactions within one month, and generally the transactions are cleared within the month or quarter. The government's policy is also to ensure that suspense balances are completely at year end, and no balances are brought forward. Review of audited financial statements and supporting documentation did not uncover suspense account balances at year end.

248. **Cash advances are very rarely used within Government**. Loans are not made to employees, and salary advances are rarely given. To the extent that salaries in advance may be approved, this is managed through the fortnightly payroll system. When staff travel they are given a per diem in advance to cover meals and incidentals but these are not acquittable amounts, and are treated therefore as amounts expended. The per diems are returned if a trip is cancelled. To the extent that cash advances may be given, these are included in line ministries' accounts receivable. Under the FPPM, all accounts receivables are required to be reconciled each month, and a report of the receivables is included in the Line ministries' monthly report provided to the Treasury within 10 days of month end. A review of monthly reporting confirmed that accounts receivable reconciliations were regularly performed at month-end within the 10-day time period and that TMD systematically monitors the reconciliations on a monthly basis.

249. **A score of A is assigned.** The same procedures have been reported in the 2011 assessment. The 2011 assessment gave a "B" on the ground that there was one which used a suspense account but cleared at year-end.

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

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| PI-23. Availability of information on resources received by service delivery units | B | A | Financial reports are now routinely collected and reported by all primary schools and health centers to their respective Ministries which includes bulk funding, aid in kind and donations by the communities for the last 3 fiscal years. They are now published on the websites of respective Ministries. Therefore a score of A has been assigned. Performance improved. |

250. **The primary service delivery units like schools and health centers play a critical role in the delivery of essential government services to the communities.** The availability of information in the operation of these units ensures that resource allocations are effectively used in delivering these services.

251. **On education, the public schools are funded from the budget which is allocated according to the school rolls**. The Head Teachers are assisted by a Committee in administrating the schools. Pupils are charged a small fee each year. The revenue is supplemented by community fund raising normally arranged through the Parents and Teachers Association (PTA) to help supplement the operations of schools and support small capital projects. The Principals are required to submit audited annual reports to the Ministry of Education which consolidates these into the ministry's reports and post them on their website. The reports for the last three years are sighted in the website.

252. **On health, there are 9 community health centers in the outer islands except in Aitutaki where there is a divisional hospital.** Those in Rarotonga make use of the main hospital. These health centers are fully funded from the Ministry of Health's budget who allocates resources based on agreed budget. There is a nominal charge on medical visit to health centers and non-citizens pay a premium. The accounting of these resources is centralized at the ministry with officials from Rarotonga making periodic visits to the outer islands. Individual health center's account are highlighted separately in the ministry's financial accounts and posted on the website. The reports for the last three years are sighted in the website.

253. **A score of A is therefore assigned as performance has improved from the 2011 PEFA score due to the publications of the required information**.

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

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-24. Quality and timeliness of in-year budget reports** | **C+** | **C+** | The overall score has remained the same as 2011, but there has been improvement in the quality of information. |
| (i) Scope of reports in terms of coverage and compatibility with budget estimates | *B* | C | MFEM produces a quarterly report which compares actuals to the budget for the central government. The reports provide actual expenses against all items of budget estimates including ODA accounts. Reporting formats allow for direct comparison against the original budget for each MLA. However, expenditures are reported only at accrual stage. Likewise, the disaggregation of POBOC reporting has already occurred for the quarter ending September 2014 (but this is outside the 2 financial years under assessment).<br><br>Hence the rating is a “C”. No performance change, only a difference in assessors’ interpretation. In the 2011 assessment, recording of accruals at the stage where goods and services have been delivered, were considered as commitments, and for this, they gave a “B” rating. |
| (ii) Timeliness of the issue of reports | B | B | The consolidated in-year report is produced quarterly and issued within 6 weeks of the end of the quarter. Monthly reports are submitted by each MLA within 10 working days after month end, but not consolidated. A score of B has been assigned. Performance is unchanged from 2011. |
| (iii) Quality of information | *C* | B | There were some concerns on data accuracy, but do not compromise the overall usefulness of the report. There has been an overall improvement (reduced extent of errors and unreconciled balances) in the quality of information supplied by MDAs and Outer Islands as a result of a number of initiatives undertaken by TMD. |

**254. MFEM produces a range of in-year fiscal reports as follows:**

- Monthly report of actuals against budget for each of the entities in the General Government Sector (all ministries, Crown agencies and Island Administrations. These are provided to the Finance Secretary and senior management of MFEM.

- Consolidated Quarterly Financial Reports covering the public sector (all ministries, Crown agencies, Island Administrations and SOEs). The quarterly reports are provided to Cabinet and are placed on the MFEM Website. and

- Half-year fiscal and economic update reports provided to Parliament and placed on the MFEM Website.

255. **The MDAs monthly reports provide information about actual versus budget appropriation on a year to date basis.** Variance analysis is undertaken by each MDA, and information is provided to support any significant variances. The reporting framework has been designed to directly send reports to MFEM in a standardized format.

*Dimension (i) Scope of reports in terms of coverage and compatibility with budget estimates*

256. **The monthly reports compare budget estimates with actuals following the standard chart of accounts (CoA) for each MDA.** A standard chart of accounts was first issued to all MLAs in June 2013 and has been in effect for the financial year to 30 June 2014 (refer Financial Policies & Procedures Manual, Part D, Section 4, Attachment 2). The CoA is consistent with the budget classification.

257. **The monthly reports by MDA also include a Statement of Performance, Statement of Financial Position, bank reconciliation and reconciliation between TMD balances and MDA balances** (refer Financial Policies & Procedures Manual, Part D, Section 4, Attachment 1). .

**258. Quarterly Financial Reports include budget to actual comparison of all operating revenue and operating expenditure appropriated in the budget, cash reserves, borrowings, capital expenditure, Overseas Development Assistance (aid), SOE reporting, and Outer Island reporting.**

259. **However, almost all agencies were not able to record commitments in their systems at the time purchase orders and contracts are signed.** For this reason, MFEM is unable up to this stage to produce separate commitment information for each MLA in the monthly and quarterly reports, **hence there is no change in performance and rating of "C" has been assigned.** In the 2011 assessment, recording of accruals at the stage where goods and services have been delivered, were considered as commitments, hence they gave a "B" rating.

*Dimension (ii) Timeliness of the issue of reports*

260. **MDAs provide financial reports within 10 working days of month end to TMD. If reports are not received within 10 days or are received but are incomplete, the MDA's monthly operating (bulk) funding is suspended**. A list of suspended ministries is circulated to the Head of Ministry and Public Service Commissioner who then put pressure on the respective MDA to supply the required information. Monthly funding is only released on the first working day of the subsequent month if all required information is supplied (refer to Financial Policies & Procedures Manual, Part D, Section 4).

261. **This stance has resulted in better performance from MDAs**. In the 2011 PEFA there was an issue with Outer Island administrations consistently not meeting this monthly deadline.[14] Since then, TMD has received Government funding to employ two Finance Officers within TMD to look after the financial reporting requirements of the Outer Island Administrations. The accounting functions of all 10 outer islands were outsourced to TMD from 1 July 2012 and functions and responsibilities of all 10 outer island administration finance officers and TMD outer island finance officers were detailed in a memorandum of understanding (initial MOU 1 July 2012; revised MOU 1 July 2013). While TMD is continuously challenged with issues resulting from the geographical remoteness of some of these islands, this initiative has resulted in an improvement in outer island reporting. As indicated in PI-10 above, these reports are not available to the public, and TMD does not produce monthly consolidations or unaudited public accounts for release to the public during the year (other than the Half Year Economic and Fiscal Update).

262. **TMD prepares Quarterly Financial Reports to Cabinet within 6 weeks after the quarter end.** These reports consolidate all MDA monthly reports and general government activity in the Quarterly Financial Report to Cabinet. Quarterly Financial Reports include budget to actual comparison of all operating revenue and operating expenditure appropriated in the budget, cash reserves, borrowings, capital expenditure, Overseas Development Assistance (aid), SOE reporting, and Outer Island reporting. TMD cannot prepare these reports within 4 weeks after quarter end as all SOEs need to report to their respective boards prior to releasing their financial information to TMD by the 30$^{th}$ of the month after the quarter end (refer to D4a, Financial Policies & Procedures Manual, SOE Financial Reporting).

263. **An "A" rating has been assigned.** In the 2011 assessment, a "B" rating was assigned because one agency did not consistently submit on time.

*Dimension (iii) Quality of information*

264. **The extent of errors or unreconciled balances has been reduced**. While there has been an overall improvement in quality of information since the 2011 assessment, there are still some problems with data quality and accuracy maintained and reported by MDAs and Island Administrations. The data quality problems are mainly found at the smaller agencies and Island administrations often because they do not have qualified accountants available to interpret, record and reconcile transactions and balances on a full accrual basis, so a **"B" rating was assigned**. Nonetheless, there has been an overall improvement in the quality of information supplied by MDAs and Outer Islands as a result of a number of initiatives undertaken by TMD. This was confirmed during consultations with the Audit Office and Treasury. These TMD initiatives are:

- Monthly variance report checklist – prepared and issued by Treasury to all MDA and Outer Island Finance Officers through a training session on monthly variance

[14] A score of B has been recorded for this dimension because, as indicated, not all MLAs meet the 10-day timeframe, but they do meet the requirements for a B score.

reporting. Regular training of MDAs – usually conducted on a monthly basis and covers training on identified problem areas from monthly variance reports, annual reports and new policies and procedures.

- Specific projects on data cleansing in MDAs, Outer islands and Crown parent – during the last financial years, TMD have issued requirements on MDAs and Outer Islands to clean up their debtors and creditors subsidiary ledgers, reconcile their crown balances to Crown parent and other ad hoc entity specific issues that require attention. In addition, TMD have worked on data cleaning at the Crown parent level – subsidiary ledger clean up, MDA crown balances, borrowings, accruals, etc.
- Creation of two new positions within TMD to look after the financial reporting needs of the Outer Islands.

### PI-25: Quality and timeliness of annual financial statements

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-25. Quality and timeliness of annual financial statements** | **D+** | D+ | The overall score has remained the same as 2011, but at the sub-indicator level there have been improvements in the implementation of international accounting standards by all CIG entities. |
| (i) Completeness of the financial statements | *B* | A | Annual financial statements include complete consolidated information (for the whole of government, including outer Island governments and SOEs) on revenues, expenditures, assets and liabilities on an accrual basis. In 2011, the "B" rating was due to impression that island councils were not covered. |
| (ii) Timeliness of submission of the financial statements | *D* | D | The consolidated financial statements were submitted for Audit beyond 15 months of the end of the fiscal year from 2010-2012. However, a new policy has been adopted starting 2014, in order to release the financial statements without waiting for the audit of all ministry accounts as done in the past. |
| (iii) Accounting standards used | *B* | A | In the last 3 years, Crown Accounts generally adopted IPSAS, with some modifications as approved in the government accounting policy. Public enterprise (SOE) accounts have converted to an NZ IFRS as at financial year 30 June 2014, But upon consolidation in the Crown Accounts all SOE numbers and disclosures are converted to comply with IPSAS to ensure that there is a consistent basis for consolidated accounts preparation. Hence, the rating was upgraded to "A". Performance improved. |

*Dimension (i) Completeness of the financial statements*

265. **As in the 2011 assessment, a consolidated annual financial statement is prepared for the Crown (whole-of-government, including SOE) accounts.** This statement includes complete and consolidated information on revenues, expenditures, assets and liabilities on an accrual basis. They include the Statement of Financial Position (balance sheet), Statement of Financial Performance (profit and loss), Statement of Cash Flows, Statement of Movements in Equity, and statements on commitments, continent liabilities, and borrowings as required by the MFEM Act 1995/96, Part V, Paragraph 25.

266. **For the last three years, the process of preparing consolidated Cook Islands Government accounts involves the compilation and audit of the following financial statements of various agencies**:

- all ministries, island administrations, crown funded agencies and support offices;
- crown parent – general government; and
- state-owned enterprises (SOEs).

| | |
|---|---|
| 1 | Ministries complete accounts & submit to MFEM |
| 2 | MFEM check accounts & submit for audit |
| 3 | MFEM submit Crown Parent for audit |
| 4 | Audits completed & accounts submitted to MFEM |
| 5 | MFEM prepare consolidated accounts of audited ministries, SOEs & Crown Parent |
| 6 | Submitted for audit |
| 7 | Audit completed on Government Accounts |

267. **The 2011 PEFA reported that the statements contain a limited number of qualifications as to their completeness.** The 2014 assessment found the statements to be complete in terms of coverage, and that there is no unreported element.

268. **The previous assessment also reported that "the financial performance of School Committees and Island Councils are not included in the Crown Accounts, but the value of the omissions is immaterial".** School Committees are not considered Government entities. Government funds the Ministry of Education to pay teachers and operating costs of some schools (private schools fund their own operations). School Committees are established in schools by parents and teachers who fundraise for certain initiatives annually. School Committee accounts are completed by the Treasurer of the Committee and checked/ audited by the Ministry of Education. These accounts do not get incorporated into the Ministry of Education or the consolidated accounts of the Crown. Island Councils are included through the accounts of Island Administrations (the outer islands).

**269. An "A" rating has been assigned due to improved scope and coverage of the 2013/14 financial statements.**

*Dimension (ii) Timeliness of submission of the financial statements*

270. All ministries are required to prepare and submit annual financial statements to MFEM – Treasury by 31 July each year. At each July end, all ministries submit their financial statements or Treasury suspends their monthly operating (bulk) funding. However, these financial statements are not accepted by Audit as they do not incorporate audited

opening balances. Example, the last audited opening balances for the 30 June 2014 ministry financial statement is 30 June 2012.

**271. The consolidated financial statements for the following years were submitted for Audit on the following dates:**

- 30 June 2010 – submitted to Audit in June 2013 (36 months after balance date)
- 30 June 2011 – submitted to Audit in May 2014 (35 months after balance date)
- 30 June 2012 – have not been submitted to Audit yet. Currently this is 29 months after balance date.

272. **The need to first audit the ministries accounts before consolidation affects the timeliness of the preparation of the consolidated financial statement.** In addition, the delay in the auditing of annual financial statements is also affecting the timeliness of the completion of the whole of government's 2012/13 financial statement.

273. **MFEM has taken on a new approach.** Consolidated financial statements are now being prepared on draft/ pre-audited line ministry financial statements. A chartered Accounting firm (KPMG) has been appointed to perform quality assurance reviews on the crown consolidated financial statements prior to MFEM releasing the consolidated financial statements (as draft/ unaudited) in the public domain (website). KPMG is also assisting with the calculation of the fair value of borrowings, an area qualified in previous audits. The planned time frames are as follows:

- 30 June 2012 – consolidated accounts (all line ministries have been audited to date) have been prepared and are currently with KPMG for quality assurance review. This is to be completed on 5th December 2014. Review points to be considered and amendments made by 19th Dec before website release.
- 30 June 2013 - consolidated accounts (only 11 line ministries have been audited to date) are scheduled for completion on 5 January 2015. This is to be reviewed by KPMG before release on website.
- 30 June 2014 - consolidated accounts (no line ministries have been audited to date) are scheduled for completion in April 2015 (contingent on the audit of consolidated SOE reports). This is to be reviewed by KPMG before release on website.

*Dimension (iii) Accounting standards used*

274. **The Crown Accounts have been prepared in accordance with the MFEM Act (1995-96) and, since 2007, in compliance with the CIG National Accounting Standards which are generally aligned with International Public Sector Accounting Standards (IPSAS**). Deviations from some advance IPSAS standards are disclosed in the national accounting policy document. Public enterprise (SOE) accounts were prepared on an old New Zealand GAAP basis but have converted to an NZ IFRS (International Financial Reporting Standards) as at financial year 30 June 2014. IFRS is an international standard for profit making entities and was adopted for SOEs because of its minimal differences to IPSAS.

Upon consolidation in the Crown Accounts all SOE numbers and disclosures are converted to comply with IPSAS to ensure that there is a consistent basis for consolidated accounts preparation (refer excerpt audited Crown Accounts 30 June 2011 – page 15, *Basis of Consolidation*).

## F. External scrutiny and audit

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

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **PI-26 Scope, nature and follow-up of external audit** | **C+** | **C+** | Performance reduced due to reduction in the scope of financial audits. |
| (i) Scope/nature of audit performed | A | B | Due to the backlog in auditing the annual financial statements, the scope of financial audits has been reduced for smaller MLAs under the agreed upon procedures. Overall, the scope is estimated at more than 75% of total expenditures as of last audit. |
| (ii) Timeliness of submission of audit reports to legislature | B | B | As in previous assessment, annual report was submitted to Parliament within 8 months after end of period, and annual financial statements submitted within 3 months from receipt. However, the latest audited financial statements submitted are only for FY2010/11. See reasons below. |
| (iii) Evidence of follow-up on audit recommendations | C | C | The audit reports include formal management responses that are received within 14 days. Some extensions are granted. Follow up through the next financial statement but the delays make these difficult to monitor. Audit reports have included some follow up. No performance change. |

275. **While the overall rating of C+ remains for this Indicator, there has been a down grade of the rating for dimension (i) from A to B.** This is a result of the backlog of audits that have built up due to capacity issues in the Audit Office. While there have been positions available to the Office, it has not been able to recruit suitably qualified and experienced staff to undertake the necessary audits. A set of "agreed upon procedures" (AUPs) has been put in place which allow for limited audits of smaller agencies to save time and resources. Due to these limited audits, the rating has been reduced.

276. **There is concern about the delays in the preparation and auditing of annual financial statements.** At present, the most recent audited statements tabled in Parliament are for 2010/11 which were not submitted until September 2014. There are still 3 financial years (2011/12, 2012/13 and 2013/14) outstanding. The delays in preparing the consolidated accounts have been because the Treasury has been waiting for audited statements from all entities before preparing the accounts. The Audit Office has a considerable backlog of audits to complete before this can happen.

277. **Starting in 2015, the Treasury plans to prepare annual consolidated accounts based on unaudited statements from entities and if necessary submit them for quality assurance to an independent assessor before submitting them to the Audit Office**. The catch-up program based on the AUPs should allow the Audit Office to clear the backlog of audits and re-establish a more timely program to present the audited financial statements to Parliament.

*Dimension (i) Scope/nature of audit performed*

278. **The duties of the Audit Office are set out in the PERCA Act (1995-96).** It is mandated to audit and report on the accounts and financial statements of public institutions, including all SOEs. These audit reports must then be submitted to Parliament for examination and follow-through on recommendations. The Cook Islands Audit Office follows NZ auditing standards. The audited financial statements cover revenues, expenditures, and assets and liabilities. Special reviews and performance audits are carried out by the Audit Office to deal with matters of significance as they arise.

279. **Since 2011, the Audit Office has focused on the catch up audit. A new approach was introduced for the 2011 and 2012 audits as part of the catch up project.** The new AUPs are applied only to small-medium ministries, while full audits are still performed for all big ministries (MOE, MOH, etc). Around 59% of total expenditure for whole of government is covered under full audits, and remaining 41% under the AUP approach. Of the selective audit, the major components such as revenues, personnel expenditures, and fixed assets are covered, in which case the overall coverage is estimated to be more than 75%.

280. **For 2011 and 2012, no test on internal controls were undertaken as part of the AUPs.** The AUP approach includes:

- Crown revenue confirming what was appropriated and received and spent
- Crown receivables, personnel and fixed assets are tested.

For the 2013 and 2014 AUPs, Audit has included a review of internal controls and areas of control weaknesses or discrepancies are reported to management in a management report.

**In view of the reduced scope, the rating for this dimension is reduced to "B".**

281. **Despite a requirement for all public entities and SOEs to be audited annually, the difficulty in recruiting appropriately skilled and qualified staff has meant that there is a backlog in the auditing of the whole of government financial statement of two years.**

The salary band is currently a restriction in hiring qualified accountants. The 2012 whole of government accounts audit is underway and is expected to be completed in February 2015. There are 18 positions with 2 vacancies and an additional 3 positions are required to complete the catch up project.

*Dimension (ii) Timeliness of submission of audit reports to legislature*

282. **From 2011-2014, there have been numerous external audit reports submitted to Parliament (details in Annex 3), as summarized in Table 13**.

Table 13: Summary of external audit reports submitted to Parliament, for FY 2010/11 – 2012/13

| Types of Audit | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|
| Crown Audit opinions | 1 | 1 | 1 |
| Ministries, Crown Agencies & SOEs Financial Audits | 30 | 38 | 68 |
| Performance Audits, Special Reviews & Investigations | 21 | 4 | 10 |
| Stock takes & vehicle verification reports | 10 | 8 | 7** |
| Total | 62 | 51 | 79 |
| *Source: Audit Office Annual Reports, 2010/11, 2011/12, and 2012/13* | | | |

**283. For purposes of rating this indicator, there are two reference dates to be considered according to the PEFA Guide—**(i) the dates of submission of the latest annual audit report to the legislature, and (ii) the dates the annual consolidated financial statements (FS) have been submitted to the legislature from the time they were received by the Audit Office. As indicated in Table 13.1, Parliament has received the 2012/13 annual audit report in March 2014 within 8 months from end of the period (June 2013), while the 2010/11 annual financial statements were submitted to the Parliament in September 2014 within 3 months from receipt thereof from Treasury in May 2014. **On this basis, the rating is a "B".** Other audit reports submitted are in Annex 4.

Table 13.1: Dates Latest Audit Reports Have Been Submitted to Parliament, 2011-2014

| **Report** | **Date submitted to Audit Office (1)** | **End of audit reporting period (2)** | **Date of submission of audit reports to Parliament (3)** | **Time lag** |
|---|---|---|---|---|
| Annual audit report 2012/13 | | 30 June 2013 | 31 March 2014 | 8 months (3-2) |
| Annual Financial Statement 2010/2011 | May 2014 | 30 June 2011 | 22 September 2014 | 3 months (2-1) |

*Source: Audit Office, Cook Islands*

284. **The previous assessment gave a "B" considering only the number of months from end of period to the date of submission of the annual audit report to the legislature which was 8 months.** There was no information from the previous assessment when the audited FS have been submitted to the Parliament.

*Dimension (iii) Evidence of follow-up on audit recommendations*

285. **There is little evidence of response and follow-up to audit recommendations; No significant change in performance from previous assessment, hence the rating is "C".** Under the PERCA Act, MLAs are required to provide a formal response to the Audit Office's Management Letter within a 14-day period. As in the previous assessment, there is evidence of some responses from MLAs beyond the prescribed period. Nonetheless, based on one evidence submitted on the status of audit recommendations, there is little evidence of progress in implementing the Audit Office's recommendations as set out in the Management Letters. Parliamentary scrutiny of audit reports will strengthen the follow-up process.

**PI-27: Legislative scrutiny of the annual budget law**

286. **The only significant change in this Indicator since 2011 relates to dimension (iv).** In 2011, the Assessment Team rated it as a D because of an instance of ex post approval of the Supplementary Budget in one of the previous 3 years. Given this has not occurred in the past 3 financial years, the rating was upgraded to a C.

| **Indicator (M1)** | **Score 2011** | **Score 2014** | **Brief Explanation** |
|---|---|---|---|
| **PI-27 Legislative scrutiny of the annual budget law** | **D+** | **D+** | There has been no change in the overall rating of this indicator although rating on dimension (iv) has been upgraded |

| | | | |
|---|---|---|---|
| | | | from D to C. |
| (i) Scope of the legislature's scrutiny. | C | C | Parliament considers the budget only after the detailed Executive review has been finalized. The whole House (Committee of Supply) discusses only the appropriation lines for revenues and expenditures. The PAC did not consider the last budget due to the proroguing of Parliament before the budget was tabled. |
| (ii) Extent to which the legislature's procedures are well-established and respected. | C | C | Parliamentary procedures for the review of the budget are clear in the Standing Orders but there appears to be gaps in their implementation (e.g. the functioning of the Finance and Expenditure Committee). |
| (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 | D | Budget papers were only tabled in Parliament on the eve of Parliament sitting to consider them. Parliamentary Standing Orders indicate a maximum of ten sitting days for consideration of draft Estimates. In practice, this means that Parliament's time to review the budget has been significantly less than one calendar month. |
| (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature. | D | C | Rules for in-year budget amendments without *ex ante* approval exist; specifically, the Constitution specifies the limits on which in-year expenditures may exceed appropriations which allows for expansion of total expenditure, not only administrative reallocations. There has been no *ex post* approval of expenditure over the last 3 years so the rating has been upgraded to a C. |

*Dimension (i) Scope of the legislature's scrutiny*

287. **The Parliament review covers only the details of revenue and expenditures as set out in the budget document approved by the Cabinet.** It does not have a prior review of the Budget Policy Statement. In view of the limited scope of legislative scrutiny, and only after the budget details have been finalized, the **rating assigned to this dimension is a "C".**

*Dimension (ii) Extent to which the legislature's procedures are well-established and respected*

288. **Parliamentary procedures for reviewing the Appropriations Bill are set out clearly in the Standing Orders**. However, Parliament does not currently have a regular

process in place to scrutinizee financial information in detail. ,. The Finance and Expenditure Committee[15] has not been reactivated (established in practice) since the election in July 2014.

289. **The Finance and Expenditure/Public Accounts Committee (PAC) was active in the first half of 2013/14 financial year**. It met with 3 central agencies, 2 statutory bodies and 5 larger Ministries to discuss their organizational structure, budget, operations and impediments to their operations. It was expected that the PAC would take a stronger role in the scrutiny of the budget but the prorogation of Parliament in April 2014 intervened.

290. **Since the election in July 2014, the Secretary of the PAC has resigned and much of the work of the Committee has been put on hold**. The Assistant Clerk of the Parliament has taken on the role as part of her responsibilities and plans to reinstate the Committee are underway. A Terms of Reference was developed in 2013 to guide the PAC.

**291. Since legislative procedures for budget review have been partially implemented and not well established yet, the rating assigned to this dimension is a "C".**

*Dimension (iii) Adequacy of time for the legislature to provide a response to budget proposals*

292. **One impediment to the PAC and to the Parliament as a whole reviewing the budget more closely has been that the budget papers are only tabled in Parliament on the eve of Parliament sitting to consider them or even on the day of the sitting.** This time frame means that debate or in-depth consideration of appropriations may be very limited. There is, however, some evidence of detailed discussion of new initiatives on occasion, such as the pension increase, recorded in Hansard[16].

**293. In view of the clear insufficiency of time available for a more detailed review of the budget, the rating is still a "D".**

*Dimension (iv) Rules for in-year amendments to the legislature to the budget without ex-ante approval by the legislature*

**294. Specifically the Constitution specifies the limits on which in-year expenditures may exceed appropriations but this is seldom used**. Ministries can vire funds within their allocation but with the approval of the Finance Secretary and the Minister of Finance. Conditions for virement are spelled out in the Financial Instructions and are restricted to within each major category of operating expenses within the agency. In the 2011 assessment, the "D" rating was mainly due to one *ex post* approval of expenditure by the Parliament.

**295.** Since the existing rules allow expansion of total expenditure, not only administrative reallocation, and since over the last 3 years, there has been no ex post approval, **the assigned rating is a "C".**

[15] This Committee is also known as the Public Accounts Committee.

[16] Parliamentary Hansard records show the level of debate and the approval of budget line items.

**PI-28: Legislative scrutiny of external audit reports**

| **Indicator (M1)** | **Score 2011** | **Score 2014** | **Brief Explanation** |
|---|---|---|---|
| **PI-28 Legislative scrutiny of external audit reports** | **D** | **D** | There has been no change in the overall rating of this indicator. |
| (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years). | D | D | Evidence from Hansard indicates that Parliament does not generally examine audit reports except for special reports |
| (ii) Extent of hearings on key findings undertaken by the legislature. | D | D | In the absence of the Finance and Expenditure Committee, no in-depth hearings on key findings have been undertaken. |
| (iii) Issuance of recommended actions by the legislature and implementation by the executive. | D | D | There is no evidence of recommendations being issued by Parliament. |

296. **Since 2011, there has been little change in parliamentary oversight of Audit Reports.** While the Audit Office submits the required reports within a reasonable time (there is no legislated timeframe), there is little evidence that the Parliament scrutinizes the reports once tabled unless a special report has significance. The lack of Parliamentary oversight of the Audit Office potentially reduces the effectiveness and credibility of external scrutiny, and risks affecting the quality of transparency and public accountability.

**Therefore the overall rating remains a "D".**

*Dimension (i) Timeliness of examination of audit reports by the legislature*

**297. There are no time requirements for either the submission of audit reports to the legislature or for the Parliament to review audit reports.**

**298. Under Rule 316(2)(c), the Finance and Expenditure /Public Accounts Committee has responsibility for reviewing the audits of the Crown's and departmental financial statements.** However, as mentioned in the discussions of PI 27, the Committee has not been fully operational. In addition, as confirmed during one of the consultative meetings, evidence from Hansard records indicates that Parliament as a whole has not examined any audit reports in recent years, with the sole exception of a limited number of special reports. **Hence the rating is a "D".**

*Dimension (ii) Extent of hearings on key findings undertaken by the legislature*

299. **As discussed in dimension (i), Parliament had undertaken no hearings on audit findings. Therefore, the assigned rating remains a "D".** A report of the PAC's activities between June 2012 and November 2013 tabled in Parliament acknowledged that there had been no oversight of audit reports and findings. The PAC met with the Chair of the Public Expenditure Review Committee and the Director of Audit to discuss a systematic and effective approach to reviewing audit reports. Given the backlog of reports to be reviewed,

the PAC requested that the Audit Office prepare a summary of key finding and recommendations so that significant issues could be considered. Parliament appears to have been prorogued before this could be completed and the PAC has not been reconvened since.

*Dimension (iii) Issuance of recommended actions by the legislature and implemented by the executive*

**300. There is no evidence of any recommendations being issued by Parliament, hence a "D" rating.**

## G. Donor Practices

### D-1: Predictability of Direct Budget Support

| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **D-1 Predictability of Direct Budget Support** | **N/A** | **NR** | |
| (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature. | N/A[17] | N/R | There is only direct budget support, but there were no data provided that could compare projected and actual inflows by individual project. |
| (ii) In-year timeliness of donor disbursements. | N/A | D | The donors provide funding on an annual and multi-year basis. They do not provide funding on a fixed monthly or quarterly basis, but instead disbursed according to completion of milestones by implementing ministry; Therefore this sub-indicator is rated D. In the last 3 years however, disbursement was done after each milestone has been completed by implementing ministry. |

*Dimension (i) Annual deviation of actual budget support from the forecast provided by the donor agencies*

301. **As defined in the PEFA Guide, "direct budget support consists of all aid provided to the government treasury in support of the government's budget at large (general budget support) or for specific sectors.** When received by the government treasury, the funds will be used in accordance with the procedures applying to all other revenues." Based on this definition, the Government of the Cook Islands has received direct

[17] Previous assessment reported no direct budget support.

sector budget support but not general budget support over the past 3 years. However, during the assessment, there were no data provided on actual inflows from donors (see discussion in D-2). The only available data were between budgeted and actual spending by project (conversion ratio) which may be different from donor disbursements. **Hence, this dimension was not rated (NR) in this assessment.** The 2011 assessment indicated this indicator as Not Applicable as there were no direct budget support. General budget support has been received from the European Union only beginning in May 2014. China manages procurement and payments directly to suppliers.

*Dimension (ii) In-year timeliness of donor disbursements*

302. **Although there was direct sector budget support from donors, all of them have no in-year or quarterly disbursement schedule**. **Hence, this dimension is rated D.** The agreements with donors show only a medium-term (normally 3 years) broken down into annual project/support. Actual disbursements during each year are dependent on the delivery of milestones by the implementing agency. In the last 3 years, all donor disbursements were done on time after delivery of each milestone by implementing ministries. This was the feedback that the Assessment Team got from selected ministries met during the assessment.

**D-2: Financial information provided by donors for budgeting and reporting on project and programme aid**

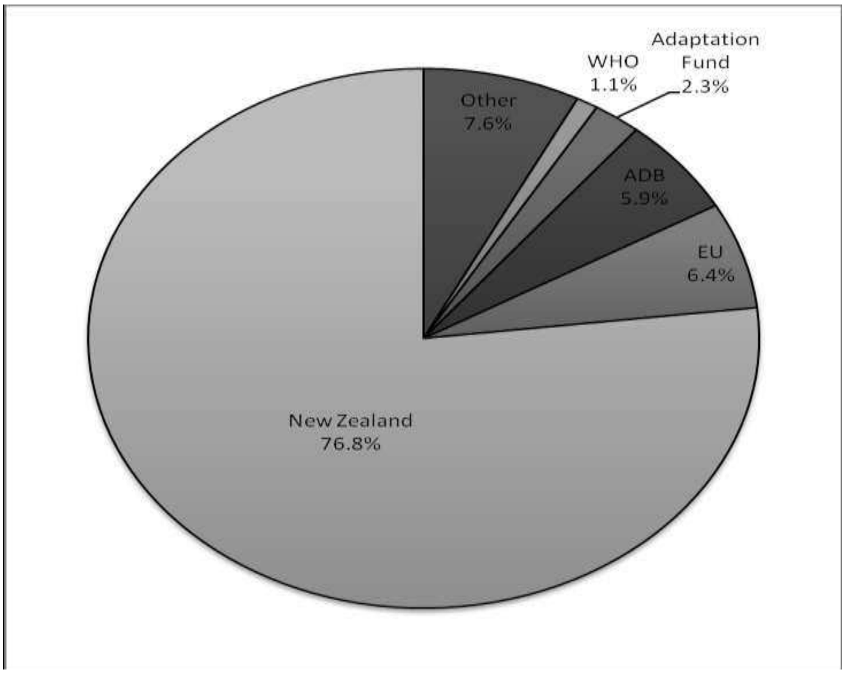
| Indicator (M1) | Score 2011 | Score 2014 | Brief Explanation |
|---|---|---|---|
| **D-2 Financial information provided by donors for budgeting and reporting** | **D** | **D+** | There is improvement in the rating of dimension (i). Improvement in dimension (ii) would be easy to achieve given the new reporting regime initiated. |
| (i) Completeness and timeliness of budget estimates by donors for project support | D | B | At least half the donors provide projections of their disbursements to CIG prior to the start **of the budget preparation processes and are not imposing a different budget classification.** |
| **(ii) Frequ**ency and coverage of reporting by donors on actual donor flows for project support | D | D▲ | DCD has developed reporting templates for donors. It has initiated a quarterly reporting process which is in place for NZ (first report received November 2014) and ADB (first report received in July 2014). |

303. **At least half of the donors provide projections of their disbursements (dimension (i) to CIG prior to the commencement of the fiscal year.** However, in 2013/14, there has been no report (dimension ii) on actual disbursements received from these donors, although a new reporting template has started during the current year. **The overall rating is D+.**

*Dimension (i) Completeness and timeliness of budget estimates by donors for project support*

304. **In 2013/14 the five largest donors (providing project and programme grants except for EU budget support) to the Cook Islands have been**: New Zealand and Australia (76.8%), European Union (6.4%), Asian Development Bank (5.9%) and UN Adaptation Fund (2.3% via the UNDP).

Chart 4. ODA Actual Spend by Development Partner 2013-14 (%)




*Source: 2014-15 Budget Book 1, MFEM.*

**305. A three-year forward aid programme is agreed by New Zealand and Australia with CIG.** Australian aid is provided through the NZ Aid Programme under a specific agreement, and a Forward Aid Program (FAP) is agreed between the NZ Aid Programme and CIG. The National Sustainable Development Commission attempts to align aid with the national plans. The agreements with these donors which comprise more than 75% of the donors funding, provide clear estimates of the budget support to the projects even before the start of the budget process. Likewise, the expenditure classification of these estimates are not exactly the same as, but can be easily matched the government's budget classification. The donors do not impose the use of their own classification. **Hence a "B" rating.**

306. **The other major donor, People's Republic of China (PRC), now provides an annual grant budget starting in the 2014/15 budget.** Development assistance is provided in consultation with CIG in line with a China strategy developed in 2011 which formalizeed a process of identifying and scoping projects to be funded from the accumulated grant balance held by the China Development Bank. To date, the aid modality has been in the form of own-source construction of significant infrastructure assets and turnkey handover to CIG at a mutually agreed value.

*Dimension (ii) Frequency and coverage of reporting by donors on actual donor flows for project support*

**307. In the last completed fiscal year, the CIG has not been receiving report from donors on the amount of actual disbursements for the funded projects**. The same situation has been indicated in the previous assessment. However, the Cook Islands has established a quarterly donor reporting procedure and standard template. The major donors (NZ and ADB) provide quarterly reports from 2014 on their actual aid disbursements including direct procurement on behalf of the Cook Islands. Cook Islands is working to extend this system to the UN system and has established procedures for recording spend of the Cook Islands China grant aid with the China Development Bank. **The rating was therefore upgraded to “D▲”.**

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

| **Indicator (M1)** | **Score 2011** | **Score 2014** | **Brief Explanation** |
|---|---|---|---|
| **D-3 Proportion of aid that is managed by use of national procedures** | **D** | **D** | The available data indicate that slightly less than 50% of aid disbursed is managed by the use of CIG procedures. |

308. **Data from donors and MFEM indicate that 49.46% of aid disbursed is managed by the use of complete CIG procedures, covering planning, budgeting, appropriating, execution, banking, procurement, recording, accounting, reporting and audit. Hence the rating is a “D”.** The same situation existed in the previous assessment.

309. **The number of projects managed directly with MLAs is being reduced, e.g. UNFPA has centralizeed support arrangements in a new agreement with MFEM**. While PRC grant services are procured and constructed by PRC companies, MFEM is now the formal point of contact and in-country manager for all PRC suppliers in country (e.g. CCECC (water and heavy equipment) and Jessen (pearl)). MFEM also managed the final contract negotiations with CCECC on behalf of the government of China (CCECC contract for supply of heavy machinery signed by Finance Secretary).

# IV. GOVERNMENT REFORM PROCESS

## A. General Description of Recent and On-Going Reforms

310. **There has been a continual process of reforms in improving PFM.** A PFM Reform Roadmap was formulated in 2011 for the period 2011-2015 based on the 2011 PEFA assessment. Key central government legislations were passed such as the Outer Island Government Act giving more powers to the Island Councils to determine and plan their development priorities, and the Loan Repayment Fund Act which spelled out clearly the procedures for the annual contribution to the Loan Reserve Fund, investing its earnings, reporting, audit, and clearer rules and policies on new debt and loan guarantees. Tax laws and procurement policies and procedures have also been better clarified under the recently approved tax-related legal amendments and new procurement policy framework.

311. **The acquisition of the Integrated HRMIS including the improved regularity of monitoring of budget execution and arrears by MDAs, as well as the training and seminars provided to MDAs and Outer Islands on the financial regulations, have improved the quality of internal controls and reporting.** In addition, a plan to establish a fully-functioning internal audit is being developed. Tax audits have also been improved through the formulation of a risk management plan.

312. **The relevance of budget analysis is also being improved by adding a functional classification starting in FY2014/15.** The timeliness issue that affected the usefulness of the financial statements and audit reports is also being addressed recently by not waiting for audit of individual ministries in completing the consolidated financial statements, and focusing full audit on high-risk ministries.

## B. Institutional Factors Supporting Reform Planning and Implementation

*Government ownership and leadership of PFM reform programme*

313. **The National Sustainable Development Plan (NSDP) is the policy framework within which the government and its key stakeholders agree to a set of development priorities in the medium-term.** The Office of the Prime Minister has responsibility for co-coordinating the reform programme, including the co-ordination of national and sector planning. A new medium-term National Sustainable Development Plan is being planned, followed by detailed sector strategies. The PSC is responsible among others in monitoring and evaluating performance of individual ministries in terms of their outputs and outcomes.

314. **Development partners generally align their country assistance strategies to the NSDP priorities.** Consultations with government counterparts are done periodically to discuss consistency of the development partners' strategies with the sectoral priorities in the NSDP.

315. **Being part of the NSDP, and a key program of the MFEM, the updating of the PFM Reform Plan is an initiative of the CIG.** Since then, MFEM has been monitoring the progress of the PFM Reform Plan. There were at least five monitoring reports produced since 2012.

*Co-ordination and appropriate sequencing of reforms*

316. **At the policy level, MFEM works together with the Office of the Prime Minister, the Office of the Public Service Commissioner, and selected ministries as members of an Oversight Group of the PEFA assessment and PFM Reform Planning**. The Office of the Prime Minister has responsibility for co-coordinating the reform programme, including the co-ordination of national and sector planning. A new medium-term National Sustainable Development Plan is being planned, followed by detailed sector strategies. The PSC is responsible among others in monitoring and evaluating performance of individual ministries in terms of their outputs and outcomes. The Ministry of Education is also a member of the Oversight Group.

317. **Similar to what was done in 2011, the new PFM Reform Plan will be prepared in consultation with key stakeholders within and outside the government.** Within the government, the key stakeholders will be the ministries, crown agencies, island councils and SOEs. External stakeholders will include the development partners, and representatives of the private sector and civil society organizations

Annex 1- Supporting data for PI 1-2

| Top 20 | Administrative or functional heading | budget | actual | adjusted budget | deviation | absolute deviati | percent |
|---|---|---|---|---|---|---|---|
| | Data for year = | 2013/14 | | | | | |
| 1 | Education | 10,961,555 | 11,266,177 | 10,654,613. | 611,563.1 | 611,563. | 5.7% |
| 2 | Health | 10,375,401 | 10,070,494 | 10,084,873. | -14,379.1 | 14,379. | 0.1% |
| 3 | Tourism Corporation | 4,151,446 | 4,123,716 | 4,035,198. | 88,517.1 | 88,517. | 2.2% |
| 4 | Police | 3,518,664 | 3,299,132 | 3,420,135. | -121,003.8 | 121,003. | 3.5% |
| 5 | Finance and Economic Manage | 2,810,508 | 2,767,600 | 2,731,808. | 35,791.1 | 35,791. | 1.3% |
| 6 | Foreign Affairs | 1,767,473 | 1,794,001 | 1,717,980. | 76,020.2 | 76,020. | 4.4% |
| 7 | Infrastructure and Planning | 1,760,408 | 1,747,867 | 1,711,113. | 36,753.2 | 36,753. | 2.1% |
| 8 | Justice | 1,508,858 | 1,566,356 | 1,466,607. | 99,748.6 | 99,748. | 6.8% |
| 9 | Marine Resources | 1,441,276 | 1,379,689 | 1,400,917. | -21,228.7 | 21,228. | 1.5% |
| 10 | Prime Minister's Office | 1,170,556 | 1,132,238 | 1,137,778. | -5,540.2 | 5,540. | 0.5% |
| 11 | Internal Affairs | 1,078,457 | 1,072,056 | 1,048,258. | 23,797.3 | 23,797. | 2.3% |
| 12 | Environment | 955,788 | 955,315 | 929,024. | 26,290.4 | 26,290. | 2.8% |
| 13 | Audit (PERCA) | 846,598 | 664,964 | 822,891. | -157,927.8 | 157,927. | 19.2% |
| 14 | Agriculture | 774,796 | 773,865 | 753,100. | 20,764.2 | 20,764. | 2.8% |
| 15 | Cultural Development | 672,038 | 618,770 | 653,219. | -34,449.5 | 34,449. | 5.3% |
| 16 | Crown Law | 645,137 | 656,360 | 627,072. | 29,287.6 | 29,287. | 4.7% |
| 17 | Transport | 631,476 | 600,244 | 613,793. | -13,549.4 | 13,549. | 2.2% |
| 18 | Business Trade and Investment | 600,471 | 680,043 | 583,657. | 96,385.8 | 96,385. | 16.5% |
| 19 | Parliamentary Services | 572,447 | 575,423 | 556,417. | 19,005.8 | 19,005. | 3.4% |
| 20 | Public Service Commission | 500,737 | 412,744 | 486,715. | -73,971.6 | 73,971. | 15.2% |
| | Pearl Authority | 466,411 | 417,082 | 453,350. | -36,268.4 | 36,268. | 8.0% |
| | Financial Services Development | 421,894 | 392,942 | 410,080. | -17,138.0 | 17,138. | 4.2% |
| | Ombudsman | 270,044 | 268,456 | 262,482. | 5,973.5 | 5,973. | 2.3% |
| | Head Of State | 234,305 | 265,813 | 227,743. | 38,069.5 | 38,069. | 16.7% |
| | Ministerial Offices | 1,708,252 | 1,637,245 | 1,660,417. | -23,173.4 | 23,173. | 1.4% |
| | Aitutaki | 1,524,958 | 1,510,399 | 1,482,256. | 28,142.5 | 28,142. | 1.9% |
| | Autitaki Power Supply | 310,390 | 246,498 | 301,698. | -55,200.6 | 55,200. | 18.3% |
| | Atiu | 964,485 | 956,253 | 937,477. | 18,775.2 | 18,775. | 2.0% |
| | Mangaia | 1,211,969 | 1,256,606 | 1,178,031. | 78,573.6 | 78,573. | 6.7% |
| | Manihiki | 729,250 | 733,076 | 708,829. | 24,246.0 | 24,246. | 3.4% |
| | Mauke | 787,526 | 859,347 | 765,474. | 93,872.6 | 93,872. | 12.3% |
| | Mitiaro | 524,630 | 491,898 | 509,939. | -18,041.2 | 18,041. | 3.5% |
| | Palmerston | 328,420 | 336,262 | 319,223. | 17,038.3 | 17,038. | 5.3% |
| | Penrhyn | 510,622 | 590,034 | 496,323. | 93,710.6 | 93,710. | 18.9% |
| | Pukapuka-Nassau | 913,409 | 914,400 | 887,832. | 26,567.8 | 26,567. | 3.0% |
| | Rakahanga | 416,069 | 404,124 | 404,418. | -294.8 | 294. | 0.1% |
| | POBOC | 43,229,305 | 42,140,315 | 42,018,814. | 121,500.2 | 121,500. | 0.3% |
| | CI Govt Capital | 9,371,000 | 10,804,000 | 9,108,597. | 1,695,403.0 | 1,695,403. | 18.6% |
| | Airport Authority | 2,047,997 | 2,047,997 | 1,990,649. | 57,347.2 | 57,347. | 2.9% |
| | Bank of the Cook Islands | 181,000 | 145,903 | 175,931. | -30,028.7 | 30,028. | 17.1% |
| | Te Aponga Uira | 350,000 | 248,895 | 340,199. | -91,304.4 | 91,304. | 26.8% |
| | Crown Infrastructure Depreciatio | 5,069,598 | 2,156,003 | 4,927,641. | -2,771,638.1 | 2,771,638. | 56.2% |
| | Expenditure of Chinese Loans | | | 0.0 | 0.0 | 0.0 | #DIV/0! |
| | ADB Share Capital | 26,600 | 23,003 | 25,855. | -2,852.2 | 2,852. | 11.0% |
| | Transfer to Reserve Trust Fund | 498,263 | 498,263 | 484,310. | 13,952.2 | 13,952. | 2.9% |
| | Bank fees | - | 10,893 | 0.0 | 10,893.0 | 10,893. | #DIV/0! |
| | 21 (= sum of rest) | | | 0.0 | 0.0 | 0.0 | #DIV/0! |
| | allocated expenditure | 118,840,485 | 115,512,760 | 115,512,760.4 | 0.0 | 6,975,979. | |
| | contingency | 150,000 | 309,000 | | | | |
| | total expenditure | 118,990,485 | 115,821,760 | | | | |
| | overall (PI-1) variance | | | | | | 2.7% |
| | composition (PI-2) variance | | | | | | 6.0% |
| | contingency share of budget | | | | | | 0.3% |

| | | | | |
|---|---|---|---|---|
| 20 | Pearl Authority | 482,026 | 496,294 | 449,841.5 |
| | Financial Services Development | 433,415 | 432,758 | 404,476. |
| | Public Service Commission | 419,057 | 412,446 | 391,076. |
| | Ombudsman | 239,141 | 238,961 | 223,173. |
| | Head Of State | 210,281 | 194,000 | 196,240. |
| | Ministerial Offices | 1,790,250 | 600,482 | 1,670,716. |
| | Aitutaki | 1,469,524 | 1,399,225 | 1,371,405. |
| | Autitaki Power Supply | 349,040 | 238,388 | 325,734. |
| | Atiu | 929,695 | 944,527 | 867,619. |
| | Mangaia | 1,169,047 | 844,779 | 1,090,990. |
| | Manihiki | 702,712 | 693,256 | 655,792. |
| | Mauke | 790,331 | 914,798 | 737,561. |
| | Mitiaro | 511,382 | 486,889 | 477,237. |
| | Palmerston | 326,673 | 331,101 | 304,861.3 |
| | Penrhyn | 517,172 | 372,665 | 482,640.8 |
| | Pukapuka-Nassau | 917,216 | 941,339 | 855,974.2 |
| | Rakahanga | 421,125 | 399,027 | 393,006.8 |
| | POBOC | 43,182,215 | 37,944,499 | 40,298,970.2 |
| | CI Govt Capital | 4,734,994 | 4,146,328 | 4,418,841.9 |
| | Airport Authority | 1,704,000 | 2,150,060 | 1,590,225.2 |
| | Airport Authority Capital | 343,997 | 343,997 | 321,028.6 |
| | Airport Authority - Outer Island A | 206,000 | 153,691 | 192,245.5 |
| | Airport Authority - Upgrade Gov | 330,000 | 293,368 | 307,966.1 |
| | Bank of the Cook Islands | 181,000 | 181,000 | 168,914.8 |
| | Ports Authority - Infrastructure | 200,000 | 42,475 | 186,646.1 |
| | Te Aponga Uira | 350,000 | 350,000 | 326,630.8 |
| | Te Aponga Uira Capital | 800,000 | 800,000 | 746,584.6 |
| | Building Maintenance | 1,800,000 | 1,800,000 | 1,679,815.3 |
| | Crown Infrastructure Depreciatio | 3,478,150 | 3,478,150 | 3,245,916.5 |
| | Expenditure of ADB Loan | 0 | - | 0.0 |
| | ADB Share Capital | 26,600 | - | 24,823.9 |
| | Transfer to Reserve Trust Fund | 474,357 | 474,357 | 442,684.5 |
| | 21 (= sum of rest) | | | 0.0 |
| | allocated expenditure | 114,063,931 | 106,447,966 | 106,447,966.0 |
| | contingency | 150,000 | 213,866 | |
| | total expenditure | 114,213,931 | 106,661,832 | |
| | overall (PI-1) variance | | | |
| | composition (PI-2) variance | | | |
| | contingency share of budget | | | |

| | | | | |
|---|---|---|---|---|
| 20 | Pearl Authority | 502,387 | 507,827 | 538,778.3 |
| | Public Service Commission | 473,809 | 459,795 | 508,130.7 |
| | Financial Services Development Authority | 443,178 | 403,860 | 475,280.8 |
| | Human Resource Development | 378,782 | 362,396 | 406,220.2 |
| | Financial Intelligence Unit | 307,598 | 302,356 | 329,879.0 |
| | Ombudsman | 245,821 | 207,405 | 263,627.5 |
| | Head Of State | 217,881 | 203,030 | 233,663.6 |
| | Ministerial Offices | 1,825,000 | 1,814,120 | 1,957,197.0 |
| | Aitutaki | 1,367,243 | 1,473,059 | 1,466,281.1 |
| | Autitaki Power Supply | 349,040 | 2,098,730 | 374,323.3 |
| | Atiu | 929,695 | 1,188,374 | 997,039.4 |
| | Mangaia | 1,169,047 | 1,390,839 | 1,253,729.1 |
| | Manihiki | 702,712 | 860,530 | 753,613.7 |
| | Mauke | 790,331 | 993,793 | 847,580.4 |
| | Mitiaro | 511,382 | 583,881 | 548,425.2 |
| | Palmerston | 308,786 | 326,918 | 331,152.9 |
| | Penrhyn | 517,172 | 485,077 | 554,634.3 |
| | Pukapuka-Nassau | 917,216 | 893,908 | 983,656.4 |
| | Rakahanga | 421,125 | 466,703 | 451,629.5 |
| | POBOC | 35,092,961 | 38,411,403 | 37,634,980.1 |
| | CI Govt Capital | 3,007,000 | 3,555,000 | 3,224,817.2 |
| | Airport Authority | 2,047,997 | 2,047,997 | 2,196,347.2 |
| | Bank of the Cook Islands | 181,000 | 162,407 | 194,111.0 |
| | Te Aponga Uira | 1,150,000 | 160,000 | 1,233,302.2 |
| | Building Maintenance | 1,300,000 | 1,300,000 | 1,394,167.7 |
| | Crown Infrastructure Depreciation | 2,469,000 | 2,469,000 | 2,647,846.3 |
| | Expenditure of Chinese Loans | | | 0.0 |
| | ADB Share Capital | 26,600 | 23,424 | 28,526.8 |
| | Reserve Trust Fund | 200,000 | 200000 | 214,487.3 |
| | 21 (= sum of rest) | | | 0.0 |
| | allocated expenditure | 104,105,020 | 111,646,046 | 111,646,046.2 |
| | contingency | 150,000 | 228,882 | |
| | total expenditure | 104,255,020 | 111,874,928 | |
| | overall (PI-1) variance | | | |
| | composition (PI-2) variance | | | |
| | contingency share of budget | | | |

**Table 5 - Results Matrix**

| year | for PI-1<br>total exp. deviation | for PI-2 (i)<br>composition variance | for PI-2 (ii)<br>contingency share |
|---|---|---|---|
| 2013/14 | 2.7% | 6.0% | |
| 2012/13 | 6.6% | 8.9% | 0.2% |
| 2011/12 | 7.3% | 8.3% | |

## Annex 2- Variance of Revenue (for PI-3)

| Revenue | 2011-12 Budget | 2011-12 Actuals | Variance | Variance % |
|---|---|---|---|---|
| Value-added Tax | 37,009,540 | 35,711,000 | (1,298,540) | |
| Income Tax | 26,571,600 | 24,735,000 | (1,836,600) | |
| Company Tax | 10,308,446 | 10,139,000 | (169,446) | |
| Import Levies | 12,030,188 | 11,547,000 | (483,188) | |
| Withholding Tax | 586,400 | 3,297,000 | 2,710,600 | |
| Departure Tax | 6,170,108 | 6,224,000 | 53,892 | |
| Trading Revenue | 5,192,958 | 5,896,230 | 703,272 | |
| Other Revenue | 10,805,173 | 12,141,924 | 1,336,751 | |
| **Total Revenue** | **108,674,413** | **109,691,154** | **1,016,741** | **99%** |

| Revenue | 2012-13 Budget | 2012-13 Actuals | Variance | Variance % |
|---|---|---|---|---|
| Value-added Tax | 37,350,000 | 38,074,000 | 724,000 | |
| Income Tax | 26,201,000 | 24,934,000 | (1,267,000) | |
| Company Tax | 11,000,000 | 11,342,000 | 342,000 | |
| Import Levies | 13,038,000 | 15,053,000 | 2,015,000 | |
| Withholding Tax | 900,000 | 1,501,000 | 601,000 | |
| Departure Tax | 6,481,000 | 6,101,000 | (380,000) | |

| | | | | |
|---|---|---|---|---|
| Trading Revenue | 5,209,240 | 5,880,000 | 670,760 | |
| Other Revenue | 10,973,000 | 12,239,800 | 1,266,800 | |
| **Total Revenue** | **111,152,240** | **115,124,800** | **3,972,560** | **96%** |

| **Revenue** | **2013-14 Budget** | **2013-14 Actuals** | **Variance** | **Variance %** |
|---|---|---|---|---|
| Value-added Tax | 39,094,900 | 42,365,000 | 3,270,100 | |
| Income Tax | 27,733,742 | 22,442,000 | (5,291,742) | |
| Company Tax | 10,812,123 | 11,781,000 | 968,877 | |
| Import Levies | 13,207,021 | 11,999,000 | (1,208,021) | |
| Withholding Tax | 600,000 | 966,000 | 366,000 | |
| Departure Tax | 8,204,796 | 7,621,000 | (583,796) | |
| Trading Revenue | 5,452,252 | 6,357,000 | 904,748 | |
| Other Revenue | 13,800,050 | 14,045,750 | 245,700 | |
| **Total Revenue** | **118,904,884** | **117,576,750** | **(1,328,134)** | **101%** |

Annex 3- List of Procurement Awards, 2013/14 (Evidence for PI-19)

| ID# | Title | | Type | Organization | Contractor | Amount $ (VAT ex) |
|---|---|---|---|---|---|---|
| 131453 | Aitutaki Slurry Tanker and trailor | TBC | Waiver from tender | Infrastructure Cook Islands | Rarotonga Plumbing Ltd | 20,500 |
| 131452 | Sanitation program, WATSAN Division | TBC | Open Tender | Infrastructure Cook Islands | Ambient Consulting | TBC |
| 131451 | Airport PV installations | 4th Quarter 2013/2014 | Open Tender | NZ Ministry of Foreign Affairs and Trade | NETcom International Ltd (NZ) | TBA |
| 131450 | Construction of eight solar generation systems for the six outer islands of Rakahanga, Pukapuka, Nassau, Penrhyn, Manihiki and Palmerston | 4th Quarter 2013/2014 | Open Tender | NZ Ministry of Foreign Affairs and Trade | Powersmart | 20,500,000 |
| 131449 | Te Mato Vai | 4th Quarter 2013/2014 | Open Tender | MFEM | GHD | 992,000 |
| 131448 | Pearl revitalisation project | 3rd Quarter 2013/2014 | Open Tender | MFEM | Marine Ventures (CI) | 49,939 |
| 131447 | Manahiki Pearls Revitalisation Project (MPRP) Tender 1 Ropes and Floats | 3rd Quarter 2013/2014 | Open Tender | MFEM | Quality Equipment (NZ) | 363,697 |
| 131446 | Mangaia Excavator | 3rd Quarter 2013/2014 | Waiver from tender | Infrastructure Cook Islands | General Transport | 84,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 131445 | Rarotonga / Aitutaki Master Plan and strategy | 3rd Quarter 2013/ 2014 | Closed Tender | Airport Authority | GHD | TBC |
| 131444 | Purchase of Ventilator | 2nd Quarter 2013/ 2014 | Waiver from tender | Ministry of Health | InterMed Medical Limited (IML) | 45,845 |
| 131443 | School Stationery and Consumables for 2014 school year | 2nd Quarter 2013/ 2014 | Open Tender | Ministry of Education | Croxley Stationery Ltd & CI Printing Services | 174,704 |
| 131442 | Communications support to govt agencies | 2nd Quarter 2013/ 2014 | Open Tender | MFEM | Woven Pacific Communications | $600 Daily rate or $85/hour |
| 131441 | Pearl revitalisation project | 2nd Quarter 2013/ 2014 | Closed Tender | MFEM | Mukai Ltd | 58,134 |
| 131440 | Pearl revitalisation project | 2nd Quarter 2013/ 2014 | Open Tender | MFEM | Cook Island Building Supplies | 101,436 |
| 131439 | Pearl revitalisation project | 2nd Quarter 2013/ 2014 | Open Tender | MFEM | Palm Trading | 35,353 |
| 131438 | Application for National Implementing Entity status to the Adaptation Fund | 2nd Quarter 2013/ 2014 | Open Tender | MFEM | Frankfurt School of Business and Mangement | 66,220 |
| 131437 | Pearl revitalisation project | 2nd Quarter 2013/ 2014 | Open Tender | MFEM | Aluminium Stainless Steel Marine Construction Ltd (CI) | 301,601 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 131436 | Manihiki and Rakahanga Boat Repairs | 2nd Quarter 2013/ 2014 | Open Tender | MFEM | Aluminium Stainless Steel Marine Construction Ltd (CI) | 110,863 |
| 131435 | Techincal assistance | 2nd Quarter 2013/ 2014 | Open Tender | MFEM | Akairo Consulting | 75,341 |
| 131434 | Mangaiia Harbour completion and adaptation to Climate Change | 2nd Quarter 2013/ 2014 | Open Tender | Infrastructure Cook Islands | Land Holdings Ltd | 948,173 |
| 131433 | Improvements to Tukao and Tahunu (Manihiki) Harbours | 2nd Quarter 2013/ 2014 | Open Tender | Infrastructure Cook Islands | Land Holdings Ltd | 2,832,632 |
| 131432 | Emergancy mission Pukapuka Airport Repairs | 2nd Quarter 2013/ 2014 | Waiver from tender | Infrastructure Cook Islands | Cook Islands Towage | 182,696 |
| 131431 | Vaimaru Water Supply Upgrade | 2nd Quarter 2013/ 2014 | Open Tender | Infrastructure Cook Islands | Cook Islands Bulding Supplies Ltd | 67,600 |
| 131430 | Supply of Tip Truck for the Island of Aitutaki | 2nd Quarter 2013/ 2014 | Open Tender | Infrastructure Cook Islands | General Transport Cook Islands | 133,038 |
| 131429 | Emergancy mission Atiu Airport Repairs | 2nd Quarter 2013/ 2014 | Waiver from tender | Infrastructure Cook Islands | Cook Islands Towage | 33,188 |
| 131428 | Mitiaro Salvage Excavator and Airport Repairs | 2nd Quarter 2013/ 2014 | Waiver from tender | Infrastructure Cook Islands | Cook Islands Towage | 66,375 |
| 131427 | North America Representation Services | 2nd Quarter 2013/ | Open Tender | Cook Islands Tourism Corporation | Aviation and Tourism USA | 168,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | | | Consulting | |
| 131426 | Expert Legal Consultant | 2nd Quarter 2013/2014 | Waiver from tender | Cook Islands Sea Bed Minerals Authority | Mr Paul Hibberd | 25,000 |
| 131425 | Rarotonga Pharmacy Warehouse Tender C35.13 | 2nd Quarter 2013/2014 | Open Tender | Cook Islands Investment Corporation | Nikao Beach Sheetmetal Ltd | 113,396 |
| 131424 | Schools Repainting Programme C34/13 | 2nd Quarter 2013/2014 | Open Tender | Cook Islands Investment Corporation | RVK Contractors Ltd | 137,300 |
| 131423 | Removal and Replacement of asbestos contaminated soil at Avarua School | 2nd Quarter 2013/2014 | Waiver from tender | Cook Islands Investment Corporation | T & M Heather Ltd | 98,894 |
| 131422 | Puchase of CEO vehicle | 2nd Quarter 2013/2014 | Waiver from tender | Cook Islands Investment Corporation | Motor Centre Ltd | 34,662 |
| 131421 | EIA for Aitutaki Harbour Passage and Marina Basin Development | 1st Quarter 2013/2014 | Open Tender | Ports Authority | Beca International Consultants LTD | 88,880 |
| 131420 | Palmerston Watertanks Upgrade | 1st Quarter 2013/2014 | Open Tender | OPM | Cook Island Building Supplies | 65,000 |
| 131419 | Atiu Domestic Water Tanks | 1st Quarter 2013/2014 | Open Tender | OPM | Cook Island Building Supplies | 30,000 |
| 131418 | Aitutaki Domestic Water Tanks | 1st Quarter 2013/2014 | Open Tender | OPM | Cook Island Building Supplies | 394,000 |
| 131417 | Supply of Safety & Security Mangement System Platform | 1st Quarter 2013/2014 | Waiver from tender | Ministry of Transport | Q-Pulse & Gael Ltd | 62,966 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 131416 | Monitoring Buoy | 1st Quarter 2013/2014 | Waiver from tender | Ministry of Marine Resources | SOPAC | 130,000 |
| 131415 | ADB JFPR Homecare and Nursing Services | 1st Quarter 2013/2014 | Waiver from tender | Ministry of Internal Affairs | Aitutaki Island Gov | 35,000 |
| 131414 | Purchase of 2 second Ambulance for Rarotonga. | 1st Quarter 2013/2014 | Gifted | Ministry of Health | Saint Johns Ambulance | 40,000 |
| 131413 | Te Mato Vai Masterplan Studies | 1st Quarter 2013/2014 | Open Tender | MFEM | AECOM | 231,233 |
| 131412 | Construction of Ccecc Headquaters and accomadation for PMU officers | 1st Quarter 2013/2014 | Closed Tender | MFEM | Chinese Civil Engineering Construction Coorporation (CCECC) | 324,796 |
| 131411 | Construction of CCECC Headquaters and accomadation for PMU officers | 1st Quarter 2013/2014 | Closed Tender | MFEM | Chinese Civil Engineering Construction Coorporation (CCECC) | 63,124 |
| 131410 | Te Mato Vai Project Management Unit (PMU) | 1st Quarter 2013/2014 | Open Tender | MFEM | Kupa Enngineering and Water Consult Limited (KEW) | 2,928,506 |
| 131409 | Diplomatic Fleet NZ | 1st Quarter 2013/ | Closed Tender | Korean Govt | Kia Motors | 121,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | 2014 | | | | |
| 131408 | Analyse groundwater samples | 1st Quarter 2013/ 2014 | Waiver from tender | Infrastructure Cook Islands | Southern Cross University | 61,027 |
| 131407 | Turangi Dump Cleanup Project | 1st Quarter 2013/ 2014 | Waiver from tender | Infrastructure Cook Islands | Recycling Cook Islands (RCI) | 60,000 |
| 131406 | Procurement of Hiab Truck for the Island of Mauke | 1st Quarter 2013/ 2014 | Closed Tender | Infrastructure Cook Islands | General Transport | 182,578 |
| 131405 | ICI Staff Travel to Beijing to review materials for Te Mato Vai | 1st Quarter 2013/ 2014 | Quotes | Infrastructure Cook Islands | Island Hopper Vactions | 17,720 |
| 131404 | Representation Services in Northern Europe | 1st Quarter 2013/ 2014 | Open Tender | Cook Islands Tourism Corporation | Global Tourism Ltd | 85,000 |
| 131403 | Construction and Supply of V6 Canoes | 1st Quarter 2013/ 2014 | Open Tender | Cook Islands Tourism Corporation | Inovative Platics Ltd | 150,250 |
| 131402 | Rarotonga Runway repairs | 1st Quarter 2013/ 2014 | Closed Tender | Airport Authority | AIAL | 32,000 |
| 131401 | Aviation Security Vehicle | 1st Quarter 2013/ 2014 | Closed Tender | Airport Authority | AVSEC NZ | 14,000 |

| | |
|---|---|
| **Total Procurement** | **$32,937,666.84** |
| **Waivers + Closed Tenders** | **$ 1,735,785.00** |
| **Open Tenders** | **$31,201,882** |
| **% for open tenders** | **95%** |

**ANNEX 4-**

| CIG Assessment Team | |
|---|---|
| Mr. Richard Neves | Permanent Secretary (MFEM); Chairperson of the Team |
| Mrs Lavinia Tama | Budget Manager (Treasury) |
| Mr Edward Parker | Senior Budget Analyst (Treasury) |
| Mrs Elizabeth Tommy | Crown Manager (Treasury) |
| Ms Jane Clarke | Office of the Public Service Commissioner |

## ANNEX 5- Persons Consulted during the 2014 PEFA Assessment

| Performance Indicator | MINISTRY | Division | Divisional Manager |
|---|---|---|---|
| **PI 1** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 2** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 3** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 4** | Ministry of Finance and Economic Management | Crown | Elizabeth Tommy |
| **PI 5** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 6** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 7** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 8** | Ministry of Office of the Prime Minister | OPM | Liz Koteka/Petero |
| **PI 9** | Ministry of Finance and Economic Management | Crown | Elizabeth Tommy/Leigh Stephenson |
| **PI 10** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 11** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 12** | Ministry of Finance and Economic Management | Budget | Lavinia Tama |
| **PI 13** | Ministry of Finance and | Revenue | Andrew Haigh |

| | | | |
|---|---|---|---|
| | Economic Management | Management | |
| **PI 14** | Ministry of Finance and Economic Management | Revenue Management | Andrew Haigh |
| **PI 15** | Ministry of Finance and Economic Management | Revenue Management | Andrew Haigh |
| **PI 16** | Ministry of Finance and Economic Management | Funds | Terry Piri |
| **PI 17** | Ministry of Finance and Economic Management | Funds | Terry Piri |
| **PI 18** | Office of the Public Service Commissioner | OPSC | Dorothy Pokura / Daphne Ringi |
| **PI 19** | Ministry of Finance and Economic Management | Procurement | Edward Parker |
| **PI 20 & 21** | Ministry of Finance and Economic Management | Treasury | Teu Teulilo |
| **PI 22** | Ministry of Finance and Economic Management | Funds | Terry Piri |
| **PI 23** | Ministry of Education | Education | Anthony Turua |
| **PI 23** | Ministry of Health | Health | Elizabeth Iro / Ana Silatolu |
| **PI 24** | Ministry of Finance and Economic Management | Crown | Elizabeth Tommy |
| **PI 25** | Ministry of Finance and Economic Management | Crown | Elizabeth Tommy |
| **PI 26** | Ministry of Finance and Economic Management | Audit | Allen Parker / Michael Ponga |
| **PI 27** | Parliament | PAC | Helen Maunga |
| **PI 28** | Parliament | PAC | Helen Maunga |
| **D1** | Ministry of Finance and Economic Management | DCD | Nanise Okotai / Peter Tierney |
| **D2** | Ministry of Finance and Economic Management | DCD | Nanise Okotai / Peter Tierney |
| **D3** | Ministry of Finance and Economic Management | DCD | Nanise Okotai / Peter Tierney |
| Civil Society Organizations | Chamber of Commerce - Private sector | | Steven Anderson |
| | Red Cross | | Patience |
| Development Partners | NZ High Commission | | Joseph Mayhew |
| | ADB | | Vanessa Jenner |