



Government of Nauru

**PUBLIC EXPENDITURE AND FINANCIAL
ACCOUNTABILITY (PEFA) ASSESSMENT REPORT.**

Final Report

August 2022



Government of Nauru
PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)
ASSESSMENT REPORT
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The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat
September 30, 2022

Assessment management and quality assurance

Oversight and management

In response to a request from the Government of Nauru, the IMF Pacific Financial Technical Assistance Center (PFTAC) coordinated and funded this Agile PEFA and Gender Responsive Assessment. The assessment is a joint effort between the Oversight Team and the Assessment Team.

The assessment was supported by the Oversight Team led by Ms. Novena Itsimaera, Secretary for Finance and Chairperson; and included Mr Isikeli Vocedua - Deputy Financial Secretary; Mr Atunaisa Baleimatuku - Chief Accountant; Ms Stephanie Tebouwa - Director Budget; and Mr Rosco Cain - Director of Planning.

The assessment team was led by Mr. Iulai Lavea (PFM Advisor; PFTAC) and included Mr. Paul Seeds (PFM Advisor; PFTAC); Mr. Matt Crooke (PFTAC Expert); Mr Paula Uluinaceva (PFTAC Expert); Mr Iain Rennie (ADB Rep), Ms. Esther-Lameko Poutoa and Mr. Tiofilusi Tiueti (PASAI) and Ms Kelera Ravono – representative of the Ministry for Economy, Government of Fiji.

The Peer Reviewers include representatives of the Government of Nauru, PEFA Secretariat, Department of Foreign Affairs & Trade, Australia (Mathew Harding), Ministry of Foreign Affairs & Trade, NZ (Christine van Hooft), ADB (Prince Christian Cruz) and the IMF (Gemma Preston; Guohua Huang).

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

Methodology

Type of assessment:

The assessment is conducted in accordance with the PEFA 2016 methodology using the 'Agile PEFA' approach. A PEFA Gender Responsive assessment is included as a component using the Supplementary Framework for Assessing Gender Responsive Public Financial Management (GRPFM).

Number of indicators used:

Under the Agile PEFA approach a total of 31 indicators and 94 dimensions are covered. The Gender Responsive assessment component covers 9 indicators and 12 dimensions.

Scope and coverage:

The assessment focuses on the review of the national budget process and whole of government PFM systems executed by the Department of Finance of the central government. It assesses and reports on the strengths and weaknesses of Nauru's public financial management (PFM) as they stand in 2022. The report includes an overview of the PFM system and evidence-based measurement of 31 performance indicators, further disaggregated into 94 dimensions, and allocated across seven pillars of PFM performance.

In view of the growing importance of social issues in Nauru's development, a Gender Responsive assessment has been undertaken concurrently with the Agile PEFA. This will support a baseline against which to assess reform progress, as well as support the development of a reform roadmap that supports enhanced social inclusion and gender equality. This component involves 9 indicators and 12 dimensions.

The assessment does not include State Owned Enterprise transfers that are made from central government to SOEs, and other third parties. The assessment does examine financial reporting from the SOEs to the Central Government, but does not include a detailed review of all the aspects of the PFM systems for those entities.

Timelines:

In-country field work:	February 16, 2022
Country fiscal year:	July 01 – June 30
Last three fiscal years covered:	2018/19; 2019/20; 2020/21
Latest budget submitted to legislature:	2021/22
Time of assessment (planned cut-off):	May 31, 2022

Sources of information:

The data and information used in the assessment were drawn largely from the Department of Finance and other government ministries. These include the Budget Papers 1 & 2 for fiscal years FY18/19; FY19/20; FY20/21 and FY21/22. Budget Circulars and ministry budget submissions provided valuable supporting information. The audited financial statements for FY18/19 were a valuable source to measure transparency and accountability.

A consolidated list of documents used for this assessment by indicator is presented in Annex 3. A list of persons interviewed is presented in Annex 4.

Exchange rate

The official currency in Nauru is the Australian dollar.

Exchange rate effective as of July 12, 2022

US\$1.00 = AU\$1.48

Fiscal Year

The Nauru fiscal year is 01 July- 30 June.

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Abbreviations and Acronyms

AGD	Accountant General Department
AFS	Annual Financial Statements
AOP	Annual Operation Plans
ADB	Asian Development Bank
AO	Audit Office
BoN	Bank of Nauru
BCG	Budgetary Central Government
COFOG	Classification of Functions of Government
DoF	Department of Finance
DFAT	Department of Foreign Affairs and Trade (Australia)
DMS	Debt Management Strategy
DSA	Debt Sustainability Analysis
EBU	Extra-Budgetary Unit
FI	Financial Instructions
FMIS	Financial Management Information Systems
FY	Fiscal Year
FFA	Forum Fisheries Agency
GDP	Gross Domestic Product
GRB	Gender Responsive Budgeting
GFS	Government Financial Statistics
GFSM	Government Financial Statistics Manual
GoN	Government of Nauru
IA	Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
KPI	Key performance indicator
MCA	Ministry and Crown Agencies
MoF	Ministry of Finance
MDA	Ministries, Departments and Agencies
MTEC	Medium Term Expenditure Ceiling
MTFF	Medium Term Fiscal Framework
MTFS	Medium Term Fiscal Strategy
NPS	Naoero Postal Services Corporation
NIIP	National Infrastructure Investment Plan
NFCC	Nauru Fibre Cable Corporation
NFMRA	Nauru Fisheries Marine Resources Authority
NMPA	Nauru Maritime Port Authority
NSDS	National Sustainable Development Strategy
NITF	Nauru Intergenerational Trust Fund
NIISP	Nauru Integrated Infrastructure Strategic Plan
NPRT	Nauru Phosphate Royalties Trust
NRC	Nauru Rehabilitation Corporation
NRO	Nauru Revenue Office
NTC	Nauru Tourism Corporation
NUC	Nauru Utilities Corporation

OCS	Office of Chief Secretary
PAC	Public Accounts Committee
PC	Public Corporation
PEFA	Public Expenditure and Financial Accountability
PFCMA	Public Finance (Control and Management) Act
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PMU	Project Management Unit
PNA	Parties to the Nauru Agreement
PPP	Public Private Partnership
PS	Permanent Secretary
PSC	Public Service Commission
PSIP	Public Sector Investment Program
RPC	Regional Processing Centre
RONPHOS	Republic of Nauru Phosphate Corporation
SOE	State-owned enterprise
SDG	Sustainable Development Goals
SNG	Sub-National Government
TSA	Treasury Single Account
VAT	Value Added Tax

1. INTRODUCTION

On March 2, 2021, the Secretary for Finance, Government of Nauru wrote to the Director of PFTAC requesting support to undertake a PEFA and Gender Responsive assessment. This demonstrates government's commitment to continue to improve its PFM systems and processes to support prudent economic management and improved service delivery to the community as stated in the Medium Term Fiscal Strategy (2021/22 Budget Paper 1).

The last published PEFA assessment was done in 2010 and a Self-Assessment was carried out in 2016 with PFTAC support. These assessments highlighted many areas where PFM systems could be strengthened to improve efficiency, accountability and transparency in the use of public funds.

Nauru's limited capacity and resources to generate revenues domestically to meet its development needs underscore the importance of having a strong public financial management system. The 2016 Self-Assessment highlighted a PFM system that has made notable improvements since the 2010 assessment, but weaknesses remained in many areas. The budget did not provide clear information on government fiscal operations, compromising service delivery and access to fiscal information. Budget controls showed weaknesses leading to an increased risk of budget overspending. Poor management of assets and liabilities, weak internal controls, absence of a debt management strategy and incomplete debt information, as well as weak external scrutiny were identified as areas requiring attention.

A PFM roadmap, developed following the Self-Assessment, targeted the weak areas identified above and was progressively implemented by the government since 2017.

The objectives of the Agile PEFA and Gender Responsive assessments are to (i) measure the current performance of the PFM system to track progress made since 2010; (ii) assess the extent to which the PFM system responds to gender related considerations; and (iii) identify areas of progress and weaknesses, including gender related issues that could be the focus of further PFM reforms going forward.

The assessment tracks performance since the 2010 PEFA Assessment using the 2016 PEFA Framework. In addition to assessing the current situation, the results are used to test progress since 2010. The assessment also provides a useful yardstick to report on the progress against Nauru's existing PFM Roadmap and identifies areas that require further action that can feed into a new PFM Roadmap. The assessment will also provide a basis for dialogue within the government to define its future PFM reform priorities to be supported by Nauru's development partners.

Economic context

The Nauru economy grew strongly in FY18 growing at 5.7% after a 5.5% contraction a year earlier. The strong growth in FY18 was driven largely by Regional Processing Centre (RPC) related activities, fisheries, and preparations for the Pacific Island Forum. The economy continued to expand in FY19 and FY20 growing by 1% and 0.7% respectively as a result of the sizeable fiscal policy response to the pandemic financed by strong revenues¹.

Despite improved economic performance in recent years, Nauru continued to face challenges in sustaining growth and ensuring fiscal sustainability due to its limited sources of growth and income. Government revenue is highly dependent on direct payments associated with the RPC and indirect payments in the form of income taxes on expatriate workers and increased customs duties. In addition, fishing revenues grew to be the second

¹ 2021 Article IV Mission Staff Report,

highest source of Government revenue and were estimated to contribute 27% and 21% of total budgeted revenues for 2019/20 and 2020/21 respectively.

The heavy reliance on the RPC operation and fisheries revenue pose significant fiscal risks in the event the RPC operation discontinues and fisheries revenues decline. Access to borrowing is limited, even after settling the defaulted Yen bonds in 2021, therefore fiscal spending will have to be scaled back in the event that the main revenue sources were to decline. As a small island country, Nauru must also grapple with vulnerability to climate change, weak trade potential and high incidence of non-communicable diseases.

To help address these challenges, commitment to press ahead with necessary reforms to preserve fiscal and debt sustainability, foster economic diversification, and strengthen governance and transparency are absolutely critical. Improving PFM systems, processes and institutions is central to the successful realization of these objectives.

Table 1: Selected key economic indicators

	FY18/	FY19/	FY20/2
GDP (Nominal in AUD\$ million)	165.7	170.5	178.5
GDP per capita (AUD\$)	13,047	13,217	13,522
Real (currency units)	1.40	1.49	1.34
GDP growth (%)	1.0	0.7	1.5
CPI (annual average change, (%))	4.3	0.9	1.2
Gross government debt	102.7	101.2	50.4
Debt as % of GDP	62%	59.3%	28.2%
External terms of trade (annual percentage change)	n.a	n.a	n.a
Current account balance (% of GDP)	4.9	4.5	3.4

Source: 2021 Article IV Mission Report

Fiscal trends

Fiscal outturns over the past three fiscal years continued to show surplus. This is a deliberate policy stance to insulate the economy from economic hardship. The Government is committed to PFM reforms to ensure efficient and effective allocation of resources. Macroeconomic stability and responsible fiscal management are the key pillars that underpin the budget strategy. Against a backdrop of high uncertainty, given its heavy reliance on the RPC, the annual budget is framed to achieve macroeconomic stability, support the achievement of the NSDS goals, support priority infrastructure investment, improve the efficiency and effectiveness of SOE operations and promote quality spending.

As a result, over recent years, the government has maintained the fiscal responsibility ratios as measured by the fiscal balance, fiscal cash buffer and maintaining personnel expenditure below 30%. Over the past 3 years with Covid adversely impacting most economies, Nauru performed relatively well, registering continued growth with government expenditure kept within the revenue limits. However, over the past three years, a number of supplementary budgets were approved to clear additional spending that were matched by increased revenues. This shows revenues are estimated conservatively with the flexibility to raise spending within year when additional revenues materialize.

The government uses the most recent IMF World Economic Outlook to develop its internal economic forecasts. It does not publish updated forecasts as part of supplementary budgets, but does reflect changes in the quarterly budget execution report. Medium-term assumptions are not always made explicit in the budget and there is no formal modelling of macro-fiscal linkages. Specific risks and sensitivities are considered in preparing the budget, for example, taking into account uncertainties around the future of the RPC, development partner grants and loans and major projects. These risks are arguably more relevant to budget formulation in Nauru than a sensitivity analysis against macroeconomic variables.

The 2020-21 Budget contains an MTFs with numerical objectives (the Fiscal Responsibility Ratios) for the budget balance (cash surplus), personnel expenditure (<30% of current expenditure), cash reserves (>2 months of non-RPC expenditure) and a separate requirement for contributions to the NITF (>10.1% of adjusted revenue). The fiscal strategy serves a useful role in anchoring expectations around the budget, supporting an approach in which spending and new projects are more carefully prioritized and rebuilding fiscal buffers. There is a transparent approach to reporting compliance against the strategy.

Table 2 - Fiscal Trends

Element	FY 19/20 (million AU\$)	FY 20/21 (million AU\$)
Total revenue	170.2	179.2
• Own revenue	151.4	137.0
• Grants	18.8	42.2
Total expenditure	134.5	135.5
• Noninterest expenditure	n.a	n.a
• Interest expenditure	n.a	n.a
Aggregate deficit (incl. grants)	36.2	43.7
Primary deficit	n.a	n.a
Net financing	n.a	n.a

Source: 2021 Article IV Mission Report, Table 1

PFM legal framework

Public Finance (Control and Management) Act 1997

Nauru PFM is centralized in the Ministry of Finance in line with the provisions of the Public Finance (Control and Management) Act 1997. This is the principal Act that stipulates preparation of annual appropriation bills for each budget year.

The Finance Minister introduces an annual appropriation bill for the upcoming fiscal year. All appropriations lapse at the end of the year, meaning the budget is for a single fiscal year. Supplementary budgets are common, and in recent years there have been as many as six supplementary budgets passed by Parliament. The approach is to set a conservative initial budget estimate, meeting the requirements of the fiscal strategy, and then to use additional revenues as they materialize to fund additional priorities. There is a similar degree of scrutiny over the supplementary budgets as for the original budget.

All payments are made through Treasury and recorded on the Governments Financial Management Information System (FMIS). All cash payments are made centrally at the Nauru Revenue Office (NRO).

The Public Finance (Control and Management) Regulations 2013 provide regulations for the effective management of procurement requirements.

Development Fund Act 2011

This Act establishes and stipulates the operation and reporting on the Development Fund in facilitating the funding of development projects.

Treasury Fund Protection Act 2004

This Act provides protection against the withdrawal of monies from the Treasury Fund without Parliamentary approval. It provides penalties in the event Cabinet gives directions that is contrary to the Constitution and against public officers who provide advice that undermines the Constitution. It also stipulates that government guarantees must be prior approved by Parliamentary.

Audit Act 1973

The Audit Act stipulates the Ministers' responsibilities to provide the public accounts to the Audit office within three months of the end of the financial year or as specified by Parliament. The Act also requires an annual report of the Audit Office which includes examination of the Public Accounts to be provided to the Minister within five months of the end of the financial year. The Minister is required to table the report in Parliament within two weeks of receiving the report from the Director of Audit.

Public Accounts Committee Act 1992

This legislation establishes the Committee of Parliament which is an oversight committee to examine the accounts and receipts and expenditure of the Republic under section 10 of the *Audit Act 1973*. The committee reports back to Parliament highlighting any issue of non-compliance.

2. SUMMARY OF FINDINGS

2.1 PFM strengths and weaknesses

The 2016 PEFA Self-Assessment concluded that overall, there had been notable improvements in a number of indicators since the 2010 PEFA assessment.

Drawing on the results of the 2016 Self-Assessment, the GoN developed a PFM Roadmap targeting improvements in the budget process as the top priority. These include developing a comprehensive medium term fiscal framework (MTFF), developing macro-fiscal sensitivity analysis to form part of the budget document, revising budget classification and the chart of accounts to be GFS-compliant at a basic level, including actuals in budget documents, and establishing greater linkages between annual operational plans (AOP), the budget and annual reports, as well as publishing unaudited financial statements.

The 2022 assessment documents good progress in debt management, participation in the budget preparation process, having a clear fiscal strategy, timeliness of in-year budget reports, internal controls for non-salary expenditures, cash flow and revenue management, and transparency of budget information. On the other hand, weaknesses remain evident in external scrutiny, audit and annual financial reporting, procurement management, internal audit, bank reconciliation and asset management,

Nauru has demonstrated real commitment to better managing its economy despite the highly uncertain environment it faces. The fiscal outturn continues to improve, having achieved surpluses over the past three years when most Pacific economies struggled to manage successively larger budget deficits. Nauru has successfully attained the fiscal responsibility ratios in each of the past three years. During COVID, Nauru performed exceptionally well registering positive growth when most economies slowed down or contracted. Government spending continues to stay within the revenue envelope.

Table 2.1 provides a snapshot of the PEFA dimensions and indicator ratings. These ratings are based on the guidance provided in the *PEFA Handbook Volume II: PEFA Assessment Field Guide*. The ratings are definitive to specific aspects of PFM based on data and evidence supplied by the authorities. The preliminary scores were shared with the authorities and the additional data/evidence provided post meeting was useful to further clarify what is currently taking place on the ground.

Using the PEFA guidelines, the results show that 32% of the indicators perform above average with 68% below average. Nevertheless, it is clear the government has invested heavily in making sure fiscal sustainability is maintained and that service delivery for the benefit of the community continues to improve.

On Budget Reliability (Pillar One), despite some limited progress, many challenges remain. Most notably, there is considerable uncertainty surrounding revenues, including grants, and government consequently takes a conservative approach to forecasting. This then manifests in conservative expenditure estimates. Estimates are updated through the year via supplementary appropriations as additional revenues are identified, accommodating additional spending. Government is looking to reform this practice by implementing a single supplementary budget linked to a mid-year budget review.

On Transparency of Public Finances (Pillar Two), some elements demonstrated good performance, namely the chart of accounts and transparency of budget documentation. However, the budget classification provides comprehensive coverage for reporting purposes but does not align to *GFSM2014* standards. Performance fared less well on public access to fiscal information, primarily due to the infrequency of published information, coverage of operations in financial reports, and performance information for service delivery.

Regarding Management of Assets and Liabilities (Pillar 3), public enterprise reform is ongoing supported by the new Public Enterprise Act 2019. Performance on public investment management is bolstered by involvement of development partners in appraising project proposals. However, weaknesses remain in fiscal risk reporting, public investment and public asset management. Although there is currently no debt management strategy, an annual debt report is now produced, and the Government Loans Act provides a foundation for approval of loans and guarantees.

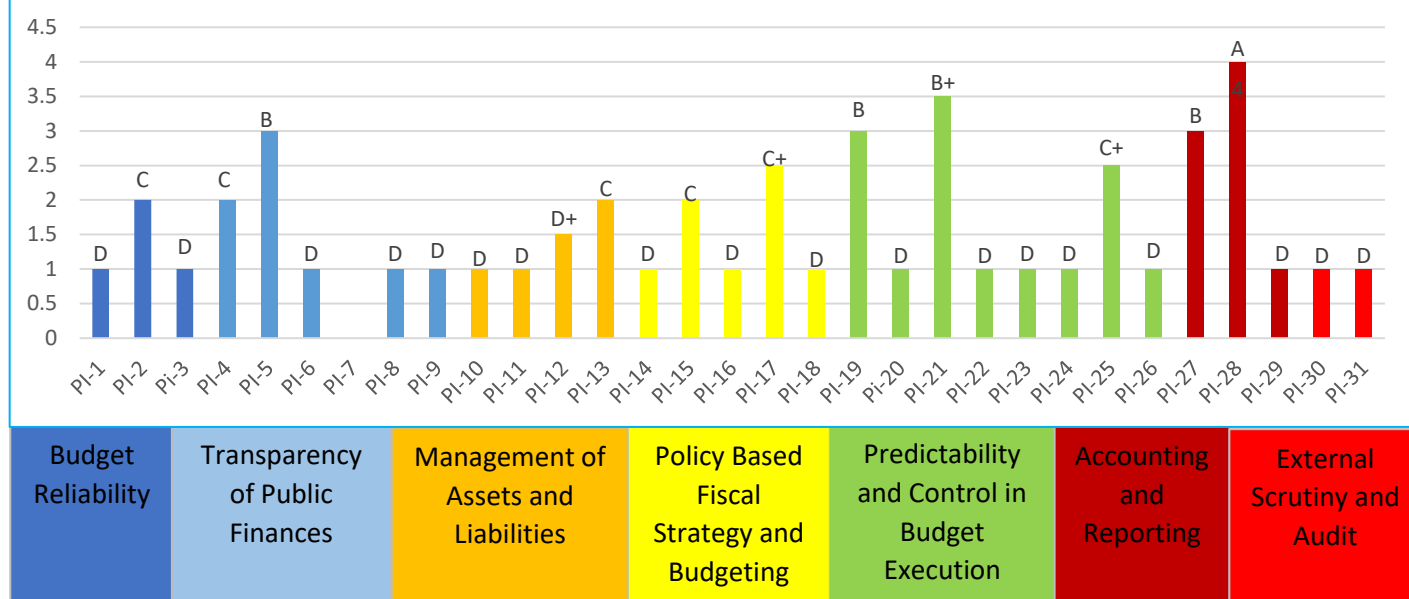
Policy-Based Fiscal Strategy and Budgeting (Pillar Four) scored reasonably well in terms of the budget process and work has been ongoing with development partners on the National Infrastructure Investment Strategic Plan, leading to a better costed and prioritized investment pipeline. However, practices focus largely on the annual budget with limited attention toward multi-year costing and estimation. Binding medium term ceilings are undermined by the uncertainty of revenues. Furthermore, government does not undertake any internal economic forecasts but relies on IMF's World Economic Outlook (WEO) estimates, which are not updated alongside budget revisions.

For Predictability and Control in Budget Execution (Pillar Five), revenue administration and accounting practices perform well, with well-defined rights and obligations and minimal revenue arrears. Banking arrangements are straightforward and commitment ceilings (warrants) are received in full at the start of the year. However, predictability is undermined by the lack of forward-looking cash flow forecasting. Internal controls for non-salary expenditures are solid but weakness prevail in risk management and audit of revenues; payroll controls; and procurement. Whilst expenditure arrears are minimal, this is a product of vendors requiring upfront payment rather than effective commitment and payment controls. Furthermore, there is no internal audit function.

Accounting and Reporting (Pillar Six) reflect good performance on data integrity and in-year budget reports significantly attributable to the FMIS and good Treasury capacity. However, annual financial reporting suffers from a significant historic backlog which needs to be cleared before more current annual statements can be finalized.

External Scrutiny and Audit (Pillar Seven) is impacted by the backlog of annual financial statements built up in the past, resulting in delays in completing audits and tabling to Parliament. Audits are not undertaken in accordance with international audit standards, and recommendations are not followed up. The SAI is not independent of the executive government, as the appointment of the Auditor General is made by the Chief Secretary.

Figure 2.1: Summary of PEFA Scores By Indicators - PEFA 2016 Framework



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

The main objective of PEFA and PFM reform is to support sustainable development and better and more effective service delivery outcomes that meet community needs and priorities. Progress is measured through the contribution of PFM systems and processes to the following three main fiscal and budgetary outcomes.

1. Aggregate fiscal discipline

Over the three fiscal years under review, the government continued to emphasize fiscal sustainability as the key budget strategy. Achieving budget surplus remained the key outcome that cannot be compromised. The Nauru budget depends largely on RPC activities and fisheries for revenue generation. The fiscal scenarios supporting the budget focus on these key drivers. Nauru’s budget takes a single-year horizon largely due to the significant uncertainty around revenue sources. Original revenue estimates take a conservative position with the flexibility to increase spending in the event additional revenue get realized during the course of the budget year. Increased spending is cleared by Parliament through supplementary budgets but cannot exceed the total revenue envelope.

2. Strategic allocation of resources

The National Sustainable Development Strategy 2019-2030 (NSDS) articulates Nauru’s broad national priorities and vision going forward. It provides the framework for resource allocation and guides the formulation of ministry Annual Operational Plans (AOP). At the sector level, plans such as the Integrated Infrastructure Strategic Plan (NIISP), the Nauru Health Strategy (NHS) 2021-25, and the Footpath IV Strategic Plan (FPIV) 2017-21 for education also provide valuable information to budget planning and formulation. There are strong linkages between the sector strategies and the NSDS priorities. New projects are required to clearly establish its linkage to sectoral and national priorities. Overall, all ministries prepare their AOPs based on the sector strategies and link them to the NSDS priorities.

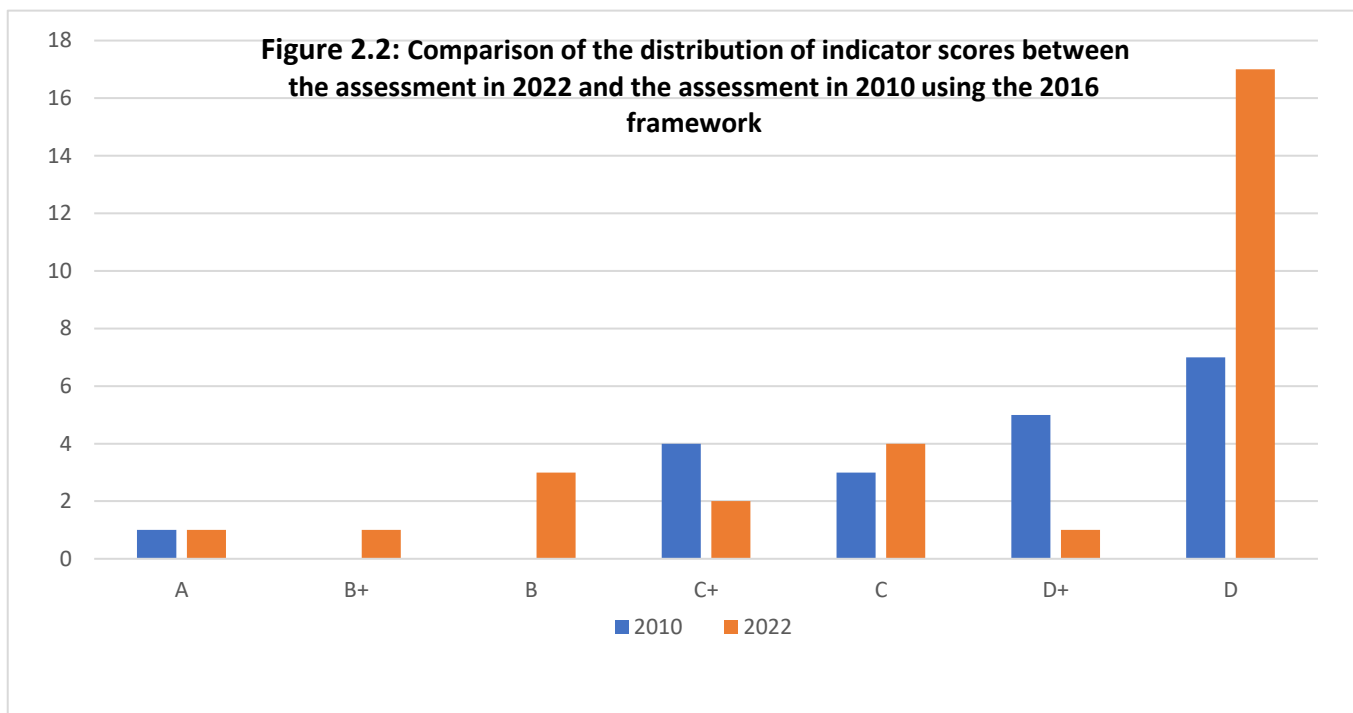
3. Efficient use of resources for service delivery

The Government remains committed to fiscal responsibility and maintaining macro-economic stability and prioritizing investments in education, health and medical care, infrastructure, food security, water supply and housing. Resource allocation reflects these priorities not only to ensure the community receives the services they demand but also to build resilience to cushion the adverse impact of external shocks.

The Ministry Annual Operational Plans (AOPs) are aligned to the national strategies in the NSDS as well as the budget priorities which are mutually complementary. The development of AOPs has been a very positive development in strengthening the linkages between the national objectives and resource allocation promoting policy consistency in the budget and planning process. For FY2019, a total of \$29.5m accounting for 15% of total expenditures was spent on education and health.

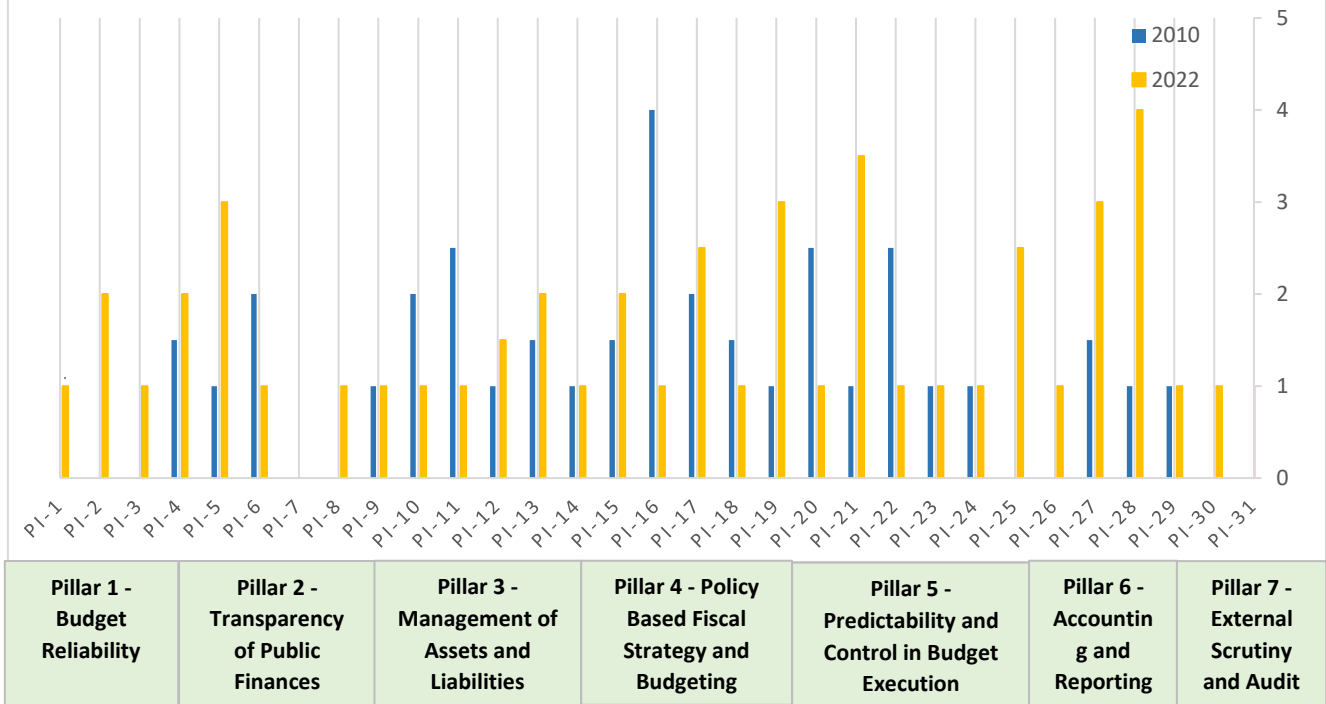
2.3 Performance change since previous assessment

The initial Nauru PEFA assessment conducted in 2010 concluded that Nauru's PFM systems and processes were not well developed and many areas were identified for follow-up action. The Self-Assessment conducted in 2016 highlighted significant progress in the areas of expenditure management, budget preparation, accounting for revenue, internal controls on non-salary expenditures, and availability of in-year budget reports.



Drawing on the results of the Self-Assessment, a PFM Roadmap was designed and implemented. The GoN implemented a number of reform initiatives resulting in positive progress in many PFM areas. The 2022 PEFA and Gender Responsive assessment has realized significant improvements both at the policy and the activity level in particular the PFM space. Debt management, participation in the budget preparation process, having a clear fiscal strategy and ability to assess the fiscal impact of revenue and expenditure policy proposals, timeliness of in-year budget reports; internal controls for non-salary expenditures; cash flow and revenue management, and transparency of budget information recorded high scores. Gender responsiveness is not well developed and this is to be expected given this is the first time gender issues have been assessed.

Figure 2.3: Comparison with the Previous Assessment in 2010 using the 2016 Framework.



2.4 Progress in Government PFM reform program

GoN has invested heavily in PFM reforms. The risk posed by the uncertainty of RPC operations which are the key economic driver underscores the need for prudent fiscal management. During the past three fiscal years, GoN has demonstrated real commitment to maintaining fiscal sustainability underpinned by a number of PFM reforms. These include at the policy level:

- i. The push to maintain macroeconomic stability premised on targeting quality spending that reflects national priorities and realistic estimates of expected revenues and expenditures;
- ii. Prioritized investment in infrastructure, linked to the priorities identified in the Nauru Integrated Infrastructure Strategic Plan (NIISP), and
- iii. Improved efficiency and effectiveness in SOE operations.

Macroeconomic stability is supported through responsible budget management by the achievement of the three fiscal responsibility ratios which are:

- Achievement of budget balance;
- Limiting personnel expenses as a proportion of current expenditure to below 30%; and
- Establishing fiscal cash buffer of three months adjusted non-RPC expenditure.

Managing government debt in a sustainable manner is another key reform initiative to ensure that the financing needs of government are met on a timely basis; and that borrowing costs are as low as possible and consistent with a prudent degree of risk.

2.5 Summary of performance indicators

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

Table 2.1: Summary of performance indicators

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

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

The assessment of the 31 indicators and 94 dimensions that make up the PEFA framework is presented below. Each dimension score is calibrated to reflect a level of PFM practice as set out in the table below. Dimension scores are aggregated using PEFA Framework guidance to arrive at indicator-level scores.

For guidance the definition of the level of scores is provided below.

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

PILLAR ONE: Budget Reliability

Pillar one measures whether the government budget is realistic and is implemented as intended.

This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance

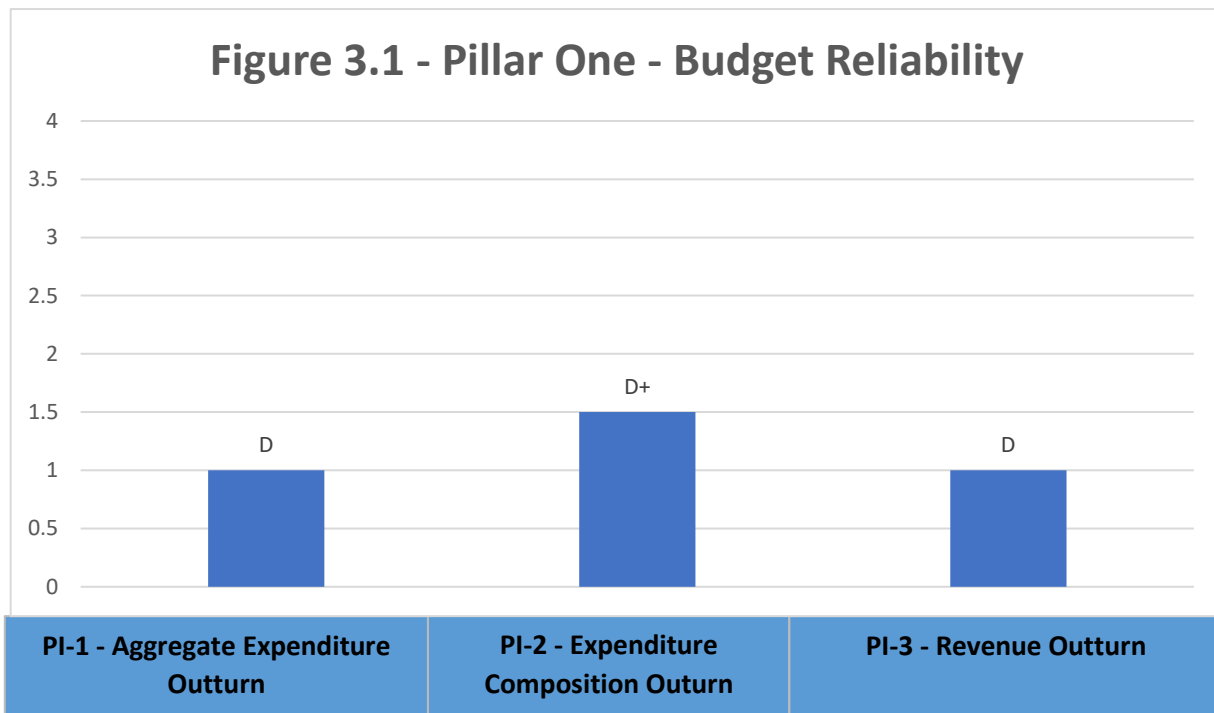
The Government of Nauru has implemented a number of PFM reforms following the 2010 PEFA assessment and the 2016 Self-Assessment. As explained earlier, notable progress was realized but many challenges remain, underscoring the need to constantly review and implement appropriate PFM reforms. The current assessment is an opportunity to review progress made since the last assessment and develop a reform program to strengthen the areas that are below average.

The indicators under this pillar scored low largely due to the significant variation between original budget estimates and the outturn. With the overriding goal to maintain a surplus budget, there is a deliberate strategy to remain conservative when estimating revenues and expenditures. However, there is also a practice to increase spending when additional revenues are realized during the course of the budget year. This happened in the past three years and as a result there was a significant variation between the original budget estimates and the actuals.

The following Table shows that budget spending for the three fiscal years far exceeded budgeted expenditure.

Table 1-1: Aggregate expenditure outturn

Fiscal Years	Original Budget	Budget Outturn	Overall Variance
2018/19	154,432,501	192,589,416	124.7%
2019/20	145,716,127	185,697,004	127.4%
2020/21	210,444,381	280,428,632	133.3%



Possible underlying causes of performance

Original budget revenue forecasts were significantly understated in each of the three completed fiscal years. This reflects a practice whereby initial estimates are deliberately conservative given the high degree of uncertainty about RPC-related activity, uncertainty and seasonality in fisheries revenue, and volatility in tax collections relating to these factors.

According to GoN quarterly budget execution reports, the biggest drivers of favorable variance in revenues over the three fiscal years were better-than-expected economic performance, RPC-related revenues, fisheries revenues and tax receipts (related to RPC activity).

Recent and ongoing reform activity

As noted in *Financial Instruction 2 – Budget*, GoN is working towards having only a single Supplementary Budget each year, linked to a mid-year budget review. The intention is to impose discipline and limit the extent to which Parliament can increase spending when additional revenues are realized during the year

PI-1 Aggregate expenditure outturn²

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

Indicator and dimension scores and analysis

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

PI-1: Aggregate expenditure outturn (M1)		D
PI 1.1 Aggregate expenditure outturn	Table 1-1 indicates that actual expenditures exceeded the original budget estimates in all the three fiscal years. The actuals as a percentage of the budget estimates registered 124.7%, 127.4% and 133.3% for FY18/19, FY19/20 and FY20/21 respectively. All the three fiscal years fall outside the range for a C score which means a D rating.	D

Evidence for score

For the three fiscal years, there was significant excess spending over the approved budget with 124.7%, 127.4% and 133.3% respectively. During the three fiscal years, the government approved a number of supplementary budgets to clear additional spending although the additional expenditures were all met by additional revenues realized during the budget year. To achieve a C rating, aggregate expenditure outturn should fall between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years. No single year is within that range which means the rating is D.

Table 1-1: Aggregate expenditure outturn

Aggregate expenditure (\$m)	FY18/19	FY19/20	FY20/21
Approved budget	154,432,501	145,716,127	210,444,381
Outturn	192,589,416	185,697,004	280,428,632
Outturn as a percentage of budget	124.7%	127.4%	133.3%

Data source:

2018/19 Budget and Estimates of Revenue & Expenditures Papers 1 & 2;
 2019/20 Budget Papers 1 & 2;
 2020/21 Budget Papers 1 & 2

PI-2. Expenditure composition outturn

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
PI-2. Expenditure composition outturn (M1)		D+
PI 2.1 Expenditure composition outturn by function	<p>The variance in expenditure composition by budget function exceeded 20% for each fiscal year, with two years more than 30%.</p> <ul style="list-style-type: none"> • 2018/19 – 32.1% • 2019/20 – 38.7% • 2020/21 – 24.4% <p>For a C score, the variance in expenditure composition should be less than 15% in at least two of the last three years. This means the rating is D.</p>	D
2.2 Expenditure composition outturn by economic type	There is no presentation of expenditure composition by economic classification available. The 2018/19 unaudited financial statement presents spending by economic classification. This was not published in later years. Therefore, it is not possible to compare the budget and outturn due to data being unavailable. This means this dimension is rated D* in line with the 2016 Field Guide.	D*

2.3 Expenditure from contingency reserves	Actual expenditure charged to a contingency vote is zero which implies an A rating.	A
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Evidence for score

Over the three fiscal years, revenue collection from fisheries and RPC consistently exceeded budget estimates which means the revenue estimates are probably on the conservative side. Additional revenues realized during the course of the year are appropriated through supplementary bills to clear increased spending that is matched by the amount of additional revenues. In FY18/19, five Supplementary Appropriation Bills were passed to clear additional spending. The same number were passed in 2019/20 with two in 2020/21.

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

Variance	FY18/19	FY19/20	FY20/21
Functional classification	32.1%	38.7%	24.4%
Economic classification	N.A	N.A.	N.A.

Data source: GoN Budget Papers Nos 1 & 2, for 2018/19, 2019/20 and 2020/21.

PI-3. Revenue outturn

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

Indicator and dimension scores and analysis

Indicators/ Dimensions	Assessment of performance	Score
PI-3. Revenue outturn (M2)		D
3.1 Aggregate revenue outturn	Based on the audited financial statement for 2018-19 and preliminary outturns shared by the authorities for 2019-20 and 2020-21, actual revenue exceeded 116% of budget revenue forecasts in each of the past three completed fiscal years (range 131%-195%). The variance is greater than what is required for a C score.	D
3.2 Revenue composition outturn	A composition variance greater than 15% was calculated for each of the past three fiscal years, again greater than required for a C score. Taxes on income, profit and gains; taxes on international trade and transactions; property income; and sales of good and services had the largest deviations from their respective estimates.	D

Evidence for score

Annex 7 presents the calculations for this performance indicator at both an aggregate and compositional level.

Table 3-1: Aggregate revenue outturn

Total revenue (\$m)	FY 2018/19	FY 2019/20	FY 2020/21
Approved budget	154.6	146.0	210.5
Outturn	231.7	284.4	276.1
Variance (as a % of original budget)	149.8	194.8	131.2
Composition Variance	23.4	32.9	18.8

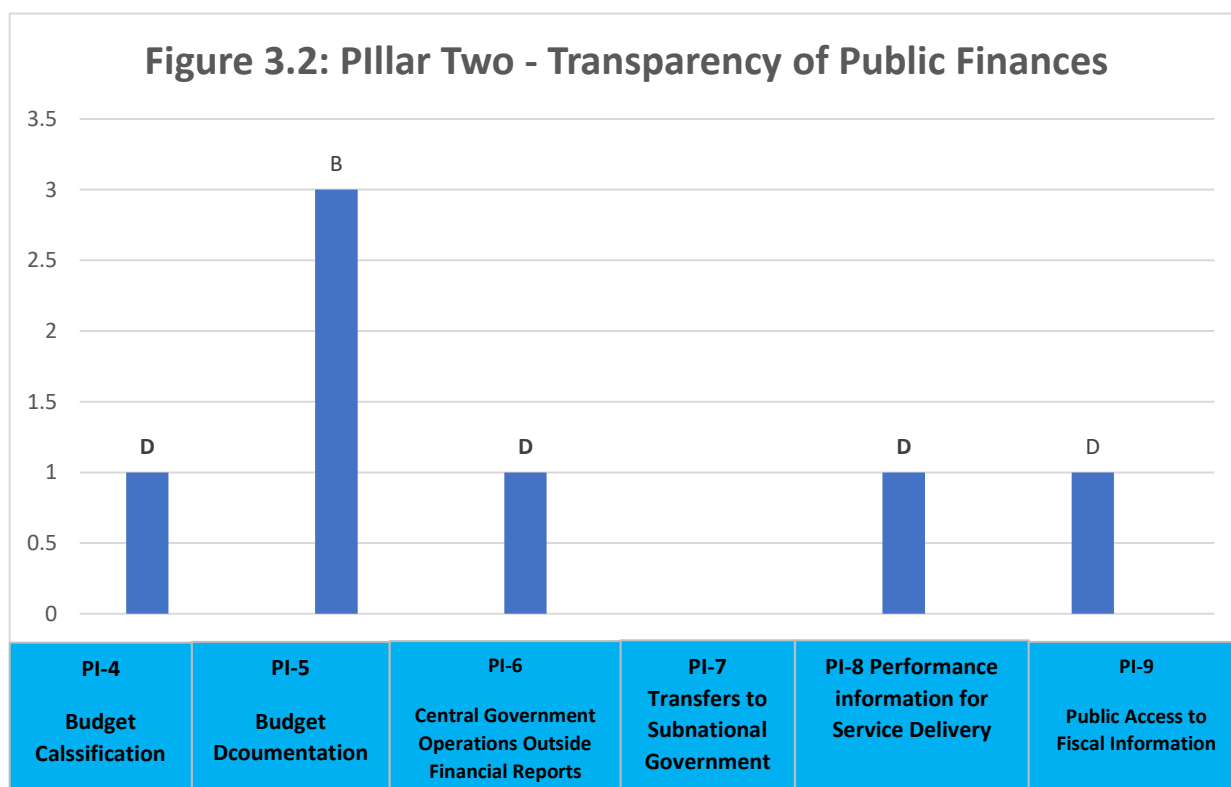
Data source: FY-2: 2018-19 audited financial statements. FY-1 and FY-0 – preliminary tables for draft financial statements for 2019-20 and 2020-21 shared by the authorities. The outturn includes donor grants but excludes proceeds from concessional loans.

PILLAR TWO: Transparency of Public Finances

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

Overall performance

Budget classification and documentation scored well. Although the budget classification is not aligned to international classification, it serves the purpose of managing the budget. The transparency and availability of budget information to the public scored below average largely due to the level of expenditures outside government financial reporting and infrequency of publishing budget related information.



Possible underlying causes of performance

The government has planned to align its budget with GFS presentation but recruitment of the TA has been delayed indefinitely. The financial statements for 2018/19 was aligned to the Functions of Government classification which is a positive development. Unfortunately, this was not continued in the later budget years.

Having the appropriate information in the budget that is required for PEFA review is constrained by the capacity in the Ministry of Finance and line agencies. Budget submissions received from line ministries do not have all the information required for effective budget management. Discussions with counterparts indicate that this is an area that will be considered for future reforms.

Recent and ongoing reform activity

Over the past three years, the government invested heavily in improving its PFM systems and processes. Aligning budget spending to national objectives is fairly entrenched and it is expected to further improve

going forward. Future reforms will address the quality of budget submissions to include appropriate information as well as improving the frequency of publishing budget information.

PI-4. Budget classification

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
		D
4.1 Budget classification	The budget classification is not consistent with international standards. But the financial statements for the year ending 30 June 2019 was presented in the GFS format. Although the classification used has allowed the government to effectively manage budget resources and deliver services to the community, the classification cannot produce consistent documentation comparable with international standards. On that basis, this indicator is lower than what is required for a C which is D.	D

Evidence for score

The classification of the GoN budget is aligned to international standards in terms of Economic and Functions of Government classifications. Aggregate expenditures are classified and presented under the following sub-headings:

- Personnel
- Govt Travel
- Subsidies & Donations
- Govt Operations
- Capital Expenditure
- Social Benefits
- Other
- Transfer (Non Expense)

Aggregate revenues and expenditures are also presented by natural account. The financial statements for the year ending 30 June 2019 (Statement of Comparison of Budget and Actuals) were presented in line with a Functions of Government classification. This however was not done for subsequent years which meant the classification used for budget preparation, execution and reporting cannot produce consistent documentation comparable with GFS standards (at two digits), which is a requirement for a C score. It is important to note the classification used by government serves the purpose to effectively manage its revenues and expenditures.

Table 4-1. Budget classification and chart of accounts

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

Budget formulation	Yes	No	No	No	No	No	No
Budget execution and reporting	No	No	No	No	No	No	No

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

Data source: Budget Documents – 2018/19; 2019/20; and 2020/21

PI-5. Budget documentation

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2021
PI-5. Budget documentation		B
5.1 Budget documentation	Budget documentation in FY20/21 satisfies four basic elements and four additional elements which implies a B rating. In 2015, the budget filled 8 of 9 benchmarks. In 2021 the budget fulfills all standards. That satisfies a B rating.	B

Evidence for score

The GoN Budget (Budget Paper No 1) provides detailed information on revenues, expenditures, medium term outlook, fiscal strategy, and key budget priorities. It provides an account of the fiscal responsibility ratios, key fiscal risks, and the assumptions underpinning the budget as well as a sensitivity analysis of the key drivers of the budget.

Budget Paper 2 presents the economic statistics covering GDP growth, CPI, trade and labour force statistics. The government policy in support of SOEs as well as a summary of SOE performance is also provided. It also presents an overview of progress against the achievement of NSDS strategies.

Table 5-1 Budget documentation

Item		Included (Y/N)	Source of evidence and comments
Basic elements			
1	Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	2021/22 Budget Paper 1 under the Fiscal Strategy and Outlook section provides a clear statement for a surplus budget as the fiscal target.
2	Previous year's budget outturn, presented in the same format as the budget proposal.	Yes	The budget tables provide columns of the Outturn in the prior year, the Revised Budget of the current FY and the Proposed Budget figures for the new FY.

3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	The budget tables provide columns of the Outturn in the prior year, the Revised Budget of the current FY and the Proposed Budget figures for the new FY.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes	2021/22 Summary tables for revenues (Table 9, page 26) and expenditures (Table 18, page 32) in the government classification include columns of prior FY actuals; current FY Revised Budget and YTD Actuals as well as the Approved Budget for the new FY. A detailed breakdown of revenue and expenditures is also provided.
Additional elements			
5	Deficit financing, describing its anticipated composition.	N/A	In view of GoN's commitment to fiscal surplus, deficit financing is not anticipated.
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes	2021/22 Budget Economic Outlook page 7, provides estimates of GDP growth (real and nominal), and inflation.
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	2021/22 Table 29 page 40 provides a summary of current and projected external and internal debt. It follows recent work, supported by the Asian Development Bank, to undertake a stocktake of outstanding debt liabilities.
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	Details of financial assets were not provided in the 2021/22 budget.
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	Yes	2021/22 Budget page 14 provides a clear presentation of the key fiscal risks in particular the uncertainty around the future of the RPC, the global economy and the pandemic. Funding of the aircraft replacement and delayed implementation of the Port Project pose significant risks as well.
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	Yes	A discussion of the major expenditure items is provided. The revenue measures such as the 20% import duty increase on cigarettes and alcohol that took effect on 1 July 2020 was clearly presented in the 2020/21 budget. The impact of that revenue policy on overall revenues was also provided.

11	Documentation on the medium-term fiscal forecasts.	No	The medium term fiscal strategy is anchored on the need to maintain macroeconomic stability and responsible fiscal management. However it does not provide forward estimates for the outer years.
12	Quantification of tax expenditures.	No	Tax expenditures are not itemized as a component of the budget. It is unclear whether this implies it is not an issue.

PI-6. Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports.

A complete picture of revenues and expenditure is essential for aggregate fiscal discipline and overall monitoring of Central Government's (CG) position. It helps ensure that resources not covered in Budget Central Government (BCG) financial reports are adequately managed in a manner consistent with government policies, regulations and procedures. Furthermore, it provides useful information on the quality and quantity of service delivery provided by these operations (outside BCG financial reports), on behalf of government.

GoN extrabudgetary entities (EBEs) that are outside BCG financial reports consist of two principal components: (i) those under the Public Enterprise Act (PEA) 2019; and (ii) other entities established under their own legislations.

Under the Public Enterprises Act 2019, the following table lists categories of entities classified as public enterprises:

Table 6.1

1. State-owned enterprises:	2. Government controlled enterprises
(a) Cenpac Corporation	(a) Nauru Fibre Cable Corporation (NFCC)
(b) Eigigu Holdings Corporation	(b) Nauru Fisheries and Marine Resources Authority (NFMRA)
(c) Naoero Postal Services Corporation (NPSC)	(c) Nauru Tourism Corporation (NTC)
(d) Nauru Air Corporation	
(e) Nauru Ports and Maritime Authority (NPMA)	
(f) Nauru Rehabilitation Corporation (NRC)	
(g) Nauru Regional Processing Center (RPC) Corporation	
(h) Nauru Utilities Corporation (NUC)	
(i) RONPHOS	

Using the market test as prescribed under GFS 2014³: RONPHOS, Cenpac Corporation, Eigigu Holdings Corporation and Nauru Air Corporation are classified in this assessment as market producers that provide services at market prices that are economically significant and subject to market supply and demand. These entities are therefore not included as EBEs in the assessment of this pillar.

³ GFS 2014. Sections 2.1, 2.33, 2.59, 2.64, 2.65, 2.88

The other EBE established under its own legislation is the Nauru Intergenerational Trust Fund (NITF), which is a long-term budgetary investment vehicle that grows through investment earnings and contributions from the Government of Nauru, Australia, Taiwan, New Zealand and initially the Asian Development Bank. The GoN annual budget includes two EBEs: (i) Government-owned entity the Nauru Regional Processing Center Corporation (RPC), and (ii) the statutory authority Nauru Fisheries and Marine Resources Authority (NFMRA). For the purpose of the scope of this assessment there are 9 EBEs: EBEs (7) outside BCG financial reporting which are NRC, NUC, NPSC, NMPA, NITF, NFCC and NTC; and EBEs (2) inside BCG financial reporting are RPC and NFMRA – which is Budget Head 31 of the Department of Fisheries.

GoN policies, revenue collected from and transfers (expenditures) to all EBUs are comprehensively detailed in the Budget documents. However, *ex post* reporting is only to the same level of detail as per audit requirements in the Audit Act 1973. GoN’s annual financial statements and reports are limited within the scope of BCG and in line with International Public Sector Accounting Standards (IPSAS) (cash basis) requirements which are essentially a Statement of Cash Receipts and Payments; Statement of Cashflow and Statement of Assets and Liabilities. There is no breakdown of the transfers and revenue flowing between GoN and these EBUs in the annual financial statements. There is also no detail relating to specific EBU transfers provided in the Quarterly Budget Performance Reports. The only detailed source would be contained in the EBUs’ respective annual financial statements, provided they have been compiled up to date.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-6. Central government operations outside financial reports (M2)		D
6.1 Expenditure outside financial reports	Expenditure outside government financial reports comprise EBEs that are non-market producers, including NRC, NMRA, NUC, NPS and NITF, which in total comes to \$35.1m in 2020-21 and comprises 13% of total BCG projected actual expenditures of \$267m. This is more than 10% of total BCG expenditures.	D
6.2 Revenue outside financial reports	Revenue outside government financial reports comprise EBEs that are non-market producers, including NRC, NMRA, NUC, NPS and NITF, which in total comes to \$60.1m in 2020-21 and comprises 21% of total BCG projected actual revenues of \$287.9m. This is more than 10% of total BCG revenues.	D
6.3 Financial Reports of Extrabudgetary Units	Only Nauru Utilities Corporation and the Nauru Intergenerational Trust Fund had submitted Financial Reports for FY 2020-21. This means the majority of EBEs have not submitted detailed financial reports to the Audit Office within nine months of the end of fiscal year 2020/21 which according to the Guide constitutes a D score.	D

Evidence for score

Table 6-2 identifies extrabudgetary operations and those entities and institutions reporting outside government financial reports.

Denotations: **Y**=Yes, **N**=No, **P**=Partially met; and **NA**=Not applicable.

Table 6-2: Identification of Extrabudgetary Operations

Existence of Extrabudgetary Operations	Under control of Government	Budget	Within Whole of Government Annual Financial Statement	Financial Reporting to Government	Any additional off-budget elements
Budgetary Units	Y	Y	Y	Y	Y

- 39 Budget Heads, including 2 extra budgetary entities					
Extrabudgetary Entities - 7 Entities, including NITF	Y	P - only GoN equity and subsidy transfers	N	P - only 2 provided LCFY ex-post reports	Y
Development Partners and Donors:					
Budget support - 2 development partners ⁴	Y	Y	Y	Y	Y
In-kind - 6 development partners ⁵	Y	Y	Y	Y	Y
Project funds managed through host country systems	Y	Y	Y	Y	N
Project funds managed by project implementation units outside country systems⁶	Y	P - GoN in-kind contributions	Y	Y	N

Data source: GoN. 2020-21 Budget. Budget Paper No. 1. June 2020; GoN. 2021-22 Budget. Budget Paper No. 1. June 2021. GoN. Public Enterprise Monitoring Unit. 2022; GoN. PE Data Availability Table. 2022

Table 6-3 provides a profile of all EBEs reported within and outside Government financial reports.

Table 6-3: Expenditure and revenue outside financial reports

Entity	Type of revenue outside government financial reports	Estimated amount of revenue reported outside government financial reports (FY 2020-21)	Type of expenditure reported outside government financial reports	Estimated amount of expenditure reported outside government financial reports (FY 2020-21)	Evidence and reporting
Extrabudgetary Entities					
Nauru Rehabilitation Corporation	Sale of armour rock and aggregates. Provision of waste collection, plant hire, land clearing and rehabilitation services.	\$16.1m	Operating and capital expenditures	\$8.8m	Audited Annual Financial Statements for previous years but not sighted for those within time of assessment
Nauru Maritime Port Authority	Port tariffs, wharfage, and cargo fees	\$3.4m	Operating expenditures	\$3.3m	Audited Annual Financial Statements for previous years but not sighted for

⁴ ADB and Republic of China, Taiwan

⁵ Australia, NZ, EU, Japan, UNDP, Taiwan

⁶ Nauru Urban Sustainable Development Project implemented by NUC; Ports Infrastructure Project implemented through ADB/DFAT Project Implementation Unit.

					those required for time of assessment
Nauru Utilities Corporation	Power and water billings to consumers	\$18.9m	Operating and capital expenditures	\$18.8m	Audited Annual Financial Statements sighted and verified
Naoero Postal Services Corporation	(i) postal services and retail (philatelic etc.) sales, (ii) storage, delivery and agency fees	\$4.3m	Operating and capital expenditures	\$4.1m	Audited Annual Financial Statements but not sighted
Nauru Fibre Cable Corporation	Lease of fibre optic cable lines to internet and telecommunications service providers	Data not available	Operating and capital expenditures	Data not available	NA
Nauru Intergenerational Trust Fund	GoN and donor fund contributions	\$23m	Operating and capital expenditures	\$0.064m	Quarter 4 2020-21 Budget Performance Report. Audited Annual Financial Statements. Sighted and verified.
Nauru Tourism Corporation	Government grant	Data not available	Operating and capital expenditures	Data not available	NA
Budgetary Entities					
Nauru Fisheries and Marine Resource Authority	Fishing licenses	\$59.8m	Operating and capital expenditures	\$2.7m	Quarter 4 2020-21 Budget Performance Report. No Audited Financial Statements.
Nauru Regional Processing Center Corporation (RPC)	Asylum/refugee fees	\$5.8m	Operating and capital expenditures	\$1.3m	Quarter 4 2020-21 Budget Performance Report. No Audited Financial Statements.
Development Partner Contributions					
Budget Support - ADB, ROC	Donor grant to consolidated funds	\$21.3m	Part of GoN expenditures	\$21.3m	Quarter 4 2020-21 Budget Performance Report. No Audited Financial Statements

Project Funds - ADB (Ports Infrastructure) - ADB (Fibre Cab)	Donor contributions to project funds	Data not available	Project expenditures	Data not available	NA
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Table 6-4: Financial reports of extrabudgetary operations of development funds

Name of extrabudgetary unit	Annual report received by CG within stipulated timeframe	Content of annual financial report (Y/N):			Expenditure as a percentage of total extrabudgetary unit expenditure ⁷ (estimated)
		Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	
1. Nauru Rehabilitation Corporation	N	N	N	N	23%
2. Nauru Maritime Port Authority	Y	Y	Y	Y	9
3. Nauru Utilities Corporation	Y	Y	Y	Y	49%
4. Naoero Postal Services Corporation	Y	Y	Y	Y	11%
5. Nauru Fibre Cable Corporation	N	N	N	N	Data not available
6. Nauru Inter-generational Trust fund	Y	Y	Y	Y	0.2%
7. Nauru Regional Processing Center Corporation	N	N	N	N	7%
8. Nauru Fisheries and Marine Resources Authority	N	N	N	N	2%
9. Nauru Tourism Corporation	N	N	N	N	Data not available

Data source: GoN 2021-2022 Annual Budget Paper No.2. June 2021

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it.

Nauru is a very small country with a fully centralized national government. In 1997, GoN passed the Nauru Local Government Council Dissolution Consequential Amendments Act 1997, which effectively abolished the Local Government Council. The Local Government Council comprised a body of chiefs from the 9 districts of Nauru and served the purpose of a local government that provided a certain level of public services for its respective communities. It had no taxing powers but received all its funding from budget transfers from central

⁷ Based on EBEs with available data (refer Table 6.3)

government. In dissolving it, GoN had subsumed all its responsibilities and authorities, thus rendering the non-existence of any form of subnational government since then.

Using the GFS 2014 definition⁸ of the layers of subnational governments and considering the status quo as explained above, this section is assessed to be not applicable to GoN by virtue of the non-existence of any form of subnational government.

Indicator and dimension scores and analysis

INDICATORS/DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI – 7 Transfers to subnational governments		NA
7.1 System of allocating transfers	NA	NA
7.2 Timeliness of information on transfers	NA	NA

PI-8. Performance information for service delivery

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

Indicator and dimension scores and analysis

INDICATORS/DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-8. Performance information for service delivery (M2)		D
8.1. Performance plans for service delivery	Annual Operational Plans (AOPs) are now provided to DoF by ministries in the context of the Budget process. AOPs provide milestones and KPIs for key activities with some linkage to government outcomes and strategies. The development of AOPs has been a very positive development in the development of a performance measurement framework. Scoring for a C rating and above for this dimension requires evidence of a performance measurement framework and publication of that information to permit citizens to understand the outputs and outcomes that government is seeking to achieve from public expenditure. While Budget Paper 2 and Development Fund projections provide some basic planned activity information, currently the information collected through AOPs is not published annually meaning that performance is currently less than required for a C score.	D
8.2. Performance achieved for service delivery	Scoring for a C rating and above requires annual publication of performance information against plans set out in the budget for the majority of ministries. Apart from donor-funded projects in health and education, currently there is not systematic publication of data relating to performance achieved on service delivery relative to planned performance. Looking ahead, the development of the performance information collected in AOPs provides a solid platform for moving to report performance annually, say, in annual reports.	D
8.3. Resources received by service delivery units	There is no published data available on the level of resources received by service delivery units.	D
8.4. Performance evaluation for service delivery	Evaluations of the efficiency and effectiveness of service delivery have not been carried out in recent years.	D

⁸ IMF. GFS 2014, para 2.90-2.99, pages 25- 26. 2015.

	shortly the annual financial statements for the 2019/20 and 2020/21 years. However, currently only three (of the five) basic elements are available publicly within the time periods required in measuring this dimension. This means that performance is less than required for a C score (which requires four of the basic elements to be published within the required timeframes).	
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Evidence for score

Table 9-1 Budget documentation

Item	Criteria met within timeframe (Y/N)	Explanation	Source of evidence
Basic elements			
1	Y	A complete set of the Budget documents (Budget Speech, Budget Papers 1 and 2, Appropriation Bill, Nauru Fiscal Strategy) is published on DoF's website at the time that the GoN submits the budget to the parliament.	https://naurufinance.info/2021-22-budget/
2	Y	The Appropriation Act passed by the Parliament is published on Nauru's law website following the parliamentary vote.	http://ronlaw.gov.nr/nauru_lpms/index.php/act/view/1366
3	Y	Quarterly budget performance reports are usually published within one month of the end of the relevant quarter on DoF's website.	https://naurufinance.info/quarterly-performance-reports/
4	N	The Final Budget Outcome Report for 2020/21 has not yet been published on the DoF website.	https://naurufinance.info/2020-21-budget/
5	N	The last published audited annual financial statements are	https://naurufinance.info/previous-budget-reports/

	incorporating or accompanied by the external auditor's report, as assessed in PI-29 and PI-30. The reports are made available to the public within twelve months of the fiscal year's end.		for 2018/19. There has been a delay in the finalization of annual financial reports in recent years, owing to capacity constraints within DoF	
Additional elements				
6	Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	N	Under Nauru's PFM law, there is no requirement for the publication of a pre-budget statement.	http://ronlaw.gov.nr/nauru_lpms/files/acts/102123f45e4917f760be6bfe6c46eda1.pdf
7	Other external audit reports. All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.	N	Department of Audit does not appear to make available any non-confidential reports on central government operations.	
8	Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts,	Y	DoF publishes "Budget at a Glance" for non-expert audiences with the annual budget proposal.	https://naurufinance.info/wp-content/uploads/2021/05/2021-22-Budget-at-a-glance.pdf

	often referred to as a “citizens’ budget,” and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval.			
9	Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	N	Limited macroeconomic forecast information (i.e projected real GDP growth, level of nominal GDP, CPI forecast) is published in Budget Paper 1.	https://naurufinance.info/wp-content/uploads/2021/05/BP-1-Budget-21-22_final.pdf

PILLAR THREE: Management of Assets and Liabilities

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

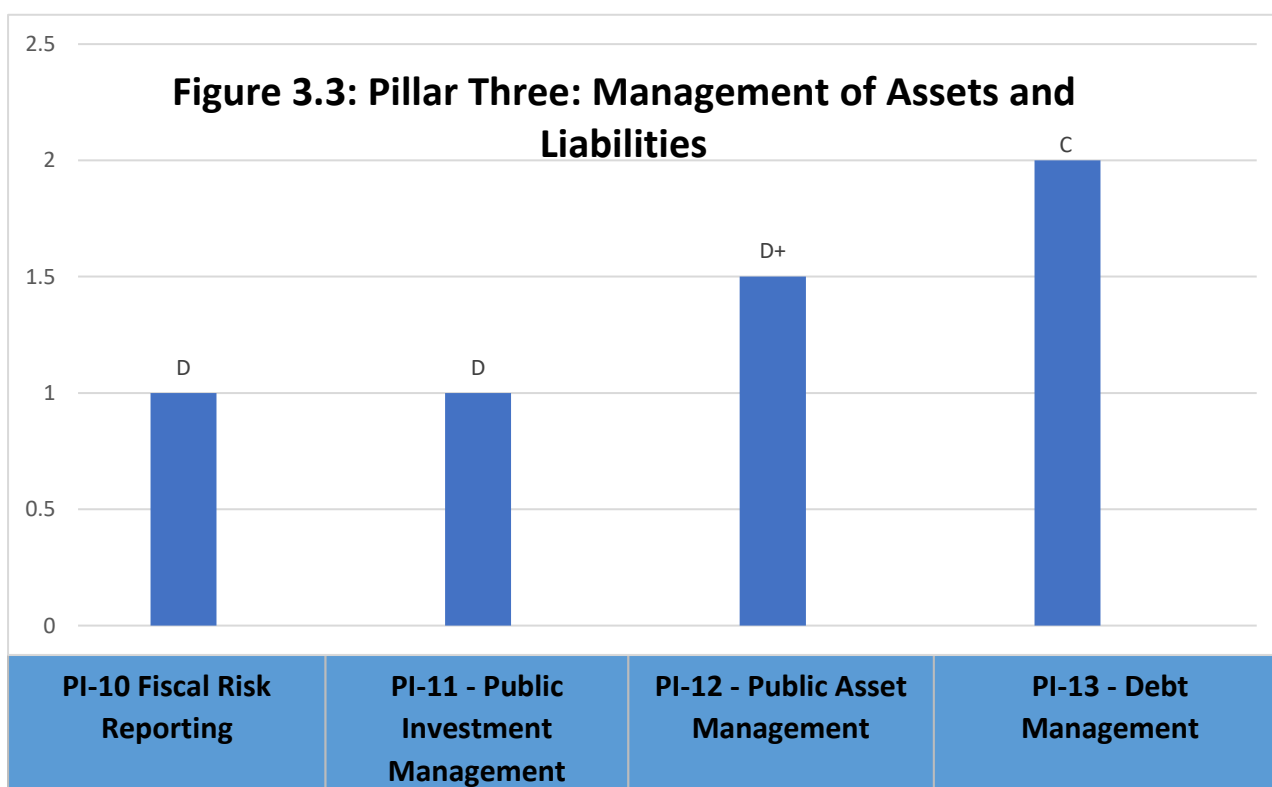
Overall performance

The Finance Ministry is now responsible for public enterprise oversight, but its role is hampered by incomplete and a lack of timely reporting by the enterprises themselves. Audited financial statements were available for the largest of the top five entities for the 2020-21 fiscal year. Inter-enterprise exposures make it difficult to gain a clear picture of their financial health and associated fiscal risks. Authorities indicated there were no live examples of other contingent liabilities and fiscal risks given the limited incidence of SoE borrowing or recent use of guarantees, state insurance or PPPs.

However, the ADB Debt Stocktake found a number of examples (e.g. uncalled capital contributions and a GoN guarantee of an NUC power purchase agreement) where it recommended explicit and quantifiable contingent liabilities be reported in the financial statements.

The involvement of development partners in public investment initiatives has assisted in improving the quality of economic and financial analysis surrounding proposals. However, there is no formal framework to guide project selection and insufficient costing that encompasses full project lifecycles. Monitoring and evaluation of project execution and maintenance is also limited.

The legal and regulatory framework for approving debt and guarantees is an area of relative strength within the GoN fiscal framework, supported by the recent enactment of formal budget instructions. Recording and reporting of external debt is also generally done well, with weaknesses apparent in terms of internal debt linked to difficulties associated with the BoN liquidation process. There is currently no formal debt management strategy, beyond the policy of limiting new borrowing to concessional loans from development partners for specific SoE projects.



Possible underlying causes of performance

Good progress has been made in restoring Nauru's fiscal sustainability in recent years, including through significant reductions in public debt made possible by unexpectedly strong revenues. Technical assistance has been provided by the Asian Development Bank to work through various legacy issues and position GoN to increasingly conduct fiscal policy and debt management in a medium-term setting.

With the settlement of outstanding balances on the Ronphos Firebird loans in March 2021, Nauru's external debt situation is now relatively straightforward. It has two outstanding loans from Exim Bank Taiwan POC: one for the Ronphos equipment purchase; and another for the purchase of new aircraft to be leased by Nauru Air Corporation. Both loans have been taken out by GoN, on behalf of the respective SoEs and asset management companies.

On the other hand, the internal debt situation remains complicated, relating to the ongoing process of BoN liquidation and guaranteed liabilities to depositors and NPTF. While it has been some time since guarantees have been issued, it is unclear, due to a lack of formal systems in the past, what existing guarantees or contingent liabilities might be triggered in future.

Recent and ongoing reform activity

Public enterprise reform is one of the elements of the medium-term fiscal strategy. The Parliament passed a new Public Enterprises Act 2019 and GoN has established a public enterprise monitoring unit in the Ministry of Finance. Budget funding of CSOs is seen as critical to supporting the sustainability of these enterprises given the small markets many of them service.

A dedicated section in Budget Paper 2 examines some aspects of the individual performance of key SoEs but does not yet provide aggregate analysis or reporting on operating performance, balance sheets, contingent liabilities and fiscal risks. Improving the timeliness and quality of reporting by the relevant public enterprises will be important for these reforms to achieve their potential benefits.

Formal reporting through an annual debt report has commenced, supplementing previous limited reporting under the Government Loans Act. There is a solid legal foundation for approval of loans and guarantees, but a formal debt management strategy is not in place. It will be important that such frameworks are developed to facilitate closer integration of debt management with the fiscal strategy and management of SoE-related risks.

The Asian Development Bank is assisting GoN in undertaking a stocktake of liabilities and continuation of the Bank of Nauru liquidation process, including outstanding reconciliation of amounts owing to creditors and the impact this may have on future estimates of internal debt.

A new *Financial Instruction 6 – Liabilities* has been prepared, documenting the formal legal basis for approval of loans and guarantees and mapping the processes and responsibilities for approvals, negotiations and reporting.

PI-10: Fiscal risk reporting

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-10: Fiscal risk reporting (M2)		D
10.1. Monitoring of public corporations	Audited financial statements were prepared for Nauru Air Corporation for the 2020-21 fiscal year, presented to GoN in October 2021 and tabled in Parliament in January 2022. Draft statements for Ronphos and Nauru Utilities Corporation are undergoing audit, but statements are not available for Eigigu Holdings or Nauru Rehabilitation Corporation. The coverage and timing of audited financial statements for major public corporations is less than required for a C score. An SoE monitoring unit has been established but cannot yet publish consolidated performance reports. The ADB Debt Stocktake noted work is ongoing to assess the fiscal risks faced by the GoN through the SoE sector.	D
10.2. Monitoring of subnational governments	Not applicable. There are no subnational governments.	N/A
10.3. Contingent liabilities and other fiscal risks	Estimated liabilities from the BoN liquidation are presented in the annual debt report. Financial statements for 2020/21 are not yet available meaning the requirements for a C score have not been met. The ADB Debt Stocktake found a number of examples (e.g. uncalled capital contributions and a GoN guarantee of an NUC power purchase agreement) where it recommended explicit and quantifiable contingent liabilities be reported in the financial statements. The agreement with development partners concerning NITF withdrawals was noted by the ADB as an example of an unquantifiable explicit contingent liability.	D

Evidence for score

Table 10-1: Monitoring of public corporations

Five largest public corporations 2020-21	Financial turnover (\$m)	Percentage of five largest public corporations	Date of publication of audited financial statement	Date financial statement submitted to govt.	Are contingent liabilities disclosed in financial statement	Consolidated Report Prepared (Y/N)
1. Nauru Airlines Corporation	48.9	36.4	27 Jan 2022	20 Oct 2021	Y	N
2. Ronphos Corporation	25.7	19.2	N	9 Mar 2022	N	
3. Nauru Utilities Corporation	22.3	16.7	N	Y	N	
4. Eigigu Holdings Corporation	21.1	15.7	N	N	N/A	
5. Nauru Rehabilitation Corporation	16.1	12.0	N	N	N/A	

Data source: 2020-21 Budget Paper 2 (2020-21 forecast turnover); Nauru Airlines Corporation 2020-21 Annual Financial Statements, Ronphos Corporation 2020-21 Draft Financial Statements (unpublished); Nauru Utilities Corporation 2020-21 Draft Financial Statements (unpublished).

Table 10-3: Contingent liabilities and fiscal risk

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

Data source: N/A

Recent borrowings have been undertaken by the GoN on behalf of SoEs. There are no state insurance schemes. While PPPs have been contemplated in the past, no decisions have been taken to proceed.

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government. It also assesses the extent to which the government publishes information on the progress of the project, with an emphasis on the largest and most significant projects.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-11 Public investment management (M2)		D
11.1 Economic analysis of investment proposals	Most major investment projects are undertaken by, or in conjunction with development partners. In these cases, development partners will conduct economic analyses for projects..	C
11.2 Investment project selection	While the NSDS and NIISP provide some guidance for prioritization of investment projects, there is no defined criteria to ensure that individual projects are aligned with government priorities.	D
11.3 Investment project costing	Capital costs for the forthcoming budget year for major investment projects are included in the budget documents but not projections of the total cost of major investment projects.	D
11.4 Investment project monitoring	Development partner-funded major projects typically have Project Management Units (PMUs) to undertake monitoring but GoN-funded projects have less systematic monitoring and implementation processes. There is currently no annual or published major project implementation report.	D

Evidence for score

Evidence for the scores in PI-11 was obtained through discussion and emails with Nauru DoF counterparts and also compared with commentary provided in the 2016 PEFA Self-Assessment.

Economic analyses of particular major investment projects (11.1) were not directly available to the PEFA team. Discussion with DoF and the 2016 PEFA Self-Assessment indicated that investment analysis of major

investment proposals funded by development partners (which is the majority of major investments in the Nauru context) was undertaken by development partners. This provided the basis for a C score (i.e. economic analyses are conducted to assess some major investment projects). However, there was insufficient evidence to warrant a higher score given the lack of publication of economic analyses or evidence of review undertaken separate from the sponsoring entity.

In the area of investment project selection (11.2), the NIISP (published in November 2019) provides a prioritized set of projects until the year 2030. However, scores of C and above require evidence that a prioritization process by a central entity using established criteria is followed prior to the inclusion of major investment proposals into the annual Budget. There was insufficient evidence to demonstrate that such a prioritization process exists and therefore this provided the basis for a D score.

Investment project costing (11.3) scores of C or above require at least the total capital cost of major investment projects to be included in the budget documents. The Development Fund Annual Projections published in the budget documents provides the capital costs for development partner-funded for the budget year. As major investment project costs can span several years, the disclosure provided in the budget documents does not meet the criteria set for performance above a D score.

Investment project monitoring (11.4) scores of C or above requires evidence of monitoring by the implementing agency and preparation or publication of an annual report on the implementation of major investment projects. DoF confirmed that development-partner funded projects have monitoring arrangements (e.g steering committees and PMUs) and also the NSDS Committee monitors progress for all development-partner funded and GoN projects. However, the absence of an annual major investment project implementation report meant that there was insufficient evidence to warrant a score higher than D.

Table 11-1 and 11-2: Economic analysis and project selection of five largest major investment projects approved in last completed fiscal year

Five largest major investment projects (>1% of BCG expenditure)	Total investment cost of project	As a % of 5 approved major projects	Data for PI-11.1 Economic analyses				Data for PI-11.2 Project selection	
			Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity	Prioritized by central entity (Y/N)	Consistent with standard selection criteria (Y/N)
Sustainable & Climate Resilient Connectivity Project	AUD 91.56 m	73.9%	Y	Y	N	ADB	N	N
Solar Power Development Project	AUD 32.34 m	26.1%	Y	Y	N	ADB	N	N
Total/Coverage	AUD 123.9m	100%						

Data source: Nauru National Integrated Infrastructure Plan; November 2019

Table 11-3 and 11-4: Investment project costing and monitoring of five largest major investment projects in last completed fiscal year

Name of capital project	Data for PI-11.3 Investment project costing included in budget documents				Data for PI-11.4 Investment project monitoring				
	Life cycle cost documents (Y/N)	Capital cost breakdown		Recurrent costs included in budget documents Budget year only/ Medium term (Three-years) (Y/N)	Monitoring				
		- Budget year only (Y/N)	Medium term (budget + two years) (Y/N)		Total cost (Y/N)	Physical progress (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Sustainable and Climate Resilient Connectivity Project	N	Y	Y	N/N	Not available	Not available	Not available	Not available	Not available
Solar Power Development Project	N	Y	Y	N/N	Not available	Not available	Not available	Not available	Not available.
Coverage									

Data source: Republic of Nauru, Development Fund Annual Projections 2021-22 (Note: Smaller number of major projects than usual in 2021/22 owing to COVID-19 impacts on implementing major projects in Nauru).

PI-12. Public asset management

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

The effective management of assets supports aggregate fiscal discipline, by ensuring that resources owned and controlled by government are used optimally in the implementation of policy objectives. Quality information on assets will ensure that they are used productively and inform decisions on whether Government should retain or transfer its ownership. It is essential that governments have systems for managing, monitoring, and reporting on financial assets, including robust risk management frameworks where necessary, and appropriate governance and transparency arrangements.

Financial assets can be very diverse, including cash, securities, loans, receivables and cash equivalents owned by the government. They will also include foreign reserves and long-term funds such as sovereign wealth funds and equity in state-owned and private sector institutions.

The main categories of non-financial assets are produced assets (such as fixed assets, inventories, and valuables) and non-produced assets (such as natural resources, contracts, leases, and licenses)⁹. Produced assets typically include fixed assets (buildings, stock and inventory, equipment, transport fleets that are used to produce goods and services, while non-produced assets store value and generate rent, lease and royalty income from its use or extraction.

GoN financial assets comprise current and non-current/long-term financial asset holdings. Current financial assets consist of bank accounts used for working/operational purposes and capital projects which are held under various bank accounts domestically and abroad. These include the following types: working capital; project/special purpose; cash holdings; and cash at banks controlled outside Treasury. Balances of these accounts and the term deposit accounts (categorized under non-current financial assets below) are reported to senior management on a weekly basis in line with IMF Government liquidity classification¹⁰.

Non-current financial assets comprise: term deposits; long term sovereign trust funds (Nauru Intergenerational Trust Funds) and equity holdings in its EBEs. Only the NITF and NUC equity holdings are recorded and reported fully (up to the last completed fiscal year) and in line with international accounting standards and published annually.

For non-financial assets, the cabinet had approved an infrastructure asset management policy in 2017 to provide a framework for affordable asset management. As a priority action, the government established a central asset register to reflect the assets' condition, location, and financial information—data that was generally not available previously, except for the Nauru Utilities Corporation. The register, which has been operational since June 2019, covers government assets (including buildings, roads, water and sanitation systems, coastal protection and vehicles) with a replacement cost of \$25,000 or more¹¹. Currently DoF authorities are working with ADB to reconfirm the depreciation rates applicable and also assess means for updating the asset database by linking it up directly with the purchasing module in the FMIS. This will take time given the limiting systemic issues inherent in the verification and recording of assets according to type and proper value.

Under the Public Finance Management Act 1997, the disposal of assets is under Section 4 (b) whereby the Minister shall oversee the supervision, control and direction of all matters related to public moneys **and public property** and the financial affairs of the Republic which are not assigned to any other person or body by the Constitution, this Act or any other written law. Sections 18 and 19 prescribe the conditions for and process for the disposal and sale of public property.

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE.
PI-12 - Public asset management (M2)		D+
12.1. Financial asset monitoring	The government maintains a record of its cash holdings and regularly tracks these major categories of financial assets, through the Treasury, reporting to senior management. The sovereign trust fund's (NITF) reporting to its Board is governed under its own legislation and charter. The	C

⁹ IMF. Government Financial Statistics. 2014

¹⁰ GoN. Dept of Finance: Weekly Cash Monitor Report. 2022

¹¹ ADB. Report and Recommendation of the President to the Board of Directors. Proposed Policy-Based Grant Nauru: Improving Public Investment Management Program. May 2020.

	NUC also reports accordingly under the PEA legal framework, which provides for effective monitoring of its value as an equity asset. Most of the EBEs performance from the last completed fiscal year are reported regularly in subsequent Annual Budget Paper 2.	
12.2. Nonfinancial asset monitoring	The government maintains a register of its holdings of fixed assets, but there is no evidence or information on their usage and age.	D
12.3 Transparency of asset disposal	Procedures and rules for the transfer or disposal of nonfinancial assets are established in the PFM Act 1997. There is no evidence of any disposal done under these provisions in the last completed fiscal year. No information on transfers and disposals is contained in budget documents, financial reports, or other reports.	D

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

Account/asset type	Holdings of assets maintained (Y/N)	Acquisition cost (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually	Source of information
Current financial assets						
Working capital bank accounts (7)	Y	NA*	Y	Y	N	Treasury Weekly Monitoring Reports
Project/Special purpose bank accounts (18)	Y	NA*	Y	Y	N	Treasury Weekly Monitoring Reports
Cash holdings (1)	Y	NA*	Y	Y	N	Treasury Weekly Monitoring Reports
Cash at banks outside Treasury (8)	Y	NA*	Y	Y	N	Treasury Weekly Monitoring Reports
Non-current financial assets						
Term deposits	Y	Y	Y	Y	N	Treasury Weekly Monitoring Reports
Long-term Sovereign Trust Fund (NITF)	Y	Y	Y	Y	Y	Board of Directors meeting papers, Annual Report and Audited Financial Statements

*Not Applicable

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

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

Sources: Consultations with Department of Finance management but not documentary evidence

Table 12-3: Transparency of asset disposal

Procedures for non-financial asset transfer or disposal established (Y/N)	Procedures for financial asset transfer or disposal established (Y/N)	Information included in budget documents, financial reports or other reports (Full/Partial)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on asset transfer and disposal submitted to legislature (Y/N)
Y	N	Partial – only for major asset disposal ¹²	N	N

Source: Public Finance Control & Management Act 1997; Budget documents

PI-13. Debt management

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-13. Debt management (M2)		C
13.1. Recording and reporting of debt and guarantees	The 2021 Debt Report includes reconciled information on current and projected external debt including stock, operations and servicing. It is yet to be updated on an annual cycle but this is planned. The report does not contain information on operations or servicing for internal debt. Internal systems supporting debt management were not provided for assessment.	D
13.2. Approval of debt and guarantees	The Parliament must approve new borrowing (via the annual budget) and guarantees (via special motions). The Finance Minister is solely authorized to execute transactions and the Treasury is responsible for debt management. In recent years no new guarantees have been issued and government borrowing has been limited to two concessional loans on behalf of SOEs. Relevant approvals were seen for the Aircraft Replacement Program in 2020/21.	A

¹² This happens only when major physical assets that have significant fiscal policy implications like disposal of vehicles and equipment made redundant upon scaling down of NRPC operations.

13.3. Debt management strategy	There is currently no medium-term debt management strategy that would meet the requirements of this dimension. Work is progressing in this area with ADB assistance.	D
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Evidence for score

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

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

Data source: 2021 Government of Nauru Debt Report; 2020-21 Government Loan Fund Report. * Records are updated half-yearly following payment of interest.

Table 13-2: Approval of debt and guarantees

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)	Data source
	Guidance to single debt management entity	Guidance to multiple entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity		
Y – Various Acts (see below)	Y (Draft Financial Instruction)	N/A	Y – Finance Minister	Y - Treasury	Y – Parliament Date of Budget 4 Jun 2020	Financial Instruction - Liabilities

Data source: The legislative framework governing borrowing is described in section 3 of *Financial Instruction 6 – Liabilities*. It includes the Constitution of Nauru 1968, Government Loans Act 1972, Public Finance (Control and Management) Act 1997 and Regulations, and the Treasury Fund Protection Act 2004.

Table 13-3: Debt management strategy

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

Data source: Not applicable.

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

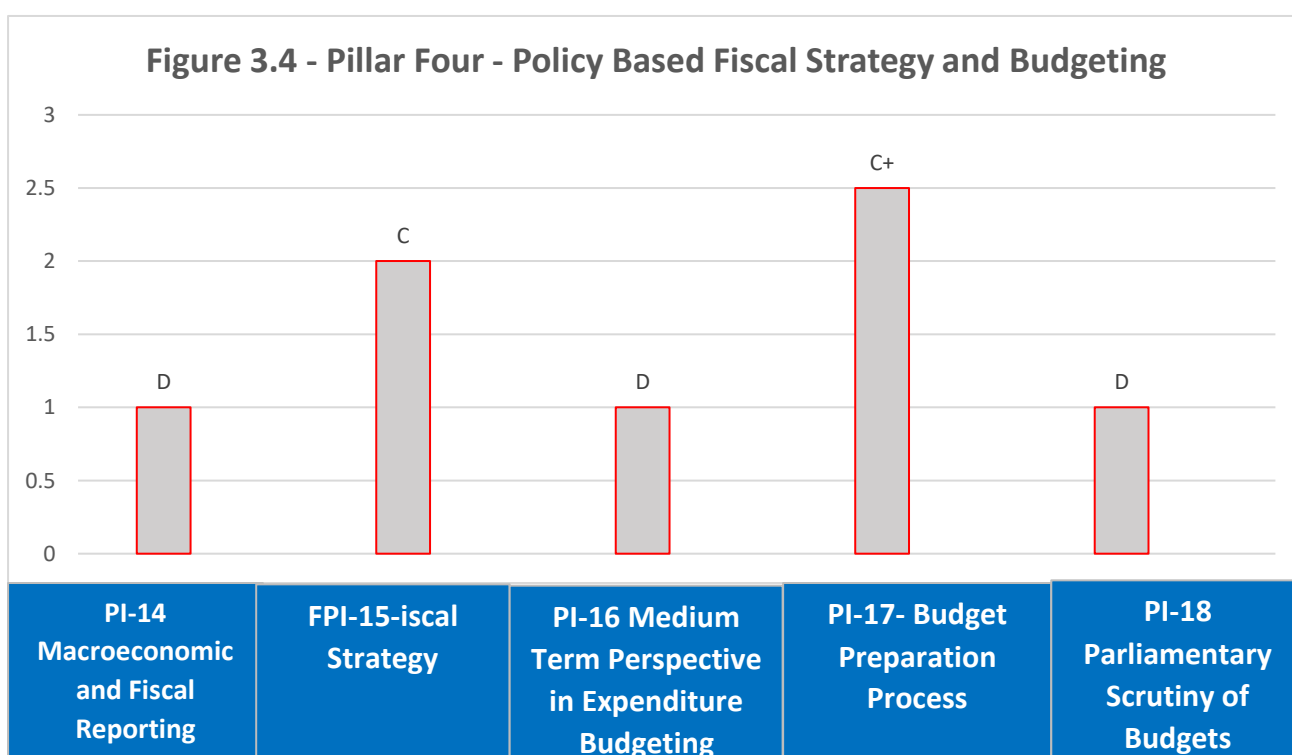
This pillar assesses whether the government’s fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Overall performance

GoN does not seek to develop its own internal economic forecasts and uses the most recent IMF World Economic Outlook. It does not publish updated forecasts as part of supplementary budgets, but does reflect changes in the quarterly budget execution report. Medium-term assumptions are not always made explicit in the budget and there is no formal modelling of macro-fiscal linkages. Specific risks and sensitivities are considered in preparing the budget, for example taking into account uncertainties around the future of the RPC, development partner grants and loans and major projects. These risks are arguably more relevant to budget formulation in Nauru than a sensitivity analysis against macroeconomic variables.

The 2020-21 Budget contains a medium-term fiscal strategy with numerical objectives (the Fiscal Responsibility Ratios) for the budget balance (cash surplus), personnel expenditure (<30% of current expenditure), cash reserves (>2 months of non-RPC expenditure) and a separate requirement for contributions to the NITF (>10.1% of adjusted revenue. The fiscal strategy is serving a useful role in anchoring expectations around the budget, supporting an approach in which spending and new projects are more carefully prioritized and rebuilding fiscal buffers. There is a transparent approach to reporting compliance against the numerical objectives of the fiscal strategy. However, the targets under the fiscal strategy lack any legislative basis or correction mechanisms.

Consistent with the concerns about revenue certainty and focus on the near term for macroeconomic and fiscal forecasting, GoN is yet to implement frameworks for evaluating expenditure needs in a medium-term setting.



Possible underlying causes of performance

Nauru's budgetary systems are focused on the near term, adopting a single-year horizon. Authorities explained this is largely due to the significant uncertainty around revenue sources. The practice of starting each year with a conservative original budget and developing supplementary budgets as additional revenues or development partner funding are secured is deeply engrained. Recent formal guidance on the budget process refers to the aspiration of having a single supplementary budget each year.

It seems that the Nauru economy and budget is more likely to be affected by idiosyncratic factors (e.g RPC activity or fisheries revenue) than wider macroeconomic or global factors. The fiscal scenarios that are prepared in the budget focus on these idiosyncratic drivers.

Although foreshadowed as a future development, Departments are not yet required to develop multi-year estimates of the costs of ongoing programs or projects. Similarly, there is no widespread practice to encourage multi-year costings of new policy proposals. While clearly prioritization is taking place, ensuring that the key fiscal targets are met before any additional revenue is allocated to remaining priorities within the year, the single year approach does not allow Departments to plan ahead, nor for the Government to be informed on the long-term costs of new proposals when taking decisions.

Recent and ongoing reform activity

A lack of internal capacity in statistics and macro forecasting has been noted by authorities. There is also a desire to build technical skills around policy costings and medium-term budgeting practices.

While there is an aspiration to adopt a medium-term horizon around the budget, some of the initial steps, such as setting binding expenditure ceilings for departments are frustrated by the inherent uncertainty around revenue forecasts and regular practice of enacting supplementary budgets.

In some other areas, such as the National Infrastructure Investment Strategic Plan (NIISP), there are promising signs of a longer-term focus taking root. Working with development partners to keep a fully costed and prioritized infrastructure investment pipeline up to date will be important to help ensure that development resources are directed to best use.

PI-14. Macroeconomic and fiscal forecasting

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-14. Macroeconomic and fiscal forecasting (M2)		D
14.1. Macroeconomic forecasts	GoN publishes IMF estimates for real GDP growth, nominal GDP (level) and CPI for the budget year, but not consistently for the two forward years. Updates to IMF WEO forecasts are noted as relevant in quarterly budget execution reports. There is an aspiration to establish an in-house economic	D

	forecasting function but this requires prior capacity building in terms of statistical foundations. Extending the forecast horizon to include the two forward years and expanding the discussion of key assumptions would provide the basis for a stronger score.	
14.2. Fiscal forecasts	GoN prepares forecasts of revenue, expenditure and the budget balance for the budget year but not the two outer years. Within-year fiscal forecasts for the budget year are updated via supplementary budgets. No medium-term reconciliation is undertaken as multi-year projections are not prepared or published. Extending the horizon for forecasts of key fiscal aggregates and explaining the differences from previous forecasts would provide the basis for a stronger score.	D
14.3. Macro-fiscal sensitivity analysis	The most significant risks to the budget are idiosyncratic in nature. GoN undertakes scenario analysis of the expected fiscal implications of selected specific risks but does not undertake broader scenario analysis adopting alternative macroeconomic assumptions. Preparing and/or publishing fiscal forecast scenarios based on alternative assumptions could justify a higher score.	D

Evidence for score

Table 14-1. Macroeconomic and fiscal forecasting

Indicator	Budget document year	Years covered by forecasts			Underlying assumptions provided (Y/N)	Frequency of update 1= once a year 2=more than once a year N=Not updated	Submitted to legislature 1=budget year only 3= budget year plus two following fiscal years N= Not published	Alternative fiscal scenarios prepared (Y/N)	Alternative scenarios published (specify relevant document)
		Budget	Forward year 1	Forward year 2					
Key macroeconomic indicators									
GDP growth	2020/21	Y	N	N	N	N	1	N	N
	2019/20	Y	Y	Y	N	N	3	N	N
	2018/19	Y	Y	N	N	N	2	N	N
Inflation	2020/21	Y	N	N	N	N	1	N	N
	2019/20	Y	Y	Y	N	N	3	N	N
	2018/19	N	N	N	N	N	0	N	N
Interest rates	2020/21	N	N	N	N	N	N	N	N
	2019/20	N	N	N	N	N	N	N	N
	2018/19	N	N	N	N	N	N	N	N
Exchange rate	2020/21	N	N	N	N	N	N	N	N
	2019/20	N	N	N	N	N	N	N	N
	2018/19	N	N	N	N	N	N	N	N
Fiscal forecasts									
Aggregate expenditure	2020/21	Y	N	N	N	2	1	N	N
	2019/20	Y	N	N	N	2	1	N	N
	2018/19	Y	N	N	N	2	1	N	N
Fiscal balance	2020/21	Y	N	N	N	2	1	N	N
	2019/20	Y	N	N	N	2	1	N	N
	2018/19	Y	N	N	N	2	1	N	N
Aggregate revenue	2020/21	Y	N	N	N	2	1	N	N
	2019/20	Y	N	N	N	2	1	N	N
	2018/19	Y	N	N	N	2	1	N	N
Revenue by type	2020/21	Y	N	N	N	2	1	N	N
	2019/20	Y	N	N	N	2	1	N	N
	2018/19	Y	N	N	N	2	1	N	N

Data source: GoN Budget Paper 1 and Budget Paper 2 – 2018/19, 2019/20 and 2020/21. There were six supplementary budgets in 2018/19 and 2019/20 and two supplementary budgets in 2020/21.

PI-15. Fiscal strategy

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-15. Fiscal strategy (M2)		C
15.1. Fiscal impact of policy proposals	Policy costings to support decision-making or reporting of budget measures are not performed systematically. For example, in BP1 2020/21, changes to import duties on tobacco and alcohol were not presented and a significant increase in public sector wages was not explicitly costed. The expected costs of some measures are reported for the budget year but not the outer years. It is unclear whether these are simply provisions or estimates based on formal costings. Preparing estimates of the fiscal impacts of all policy changes for the budget year would satisfy the requirements for a C score.	D
15.2. Fiscal strategy adoption	The 2020/21 Budget contains a medium-term fiscal strategy with numerical objectives (the Fiscal Responsibility Ratios) and a further requirement for minimum NITF contributions. It does not contain numerical objectives for aggregate expenditure or revenue, nor the balance sheet. The Fiscal Responsibility Ratios (as currently defined) have been in place since 2018/19. While recent budgets have been prepared in accordance with the ratios, they do not explicitly apply to the outer years meaning the requirements for a B rating have been narrowly missed.	C
15.3. Reporting on fiscal outcomes	The 2021/22 Budget contains commentary on achievement against the fiscal strategy over the 2020/21 fiscal year, noting all numerical targets had been met. This was submitted to the Parliament and published, but remedial actions are not prescribed by legislation, falling short of the requirements for an A score. There are no known consequences if the ratios are not achieved.	B

Evidence for score

Table 15-1 Fiscal impact of policy proposals

Estimates of fiscal impact of ALL proposed changes prepared			Data source
Budget year	Two following fiscal years	Submitted to legislature	
N	N	N/A	Budget Paper 1 2018/19, 2019/20 and 2020/21.

Data source: Budget Paper 1 2018/19, 2019/20 and 2020/21.

Table 15-2 Fiscal strategy adoption

Fiscal prepared (Y/N)	Submitted to legislature (Y/N, Date)	Published (Y/N, Date)	Internal use only (Y/N)	Includes quantitative information			Includes qualitative objectives (Y/N)
				Time based goals and targets	Or objectives only		
					Budget	Forward Years	
Y	Y, 4 Jun 2020	Y, 4 Jun 2020	N	N	Y	N	Y

Data source: Budget Paper 1 2020/21 – Fiscal Strategy.
<https://naurufinance.info/wp-content/uploads/2020/09/Nauru-Fiscal-Strategy-2020.pdf>

Table 15-3 Reporting on fiscal outcomes

Progress report completed (Y/N)	Last fiscal year covered	Submitted to legislature (Y/N, Date)	Published with budget (Y/N, Date)	Includes explanation of deviation from target (Y/N)	Includes actions planned to address deviations
Y	2020/21	Y, 1 Jun 2021	Y, 1 Jun 2021	N/A – targets were met	N/A – targets were met

Data source: Budget Paper 1 2021/22.
https://naurufinance.info/wp-content/uploads/2021/05/BP-1-Budget-21-22_final.pdf

PI-16. Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-16. Medium-term perspective in expenditure budgeting (M2)		D
16.1. Medium-term expenditure estimates	The Budget provides expenditure estimates by administrative and economic classification for the budget year but not the outer years, thereby falling short of the requirements for a C score. There is a hybrid of administrative and functional presentations in the agency resourcing tables accompanying the budget.	D
16.2. Medium-term expenditure ceilings	Indicative expenditure ceilings for the budget year were provided to ministries as part of the Budget Circular issued on 7 December 2020 ahead of the 2021-22 Budget. The ceilings were not binding; expenditure above the ceiling was permitted if Departments submitted a formal costed proposal, subject to available revenue/donor funding.	D
16.3. Alignment of strategic plans and medium-term budgets	The Nauru National Sustainable Development Strategy 2019-2030 (NSDS) and Integrated Infrastructure Strategic Plan (NIISP) appear well aligned in terms of sectoral coverage but the NSDS lacks detail on resourcing needs. The NIISP is Nauru's medium-term capital investment plan, containing a prioritized and costed project list. ADB analysis has found that in 2020/21, over 89 per cent (by value) of the infrastructure projects funded in the budget appeared in the NIISP project pipeline. The Nauru Health Strategy (NHS) 2021-25 contains medium-term estimates of expenditure and sources of finance but had not been updated prior to the 2021-22 Budget. The budget also provided funding for some of the initiatives in the NHS. The Department of Education and Training Footpath IV Strategic Plan (FPIV) 2017-21 does not contain medium-term resourcing projections. The overall assessment is that some, but not the majority, of key ministries are preparing strategic plans with the necessary cost information, thereby meeting the requirements for a C score.	C
16.4. Consistency of budgets with previous year's estimates	Estimates are prepared for the Budget year only so there are no vintages of forward estimates to evaluate. Preparation of medium-term expenditure estimates would be a prerequisite for reaching a C score.	D

Evidence for score

Table 16-1: Medium-term expenditure estimates

Classification	Budget year (Y/N)	Two following fiscal years (Y/N)	Data source
Administrative	Y	N	Budget Paper 1 2021/22
Economic	Y	N	
Program/Function	N	N	

Table 16-2: Medium term expenditure ceilings

Level	Budget year	Two following fiscal years	Date of advice	Data source
Aggregate ceiling	Y	N	7 December 2020	Budget Circular 2021/22
Ministry Ceiling	Y	N	7 December 2020	

Table 16-3. Alignment of strategic plans and medium-term budgets (five largest ministries)

Ministry	Budget Allocation \$m	Medium term strategic plan prepared	MTSP Costed	Expenditure proposals consistent with MTSP (Most, majority, some, none)	Data source
1. Finance (incl. public debt & other payments)	95.3	Y	Y	Some (infrastructure)	NIISP 2019
2. Health (incl. Covid-19 TF)	26.8	Y	Y	Some	NHS 2021-25
3. Multicultural Affairs	20.9	N	N/A	N/A	N/A
4. Chief Secretariat	17.9	N	N/A	N/A	N/A
5. Education	16.2	Y	N	No	FPIV 2017-21
Total/Coverage	244.0 72.6%				

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

(Forward estimates are not prepared therefore data is not available)

Ministry	Explanation of change to previous year's estimates prepared included in budget documents (Y/N)	Reconciled with medium term budget estimates (Y/N)	Reconciled with first year of new budget estimates (Y/N)	Source of evidence
1.				
2.				
3.				
4.				
5.				
Coverage %				

PI-17. Budget preparation process

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-17. Budget preparation process (M2)		C+
17.1 Budget calendar	<p>The Budget Circular provides a clear budget timeline of when the budget submissions from Ministries and SOEs are expected to be received by the Department of Finance.</p> <p>According to the schedule, ministries and agencies are given three weeks to complete and submit their Operating Plans and Budget submissions. All ministries and agencies do comply with the stipulated timelines. With three weeks allowed for budget submissions to be submitted, this means this dimension is rated C.</p>	C
17.2 Guidance on budget preparation	<p>The Budget Circular provides clear guidance on the budget process. Under the budget framework, clear objectives/strategies and the platform on which the budget is framed provide a sense of the risks involved. Guidance on the budget structure and budget timelines with clear cut-off dates eliminates any confusion of when the documents are required. Department ceilings pre-approved by Cabinet and guidance on Operational Plans and Budgets is clearly set out.</p> <p>On the basis of the above, this dimension satisfies the requirements for an A.</p>	A
17.3 Budget submission to the legislature	<p>According to the Budget Papers, FY19/20 budget was submitted to Parliament on 11 June 2019, FY20/21 on 4 June 2020 and FY21/22 on 1 June 2021. This means for three fiscal years the budget was submitted to the legislature less than a month before the new financial year takes effect. This means this dimension is rated D.</p>	D

Evidence for score

Table 17-1: Budget calendar and budget circular

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion (if ceilings not issued) (Y/N)	Data source
Yes	17 January 2020	28 February 2020	Total expenditure for the full fiscal year	Around 80% compliance	15 January 2020	Y	Budget Papers 1 & 2, Budget Speeches and Circulars.

According to the Budget Circular, three weeks are allowed for ministries and agencies to submit operational plans and budgets. SOEs are given 4 weeks to do the same. Compliance with this timeline is strictly monitored by DOF given the tight schedule to have the budget completed and submit to Parliament by early June to allow sufficient time to review and debate the budget for approval before 1 July.

Expenditure ceilings are pre-approved by Cabinet and are included as part of the budget circular to impose discipline on ministries given the budget constraints envisaged. This suggests this dimension satisfies the requirements for an A.

Table 17-3: Budget submission to legislature

Budget year	Date of submission of budget proposal	Data source
2019/20, 2020/21; 2021/22	2019/20 Budget – 11 June 2019	Budget Papers, Circulars and Budget Speeches.
	2020/21 Budget – 04 June 2020	
	2021/22 Budget – 1 June 2021	

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

PI-18. Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature.

The House Committee (HC) is established by an Act of Parliament and responsible for approving the budget estimates of Parliament before they are included in the *Appropriation Bill* and presented to Parliament. The HC is chaired by the Speaker of Parliament and usually meets at least three or four times each year. It may also meet during a parliamentary recess for the purpose of Appropriation. Standing Order 189 provides that supply and appropriation bills may be submitted to Parliament by a Minister without notice, but this will require the prior approval of Cabinet (as per Standing Order 190 and Article 59 of the Constitution).

The two Budget documents are presented to Parliament and debate ensues first on the policies and strategies of the budget before detailed scrutiny of the revenue and expenditures is done through in HC before the 2nd and 3rd reading of the appropriation bills and prior to passage. Parliament’s review entails commentaries and debate on the policies, followed the page by page scrutiny by the HC. There are general procedures in the Standing Orders but no evidence was provided to prove adherence by Parliament. These procedures can be further elaborated and adjusted at the discretion of the Speaker.

The submission of the annual budgets to Parliament has been quite consistent in the last three completed fiscal years but no evidence was provided to confirm passage before the beginning of the new fiscal year. The Budget preparation timeline and milestones are clearly laid out in the Budget Financial Instructions¹³. There is also a budget circular issued by Department of Finance around February detailing the parameters, policies and guidelines to help ministries prepare their budgets. The FI sets out that the budget will have to be approved by the third week of June prior to the commencement of the financial year from July 1.

In regard to in-year adjustments, transfer of budget appropriations (virement) between budget Heads (Departments/Agencies) can only be done with Parliament’s approval, through the supplementary appropriations process. Transfers of appropriations at the sub-head (natural account) level can only be done with Cabinet approval¹⁴. The use of the Contingency Reserve to supplement existing budget appropriations is at the discretion of the Minister, who subsequently has to inform Parliament of any such decisions. This is subject to the criterion of exigency and unforeseen circumstances.

Indicator and dimension score and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI- 18 Legislative scrutiny of budgets		D
18.1 Scope of budget scrutiny	Parliament’s review covers fiscal policies and aggregates for the coming year as well as scrutiny of the details of expenditure and revenue by the HC. However, consistency of coverage and rigor cannot be evidenced or ascertained, hence the C rating	C
18.2 Legislative procedures for budget scrutiny	Parliament’s procedures to review the Annual Budget are preset in the Standing Orders, which provide the general framework for procedures and leaves the discretion to the Speaker to elaborate as and where appropriate. No evidence was provided that procedures are adhered to.	D
18.3 Timing of budget approval	The annual budgets were reported in DoF Annual Reports to have been approved before the start of the year in each of the past three fiscal years. But no clear evidence provided.	D
18.4 Rules for budget adjustments by the executive	Clear rules exist for in-year budget adjustments by the executive, and are adhered to in some instances. Extensive administrative reallocations may be permitted. The magnitude and trends of these adjustments are well documented in the DoF’s Annual Report, which is evidence of at least some of the budget adjustments being adhered to.	C

¹³ GON: Clause 2.24. Financial Instructions Part 2. Budget. Department of Finance: 2018.

¹⁴ Ibid. Clause 2.93...et al

Evidence for score

Table 18.1 Scope of budget scrutiny

Legislature reviews budget (Y/N)	Coverage (specify)				
	Fiscal policies (Y/N)	Medium-term forecasts	Medium-term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue (Y/N)
Y	Members contributions to the debate often touch on fiscal policies	No scrutiny of medium term projections	Occasionally if the medium term priorities are also immediate priorities addressed in the annual budget being debated	Yes, page by page scrutiny of budget estimates (Budget Paper 1)	Yes by House Committee.

Source: Nauru Parliament. Hansard Reports. 2021; GoN. Budget Regulations. 2018. Nauru Parliament. Standing Orders.

Table 18.2 Legislative procedures for budget scrutiny

Legislative procedures exist (Y/N)	Approved in advance of budget hearings (Y/N)	Procedures are adhered to (Y/N)	Procedures include organizational arrangements (Y/N)
Y	Y	N	N

Source: Nauru Parliament. Hansard Reports. 2021; GoN. Budget Regulations. 2018. Nauru Parliament. Standing Orders; <http://naurugov.nr/parliament-of-nauru/parliamentary-committees/standing-committees/house-committee.aspx>

Table 18.3 Timing of budget approval

Budget for fiscal year	Date of budget approval
2021/22	No evidence provided
2020/21	No evidence provided
2019/20	No evidence provided

Source: GoN. Department of Finance and Treasury Annual Reports (2018/19; 2019/20; 2020/21); GoN. Financial Instructions – Budget. 2018

Table 18.4 Rules for budget adjustments

Clear rules exist (Y/N)	Rule includes strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG)	Extent of adherence to rules (All, most, some)
Y	N	Not available	some

Source: GoN. Department of Finance and Treasury Annual Reports (2018/19; 2019/20; 2020/21); GoN. Financial Instructions – Budget. 2018

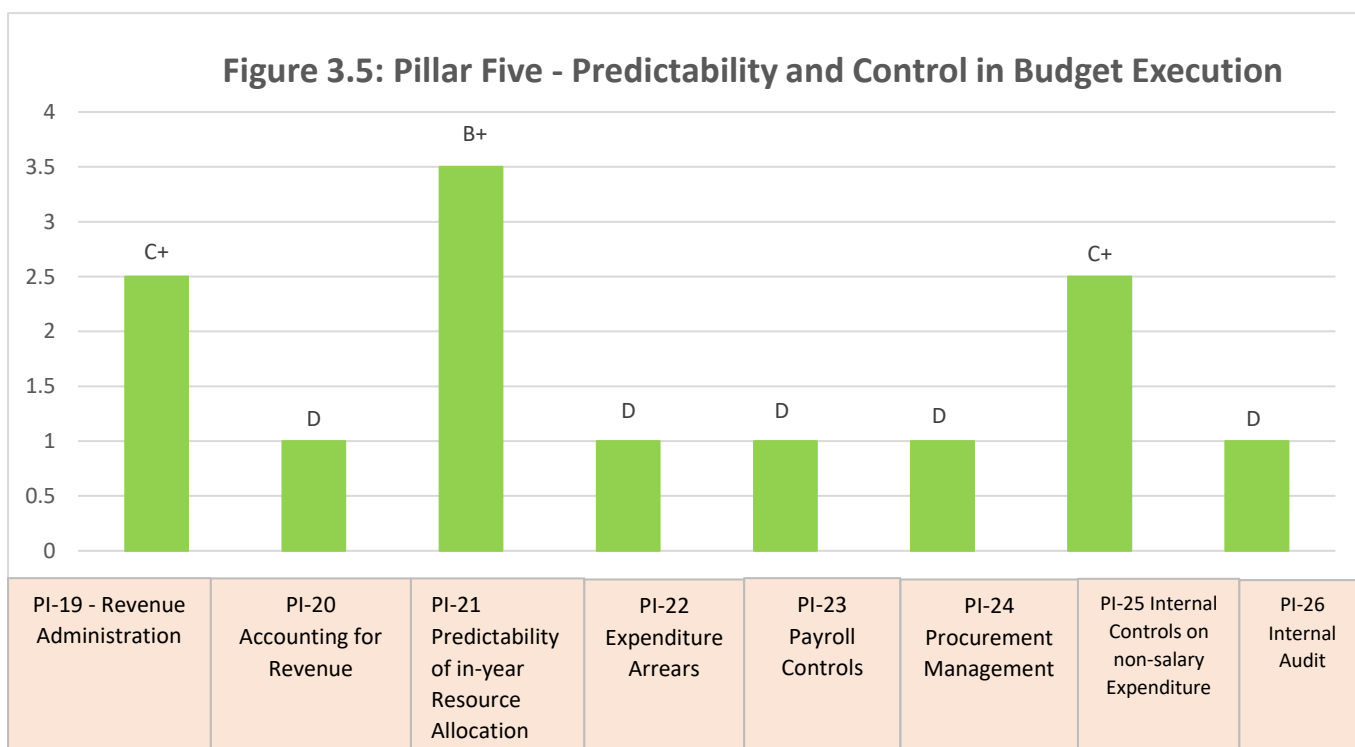
PILLAR FIVE: Predictability and Control in Budget Execution

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

Overall performance

Performance under this pillar is somewhat of a “mixed bag”. Administration of and accounting for revenues reflect generally good performance with well-defined rights and obligations and minimal revenue arrears but risk management and revenue audits are generally an area of relative weakness.

Banking arrangements appear straightforward with just a limited number of accounts in operation. Whilst there is not a formalized TSA structure, current banking arrangements almost effectively operate as a TSA with all collections deposited directly into the Operations Account. Ministries, Departments and Agencies (MDAs) receive the full year’s budget appropriation in commitment ceilings (warrants) and in the assessment year there were only two supplementary appropriations, which was an unusually lower number compared to previous years and the current year in process. Bank reconciliation is undertaken on a daily basis, which is a positive advancement. However, there is a backlog of uncleared/unmatched items, a significant amount of which relate to payroll payments, where there are systemic issues for automatic matching. Clearance at the year end, specifically during the completion of the annual financial statements is expected to clear most of these outstanding items.



However, there is significant scope for strengthening performance in other PFM aspects of budget execution and control. No forward-looking cash flow forecasting is undertaken, and procurement is recognized as an area of specific weakness, and TA support has been requested on this. Although expenditure arrears are minimal, this is a product of legacy payment issues rather than effective management of commitments against warrants—past failures to pay have resulted in all creditors now requiring payment in advance for orders. This represents an internal control weakness in the procure-to-pay process, whereby invoices and payments should

be matched against the verification of receipt of goods or services.

Commitment controls appear to be effective, and most payments are made in a compliant manner. However, internal control is undermined by a lack of reconciliation between the payroll and personnel records and clearly defined segregation of duties. This situation is exacerbated by the absence of any internal audit function.

Possible underlying causes of performance

A major factor contributing to the outcomes of the assessment is the small nature of the administration and a heavy dependence on technical support in the form of capacity supplementation. The absence and late replacement of some advisors has impacted performance in several areas.

Recent and ongoing reform activity

A key reform underpinning the overall PFM system is the implementation and rollout of the FMIS, using the TechOne package solution. Six of the eight financial modules have been implemented automating, the procure-to-pay process; accounts payable (including implementation of electronic payments); revenue receipting; accounts receivable management; general ledger and accounting; and budget preparation. This has facilitated integration of end-to-end processes for revenue collections and payments, strengthening overall financial and internal controls.

NCS is also currently in the process of implementing the Asycuda system for processing and managing cargo manifests and the operations which underpin customs related revenue charging and collections. The implementation is still ongoing and early drafts of the standard operating procedures have been prepared.

P-19. Rights and obligations for revenue measures

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-19. Revenue administration (M2)		C+
19.1. Rights and obligations for revenue measures	<p>The following revenue sources account for 90% of total government revenues before grants. NRO (27%); NCS (8%); Fisheries (24%); MCA (31%). The NRO Website contains copies of tax and revenue administration legislation, as well as the taxpayers charters—these documents provide guidance on modalities for redress.</p> <p>Fisheries revenues are governed by the Parties to the Nauru Agreement (PNA) and the Pacific Island Forum Fisheries Agency (FFA). The contracts are drawn up based on the established rules and managed accordingly. Fishing companies are well informed on their rights and obligations.</p> <p>Regional Processing Centre (RPC) revenues are collected in accordance with the contract agreement between the governments of Nauru and Australia.</p>	B
19.2. Revenue risk management	<p>NRO: There is a compliance improvement strategy (CIS) with a systematic approach to managing risk but there is no documented report on its implementation.</p> <p>NCS: does not have a documented risk management strategy.</p>	D

	Fisheries revenues are managed in accordance with FFA and PNA rules which are well documented. Risks are mitigated by requiring payment in advance of fishing which is overseen through a vessel monitoring scheme (see below). MCA revenues for the regional processing center are managed under contract with the Australian Government. However, neither the memorandum of understanding nor contract agreement was available to view for the assessment. Also, no documents were provided on the processes for managing compliance risk. Hence the dimension has been scored D*. +	
19.3. Revenue audit and investigation	No revenue specific audits having been undertaken	D
19.4. Revenue arrears monitoring	NRO tracks arrears in a spreadsheet at the end of the year, and with a small taxpayer base arrears are minimal (\$4,737). Fisheries revenues are paid in advance for fishing access the following calendar year. MCA debtors at the end of the financial year were all current, totaling \$986,012. No arrears are more than 12 months old.	A

Note: Percentages in brackets refer to percentages of total government revenues before grants.

Evidence for score

There are four material revenue sources accounting for 90% of total revenue: Tax Revenue (27%); Customs Revenue (8%); Fisheries Revenue (24%); and Revenue received from operating the Regional (asylum) Processing Center (RPC) - (31%).

Tax Revenues: NRO. (<https://naurufinance.info/nauru-revenue-office/>) Tax revenue is administered by the Nauru Revenue Office (NRO). The website contains links to legislation; tax forms; submission dates; Taxpayer’s Charter; Schedules of Tax Rates (effective from 2020)—the Charter sets out taxpayer’s obligations and rights (including complaints and appeals rights); and service standards. The legislation includes consolidated updates of the original legislation and subsequent amendments, covering: the Revenue Administration Act (RRA); Employment Service Tax Act (ESTA); Business Tax Act (BTA); Telecommunications Service Tax Act; and the Gaming Act. The legislative consolidations are unofficial, but readers are redirected to the RONLAW website for the definitive legislation. There is a guide for companies for “the Preparation of Business Profit Annual Returns’ available at NRO but not via the website. The tax base is small and NRO telephones all the taxpayers, which are categorized by small and large taxpayers only. Furthermore, the assessment forms provide notification of taxpayers’ rights and redress channels.

There is a compliance improvement strategy but there is no documented report on its implementation. Tax Audits have not been undertaken in recent times—the unfilled tax advisor position is a contributory factor to these gaps. A spreadsheet is prepared annually on tax revenue arrears, which are very small.

Nauru Customs Service (NCS)

The NCS website does not provide direct access to the Customs Law nor the Customs Tariffs. Although, these are provided on the RONLAW website they come with a caveat that material may not necessarily reflect the current state of the law. Internal and external guidelines have been produced but only as early drafts at this stage—implementation of the Asycuda system is ongoing.

Fisheries Revenues:

The obligations and rights of fisheries vessels are defined under the protocols of the Parties to the Nauru Agreement (PNA), the Pacific Islands Forum Fisheries Agency (FFA), and the Western & Central Pacific Fisheries Commission. The terms and conditions and prices for licensing fishing vessels, including the Vessel Days Scheme (VDS) are published on the respective websites. Standard contract templates are used, and the majority of payments are made up-front in December for the following calendar year. In some instances where the payments are large, the fishing company may be allowed to pay in two instalments (December and May/June). Payments are made directly to the Operations Account held by the Treasury. As payments are

made in foreign currency, the FMIS invoicing and accounts receivable module are not used for these revenues—companies pay against a manual invoice.

In terms of risk management, there is a vessel monitoring system observing where all the vessels are fishing, and the vessels must submit “in/out” reports notifying when they are entering and leaving different zones.

MCA/RPC

The Regional Processing Center arrangements are embedded in the contract agreement with Australia, but this was not available for review under this assessment. This sets out the hosting, visa and resettlement fees, as well as the eligible reimbursable costs. The revenue invoicing, collections and banking deposits are managed in real time through the FMIS, which provides an automated real time reconciliation. A spreadsheet is prepared at the end of the financial year listing the outstanding receivables.

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

Entity	Information available to taxpayers' rights and obligations				Risk management	
	Revenue obligations (Y/N)	Redress (Y/N)	Source of information (Specify)	Is up-to-date (Y/N)	Approach	Coverage
Nauru Revenue Office	Y	Y	Websites NRO	Y	CIS but no operational plans/implementation	CG tax revenues None
Nauru Customs Service	Y	Y	Website NCS	Partial	No strategy	CG fisheries
Fisheries	Y	Y	FFA website, fisheries contracts	Y	Upfront payment	
Regional Processing	Y	Y	MCA contracts	Y	Vessel monitoring Managed through contract agreement and AR in the FMIS	CG MCA revenues

Data source: <https://naurufinance.info/nauru-revenue-office/nro-administered-legislation/>; (Unofficial) Consolidated Revenue Administration Act (RAA) (as of 20 January 2020); (Unofficial) Consolidated Employment and Service Tax Act (ESTA) (as of 22 January 2020); (Unofficial) Consolidated Business Tax Act (BTA) (as of 20 January 2020); (Unofficial) Consolidated Telecommunications Service Tax Act (as at 4 December 2018); Gaming Act 2011 Parties to the Nauru Agreement (PNA) www.pnatuna.com Pacific Islands Forum Fisheries Agency (FFA) | Strengthening national capacity and regional solidarity for sustainable tuna fisheries.

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

Entity	Revenues*		Audit and fraud investigations undertaken (Y/N)	In accordance with compliance improvement plan (Y/N)	Compliance improvement plan documented (Y/N)	Stock of arrears	
	\$	% of all revenue				\$	% of annual collection
NRO	66.8 m	27%	N	N	Y	\$4,737	0%
NCS	19.6m	8%	N	N	N	N/A	N/A
Fisheries	59.8m	24%	N	N	N/A	0	
MCA	76.8m	31%	N	N	N/A	\$986,012	0.4%

Data source: NRO: No audits undertaken. NRO CIS 2020/21 and Tax Debtors spreadsheet. Fisheries and MCA are managed against contracts. Fisheries revenues are paid largely in advance for the whole year and MCA revenues are managed through the accounts payable module in the FMIS. NRO spreadsheet on revenue arrears at the end of the financial year.

Table 19-3: Size of revenue collecting agencies

Entity	Receipts \$'000	%
Nauru Revenue Office	66,772	27%
Nauru Customs Service	19,580	8%
Fisheries Authority	59,798	24%
MCA	76,763	31%

Other (various)	21,693	9%
Sub Total Before Grants	244,606	100%
Grants	21,274	
Total	265,880	

Data source: Government of Nauru, Quarterly Budget performance Report Q4 2020/21. <https://naurufinance.info/wp-content/uploads/2021/08/GON-Quarterly-Report-Q4-2020-21.pdf> "Others" include: investment income and dividends (\$6.7m); unspecified miscellaneous revenues (\$6.4m); Fuel Levy (\$1m); and various other fees and licenses (each under \$1m individually),

Table 19-4: Execution of Compliance/Audit Plan

	Plan	Actual	%
Audits of tax returns	None	None	None

Data source: None – administration is small and limited staff for undertaking formal audits. However, the taxpayer base is equally very small.

PI-20. Accounting for revenue

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-20. Accounting for revenue (M1)		D
20.1. Information on revenue collections	DoF receives all revenue data as it is entered into the FMIS in real time. Consolidated revenues are reported quarterly, in the Quarterly Performance Reports. However, there are no documented monthly reports of consolidated revenues.	C
20.2. Transfer of revenue collections	All revenues from all the four major sources are deposited directly upon receipt to the Operations Bank Account held by the Department of Finance.	A
20.3. Revenue accounts reconciliation	NRO undertakes a reconciliation at the end of the financial year in Excel, but this covers NRO's own revenues only. There is not consolidated reconciliation of revenue from all sources.	D

Evidence for score

NRO oversees and monitors all revenue collections from all sources. These revenues are consolidated on a quarterly basis in the Quarterly Budget Performance Reports, which include a detailed breakdown by revenue type. All revenue collections and bank deposits are undertaken through the FMIS in real-time (with deposit slips produced through the system). Although total revenues are consolidated in the FMIS and this is monitored and overseen by NRO, there is no evidence of a formal report being produced of consolidated revenues other than in the Quarterly Performance Reports. An annual reconciliation is produced of NRO revenues only (due to absence of a key advisor and limitations on staff numbers), using an MS Excel spreadsheet.

All revenues from all the four major sources are deposited directly upon receipt to the Operations Bank Account held by the Department of Finance (Treasury).

Fisheries revenues are recorded in the FMIS, but collections are managed against manual invoices (as invoices

are in foreign currency - USD). MCA manages invoicing and payments fully through the FMIS, so this tracks the full flow and reconciliation of assessment through to deposit into Treasury-held bank account.

Table 20.1 – Accounting for revenue

Entity	Revenue and % of Total CG Revenue	Data collected by Ministry of Finance			Revenue collections deposited:		Reconciliation	
		At least monthly (Y/N) -	Revenue type (Y/N)	Consolidated report (Y/N) –	Frequency	To Treasury of MoF Account	Frequency	Within
Revenue collected by budgetary units								
NRO	66,772 (27%)	Y	Y	Quarterly	Real time	Op Acc.	Annual	N/A
NCS	19,580 (8%)	Y	Y	Quarterly	Real time	Op Acc.	N/A	N/A
Fisheries Authority	59,798 (24%)	Y	Y	Quarterly	Real time	Op Acc.	N/A	N/A
MCA	76,763 (31%)	Y	Y	Quarterly	Real time	Op Acc.	N/A	N/A
Other (various)	21,693 (9%)			Quarterly				
Sub-total	244,606 (100%)							
Revenues collected by Extrabudgetary Units								
N/A								
Sub-total								
TOTAL								

Data source: Government of Nauru, Quarterly Budget performance Report Q4 2020/21. <https://naurufinance.info/wp-content/uploads/2021/08/GON-Quarterly-Report-Q4-2020-21.pdf>. Data recorded in real time in FMIS, including classification by revenue type. But no monthly consolidated report. Op Acc = Operations Account

PI-21. Predictability of in-year resource allocation

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-21. Predictability of in-year resource allocation (M2)		B+
21.1. Consolidation of cash balances	All bank accounts are managed on a consolidated basis. Monies are paid directly into bank accounts held and managed by the Treasury with Bendigo Bank. The cash balance is <i>de facto</i> consolidated on a daily basis, but the cash monitoring worksheet is prepared weekly. The Treasury Operating Account plus the cash buffer accounts and Receipt (CB3) account represent 92% of BCG cash resources.	A
21.2. Cash forecasting and monitoring	No annual cash plans are produced. No forward-looking cash flow forecasts are currently produced.	D
21.3. Information on commitment ceilings	MDAs receive their annual budget appropriations in full at the start of the financial year. They are therefore able to implement the budget with a significant degree of reliability. Expenditures are controlled against the full budget release.	A
21.4. Significance of in-year budget adjustments	Only two amendments were made to the budget, in the form of two supplementary appropriations which are published on the DoF website and provide a full rationale on the funding sources and allocation of the supplementaries. Supplementary estimates are laid before Parliament for approval and appropriation in accordance with Section 6 of the Public Finance (Control and Management) Act 1997.	A

Evidence for score

The DoF website states the following:

Department of Finance operates an agency of Bendigo and Adelaide Bank (Bendigo Bank) in Nauru to provide banking services to Nauruans, consistent with the GoN's financial inclusion objectives. The Agency was opened on 2 June 2015. As an agency of the Bendigo Bank, agency operations fully comply with Bendigo Bank operational requirements and the Australian Corporations Law. Bendigo Bank in Australia is supervised by the Australian Prudential Regulation Authority and meets all relevant legislative and prudential supervision requirements.

GoN operates 10 bank accounts: the main Treasury Operating Account; 3 donor bank accounts; 3 cash buffer accounts; one Receipting Account (for incidental collections); one imprest account for the NRO; and one Treasury Collections Account for various Fees, etc. With the exception of a few cheque payments against the Imprest Account, all payments are made electronically. As GoN has been able to secure additional cash funds it has built up a cash buffer to cover 3 months' worth of expenditures. These are held on term deposit and three accounts are maintained to accommodate different maturities—these monies are on call to meet any payment obligations. Collections are deposited directly to the accounts held by the Treasury and available balances reflect the consolidated cash position. A consolidated list of bank accounts with balances is updated weekly and monitoring of balances is also undertaken on a daily ad-hoc basis.

No forward-looking cash flow forecasts are prepared. In past years (pre-2017/18), the MDAs used to prepare an Annual Cash (or Spending) Plan, but this has not been undertaken for several years now. Cash monitoring is only undertaken on the actual current position (current balances) on a weekly basis.

Once the appropriation bill is passed, this full amount for the year (plus rolling-up any subsequent supplementary appropriations) are available for committing expenditures within the FMIS.

During the assessment year, 2020/21, there were two supplementary appropriations—which was lower than usual. For 2019/20 there were five supplementary appropriations; and in 2021/22 there were three. Examples of these additional resources include the realization of an Exim Bank loan and an extension to the RPC agreement.

Table 21-1: Consolidation of bank and cash balances

Extent of consolidation (All, Most, < Most)	Frequency of consolidation (D, W, M)	Data Source
All (92% of BCG cash resources)	D	Listings below

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

Data source: Weekly cash monitoring reports (of cash balances) produced. Monies deposited directly to Treasury held bank accounts.

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

Cash flow forecast (Y/N)	Frequency of update (M/Q/A)	Update based on cash	Frequency of release of commitment ceilings	Budget adjustments		
				Frequency	% of BCG expenditure	Transparent
		inflows (Y/N)	(M/Q/A)			
N	None	No	Annual	2	Supp: \$106m Original: \$210m 50.4%	Yes. Supplementary budget published on DoF Website

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

Data source: Supplementary Budgets 2020/21: [Microsoft Word - 2020-20 Supplementary Budget No 1 v13 181020 final.docx \(naurufinance.info\)](#), [Microsoft Word - 2020-21 Supplementary Budget No 2 FINAL 20210127.docx \(naurufinance.info\)](#)

PI-22. Expenditure arrears

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-22. Expenditure arrears (M1)		D
22.1. Stock of expenditure arrears	Expenditure arrears are not a major issue in Nauru as suppliers are requiring payment up-front. Consequently, this is not something being monitored or reported upon. The Nauru Debt Report refers to “informal liabilities” (expenditure arrears) amounting to \$2.9 million—which relate to membership of international institutions—which is less than 2% of total expenditures in each of the 3 years of assessment.	A
22.2. Expenditure arrears monitoring	There is no monitoring or reporting of arrears and no analysis or breakdown of the figures shown in the Debt Report.	D

Evidence for score

Arrears are financial obligations that have been incurred the government for which payments have not been made by the due date. Nauru has no definition of arrears. Limited data is maintained on expenditure arrears. Due to issues in the distant past, where payments to suppliers were made very late, most vendors are now requiring payment in advance of delivery. Treasury Instruction 3 makes reference to this fact—although this represents a control weakness, making payment before the goods are formally received, this means that currently there is not an established process to monitor and report on expenditure arrears. The Nauru Debt Report 2020/21 makes reference to expenditure arrears as “informal liabilities” in the amount of \$2.9 million, slightly more than 1%.

Table 22-1. Stock and monitoring of expenditure arrears

Stock of arrears			Arrears monitoring		Data source
Year	As % of expenditure		Stock age and composition Y/N/NA	Frequency of reports (M/Q/A)	
2018/19	[\$2.9m]	[\$209m] 1.3%	None	A	Annual Debt Report
2019/20	[\$3.4m]	[\$242m] 1.4%	None		Annual Debt Report
2020/21	[\$2.9m]	[\$280m] 1.0%	None		Annual Debt Report

Data sources: GoN Final Quarter Budget Performance Reports: [GON-Quarterly-Report-Q4-2020-21.pdf \(naurufinance.info\)](#). Microsoft Word - GON Quarterly report Q4 2019-20 Final 20200812.docx (naurufinance.info). Government of Nauru (naurufinance.info) and Annual Debt Report 202021: Microsoft Word - Nauru Debt Report 2021 - Budget 2020-21.docx (naurufinance.info)

PI-23. Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Payroll usually comprises the biggest category of government expenditures. Strong controls can minimize or eliminate payroll leakages and corruption, and reinforce fiscal discipline by ensuring payroll is managed according to the budget and relevant legal requirements. This helps minimize unintended expansion of payroll costs or outstanding obligations to employees. These could otherwise result in operational inefficiencies and poor quality of services.

The Payroll/HR Section within the Office of Chief Secretary (OCS) has full control of HR policy and administration of payroll. This includes managing the subsequent payroll implications of HR policy and staffing changes including variations, processing and budget checks. There is a checklist of payroll processes and the various required reconciliations (using applicable reports) that are undertaken by OCS for each pay run to

determine accuracy of the payroll data prior to bank payment. The OCS Payroll manager depends wholly on the accuracy of the timesheet and staff variations inputted by Departments' payroll personnel. There is no credible reconciliation process in place except for generic templates that do not illustrate any proper check and balances. Treasury's role only comes at the end of the process when it issues the authority for payroll runs to the bank when given the all clear by OCS.

Payroll management issues will need to be resolved at higher levels given this legacy and require some restructuring of the respective roles of the two agencies to demarcate between HR policy and administration procedures and what are essentially financial management responsibilities. This will ensure proper checks on the salary adjustments and variations ensuing from HR policy and staffing changes, against what should be the correct salary and entitlement payouts to public servants individually.

Furthermore, no evidence was provided that there was any oversight at all by OCS over the seven EBEs' payroll controls and management at an operational level. Except for NUC, which provides fully audited (and unqualified) annual financial statements that attest to the integrity of payroll controls, the rest of the EBEs showed no evidence of effective payroll controls in their entities or audited annual financial statements.

Indicator and dimension score analysis

INDICATORS/DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI – 23. Payroll controls (M1)		D
23.1 Integration of payroll and personnel records	There is no evidence to suggest that reconciliation of the payroll with personnel records takes place at least every six months. Staff variations are not checked against budget prior to authorization of payroll run.	D
23.2 Management of payroll changes	There is no evidence that personnel records and payroll are updated at least quarterly for some retroactive adjustments. Recent issues highlighted by recent PFTAC reports ¹⁵ point to acute problems with updating and reconciliation	D
23.3 Internal control of payroll	Documented controls are not sufficient to ensure the integrity of the payroll data.	D
23.4 Payroll audit	No payroll audit done nor evidenced in the last three fiscal years.	D

Evidence for score

Table 23-1. Payroll controls

Function	Y/N	By whom	Frequency (if applicable)
Hiring and promotion checked against staff list	Y	OCS	regular
Reconciliation of payroll and personnel database	N	OCS	rare
Documentation maintained for payroll changes	Y	OCS	irregular
Payroll checked and reviewed for variances from last payroll	Y	OCS	irregular
Updates to personnel records and payroll.	Y	OCS	regular

¹⁵ PFTAC: Nauru. Adopting IPSAS Cash Reporting. 2019

Updates includes validation with approved staff list.	N	OCS	irregular
Audit trail of internal controls	N	OCS	none
Payroll audits in last three years. Define coverage.	N	n/a	none

Source: PFTAC. Nauru. Adopting IPSAS Cash Reporting. 2019; Consultations with Treasury and OSC management and staff; Payroll Processing Checklist.

PI-24. Procurement

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-24. Procurement (M2)		D
24.1. Procurement monitoring	No central database is maintained on procurement. There are no procurement plans, nor are there any data on tenders let, awarded tenders, nature of tenders, value of tenders, procurement statistics, etc.	D
24.2. Procurement methods	There is no data on the different procurement methodologies used. It is up to the Agent to achieve value for money. The Agent operates using its vendor-network. Tenders are rarely opened to competitive open bidding.	D*
24.3. Public access to procurement information	Apart from the amendment to the Public Finance Act 2019 and Public Finance Regulations – 2013 Procurement, other procurement criteria are not made public.	D
24.4. Procurement complaints management	The government does not have an appeals/complaints process, as all procurement is undertaken via the Agent.	D

Data sources: [Public-Finance-Regulations-2013-Procurement.pdf \(naurufinance.info\)](#); [Public-Finance-Act-Amendment-2019-Procurement-Agent.pdf \(naurufinance.info\)](#)

Evidence for score

Procurement is guided by the amendments to the Public Finance Act 2019 and Public Finance Regulations – 2013 Procurement (referenced above) and covers all public authorities, including any extrabudgetary units (hence covers the whole of Central Government). These documents set out a threshold of \$3,000 above which all procurement must be undertaken through one of the nominated procurement agents, namely (i) Brisbane Procurement (Nauru Consulate in Brisbane); (ii) Eigigu Procurement Ltd.; and (iii) Nauru Post Office. In practice and in accordance with an internal circular, procurement is concentrated with the latter two. Below the \$3,000-threshold, MDAs may source from local outlets in Nauru.

The Government of Nauru has drafted a procurement manual, but this is not published on the website, rather used for internal use. Although there are templates for MDAs to plan their annual procurement, they are not used, and procurement is undertaken *ad hoc* as requirements become apparent.

The Ministry of Finance recognizes this shortcoming with procurement and has requested technical assistance support to strengthen this area.

Table 24-1 Procurement

Database of records maintained A=All; M=Most; Ma=Majority	Percentage of procurement awards through competitive methods (%)	Public access to procurement information (Y/N)				
		Legal/regulatory framework	Procurement plans	Bidding opportunities	Data on complaints	Statistics
None	None	Y	No	No	No	No

Data source: [Public-Finance-Regulations-2013-Procurement.pdf \(naurufinance.info\)](#); [Public-Finance-Act-Amendment-2019-Procurement-Agent.pdf \(naurufinance.info\)](#) No other procurement data maintained.

Table 24-2 Procurement complaints mechanism

Characteristics of procurements complaints body (Y/N):					
Not involved in procurement	Fees charged for lodging complaint	Clearly defined and publicly available complaints process	Has authority to suspend procurement process	Decisions made within timeframe specified in rules/regulations	Issues are binding
N/A	N/A	N/A	N/A	N/A	N/A

Data source: There is no complaints mechanism – all procurement processes/practices managed by agent.

PI-25. Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Internal controls provide assurance that expenditures are managed prudently (technically and legally) and that the purpose of the expenditure allocation is effectively being met. It will ensure that discipline is maintained at the operational as well as aggregate level. The indicator includes dimensions to assess the existence of the segregation of duties; effectiveness of expenditure commitment controls; and compliance with payment rules and procedures.

Section 14 of the Public Finance (Control and Management) Act 1997 sets the legal framework for the “*Control of revenue, expenditure, public property, and other assets*”. The Financial Instructions have been developed, endorsed and adopted to give operational effect to the Act. To date, three chapters of the FIs are in place: (i) FI1 General Principles; (ii) FI2 – Budget; (iii) FI3 – Payments. These set out in detail GoN’s legal framework and financial management systems, together with financial management principles, policies and procedures to be followed by departments and agencies. These are aimed to enhance clarity and uniformity of policy and practice in public financial management¹⁶.

“ ...Clause 1.6: The Instructions should form the minimum standard for financial controls in every department and agency. The Instructions emphasize the responsibilities of Heads of Departments and all other GoN officers who should ensure that the financial systems which they are responsible for are operating in accordance with appropriate internal controls and governance frameworks....”

Clause 3.15 and 3.16 of FI1 lay out the specific responsibilities of the Department Heads in regard to the establishment and operationalization of internal controls within their respective agencies.

The segregation of responsibilities is not clearly outlined in FI1 and FI3 as Departments’ Budget and Finance Officers are charged with preparing documentation for any payment transaction as well as inputting the requisition information into the FMIS. Incompatible responsibilities not segregated are: (a) authorization; (b) recording; (c) certification of the physical supply of goods and provision of services. Similarly, in FI3 the Budget/Accounting officers are lumped with all these responsibilities, which exposes the responsible officers to committing errors and fraudulent intents.

A planned review of the procurement system (with assistance from ADB TA) is expected to better address the functions of procuring and receiving goods and services. The primary compensating control in place at present is that all payments are processed via the FMIS and through Treasury (based on delegated authorities). This provides transparency for expenditure being undertaken by Departments but does not address the potential risks of collusion and conflict of interest that prevail in the purchasing processes undertaken outside of the FMIS.

With regard to commitment control, FI1 clause 4.21 provides that *“The Head of Department is responsible directly, and through the portfolio Minister, to the Parliament for all expenditure his Department incurs, and to ensure that expenditures made and committed can be met from the balance of funds still remaining in any departmental sub-head appropriation and that commitments **shall** not, under any circumstances, exceed the appropriation available to make such commitments at the time the commitments were made”*

GoN’s requisition, approval and payment processes are all centralized within Treasury which entails detailed budget and commitment checks in the FMIS before any payment is made. The FMIS is run on the software

¹⁶ GoN. FI 1: Financial Instructions – General Principles: 2020.

TechOne which has a fully centralized payments processing and approval system. The FMIS Accounts Payable module is linked to the Fund Ledger in which requisition/commitments are subject to fund control. Approved annual funding is available for spending from the first day of the financial year and is not split into quarterly/monthly warrants even though this function is present and can be pursued in the FMIS.

There are weekly reports at Department level which shows total commitments at agency level and there is a whole of government reporting template generated from the Budget vs Actual Enquiry panel. On the basis of volume and value of transactions, it can be reasonably surmised that compliance is ensured before most payments are made.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-25. Internal controls on nonalarm expenditure (M2)		C+
25.1. Segregation of duties	There is no definition nor statement of the principle of segregation of duties in the PFCMA, nor in any of the FIs. Instead, key steps in the procurement and payment process and the responsibilities are lumped together with the Budget/Accounting officers at Department level.	D
25.2. Effectiveness of expenditure commitment controls	Evidence provided showed a fully centralized system of expenditure controls from processing to approval stages, but no commitment reporting template was made available. However, given the volume of CG expenditure transactions flowing through Treasury it can be reasonably assessed that the system ensures that commitments are within budget limits and cash availability for most types of expenditures.	B
25.3. Compliance with payment rules and procedures	Most payments are compliant with regular payment procedures and the majority of exceptions are properly authorized and justified.	B

Evidence for score

Table 25-1: Segregation of duties and commitment controls

Segregation of duties		Commitment control		
Prescribed throughout the process (Y/N)	Responsibilities C= Clearly laid down M= Clearly laid down for most key steps N= More precise definition needed	In place (Y/N)	Limited to cash availability A= All expenditure M= Most expenditure P= Partial coverage	Limited to approved budget allocations A= All expenditure M= Most expenditure P= Partial coverage
N	N	Y	M	M

Source: PFCMA; Financial Instructions – Chapters 1, 2 and 3; Payments processing and approval flowcharts; FMIS Manual Version 1.0.: Agency Commitment Reports; Whole of Government Budget v Actual Enquiry Panel Report

PI-26. Internal audit

This indicator assesses the standards and procedures applied in internal audit.

Internal audit is a tool that provides management advice on the efficacy of internal controls; financial and operational information; operations and programs; asset management; and compliance with legal, regulatory, and contractual obligations.

DoF has overall responsibility for the efficient and effective management of the Government's finances. This includes financial control and risk management, accounting and financial reporting, supported by GoN Departments and agencies. More specifically, the Treasury is responsible for exercising adequate financial management and control over the operations of the Government and undertaking timely corrective action to address emerging deficiencies¹⁷.

GoN does not have any internal audit function in the DoF or its Treasury or anywhere within the executive arm of government. There is no legislative, regulatory, nor policy framework in place to effect the functions of internal audit across government in a mandatory and systematic manner.

Under Section 32 of the PFCMA, the Minister through Cabinet has the powers to make regulations for *"....: (a) the collection, receipt, custody, issue, expenditure, care and management of, and the due accounting for, all public moneys and the duties of persons concerned therein; (b) the more effectual recording, examination, inspection and departmental checking of all receipts and expenditure and the keeping of all necessary books and accounts..."*

GoN in 2020 exercised these powers through a Cabinet decision to outsource the internal audit function to an international firm, which also undertakes internal audit on donor fund accounts. The scope of work includes:¹⁸

1. Support the establishment of an internal audit function in the Treasury Division, including establishing a strategic audit plan and schedule, as outlined in its Strategic Internal Audit Plan Proposal.
2. Undertake agreed internal and IT audits, consistent with international standards, and deliver timely draft reports and recommendations to the Finance, Audit and Risk Committee.
3. Support to build internal capability and address internal audit recommendations and and action plans.
4. Ensure that the proposed audit plan and schedule is agreed by the Department of Finance prior to commencement of work.

Stanton International was appointed as the Finance outsourced internal audit function in either late 2019 or early 2020 - however, due to COVID 19 have not been able to venture on-island to undertake any fieldwork. A number of documents have been produced by Stanton International remotely, including the Nauru Audit Plan for 2020-2022, as well as, two audit reports relating to 1) Internal Audit Framework and 2) IT General Controls. There has been planning undertaken for additional audits relating to Payroll and

¹⁷ Clause 4.17 of Financial Instructions 1 – General Principles.

¹⁸ GoN. Consultant's Contract between GoN and Stanton International. 2020

Procurement/Purchasing, however, these have been put on hold awaiting the ability to undertake fieldwork on-island if possible¹⁹.

The outcomes of this arrangement will take time to bear fruit in establishing an internal audit function, considering the institutional capacity and structures that will need to be developed and built to reach the stage when it is operationally functional.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ESSMENT OF PERFORMANCE	SCORE
PI-26. Internal audit (M1)		D
26.1. Coverage of internal audit	No formally established IA function in GoN. Only some donors focus their own IA operations on their respective programs and projects and GoN conducts internal audit very selectively	D
26.2. Nature of audits and standards applied	No internal audit function operational	NA
26.3. Implementation of internal audits and reporting	No internal audit function operational	NA
26.4. Response to internal audits	No internal audit function operational	NA

Source: Financial Instructions 1 – General Principles: GON. Consultant’s Contract between GON and Stanton International. 2020

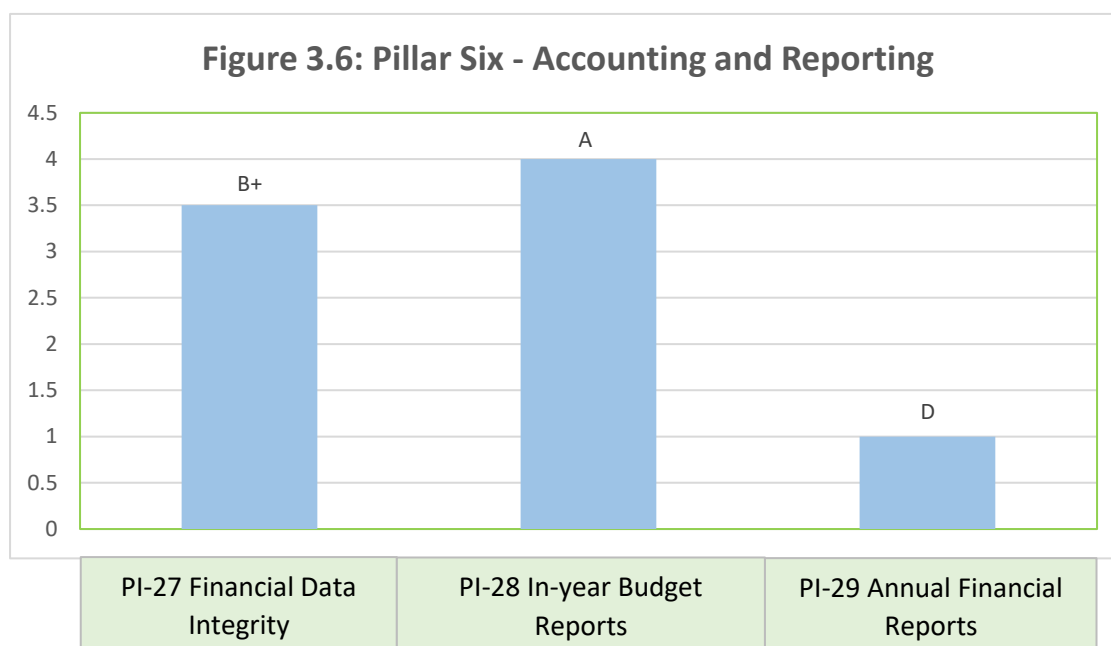
¹⁹ Republic of Nauru – Department of Finance Internal Audit Framework INTERNAL AUDIT REPORT. Dec 2020
 Republic of Nauru – Department of Finance ICT General Controls Review INTERNAL AUDIT REPORT. Mar 2021

PILLAR SIX: Accounting and Reporting

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

Overall performance

Overall performance for the three indicators for this pillar has been well above satisfactory for data integrity and in-year budget reports whereas the timeliness and quality of annual financial reports has been below satisfactory. The satisfactory ratings are attributed to the highly centralized system of payments and revenue processing and approvals and the robust accounting and reporting capabilities in the FMIS and its management by Treasury Division. Annual financial reports continue to lag in timeliness and quality due to legacy issues. Clearing the past backlog has severely hampered work on preparing recent and current annual financial reports.



Possible underlying causes of performance

DoF has been gradually building up and reforming its public financial management system in the last few years with structural changes at organizational and systems level. Along with these, a clearer delineation of responsibilities and accountabilities for accounting and budget officer cadres had been put in place and the development of Financial Instructions to provide operational guidelines on accounting and financial management procedures.

Training has also been consistently undertaken with these cadres in sequence with the roll out of the reform initiatives. It is also important to note that the supporting functions in key interface Departments that handle receipting and payments like NRO, Customs and NRPC are adequately resourced and should be sustained through continuous training and refresher courses.

Financial Reporting continues to be hampered by legacy issues as well as lack of capacity to clear the backlog of previous years' financial statements. Attempts to reconcile legacy balance sheet issues like bank and debt balances has only uncovered worse than expected issues of irreconcilable and unverifiable information and missing documents.

PFTAC's TA report on Cash based IPSAS reporting had therefore recommended the definitive approach in GoN drawing the line between what is verifiable and reconcilable with what is not, by writing off the latter part of the equation.

Recent and ongoing reform activity

A stock take of the on-going PFM Reform Roadmap would help reposition and re-cast GoN's reform actions ahead of its next phase. This could achieve better alignment, pacing and sequencing according to priorities and the urgency of problems identified.

Two critical areas of priority would be to sustain the regularity of the bank reconciliation and build the capacity of the accounting and reporting functions within Treasury. Training of the accounting cadre will have to be done on modules that include accounting for end of financial year, preparation of financial statements and international public sector accounting standards.

PI-27. Financial data integrity

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

Reliability and integrity of financial data ensures accurate information is reported to management and decision makers. It requires constant checking and verification of the recording practices of responsible government budget and finance officers. This underpins strong internal control and a platform for good information for management and external reports.

GoN's key operating account for daily withdrawals and deposits is the Treasury Operating Account. There is a weekly cash monitor report that is submitted to Minister and DoF management team every Monday of the week, which provides bank account balances of all current bank accounts managed by Treasury. These include bank accounts used for operational purposes and capital projects which are held under various bank accounts domestically and abroad. Treasury endeavors to undertake the bank reconciliation matching between cash ledger and bank account balances on a daily basis²⁰(except for non-current financial accounts), but there is no evidence of that.

In terms of banking transactions, the following accounts are the most active: Treasury operating account; three donors; overseas missions and the NRPCC. For the donors', NRPCC and mission accounts, transactions do not go through the FMIS but are reconciled on a monthly basis by their respective finance managers and are submitted to Finance for posting (after the fact).

For suspense accounts, superannuation deductions are not held in suspense but are charged directly to salary expenditure codes at the point of the salary run. This also applies to revenue collected (over the counter) at Nauru Revenue Office which is not parked in a suspense account but posted directly to Treasury bank and revenue accounts with official printed receipts rendered to customers. At the end of each day, receipts are reconciled to cash takings and cash is then deposited at the Bendigo Agency afterward.

Advance accounts are not used for civil servants travel whereby they are paid advances and are later required to be acquitted. Under GoN civil servants travel policy²¹, officials who travel abroad are provided a set travel allowance (covering both subsistence allowance and accommodation). This is based on fixed rates for each

²⁰ Consultations with Chief Accountant.

²¹ GoN. Public Servants Travel Policy.

country they may travel to. Travel allowances are therefore paid on an entitlement basis and do not require any acquittal by staff upon completion of travel.

Over the years, Treasury has tightened access and security protocols around its FMIS to safeguard its integrity. Chapter 11 of the FMIS Manual²² lays out the systems administration access protocol and security whereby only users with the appropriate authority will have access to their prescribed administration functions. The system has audit trails that clearly identify those who access data or initiate transactions, and other details like time and type of entry. The risk in the system is the HR/Payroll administered by OCS, which is still dominated by manual steps and processes that harbour a lot of risk. Given the quantum of payroll, the integrity of the overall FMIS system is weighed down by this factor.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-27. Financial data integrity (M2)		B+
27.1. Bank account reconciliation	Evidence provided gives reasonable grounds to infer that bank reconciliation for all active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.	B
27.2. Suspense accounts	Suspense accounts are not kept by GoN in either superannuation contributions or revenue accounts. These are journaled and directly posted to the relevant revenue or payroll accounts. Therefore, it is assessed as an A because it shows that reconciliation of suspense accounts takes place instantly and is well within a month from the end of each month, and are cleared in real time.	A
27.3. Advance accounts	Advance accounts are not kept by GoN because staff travel allowances are paid on an entitlement basis. Therefore, it is assessed as an A because there is no need for reconciliation of advance accounts since GoN does not allow advances and all such allowances and entitlements are expensed immediately. This implies real time reconciliations and adjustments thus leaving no reconciliation pending at the end of the month, quarter, or fiscal year.	A
27.4. Financial data integrity processes	Access and changes to records is restricted and recorded. The FMIS Manual Version 1.0 provides security, access and user level privileges protocol. These are recorded and leaves an audit trail for tracking.	C

Evidence for score

Table 27-1 Bank account reconciliation

All active accounts (Y/N)	Frequency (W/M/Q)	Within (1/4/8 weeks)	Aggregate and detailed level (Y/N)
Y	M	4	N

²² FMIS Manual Version 1.0

Table 27-2 Suspense and advance accounts

Suspense accounts reconciliation			Advance accounts reconciliation		
Frequency (M/Q/A)	Within 1 month; 2 months; N = > 2	Timeliness of clearance Y= no later than end of fiscal year (unless justified)/N	Frequency (M/Q/A)	Within: 1 month; 2 months; N = > 2	Accounts cleared timely A= All without delay M = Most without delay F= Frequent with delay N=<F
M	1	Y	M	1	A

Data source: Chief Accountant. Consultations. 2022; Department of Finance. Revenue collection flowchart. 2022. GoN. Public Service Travel Policy. 2016

Table 27 3 Financial data integrity

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

Source: FMIS Manual Version 1.0

PI-28. In-year budget reports

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-28. In-year budget reports (M1)		A
28.1. Coverage and comparability of reports	The FMIS allows real-time preparation of budget execution reports with the same coverage as budget and has the flexibility to produce reports at an even more detailed level. The quarterly budget execution reports also allow direct comparison to the original budget in terms of economic classification, including with the same detailed breakdown by sub-components. Quarterly reports aggregate expenditure by Department compared to the more detailed presentation in budget. Expenditure by de-concentrated units (e.g. foreign missions) is captured monthly.	A
28.2. Timing of in-year budget reports	Weekly reports are prepared and shared with Department Heads. Aggregate budget execution reports are prepared and published quarterly. Three out of four were published within four weeks of the end of each quarter in 2020/21. The exception was the Q1 report which was published within six weeks. This was not seen as a significant issue for the assessment given the high frequency of reporting within government.	A
28.3. Accuracy of in-year budget reports	Weekly and quarterly reports contain information on both commitments and actual expenditures and authorities flagged no material concerns regarding accuracy. No special analysis or commentary is provided in the Q2 report; each quarterly report follows a familiar template of analysis and commentary.	A

Evidence for score

Table 28-1 In-year budget reports

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

Note: W=Weekly; M=Monthly; Q=Quarterly

Data source: Sample management reports provided by authorities. Quarterly budget execution reports (published). *Input into FMIS from foreign missions is updated monthly.

PI-29. Annual financial reports

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE
PI-29. Annual financial reports (M1)		D
29.1. Completeness of annual financial reports	Annual Financial Statements for 2019/20 and 2020/21 had not been finalised by 31 March 2022, meaning the requirement for a C score that they be prepared for the last completed fiscal year could not be satisfied. The 2018/19 statements include a cash flow statement (noting major difficulties in reconciliation) and sufficient detail on revenues and expenditures. The balance sheet includes financial and fixed assets, liabilities and notes dealing with guaranteed borrowings and contingent liabilities. The statements contain a direct comparison to the final budget (including supplementary budgets) by administrative classification at an aggregated level; and a comparison by functional (GFS) classification. The original budget is presented but not used in the variance analysis.	D
29.2. Submission of reports for external audit	Draft 2018-19 Annual Financial Statements were submitted for audit on 11 March 2021 and the audit commenced on 28 April 2021, beyond the nine-month maximum for a C score. The audit was finalised on 22 February 2022 and the statements and audit report are ready to present to Parliament. The audit report for the 2018/19 statements was qualified in several respects (e.g. reconciliation issues, incomplete reporting of assets and liabilities) but found the financial statements to present fairly, in all material respects, the results of operations of GoN.	D

29.3. Accounting standards	GoN uses a hybrid cash/accruals system, seeking to comply with international standards and national legislative requirements under the Audit Act 1973. The draft 2018/19 statements note a transition to full adoption of the IPSAS Cash Standard. Authorities advise that the 2019/20 statements will be the first to be prepared in full accordance with the IPSAS Cash standards. Draft statements for 2020/21 have not yet been prepared. The requirement for accounting standards used in financial reports to be consistent with international standards and domestic legal requirements can therefore not be established over the last three years.	D
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Evidence for score

Table 29-1 Annual financial reports

Completeness					Date of submission for external audit	
Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Information F=Full P=Partial B=Basic	Cash flow statement (Y/N)	Balance Sheet C=Cash only FO=Financials only F=Full	Date of submission	Within: (3/6/9 months)
N	Y	P	Y	F	11 March / 28 April 2021	N

Data source: 2018/19 Financial Statements. Draft available at: <https://naurufinance.info/gon-financial-statements/> Interviews with authorities.

Table 29-2 Accounting standards

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

Noted: IS = International standards

Data source: 2018/19 Financial Statements. Draft available at: <https://naurufinance.info/gon-financial-statements/> Audited version and audit report provided by authorities. Interviews with authorities.

PILLAR SEVEN: External scrutiny and audit

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

Overall Performance

External scrutiny and audit is currently performed by the Department of Audit which reports once annually to Parliament on the Nauru Financial Statements, other accounts and funds.

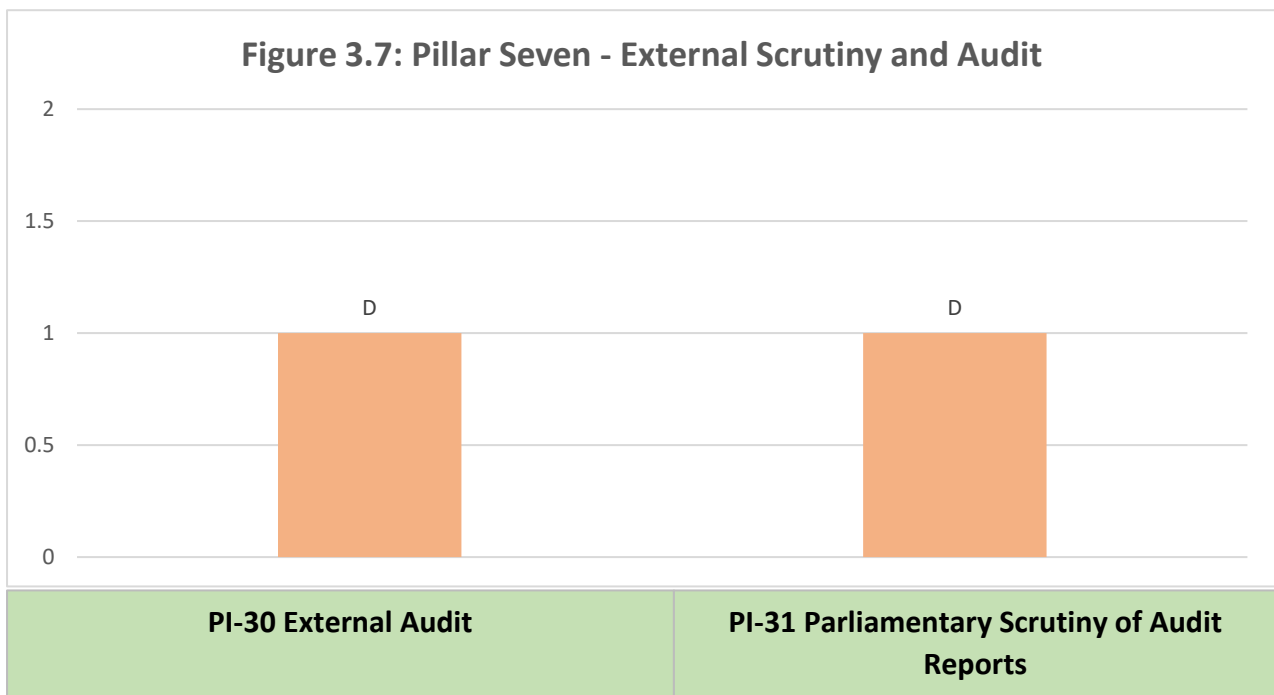
The results of the assessment under this pillar are summarised in the table below:

TABLE 7: Summary Scores – Pillar Seven External Scrutiny and Audit

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv	
PI-30	External Audit	M1	D	D	D	D	D
PI-31	Legislative Scrutiny of Audit Reports	M2	D	D	D	D	D

Possible Underlying causes

For external audit, the main cause for remaining at the same level is due to the delay in the preparation and audit of financial statements of government. Nevertheless, there is improvement in the audit backlog with a reduction of the delay from four years to two years.



There is no evidence to confirm the audit standards applied. There was also a delay in the submission of audit reports to Parliament of three years. For the financial statements of government for the year 2016/2017, the

audit report was submitted to Parliament in 2020 whereas the 2017/18 statements were submitted to Parliament in 2021. There is no evidence of any external follow up of recommendations made with the Executive. Moreover, the SAI is not independent of the executive government as the appointment of the Auditor General is made by the Chief Secretary.

Recent and ongoing reform activity

The Audit Office is working to update the audit backlog of financial statements of government starting with the 2019/20 financial year. PASAI will continue to provide support to the Audit Office, and with the PFM reform in DoF ensuring timely preparation of the government financial statements, to clear and avoid future backlog and to enhance its institutional, organizational and staff capabilities. The Audit Office continues its capacity building by recruiting new senior staff for vacancies established and approved in May 2020 and for other positions vacated by staff leaving the Office.

Further, a proposal for legislative reform to review the Nauru Audit Act had been sent to the Ministry of Justice and is under consultation before it is submitted to parliament. The proposed reform will improve and strengthen SAI Independence in response to the findings of the SAI Nauru Performance Measurement Framework assessment in 2019. A summary of the assessment’s findings was presented to the President and agreed to continue the reform work with the relevant agencies. PASAI helped with the reviewing and drafting of the revised Audit Act and continue to provide support on advocacy for SAI Independence and monitor progress of such reform with the Audit Office.

The Audit Office continues to liaise with Nauru parliament to conduct an advocacy program with the Public Accounts Committee (PAC). The program aims to increase awareness of the role of the Audit Office by PAC and to have a mutual understanding on the external oversight roles of both and highlight the need for ongoing reform of the legal and institutional framework governing the parliament’s scrutiny function, including the role of the PAC in scrutinising past spending. This is an important reform that PASAI will also assist the Audit Office to pursue and implement.

PI-30. External audit

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

- Dimension 30.1 Audit coverage and standards;
- Dimension 30.2 Submission of audit reports to the Legislature;
- Dimension 30.3 External audit follow-up; and
- Dimension 30.4 Supreme Audit Institution independence

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2022
PI-30. External audit (M1)		D
30.1. Audit coverage and standards	Financial reports of the majority of total expenditures and revenues of government for the last two financial years have not been audited. The audit of one financial year, 2018/19, has been completed with issues raised and responded to by the executive. A qualified audit opinion was issued. The consistent delay in the preparation and	D

	audit of the financial statements of government indicates a performance of D.	
30.2. Submission of audit reports to the legislature	Although, no audit reports for the financial years in the assessment period were submitted to Parliament, audit reports of prior financial years were submitted in 2020 and 2021. The performance is rated at D.	D
30.3. External audit follow-up	A formal response was made by the executive on the audit of one financial year, 2018/19, but given the last two financial years have not been audited. The performance is rated at D.	D
30.4. Supreme Audit Institution (SAI) independence	The appointment of the head of SAI is made by the Chief Secretary and subject to approval by the executive government. The removal of the Auditor General requires a two-thirds majority of Parliament on the basis of incapacity or misconduct. The involvement of the executive government in the appointment of the Auditor General and operations of the SAI impairs the independence of the Auditor General from the executive government. The performance is rated at D.	D

The overall rating for this indicator is measured at D, remaining the same since the last assessment. The delay in the audit of financial statements with the majority of government expenditure and revenues in the last two financial years of the assessment period indicate that there is minimal improvement in this indicator.

Dimension 1 - Audit coverage and standards

The audit of the government financial statements for the year 2018/19 included in the period for assessment was finalised in February 2022. The audit opinion indicates that the audit was conducted in accordance with ISSAI²³. No evidence was submitted to substantiate this.

Audit coverage and standards remains at D as the audits of the last two financial years (2019/20 and 2020/21) of the period of assessment have yet to be done as the financial statements have not been submitted.

Evidence for score

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

Fiscal Year	Date submitted to external audit	Date Audit was completed	Date submitted to legislature	Standards applied: ISSAI/ National (consistent)/ National (other)	Issues highlighted: M = Material/ Systemic/ Control OR S = Significant	Data source
2018/19	16 th March 2021	22 nd February 2022	In progress	ISSAI	Qualified Opinion, significant difference between FMIS and Financial Statements in relation to revenues, incomplete Statement of Assets and Liabilities, exclusion of some external debts and some mandatory requirements were not reported in the	Audit Office

²³ International Standards of Supreme Audit Institutions

					financial statements.	
2019/20	Financial Statements Not completed.					
2020/21	Financial Statements Not completed.					

Dimension 2 - Submission of audit reports to the legislature

Completion of audit reports has been affected by delays in the preparation of the financial statements of government and their submission. The audit of the financial statements for the year 2018/19 was completed in February 2022. It hasn't been submitted to Parliament and more than nine months have passed since the financial statements were received by the Supreme Audit Institution. The financial statements for the years 2019/2020 and 2020/21 are yet to be submitted for audit. Previous years' reports were submitted to Parliament during the assessment period, with the financial statements for 2016/217 submitted in August 2020, 38 months after the end of financial year and financial statements for 2017/18 submitted in April 2021, 33 months after the end of financial year. On this basis, the rating is D.

Dimension 3 - External audit follow-up

The effectiveness of following up audit recommendations is largely influenced by the delay in the preparation and audit of financial statements. All audit issues for the financial statements for the 2018/19 financial year have been raised and followed up with management of DoF. A formal response was provided by DoF on every audit issue raised. Given that the audits for 2019/20 and 2020/21 are yet to be completed, there is no evidence to inform the assessment for these two financial years. On this basis, the rating is D.

Dimension 4 - Supreme Audit Institution (SAI) independence

The appointment of the Auditor General, previously known as the Director of Audit is made by the Chief Secretary and is contingent on the approval of Cabinet. The Auditor General may not be removed from office except on a resolution of Parliament approved by not less than two-thirds of the total number of members of Parliament praying for his removal from office on the ground of proved incapacity or misconduct under Clause 66(5) of Nauru's Constitution 1968. The SAI does not operate independently from the executive with respect to the procedures for appointment of the Head of the SAI nor execution of the SAI's budget. The SAI has restricted and untimely access to records, documentation and information. Duties to inspect, examine or audit the accounts is subject to the consent of the Minister responsible for the department. On this basis, the score is D.

Table 30-4: SAI Independence – requirements

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of head of SAI	The Auditor General is appointed by the Chief Secretary subject to the approval of Cabinet under S3(1) of the Nauru Audit Act 1973. The Auditor General may not be removed from office except on a resolution of Parliament approved by not less than two-thirds of the total number of members of Parliament praying for his removal from office on the ground of proved incapacity or misconduct. (Clause 66(5) of Nauru's Constitution 1968).
Planning audit engagements	The SAI has a Strategic Plan 2019-2023. The Strategic Plan includes 28 institutional goals and objectives under six broad domains, namely, governance, structure, policies and procedures, professional services, professional development of staff and stakeholder relations and communications. Some of the activities under some of the goals are dependent on the revision of the Audit Act 1973.
Arrangements for publicizing reports	The SAI has a Communications Strategy 2017-2021 which has expired. It is not clear from the strategy how they plan to publicise the audit reports.
Approval of budget	The Budget for the Audit Office to carry out its mandate is considered with the government budget prepared by the Department of Finance. They do not submit a separate budget appropriation bill directly to Parliament.
Execution of budget	The execution of the office budget is with the Department of Finance.

Legal basis for independence	The Nauru Audit Act 1973 and its amendments do not provide the legal framework for SAI independence. The Auditor General is appointed by the Chief Secretary subject to the approval of Cabinet. The execution of the SAI's budget also rests with the executive.
Unrestricted/timely access to records	S6 of the Nauru Audit Act 1973 provides duties and S9 the powers to the Auditor General and staff to do audits. Timely access to records is subject to the consent of the Minister responsible for the department of the public service.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.

It has four dimensions and uses the M2(AV) method for aggregating dimension score:

- Dimension 31.1 Timing of audit report scrutiny
- Dimension 31.2 Hearings on audit findings
- Dimension 31.3 Recommendations on audit by legislature
- Dimension 31.4 Transparency of legislative scrutiny of audit reports

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	SCORE 2022
PI-31. Legislative scrutiny of audit reports (M2)		D
31.1. Timing of audit report scrutiny	There is no evidence that Parliament scrutinized the reports from the Department of Audit. Of the past three completed financial years, there are no audit reports for 2019/20 and 2020/21 as the Government Financial Statements haven't been finalized. The audit report of 2018/19 Government Financial Statements had been issued but not submitted to Parliament. However, during the past three financial years, three audit reports of the 2015/16, 2016/17, and 2017/18 Government Financial Statements were issued. Two audit reports of the latter financial years were submitted to Parliament but no evidence is available that Parliament scrutinized these audit reports highlighting low performance.	D
31.2. Hearings on audit findings	There is no evidence provided from Parliament of any hearings relative to the audit reports. The Department of Audit confirmed that they have not been called or attended any hearings by the legislature on key findings of their audit reports demonstrating low performance.	D
31.3. Recommendations on audit by the legislature	As there has been no scrutiny of audit reports by the legislature in the last three fiscal years, the legislature has also not issued any recommendations on actions to be implemented by the executive relative to any of the audit reports submitted to them. Thus, there is no follow-up mechanism in place highlighting low performance.	D
31.4. Transparency of legislative scrutiny of audit reports	As alluded to in 31.2 above, there is no evidence of any scrutiny of audit reports by the legislature, hence transparency of the process cannot be determined. The Parliament's website does not publish any committee reports on hearings on audit reports.	D

The absence or lack of legislative scrutiny of audit reports poses significant risks relative to the effectiveness and credibility of the external audit function promoting proper accountability and transparency. On this basis, the overall rating is D.

Evidence for score

Table 31-1: Timing of legislative scrutiny of audit reports

Evidence for score

Table 31-1: Timing of legislative scrutiny of audit reports

Audited annual financial statements for fiscal year	Date of receipt of audited financial reports	Date of finalization of legislative scrutiny
2020/21	Financial reports not yet prepared or submitted for audit	Not applicable
2019/20	Financial reports not yet prepared or submitted for audit	Not applicable
2018/19	Not yet submitted	Not yet submitted

Data source: Meeting with the Department of Audit; Department of Finance.

Audited annual financial statements for fiscal year	Date of audit opinion issued on the Government Financial Reports	Date of submission of the audited financial reports to Parliament	Date of finalization of legislative scrutiny of audit reports
2015/16	14 December 2018	Not available	N/A
2016/17	28 August 2020	22 October 2020	N/A
2017/18	12 April 2021	27 May 2021	N/A
2018/19	22 February 2022	Not Yet Submitted to Parliament	N/A

Data source: Department of Finance website <https://naurufinance.info/audit-reports/>

Table 31-2 and 31-3: Hearings on audit findings and issuance of recommendations

Audited annual financial statements for fiscal year	Hearings on audits reports that received a qualified or adverse opinion or disclaimer (Y/N)	Hearings conducted – entities with qualified audit A = All M = Most F = Few N = None	Legislature issues recommendations (Y/N)	Recommendations followed-up S = Follow-up systematically F = Follow-up
2020/21	Not applicable	Not applicable	Not applicable	Not applicable
2019/20	Not applicable	Not applicable	Not applicable	Not applicable
2018/19	Not applicable	Not applicable	Not applicable	Not applicable
2017/18	N	N	N	N
2016/17	N	N	N	N
2015/16	N	N	N	N

Data source: Meeting with the Department of Audit; Department of Finance; Government website

<http://naurugov.nr/parliament-of-nauru/parliamentary-committees/standing-committees/public-accounts-committee.aspx>

Table 31-4: Transparency of legislative scrutiny of audit reports

Audited annual financial statements for fiscal year	Committee reports			Public hearings conducted A = All except limited circumstances F = Yes, with a few exceptions
	Published (Y/N – Method)	Provided to the full chamber of legislature (Y/N)	Debated in the full chamber of legislature (Y/N)	
2020/21	Not applicable	Not applicable	Not applicable	Not applicable

2019/20	Not applicable	Not applicable	Not applicable	Not applicable
2018/19	Not applicable	Not applicable	Not applicable	Not applicable
2017/18	N	N	N	N
2016/17	N	N	N	N
2015/16	N	N	N	N

Data source: Meeting with the Department of Audit; Department of Finance; Government website <http://naurugov.nr/parliament-of-nauru/parliamentary-committees/standing-committees/public-accounts-committee.aspx>

Annex 1: Assessment management and quality assurance arrangements

Oversight Team		
Name	Position/Organization	Role
Ms. Novena Itsimaera	Financial Secretary	Chairperson
Mr Isikeli Vocedua	Deputy Financial Secretary	Oversight team member
Ms Stephanie Tebouwa -	Director Budget	Oversight team member
Mr Atunaisa Baleimatuku -	Chief Accountant	Oversight team member
Mr Rosco Cain -	Director Planning	Oversight team member
Assessment Team		
Name	Position/Organization	Role
Mr Iulai Lavea	PFM Adviser, PFTAC	Lead
Mr Paul Seeds	PFM Adviser, PFTAC	Assessment Team Member
Mr Paula Uluinaceva	PFTAC Expert	Assessment Team Member
Mr Matt Crooke	PFTAC Expert	Assessment Team Member
Ms Kelera Ravono	Ministry for Economy, Fiji	Assessment Team Member
Mr Iain Rennie	ADB	Assessment Team Member
Ms Esther Poutoa Lameko	PASAI	Assessment Team Member
Mr Tiofilusi Tiueti	PASAI	Assessment Team Member
Quality Assurance		
Reviewers:		
Government of Nauru		
PEFA Secretariat		
Department of Foreign Affairs & Trade, Australia (Mr Mathew Harding)		
Ministry of Foreign Affairs & Trade, NZ (Ms Christine van Hooft)		
ADB (Mr Prince Christian Cruz)		
IMF (Ms Gemma Preston; Mr Guohua Huang)		
Concept Note		
Date submitted for review:	Dec 23, 2021	
Date of final CN:	Jan 28, 2022	
PEFA Report		
Date submitted for review:	June 6, 2022	
Date submitted for follow-up:	June 26, 2022	
Date of final draft:	Sept 30, 2022	
Proposed date of publication:	Oct 21, 2022	

Annex 2: Public sector agencies covered by the assessment

Table 2: Structure of the public sector (list)			
Budgetary units (All)	Extrabudgetary units (five largest) *	Public corporations (five largest)	Social Security Funds (part of public sector)
Presidential	Nauru Intergenerational Trust Fund	Nauru Airlines Corporation	
	Nauru Refugee Processing Center	Ronphos Corporation	
	Nauru Maritime Ports Authority	Nauru Utilities Corporation	
	Nauru Fisheries and Marine Resource Authority	Eigigu Holdings Corporation	
	Nauru Fibre Cable Corporation	Nauru Rehabilitation Corporation	
National Electoral Commission			
Finance - Secretariat			
Finance – Public Debt			
Bureau of Statistics			
Finance – Other Payments			
Nauru Revenue Office			
Nauru Customs Office			
Nauru RPC			
CIE			
Fisheries - NFMRA			
Climate Change and Resilience			
Police			
Multicultural Affairs			
Justice			
Judiciary			
Border Control			
Correctional Services			
TVET			
Education			
Youth Affairs			
COVID19 Taskforce			

Health			
Sports			
Department of Infrastructure Development			
Foreign Affairs			
Internal Affairs			
Women and Social Development Affairs			
Media			
Lands and Survey			
Lands Committee			
Department of Land Management			
People Living with a Disability			
Transport			
ICT			
Telecom			

Annex 3: Evidence for scoring indicators

Indicators (PEFA 2016 framework)	Evidence
1. Aggregate expenditure out-turn	Aggregate expenditures (budget an outturn) for 2018/19; 2019/20; & 2020/21 provided by Ministry of Finance. Budget Papers 1 & 2 for 2018/19; 2019/20; & 2020/21.
2. Expenditure composition out-turn	Aggregate expenditures (budget an outturn) for 2018/19; 2019/20; & 2020/21 provided by Ministry of Finance. Budget Papers 1 & 2 for 2018/19; 2019/20; & 2020/21.
3. Revenue out-turn	Statement of Comparison of Budget and Actual Amount – GFS Presentation. Taken from 2018-19 Audited Financial Statements. Draft tables provided by Mr Michael Wyatt for 2019-20 and 2020-21.
4. Budget classification	Budget Paper 1 for 2021/22. Budget Circular 2021/22. National Sustainable Development Strategy Update 2019-2030. Nauru Integrated Infrastructure Strategic Plan 2019-2030.
5. Budget documentation	Budget Paper 1 for 2021/22. Budget Circular 2021/22. National Sustainable Development Strategy Update 2019-2030. Nauru Integrated Infrastructure Strategic Plan 2019-2030.
6. Central government operations outside financial reports	GoN. Department of Finance: 2020-21 Budget. Budget Paper No. 1. June 2020 GoN. Department of Finance: 2021-22 Budget. Budget Paper No. 1. June 2021 Public Enterprise Act. 2019; GoN. Department of Finance: PE Data Availability Table. 2022
7. Transfers to sub-national governments	GoN. Nauru Local Government Council Dissolution Consequential Amendments Act. 1997
8. Performance information for service delivery	Annual Operational Plans (AOPs) submitted by line ministries to DoF during budget process, Government of Nauru Budget Paper No.2 2021/22 and Development Fund Annual Projections 2021/22. Discussion with Mr Isikeli Voceduadua, DOF. Public Expenditure Financial Accountability (PEFA) Self-Assessment, DOF, November 2016.
9. Public access to fiscal information	2021/22 Budget documents (Budget Speech, Budget Papers No.1 and 2, Appropriation Bill, Nauru Fiscal Strategy) (https://naurufinance.info/2021-22-budget/), Quarterly Budget Performance Reports (https://naurufinance.info/quarterly-performance-reports/), Annual Financial Statements (https://naurufinance.info/previous-budget-reports/) , Nauru Public Finance (Control and Management) Act 1997 (http://ronlaw.gov.nr/nauru_lpms/files/acts/102123f45e4917f760be6bfe6c46eda1.pdf) , Nauru “Budget at a Glance” 2021/22 (https://naurufinance.info/wp-content/uploads/2021/05/2021-22-Budget-at-a-glance.pdf) .
10. Fiscal risk reporting	2020-21 Budget Paper 2 (2020-21 forecast turnover); Nauru Airlines Corporation 2020-21 Annual Financial Statements, Ronphos Corporation 2020-21 Draft Financial Statements (unpublished); Nauru Utilities Corporation 2020-21 Draft Financial Statements (unpublished). Interviews with Mr Isikeli Voceduadua and Mr Atu Baleimatuku.
11. Public investment management	Budget Paper 1 for 2021/22. Budget Circular 2021/22. National Sustainable Development Strategy Update 2019-2030. Nauru Integrated Infrastructure Strategic Plan 2019-2030.
12. Public asset management	Dept of Finance: Weekly Cash Monitor Report. 2022; ADB. Report and Recommendation of the President to the Board of Directors. Proposed Policy-Based Grant Nauru: Improving Public Investment Management Program. May 2020; Public Finance Control and Management Act. 1997; Department of Finance: 2020-21 Budget. Budget Paper No. 1. June 2020.
13. Debt management	RoN Debt Report 2021. Government Loan Funds Report 2020/21. Asian Development Bank Debt Stocktake Report 30 June 2021. Interviews with Mr Isikeli Voceduadua and Mr Atu Baleimatuku. The legislative framework governing borrowing is described in section 3 of Financial Instruction 6 – Liabilities. It includes the Constitution of Nauru 1968, Government Loans Act 1972, Public Finance (Control and Management) Act 1997 and Regulations, and the Treasury Fund Protection Act 2004.
14. Macroeconomic and fiscal forecasting	Budget Paper 1 for 2018/19, 2019/20 and 2020/21. Interviews with Mr Isikeli Voceduadua and Mr Atu Baleimatuku.

15. Fiscal strategy	Budget Paper 1 for 2020/21 (Fiscal Strategy) and 2021/22 (Report on Performance). Interviews with Mr Isikeli Voceduardua and Mr Atu Baleimatuku.
16. Medium term perspective in expenditure budgeting	Budget Paper 1 for 2021/22. Budget Circular 2021/22. National Sustainable Development Strategy Update 2019-2030. Nauru Integrated Infrastructure Strategic Plan 2019-2030. Nauru Health Strategy 2021-2025. Nauru Department of Education and Training Strategic Plan 2017-2021. Interviews with Mr Isikeli Voceduardua and Mr Atu Baleimatuku.
17. Budget preparation process	Budget Papers 1 & 2 for 2018/19; 2019/20 & 2021/22; Budget Circulars;
18. Legislative scrutiny of budgets	1. http://naurugov.nr/parliament-of-nauru/parliamentary-committees/standing-committees/house-committee.aspx ; Department of Finance: Clause 2.24. Financial Instructions Part 2. Budget. 2018; Nauru Parliament. Standing Orders. 2022
19. Revenue administration	<p>(https://naurufinance.info/nauru-revenue-office/; www.Nauru.tradeportal.org https://naurufinance.info/nauru-revenue-office/nro-administered-legislation/; (Unofficial) Consolidated Revenue Administration Act (RAA) (as of 20 January 2020); (Unofficial) Consolidated Employment and Service Tax Act (ESTA) (as of 22 January 2020); (Unofficial) Consolidated Business Tax Act (BTA) (as of 20 January 2020); (Unofficial) Consolidated Telecommunications Service Tax Act (as at 4 December 2018); Gaming Act 2011. Parties to the Nauru Agreement (PNA) www.pnatuna.com Pacific Islands Forum Fisheries Agency (FFA) Strengthening national capacity and regional solidarity for sustainable tuna fisheries</p> <p>Government of Nauru, Quarterly Budget performance Report Q4 2020/21. https://naurufinance.info/wp-content/uploads/2021/08/GON-Quarterly-Report-Q4-2020-21.pdf</p>
20. Accounting for revenue	Government of Nauru, Quarterly Budget performance Report Q4 2020/21. https://naurufinance.info/wp-content/uploads/2021/08/GON-Quarterly-Report-Q4-2020-21.pdf Data recorded in real time in FMIS, including classification by revenue type. But no monthly consolidated report. Op Acc = Operations Account
21. Predictability of in-year resource allocation	Supplementary Budgets 2020/21: Microsoft Word - 2020-20 Supplementary Budget No 1 v13 181020 final.docx (naurufinance.info). Microsoft Word - 2020-21 Supplementary Budget No 2 FINAL 20210127.docx (naurufinance.info)
22. Expenditure arrears	GoN Final Quarter Budget Performance Reports: GON-Quarterly-Report-Q4-2020-21.pdf (naurufinance.info). Microsoft Word - GON Quarterly report Q4 2019-20 Final 20200812.docx (naurufinance.info). Government of Nauru (naurufinance.info) and Annual Debt Report 2020/21: Microsoft Word - Nauru Debt Report 2021 - Budget 2020-21.docx (naurufinance.info)
23. Payroll controls	PFTAC. Nauru. Adopting IPSAS Cash Reporting. 2019; 2. GoN. C Department of Finance: consultations with Treasury and OSC management and staff. 2019; 3. GoN. Department of Finance: Payroll Processing Checklist. 2022
24. Procurement management	Public-Finance-Regulations-2013-Procurement.pdf (naurufinance.info); Public-Finance-Act-Amendment-2019-Procurement-Agent.pdf (naurufinance.info) Public-Finance-Regulations-2013-Procurement.pdf (naurufinance.info); Public-Finance-Act-Amendment-2019-Procurement-Agent.pdf (naurufinance.info)

25. Internal controls on non-salary expenditure	<ol style="list-style-type: none"> 1. GoN. Public Finance Control and Management Act. 1997. 2. GoN. Department of Finance: Financial Instructions – Chapters 1, 2 and 3.2020 3. GoN. Department of Finance: Payments processing and approval flowcharts. 2020 4. GoN. Department of Finance: FMIS Manual Version 1.0. 2020 5. GoN. Department of Finance: Agency Commitment Reports. 2022 6. GoN. Department of Finance: Whole of Government Budget v Actual Enquiry Panel Report
26. Internal audit	<ol style="list-style-type: none"> 1. GoN. Department of Finance: Clause 4.17 of Financial Instructions 1 – General Principles. 2020 2. GoN. Department of Finance: Consultant’s Contract between GON and Stanton International. 2020 3. GoN. Department of Finance: Internal Audit Framework INTERNAL AUDIT REPORT. Dec 2020 4. GoN: Department of Finance: ICT General Controls Review INTERNAL AUDIT REPORT. Mar 2021.
27. Financial data integrity	<ol style="list-style-type: none"> 1. GoN. Office of Chief Secretariat. Public Servants Travel Policy. 2016 2. GoN. Department of Finance: FMIS Manual Version 1.0. 2012 3. GoN. Department of Finance: Weekly Cash Monitor Report. 2022 4. GoN: Department of Finance. Revenue collection flowchart. 2022. GoN.
28. In-year budget reports	Budget execution management reports provided by Authorities (unpublished). Quarterly Budget Execution reports (published) Q1-Q4 2020/21. Budget Paper 1 2020/21. Interviews with Mr Isikeli Vocedua, Mr Atu Baleimatuku and Mr Michael Wyatt
29. Annual financial reports	GoN Annual Financial Statements 2018/19. Summary of Audit Report on 2018/19 Financial Statements (dated 22 February 2022). Interviews with Mr Michael Wyatt.
30. External audit	2018/2019 Draft Financial Statements, draft audit opinion, management letter to the Secretary of Finance, Nauru Audit Act 1973 and amendments 2015, Public Finance Control and Management Act 1997, Nauru Department of Audit Annual Reports 2018/2019, 2019/2020, 2020/2021, Strategic Plan 2019-2023, Communications Strategy, Nauru’s Constitution of 1968.
31. Legislative scrutiny of audit reports	2018/2019 Draft Financial Statements, draft audit opinion, management letter to the Secretary of Finance, Nauru Audit Act 1973 and amendments 2015, Public Finance Control and Management Act 1997, Nauru’s Constitution of 1968, Meeting with the Department of Audit, Department of Finance, Department of Finance website https://naurufinance.info/audit-reports/ ; Government website http://naurugov.nr/parliament-of-nauru/parliamentary-committees/standing-committees/public-accounts-committee.aspx

Annex 4: Sources of data – persons interviewed

Name	Position
Ministry of Finance	
Ms. Novena Itsimaera	Secretary for Finance
Mr. Isikeli Vocedua	Deputy Secretary Treasury
Ms. Stephanie Tebouwa	Director Budget
Mr. Atunaisa Baleimatuku	Chief Accountant
Mr. Rosco Cain	Director Planning
Mr. Michael Wyatt	Reconciliation Advisor
Mr Abraham Itsimaera	Director Public Enterprise Monitoring Unit
Ms. Kristina Pawliwa	PAD Advisor Planning and Aid Division
Mr. John Petersen	Advisor to the Minister for Finance
National Revenue Office (NRO) and National Customs Service (NCS)	
Mr. Terry Greenwood	Deputy Secretary, Revenue
Ms. Jennifer Clarke	Deputy Secretary Customs
Ministry of Fisheries	
Mr. Charleston Deiye	Chief Executive Officer
Office of the Auditor General	
Mr. Manoharan Nair	Auditor-General
Line ministries	
Ms. Joy Heine	Secretary for Women's and Social Development Affairs (WASDA)
Mr. Livai Sovau	Legal Advisor Women's and Social Development Affairs (WASDA)

Annex 5: Observations on internal control

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	GoN has put in place the basic building blocks through the PFM reform initiatives in DoF, NRO and NCS. Proper delineation of responsibilities and accountabilities still need to be effectively operationalised at agency (Department) level.
1.2 Commitment to competence	
1.3 The "tone at the top" (i.e. management's philosophy and operating style)	
1.4 Organisational structure	
1.5 Human resource policies and practices	
2. Risk assessment	
2.1 Risk identification	
2.2 Risk assessment (significance and likelihood)	<p>Economic Analysis of Investment Proposals in 11.1 is rated C. As the majority of major Investment projects are undertaken by or with development partners, project economic analyses for major projects are frequently undertaken by development partners.</p> <p>Economic Analysis of Investment Proposals in 11.1 is rated C. Debt Management Strategy in 13.3 is rated D. Macro-fiscal sensitivity analysis in 14.3 is rated D. Revenue Risk Management in 19.2 is rated B. NRO has a compliance improvement strategy, but NCS does not. Risks on fisheries revenues are minimized by requiring up-front payment of licensed vessel fishing days, and monitoring of waters for unauthorized activity. RPC revenues are managed under the bi-lateral government contract.</p> <p>Cash Flow Forecasting and Monitoring in 21.2 is D - No annual cash plans are produced. No forward-looking cash flow forecasts are currently produced.</p>
2.3 Risk evaluation	
2.4 Risk appetite assessment	
2.5 Responses to risk (transfer, tolerance, treatment or termination)	
3. Control activities	
3.1 Authorization and approval procedure	The PFM system presents a highly centralized authorization and approval structure at agency (departmental) and central (Treasury Division) levels.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is rated D in Dimension 25.1. Budget and Accounting Officers hold a composite of processing and approval responsibilities at agency level, which should be

	properly demarcated. Segregation of duties is rated D in Dimension 25.1
3.3 Controls over access to resources and records	Compliance with payment rules and procedures is rated B in Dimension 25.3. Given the centralized nature of payments processing, most payments are compliant with regular payment procedures and the majority of exceptions are properly authorized and justified. Financial data integrity processes are rated C in Dimension 27.4 since access and changes to records is restricted and recorded.
3.4 Verifications	Accuracy of in-year budget reports is rated A in Dimension 28.3. Effectiveness of controls over data used to verify payroll calculation in Dimension 23.3 is rated A.
3.5 Reconciliations	Revenue accounts reconciliations are only undertaken for NRO collected revenues. The Dimension 20.3 is scored D. Bank account reconciliations in Dimension 27.1 are rated B because of recent reform efforts to bring up to date the backlog of bank reconciliations. Suspense account reconciliation is assessed as an A in Dimension 27.2 because reconciliation of revenue suspense accounts takes place instantly and is well within a month from the end of each month, and are cleared in real time. Advance account reconciliation is assessed as an A in Dimension 27.3 since GoN does not allow advances and all such allowances and entitlement are expensed immediately. This means real time reconciliations and adjustments of such entitlements thus leaving no reconciliation and adjustments pending at the end of the month, quarter, or fiscal year.
3.6 Reviews of operating performance	
3.7 Reviews of operations, processes and activities	
3.8 Supervision (assigning, reviewing and approving, guidance and training)	
4. Information and communication	
	Financial data integrity processes are rated C in Dimension 27.4 since access and changes to records is restricted and recorded. The volume of performance information assessed in Dimension 8.2 is scored D. Development partner-funded projects in health and education include the collection of some performance data on service delivery but currently there is not a systematic collection and publication of performance information across ministries.
5. Monitoring	
5.1 Ongoing monitoring	Resources received by service delivery units in Dimension 8.3 is rated D. There is no published

	<p>data on the level of resources received by service delivery units.</p> <p>Monitoring of public corporations in Dimension 10.1 is rated D. Monitoring of SNGs in Dimension 10.2 is rated NR. Contingent liabilities and other fiscal risks in Dimension 10.3 is rated D. Investment project monitoring in Dimension 11.4 is rated D. Development partner-funded, through PMUs, undertake monitoring but GoN-funded projects have less systematic monitoring and implementation processes. Quality of central government financial asset monitoring in Dimension 12.1 is rated C. Quality of central government non-financial asset monitoring in Dimension 12.2 is rated D. Revenue arrears monitoring in Dimension 19.4 is rated A—NRO arrears are low, fisheries revenues are collected in advance, and RPC revenues are collected promptly and managed through the FMIS. . Expenditure arrears monitoring in Dimension 22.2 is rated D. Whilst expenditure arrears are low, this is a product of vendors requiring advance payment for goods (due to previous poor record of payment) and making payment in advance of certifying receipt of goods/services is in itself a control weakness. Procurement monitoring in Dimension 24.1 is rated D. No procurement data or statistics are maintained – procurement is undertaken through designated agents, and it is not clear that goods are procured on a wholly competitive and economic basis.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery in Dimension 8.4 is rated D. Evaluations of the efficiency and effectiveness of service delivery have not been carried out in recent years. Evaluation practices by implementing agencies for Investment project selection in Dimension 11.2 are rated D.</p>
5.3 Management responses	<p>Response to IA recommendations in Dimension 26.4 is rated D. External audit follow-up in Dimension 30.3 is rated D.</p>

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

Indicator/Dimension	Previous Assessment 2010	Current Assessment 2022	Change	Description of requirements met and progress between 2022 and 2010 using 2005/2011 PEFA methodology
A. PFM OUT-TURNS: CREDIBILITY OF THE BUDGET				
PI-1 Aggregate expenditure out-turn compared to original approved budget	NR	D	↑	This indicator was not rated in 2010. It is rated D in 2022 due to numerous supplementary budgets resulting in wide variation of original estimates compared to actuals.
PI-2 Composition of expenditure out-turn compared to original approved budget	NR	D+	↔	.
(i) Expenditure composition outturn by function	NR	D		The variance in expenditure composition exceeded 15% in the three fiscal years under review.
(ii) Expenditure composition outturn by economic type	NR	D*		There is no presentation of expenditure composition by economic classification available.
(iii) Expenditure from contingency reserves	NR	A		Actual expenditure charged to a contingency vote is zero.
PI-3 Aggregate revenue out-turn compared to original approved budget	NR	D	↑	This dimension was previously not rated due to the incomplete nature of domestic revenue records. Records are now available but the calculated variance exceeded that required for a C score.
PI-4 Stock and monitoring of expenditure payment arrears	D+	D+	↔	
(i) Stock of expenditure payment arrears and a recent change in the stock.	D	A	↑	PI-22.1 stock of arrears has improved but primarily as creditors no longer extending credit and require payment in advance
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	B	D	↓	PI-22.2 no analysis, monitoring, or reporting of arrears
B. COMPREHENSIVENESS AND TRANSPARENCY				
PI-5 Classification of the budget	D	D	↑	The budget classification cannot produce consistent documentation comparable with international standards.
PI-6 Comprehensiveness of information included in budget documentation	C	B	↓	The Budget Paper provides a clear statement for a surplus budget. It provides the budget outturn in the prior year, the Revised Budget of the current FY and the Proposed Budget figures for the new FY. It also provides a detailed breakdown of revenues and expenditures.
PI-7 Extent of unreported government operations.				
(i) Level of unreported government operations	NA	NA	↔	Unchanged as there are no subnational governments in Nauru.
(ii) Income/expenditure information on donor-funded projects	NA	NA	↔	
PI-8 Transparency of inter-governmental fiscal relations.				No comparison
(i) Transparency and objectivity in the horizontal allocation	NA	NA	↔	

Indicator/Dimension	Previous Assessment 2010	Current Assessment 2022	Change	Description of requirements met and progress between 2022 and 2010 using 2005/2011 PEFA methodology
amongst Sub national Governments				
(ii) Timeliness and reliable information to SN Governments on their allocations		NA		
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories		NA		
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	D	D	↔	
(i) Extent of central government monitoring of autonomous entities and public enterprises	D	D	↔	The coverage and timing of audited financial statements for major public corporations are less than required for a C score.
(ii) Extent of central government monitoring of SN government's fiscal position	NA	NA	↔	
PI-10 Public access to key fiscal information	C	C	↔	Annual budget documents published following tabling in legislature. In-year budget execution reports prepared and published quarterly.
C. BUDGET CYCLE				
C (i) Policy-Based Budgeting				
PI-11 Orderliness and participation in the annual budget process	C+	C+	↔	Unchanged
(i) Existence of, and adherence to, a fixed budget calendar	B	C	↓	The Budget Circular provides a clear budget timeline but Ministries and SOEs are given only 3 weeks to prepare and submit their budget proposal to the Department of Finance.
(ii) Guidance on the preparation of budget submissions	D	A	↑	Ministries and agencies are given three weeks to complete and submit their Operating Plans and Budget submissions. A clear budget circular with ministry ceilings is issued to budgetary units, covering total budget expenditure for the full fiscal year.
(iii) Timely budget approval by the legislature	B	D	↓	Budget submitted to the legislature less than a month before the new financial year takes effect.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D	↔	
(i) Multiyear fiscal forecasts and functional allocations	D	D	↔	Expenditure presented by administrative and economic classification for the budget year but not the outer years
(ii) Scope and frequency of debt sustainability analysis	C	D	↓	There is currently no medium-term debt management strategy that would meet the requirements of this dimension but work is underway to address this.
(iii) Existence of costed sector strategies	D	C	↔	Not all key ministries cost their strategic plans
(iv) Linkages between investment budgets and forward expenditure estimates	D	D	↔	Investment and recurrent budget processes are separate. Limitation of budget forecasting to budget year rather than to forward estimates horizon means capital and recurrent cost implications for medium term not reflected in budget.
C (ii) Predictability and Control in Budget Execution				

Indicator/Dimension	Previous Assessment 2010	Current Assessment 2022	Change	Description of requirements met and progress between 2022 and 2010 using 2005/2011 PEFA methodology
PI-13 Transparency of taxpayer obligations and liabilities	D+	D*	↑	Previous assessment focused solely on customs – which nowadays accounts for a small percentage of total revenue. Profile of revenues has changed significantly since the increase in fishing revenues as an outcome of the PNA, and the reestablishment of the regional processing center (RPC). The rules are clearly presented on the NRO website re tax revenues. RPC revenue governed by the bi-lateral country agreement with Australia and a contract, where the obligations, charges and reimbursables are set out. Fisheries Revenues are governed under the PNA, and fisheries parties are aware of the rights and obligations and invariably are required to make payment in advance of fishing. Vessel monitoring is undertaken in conjunction with FFA to ensure compliance.
(i) Clarity and comprehensiveness of tax liabilities	D	D+	↑	PI-19.1 NRO – good information on website – laws and charter, etc. Previous assessment focused solely on customs – which nowadays accounts for a small percentage of total revenue. Rules clear on NRO tax revenues, Fisheries Revenues and Regional Processing Centre.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	D+	↑	PI-19.1 Only comparable at subject level. As above and below. Laws and guidelines now on website. As above previous assessment focused solely on Customs
(iii) Existence and functioning of a tax appeal mechanism.	D	D+	↑	PI-19.1. Also, assessments provide guidance on appeals. Good guidance given to taxpayers on process for redress in the assessment. As above previous assessment focused solely on Customs
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D	D	↔	
(i) Controls in the taxpayer registration system	D	D	↔	PI-19.3 Audits are well planned but no follow up to oversee implementation of the audit plans
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	D	↓	PI-19.3 Previous assessment – penalties for non-payment but not for fraudulent declarations. This should probably have been scored as a D – as this dimension does not refer to penalties for non-payment but for registrations and declaration obligations.
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	D	↔	PI-19.3 No tax audits undertaken
PI-15 Effectiveness in collection of tax payments	D+	D+	↔	
(i) Collection ratio for gross tax arrears	C	A	↑	PI-19.4 Revenue arrears low – fisheries revenues paid in advance and RPC revenues managed through FMIS
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	↔	PI-20.2 Deposited daily.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears	D	D	↔	PI-20.3 Reconciliation covers NRO revenues only

Indicator/Dimension	Previous Assessment 2010	Current Assessment 2022	Change	Description of requirements met and progress between 2022 and 2010 using 2005/2011 PEFA methodology
records, and receipts by the Treasury				
PI-16 Predictability in the availability of funds for commitment of expenditures	A	B+	↓	Cash flow forecasting practices ceased
(i) Extent to which cash flows are forecasted and monitored	A	D	↓	PI-21.2. Rated D - no evidence that forward looking cash flow forecasts are produced.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	A	A	↔	PI-21.3.
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A	↔	PI-21.4 Minor budget transfers are made quarterly, but these amount to only 0.23% of the budget.
PI-17 Recording and management of cash balances, debt and guarantees	C	C	↔	
(i) Quality of debt data recording and reporting.	C	D	↓	PI-13.1. No data maintained on debt servicing operations.
(ii) Extent of consolidation of the government's cash balances.	B	A	↑	PI-21.1 Monies paid directly into bank accounts maintained by treasury
(iii) Systems for contracting loans and issuance of guarantees.	D	A	↑	The policy and operational framework for loans and guarantees has been strengthened and is being observed.
PI-18 Effectiveness of payroll controls	D+	D		
(i) Degree of integration and reconciliation between personnel records and payroll data.	C	D	↔	
(ii) Timeliness of changes to personnel records and the payroll.	A	D	↓	No integration nor interface at all. Department of Finance just provides approval for bank transfer based on OSC's confirmation of payroll listing
(iii) Internal controls of changes to personnel records and the payroll.	A	D	↓	No evidence nor indication of any systematic changes to personnel records and the payroll
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	D	D	↓	No evidence nor indication that internal controls are in place to manage risks of changes to personnel records and the payroll
PI-19 Competition, value for money and controls in procurement	D	D	↔	All PIs below – procurement recognized as an area of weakness and DoF has reached out to development partners for assistance in this topic.
New	-			PI-24.1
(i) Evidence on the use of open competition for awards of contracts that exceed the nationally established monetary threshold or small contracts (percentage of the number of contract awards that are above the threshold).	D	D*	↔	PI-24.2
(ii) Extent of justification for use of less competitive procurement methods.	D	D*	↔	PI-24.2

Indicator/Dimension	Previous Assessment 2010	Current Assessment 2022	Change	Description of requirements met and progress between 2022 and 2010 using 2005/2011 PEFA methodology
(iii) Public access to complete, reliable, and timely procurement information.	-	D	N/A	PI-24.3. Note that this dimension was not rated in previous PEFA.
(iv) Existence and operation of a procurement complaints mechanism.	D	D	↔	PI-24.4
PI-20 Effectiveness of internal controls for non-salary expenditure	D+	D+	↑	
(i) Effectiveness of expenditure commitment controls (Under the 2016 framework the 2020 assessment for this particular dimension relates to segregation of duties.	D	B	↔	Evidence provided showed a fully centralized system of expenditure controls from processing to approval stages, but no commitment reporting template was made available.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B	B	↔	GoN centralizes the control of commitments in the Department of Finance. Budget controls are in place and commitment reports are accessible at any point in time.
(iii) Degree of compliance with rules for processing and recording transactions	C	B	↑	Considerable rules and procedures have been effected by Department of Finance to ensure compliance
PI-21 Effectiveness of internal audit	D	D	↔	
(i) Coverage and quality of the internal audit function.	D	D	↔	No internal audit function within Government
(ii) Frequency and distribution of reports	D	D	↔	Done on piecemeal basis and for donor funds only
(iii) Extent of management response to internal audit findings.	D	D	↔	No follow-up or coordination
C (iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	C+	B+	↑	
(i) Regularity of bank reconciliation	A	B	↓	Bank reconciliation take place at least quarterly
(ii) Regularity and clearance of suspense accounts and advances	D	A	↑	Definition of advance and suspense accounts in 2016 Methodology renders instant reconciliation in the GoN system of accounting.
PI-23 Availability of information on resources received by service delivery units	D	D	↔	Information not available on resources received at service delivery unit level.
PI-24 Quality and timeliness of in-year budget reports	C+	A	↑	
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	A	A	↔	The FMIS allows real-time preparation of budget execution reports with the same coverage as budget and has the flexibility to produce reports at an even more detailed level.
(ii) Timeliness of the issue of reports	C	A	↑	Weekly reports are prepared and shared weekly. Aggregate budget execution reports are prepared and published quarterly.
(iii) Quality of information	C	A	↑	Weekly and quarterly reports contain information on both commitments and actual expenditures and authorities flagged no material concerns regarding accuracy.
PI-25 Quality and timeliness of annual financial statements	NR	D	↑	

Indicator/Dimension	Previous Assessment 2010	Current Assessment 2022	Change	Description of requirements met and progress between 2022 and 2010 using 2005/2011 PEFA methodology
(i) Completeness of the financial statements	NR	D	↑	Annual Financial Statements for 2019-20 and 2020-21 had not been finalised by 31 March 2022.
(ii) Timeliness of submissions of the financial statements	NR	B	↑	Draft 2018-19 Annual Financial Statements were submitted for audit on 11 March 2021 and the audit commenced on 28 April 2021, beyond the nine-month period.
(iii) Accounting standards used	NR	D	↑	The requirement for accounting standards used in financial reports is not consistent with international standards.
C (iv) External Scrutiny and Audit				
PI-26 Scope, nature and follow-up of external audit	D	D	↔	
(i) Scope/nature of audit performed (including adherence to auditing standards)	D	D	↔	Financial statements of government for two financial years 2019/2020 and 2020/2021 have yet to be submitted for audit. Only one financial year has been audited 2018/2019, which includes most of the government expenditure and revenue.
(ii) Timeliness of submission of audit reports to the Legislature	NR	D	↑	Although, no audit reports for the financial years in the assessment were submitted to Parliament, audit reports of prior financial years were submitted during the period of assessment hence the scoring.
(iii) Evidence of follow up on audit recommendations	NR	D	↑	There was follow up work done with recorded responses from the Department of Finance for one financial year 2018/2019. It was the only follow up done.
PI-27 Legislative scrutiny of the annual budget law	NR	D	↑	
(i) Scope of the legislature scrutiny	C	C	↑	Consistency of coverage and rigor of Parliamentary review cannot be ascertained.
(ii) Extent to which the legislature's procedures are well established and respected.	B	D	↑	No evidence was provided that Parliamentary procedures are adhered to.
(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	↑	No clear evidence to show that Annual Reports were approved before the start of the financial year in the past three fiscal years.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	C	↑	There were no audit reports sighted to verify adherence to the rules.
PI-28 Legislative scrutiny of external audit reports	NR	D	↑	
(i) Timeliness of examination of audit reports by the legislature	NR	D	↑	No audit reports for the financial years in the assessment period were submitted to Parliament.
(ii) Extent of hearing on key findings undertaken by the legislature	NR	D	↑	There was no evidence provided from Parliament of any hearings relative to the audit reports.
(iii) Issuance of recommended actions by the legislature and	NR	D	↑	The legislature has not issued any recommendations on actions to be

Indicator/Dimension	Previous Assessment 2010	Current Assessment 2022	Change	Description of requirements met and progress between 2022 and 2010 using 2005/2011 PEFA methodology
implementation by the executive				implemented by the executive relative to any of the audit reports submitted to them.

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

PEFA 2016 METHODOLOGY

ANNEX I - Nauru - Calculation Sheet for Dimensions PI-1.1, PI-2.1 and PI-2.3

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

Step 2: Enter the **administrative** OR **functional** head for up to 20 heads.

The 21st line will be the sum of figures for all remaining heads (if any).

Step 3: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.

Step 4: Enter **contingency** data for each of the three years in tables 2, 3, and 4 respectively.

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

Step 6: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.

Table 1 - Fiscal years for assessment						
Year 1 =	FY18/19					
Year 2 =	FY19/20					
Year 3 =	FY20/21					
Table 2						
Data for year =		FY18/19				
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Personnel	36,925,278	35,900,370	46,048,712.2	-10,148,342.6	10,148,342.6	22.0%
Government Travel	5,531,051	5,361,537	6,897,653.5	-1,536,116.2	1,536,116.2	22.3%
Subsidies and Donations	332,394	23,071,703	414,521.3	22,657,181.9	22,657,181.9	5465.9%
Government Operations	71,765,049	79,807,218	89,496,633.1	-9,689,415.3	9,689,415.3	10.8%
Capital Expenditures	15,094,323	9,478,628	18,823,802.2	-9,345,173.8	9,345,173.8	49.6%
Social Benefits	7,131,398	12,899,269	8,893,411.5	4,005,857.7	4,005,857.7	45.0%
Other	487,639	436,613	608,124.0	-171,510.8	171,510.8	28.2%
Non Expense Items	17,165,369	25,634,078	21,406,558.7	4,227,519.1	4,227,519.1	19.7%
9			0.0	0.0	0.0	#DIV/0!
10			0.0	0.0	0.0	#DIV/0!
11			0.0	0.0	0.0	#DIV/0!
12			0.0	0.0	0.0	#DIV/0!
13			0.0	0.0	0.0	#DIV/0!
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0.0	#DIV/0!
17			0.0	0.0	0.0	#DIV/0!
18			0.0	0.0	0.0	#DIV/0!
19			0.0	0.0	0.0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	154432501	192,589,416	192,589,416.4	0.0	61,781,117.5	
interests						
contingency						
total expenditure	154432501	192589416.4				
aggregate outturn (PI-1)						124.7%
composition (PI-2) variance						32.1%
contingency share of budget						0.0%

Table 3						
Data for year = FY19/20						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Personnel	40978982.3	28860612.4	52,222,594.9	-23,361,982.5	23,361,982.5	0.447354
Government Travel	6266984	7308251.64	7,986,488.4	-678,236.7	678,236.7	0.084923
Subsidies and Donations	6653063.32	40213368.09	8,478,498.3	31,734,869.8	31,734,869.8	3.742982
Government Operations	52859824.9	64602945.73	67,363,244.9	-2,760,299.2	2,760,299.2	0.040976
Capital Expenditures	11593744.9	10542683.87	14,774,779.8	-4,232,095.9	4,232,095.9	0.286441
Social Benefits	7208852.48	13399262.42	9,186,782.1	4,212,480.3	4,212,480.3	0.458537
Other	674674.8	418159.02	859,788.8	-441,629.7	441,629.7	0.513649
Non Expense Items	19480000	20351721.01	24,824,827.0	-4,473,106.0	4,473,106.0	0.180187
9			0.0	0.0	0.0	#DIV/0!
10			0.0	0.0	0.0	#DIV/0!
11			0.0	0.0	0.0	#DIV/0!
12			0.0	0.0	0.0	#DIV/0!
13			0.0	0.0	0.0	#DIV/0!
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0.0	#DIV/0!
17			0.0	0.0	0.0	#DIV/0!
18			0.0	0.0	0.0	#DIV/0!
19			0.0	0.0	0.0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	145716127	185697004.2	185,697,004.2	0.0	71,894,700.2	
interests						
contingency						
total expenditure	145716127	185697004.2				
aggregate outturn (PI-1)						127.4%
composition (PI-2) variance						38.7%
contingency share of budget						0.0%

Table 4						
Data for year = FY20/21						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Personnel	44489279	39344492.72	59,284,394.3	-19,939,901.5	19,939,901.5	0.336343
Government Travel	2556955	1236593.22	3,407,282.2	-2,170,689.0	2,170,689.0	0.637073
Subsidies and Donations	20916602	52985687.7	27,872,514.6	25,113,173.1	25,113,173.1	0.901001
Government Operations	76124736	89753061.55	101,440,368.6	-11,687,307.1	11,687,307.1	0.115214
Capital Expenditures	18260271	24386037.75	24,332,808.5	53,229.3	53,229.3	0.002188
Social Benefits	15082397	23435316.95	20,098,117.8	3,337,199.2	3,337,199.2	0.166045
Other	693715	523583.25	924,413.1	-400,829.9	400,829.9	0.433605
Non Expense Items	32320426	48763858.93	43,068,733.0	5,695,126.0	5,695,126.0	0.132233
9			0.0	0.0	0.0	#DIV/0!
10			0.0	0.0	0.0	#DIV/0!
11			0.0	0.0	0.0	#DIV/0!
12			0.0	0.0	0.0	#DIV/0!
13			0.0	0.0	0.0	#DIV/0!
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0	#DIV/0!
17			0.0	0.0	0	#DIV/0!
18			0.0	0.0	0	#DIV/0!
19			0.0	0.0	0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	210444381	280,428,632.1	280,428,632.1	0.0	68,397,454.9	
interests						
contingency						
total expenditure	210444381	280428632.1				
aggregate outturn (PI-1)						133.3%
composition (PI-2) variance						24.4%
contingency share of budget						0.0%

Table 5 - Results Matrix			
	for PI-1.1	for PI-2.1	for PI-2.3
year	total exp. Outturn	composition variance	contingency share
FY18/19	124.7%	32.1%	0.0%
FY19/20	127.4%	38.7%	
FY20/21	133.3%	24.4%	

Table 1 - Fiscal years for assessment						
	Year 1 =	2018/19				
	Year 2 =	2019/20				
	Year 3 =	2020/21				

Table 2						
Data for year = 2018/19						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	\$ 27,000,000	\$ 43,458,374	\$ 40,458,162	\$ 3,000,212	\$ 3,000,212	7.4%
Taxes on payroll and workforce	\$ -	\$ -	\$ -	\$ -	\$ -	-
Taxes on property	\$ -	\$ -	\$ -	\$ -	\$ -	-
Taxes on goods and services	\$ 4,412,356	\$ 6,932,766	\$ 6,611,697	\$ 321,069	\$ 321,069	4.9%
Taxes on international trade and transactions	\$ 16,414,307	\$ 17,789,382	\$ 24,596,025	\$ 6,806,643	\$ 6,806,643	27.7%
Other taxes	\$ -	\$ -	\$ -	\$ -	\$ -	-
Social contributions						
Social security contributions	\$ -	\$ -	\$ -	\$ -	\$ -	-
Other social contributions	\$ -	\$ -	\$ -	\$ -	\$ -	-
Grants						
Grants from foreign governments	\$ 12,183,055	\$ 16,472,501	\$ 18,255,704	\$ 1,783,203	\$ 1,783,203	9.8%
Grants from international organizations	\$ -	\$ -	\$ -	\$ -	\$ -	-
Grants from other government units	\$ -	\$ -	\$ -	\$ -	\$ -	-
Other revenue						
Property income	\$ 32,270,345	\$ 72,025,783	\$ 48,355,512	\$ 23,670,271	\$ 23,670,271	49.0%
Sales of goods and services	\$ 41,070,796	\$ 52,201,716	\$ 61,542,552	\$ 9,340,836	\$ 9,340,836	15.2%
Fines, penalties and forfeits	\$ 480,418	\$ 855,098	\$ 719,883	\$ 135,215	\$ 135,215	18.8%
Transfers not elsewhere classified	\$ -	\$ -	\$ -	\$ -	\$ -	-
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	\$ -	\$ -	\$ -	\$ -	\$ -	-
Sum of rest	\$ 20,769,180	\$ 21,925,501	\$ 31,121,587	\$ 9,196,086	\$ 9,196,085.7	29.5%
Total revenue	\$ 154,600,457	\$ 231,661,121	\$ 231,661,121	\$ -	\$ 54,253,536	
overall variance						149.8%
composition variance						23.4%

Table 3						
Data for year = 2019/20						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	\$ 31,500,000	\$ 62,948,872	\$ 61,355,481	\$ 1,593,391	\$ 1,593,391	2.6%
Taxes on payroll and workforce	\$ -	\$ -	\$ -	\$ -	\$ -	-
Taxes on property	\$ -	\$ -	\$ -	\$ -	\$ -	-
Taxes on goods and services	\$ 5,821,931	\$ 5,610,818	\$ 11,339,917	\$ 5,729,099	\$ 5,729,099	50.5%
Taxes on international trade and transactions	\$ 14,654,707	\$ 18,015,111	\$ 28,544,336	\$ 10,529,225	\$ 10,529,225	36.9%
Other taxes	\$ -	\$ -	\$ -	\$ -	\$ -	-
Social contributions						
Social security contributions	\$ -	\$ -	\$ -	\$ -	\$ -	-
Other social contributions	\$ -	\$ -	\$ -	\$ -	\$ -	-
Grants						
Grants from foreign governments	\$ 15,852,686	\$ 23,114,574	\$ 30,877,751	\$ 7,763,177	\$ 7,763,177	25.1%
Grants from international organizations	\$ -	\$ -	\$ -	\$ -	\$ -	-
Grants from other government units	\$ -	\$ -	\$ -	\$ -	\$ -	-
Other revenue						
Property income	\$ 49,415,455	\$ 73,457,047	\$ 96,251,079	\$ 22,794,032	\$ 22,794,032	23.7%
Sales of goods and services	\$ 26,027,002	\$ 78,960,911	\$ 50,695,213	\$ 28,265,698	\$ 28,265,698	55.8%
Fines, penalties and forfeits	\$ 15,000	\$ 25,809	\$ 29,217	\$ 3,408	\$ 3,408	11.7%
Transfers not elsewhere classified	\$ -	\$ -	\$ -	\$ -	\$ -	-
insurance and standardized guarantee	\$ -	\$ -	\$ -	\$ -	\$ -	-
Sum of rest	\$ 2,744,130	\$ 22,304,850	\$ 5,344,997	\$ 16,959,853	\$ 16,959,853	317.3%
Total revenue	\$ 146,030,911	\$ 284,437,992	\$ 284,437,992	\$ -	\$ 93,637,883	
overall variance						194.8%
composition variance						32.9%

Table 4						
Data for year = 2020/21						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	\$ 31,480,000	\$ 63,468,244	\$ 41,292,910	\$ 22,175,334	\$ 22,175,334	53.7%
Taxes on payroll and workforce	\$ -	\$ -	\$ -	\$ -	\$ -	-
Taxes on property	\$ -	\$ -	\$ -	\$ -	\$ -	-
Taxes on goods and services	\$ 4,210,000	\$ 4,537,929	\$ 5,522,336	\$ 984,407	\$ 984,407	17.8%
Taxes on international trade and transactions	\$ 16,136,746	\$ 19,580,224	\$ 21,166,874	\$ 1,586,650	\$ 1,586,650	7.5%
Other taxes	\$ -	\$ -	\$ -	\$ -	\$ -	-
Social contributions						
Social security contributions	\$ -	\$ -	\$ -	\$ -	\$ -	-
Other social contributions	\$ -	\$ -	\$ -	\$ -	\$ -	-
Grants						
Grants from foreign governments	\$ 17,840,000	\$ 25,937,886	\$ 23,401,065	\$ 2,536,821	\$ 2,536,821	10.8%
Grants from international organizations	\$ -	\$ -	\$ -	\$ -	\$ -	-
Grants from other government units	\$ -	\$ -	\$ -	\$ -	\$ -	-
Other revenue						
Property income	\$ 60,230,000	\$ 64,857,492	\$ 79,004,827	\$ 14,147,335	\$ 14,147,335	17.9%
Sales of goods and services	\$ 26,038,533	\$ 35,407,760	\$ 34,155,235	\$ 1,252,525	\$ 1,252,525	3.7%
Fines, penalties and forfeits	\$ 17,000	\$ 54,828	\$ 22,299	\$ 32,529	\$ 32,529	145.9%
Transfers not elsewhere classified	\$ -	\$ -	\$ -	\$ -	\$ -	-
insurance and standardized guarantee	\$ -	\$ -	\$ -	\$ -	\$ -	-
Sum of rest	\$ 54,530,993	\$ 62,250,517	\$ 71,529,332	\$ 9,278,815	\$ 9,278,815	13.0%
Total revenue	\$ 210,483,272	\$ 276,094,879	\$ 276,094,879	\$ 1	\$ 51,994,418	
overall variance						131.2%
composition variance						18.8%

Table 5 - Results Matrix			
year	total revenue deviation		composition variance
2018/19	149.8%		23.4%
2019/20	194.8%		32.9%
2020/21	131.2%		18.8%

