COOK ISLANDS

PUBLIC FINANCIAL MANAGEMENT PERFORMANCE REPORT

AND PERFORMANCE INDICATORS

REVISED DRAFT REPORT

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August 2011

Acknowledgements

The PEFA assessment has relied on the generosity of a large number of stakeholders in providing information and documents to assist in assessing the indicators in this report, not to mention giving up their time to meet with members of the team. The assessment also benefited from discussions during both the opening and the closing stakeholder workshops. The team would like to thank all of those who participated in the assessment in any way.

Special thanks go to the Minister of Finance, the Financial Secretary and the staff at the Ministry of Finance and Economic Management, including the Aid Management Division, and to Development Partners for financial and logistical support during the exercise.

Notes

Fiscal year: 1 July-30 June (fiscal year 2010 refers to 1 July 2009 - 30 June 2010)

Assessment period for many of the indicators covers fiscal years 2007/08, 2008/09, and 2009/10

Currency Unit: NZ dollar (NZ$).

Exchange rates to the US$ (NZ$/US$) for the assessment period were:

2007/08: 1.30

2008/09: 1.67

2009/10: 1.42

The Government of the Cook Islands uses accrual-based accounting principles for its budgeting, accounting, recording and reporting. The recognition bases of revenue and expenditure principles are outlined in the Statement of Accounting Policies, which are published in the annual audited financial statements. Revenues are measured at fair value upon consideration received (cash asset) or receivable (trade asset). Expenditure is recognised when an obligation (commitment) is incurred, either as an expenditure (expensed) or as a committed expense (liability).

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Acronyms and Abbreviations

ADB	Asian Development Bank
AGA	Autonomous Government Agencies (known as Crown-funded agencies in the Cook Islands)
AMD	Aid Management Division of MFEM
AusAID	Australian Agency for International Development
BPS	Budget Policy Statement
BS	Balance Sheet
CEO	Chief Executive Officer
CIG	Government of the Cook Islands
CIGFPPM	Cook Islands Government Financial Policies and Procedures Manual
CIIC	Cook Islands Investment Corporation
CITC	Cook Islands Tourism Corporation
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DFD	Australia's Federal Government's Department of Finance and Deregulation
DSA	Debt Sustainability Analysis
EC	European Commission
EU	European Union
FAP	Forward Aid Programme (NZ Aid)
FMIS	Financial Management Information System
FSC	Financial Supervisory Commission
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GEF	Global Environment Fund
GFS	Government Finance Statistics
HDI	Human Development Index
HOM	Head of Ministry
HYEFU	Half Year Economic and Fiscal Update

IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IMF	International Monetary Fund
MoE	Ministry of Education
MFEM	Ministry of Finance and Economic Management
MFEM Act	Ministry of Finance and Economic Management Act 1995-96
MoH	Ministry of Health
MLA	Ministries and Line Agency under the CIG
MTBF	Medium Term Budgetary Framework
N/A	Not applicable (for given indicator)
NR	Not rated (for given indicator)
NSDP	National Sustainable Development Plan 2007-11
NZAID	New Zealand's International Aid and Development Agency (now referred to as the NZ Aid Programme, as managed by the Ministry of Foreign Affairs and Trade)
OECD	Organisation of Economic Co-operation and Development
OPM	Office of the Prime Minister
P&L	Profit and Loss statement
PAYE	Pay As You Earn taxation
PE	Public enterprise
PEFA	Public Expenditure and Financial Accountability
PERC	Public Expenditure Review Committee
PERCA	Public Expenditure Review Committee and Audit (generally refers to the Audit Office)
PFM	Public Financial Management
PFM-PR	Public Financial Management – Performance Report
PI	Performance Indicator
PRC	People's Republic of China
PSC	Office of the Public Service Commissioner
QR	Queen's Representative

ROBOCs	Revenue on Behalf of the Crown
RMD	Revenue Management Division of MFEM
SAI	Supreme Audit Institution
SOE	State Owned Enterprise
SNG	Sub-National Government
SPSAI	South Pacific Supreme Audit Institutions
SWAP	Sector Wide Approach to Planning
TA	Technical Assistance
TMD	Treasury Management Division of MFEM
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax

Summary Assessment

The purpose of this assessment has been to evaluate the current status of the Public Financial Management (PFM) systems in the Cook Islands in terms of the main systemic strengths and weaknesses and in accordance with the PEFA framework. It is important to underline that the purpose has not been to assess different institutions or responsible individuals in the Government but to focus on the PFM systems themselves.

(i) Integrated assessment of PFM performance

The PFM system is centred on a set of relatively advanced budget and financial management rules and structures around a clear legislative framework, and the rules are well-documented. Compliance with these rules and processes in many areas is high, whilst in others limited capacities, particularly in financial management, constrain their ability to implement the processes efficiently; the relative sophistication of PFM systems, including the use of accrual budgeting and accounting, may mean that they may not be functioning as well as intended.

Critically, there is a key break in the accountability chain, through the lack of effective Parliamentary oversight, which hinders the ability of external stakeholders to hold managers to account for both financial and non-financial performance.

Measured along the 6 core dimensions of public financial management, the PFM systems in the Cook Islands may be summarised as follows:

Credibility of the budget

- Over the last three years, budget credibility in both aggregate and across ministries and line agencies (MLAs) has been weak, which reflects both: (i) the lack of final audited accounts for 2008/09 and 2009/10 due to on-going delays in finalising the public accounts, which can lead to adjustments being made to the data long after the end of the relevant period; and (ii) different levels of disaggregation in fiscal data between the Appropriation Act and the annual accounts, which make it difficult to compare budgeted and actual data with certainty for some expenditure lines.

Comprehensiveness and transparency of the budget

- The budget documentation and public accounts provide comprehensive information on revenues, expenditures, assets and liabilities in line with IPSAS standards for accrual accounting; supplemental budget information on outputs by MLA is also presented. Nonetheless, an important omission in the budget documents is the absence of information on preliminary outturns for the prior year, which would assist Parliament and other stakeholders to evaluate the budget proposals. The active monitoring of potential fiscal risk from state-owned public enterprises and crown agencies is limited but in practice there have been no significant risk issues to date.
- Whilst a number of key fiscal documents are in principle made available to the public, including the budget documents, annual financial statements, audit reports, public accessibility to the information and its usefulness is limited in practice by technical website issues and the timeliness of some of the information (e.g. due to delays in its preparation or its tabling in Parliament, required prior to publication). Other fiscal information, specifically, tender awards and in-year budget execution reports, are not systematically made public.

Policy-based budget

- Whilst medium-term fiscal aggregates are provided in the Medium Term Budgeting Framework (MTBF), the ability to translate sector or sub-sector policies into budgetary allocations is undermined by the absence of costed sector strategies, the lack of a strong role played by strategic (medium-term) MLA forward estimates in the rolling over of MTBF parameters (e.g. through the setting and updating of MLA ceilings), and weak links between investments and subsequent recurrent cost requirements.

Predictability and control in budget execution

- Clear and simple tax laws, good accessibility to tax requirements, and regular reconciliation of tax information provide reasonable controls on tax receipts.
- Whilst internal expenditure controls are reasonably robust, some errors, particularly on operational expenditures in the Outer Island administrations, lead to qualifications in the audit reports and highlight the lack of a functioning internal audit process.
- There are weaknesses in the implementation of procurement procedures, as well as in the procedures themselves, leading to the frequent award of non-competitive tenders whose justification often appears unclear.

Accounting, recording and reporting

- In-year reporting on expenditures (both Crown and MLAs) is timely, but the usefulness of the reporting information to management is potentially undermined by the lack of completeness of the information from MLAs and weaknesses in their data accuracy.
- Weaknesses in the quality of MLA reporting data result in a substantial delay in the preparation of year-end accounts, which has a knock-on effect on the completion and auditing, and hence external scrutiny, of the final public accounts.

External scrutiny and audit

- Whilst the scope of external audit is wide, covering the whole of the public sector, and is based on international standards, the delays in the completion of MLAs' annual accounts, and thus the consolidation of the Crown accounts, reduce the impact of external audit's recommendations.
- Parliamentary oversight of public finance is currently very weak, which represents a significant break in the accountability chain.

(ii) Assessment of the impact of PFM weaknesses

As public financial management concerns the efficiency and effectiveness of the use of public resources, the interdependence of the components of the budget cycle means that weaknesses in one part can adversely affect other parts and thereby constraining the achievement of better budgetary outcomes; conversely, improvements in one area which are not matched by corresponding changes in other areas can undermine the initial reforms. The strengths and weaknesses of the PFM system found in the assessment have an impact on the three measures of budget effectiveness[1] – aggregate fiscal discipline, allocative efficiency and technical efficiency – as follows.

Impact on aggregate fiscal discipline

Aggregate fiscal discipline is strongest when budgets are implemented as planned, internal expenditure controls are strong, and there is effective external oversight. Although an apparent lack of budget credibility potentially undermines aggregate fiscal discipline through overshooting any deficit targets or increasing the level of arrears, these risks do not appear to apply to the Cook Islands,

[1] These three measures are described in detail *inter alia* in Allen, Tommasi (eds), Managing Public Expenditure: A Reference Book for Transition Countries, OECD, 2001.

where the MFEM Act requires the Minister of Finance to run at least a balanced budget (which appears to happen in practice).

However, difficulties in comparing actual expenditures to the equivalent appropriated budget by vote on a consistent basis raise questions over the accuracy of the budget credibility results and potentially undermine the usefulness of the analysis. These difficulties are *inter alia* the result of weaknesses in the accuracy of MLA accounts and hence the non-timely finalisation of consolidated accounts, as well as the differing bases of reporting from budgeting.

Current PFM weaknesses which could potentially undermine aggregate fiscal discipline through preventing managers from controlling expenditures include weak links between investment expenditures and forward recurrent expenditures, the lack of timely preparation of consolidated final annual accounts, and ineffective external oversight of public finance, including internal audit. However, in practice, despite these weaknesses, aggregate fiscal discipline appears to be strong. Specifically, there are no difficulties with cash flow, nor do there appear to be significant expenditure payment arrears (overdue payables).

Impact on strategic allocation of resources

Close links between strategic government priorities and resource allocations are facilitated by a strong planning and budgeting framework, effective budget execution and recording procedures which allow the budget to be implemented and reported as planned, and demand from external stakeholders for effective public sector performance.

A number of strengths in the Cook Islands' PFM system have a positive impact on the strategic allocation of resources. Specifically, the very limited amount of resources not reported in the budget documents and public accounts means that all resources are potentially allocated in line with budget priorities. On the other hand, the absence of costed sectoral strategies and a mechanism to allocate resources in line with these strategies reduces the potential strategic nature of the intra-sectoral budgetary allocation process.

Weaknesses in external oversight affect the ability to hold budget managers to account for progress in attaining its budgetary goals. The transmission of timely and accurate fiscal information in an accessible way to the public provides stakeholders with the opportunity to assess the extent to which the government is achieving its budget priorities. However, data problems, in terms of timeliness and accuracy, as well as the relative understandability of the public accounts to a non-technical audience, make it more difficult for civil society to play this role effectively.

Impact on efficient service delivery

Efficiency in service delivery is highest when there is a strong and transparent procurement (tendering) process so that goods and services offer value-for-money, accurate expenditure information is available to public sector managers in order to monitor and evaluate the efficiency of spending, and there is adequate demand from external stakeholders for efficient public sector performance.

Weaknesses in the procurement process, particularly the extent of competitive exemptions, are likely to affect negatively the efficient implementation of spending programmes. In the absence of strong intra-sectoral/MLA planning processes, which are based on costed sector strategies, it is difficult to review the efficient mix of inputs. Finally, the lack of functional Parliamentary oversight and timely audits potentially hamper the holding of managers to account for improvements in service efficiency.

(iii) Prospects for reform planning and implementation

For the successful implementation of the reform programme, the buy-in and involvement of stakeholders in the PFM system is crucial. Critical factors for successful reforms include: (i) consensus on the appropriate level of reforms and identification of what specific measures will be required to strengthen existing PFM systems; (ii) visible and active top management and political support for reforms; (iii) government ownership of the reform process; and (iv) cross-cutting elements, such as sufficient physical and human resource capacities, including access to trained financial technicians.

Summary of PFM Performance Indicators[2]

PFM Performance Indicator		Scoring Method[3]	Dimension Ratings[4]				Overall Rating	Explanation of Scores (Page Number)
			i	Ii	iii	iv		
	A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C				**C**	10
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C	A			**C+**	11
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				**B**	11
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR	D			**NR**	12
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	A				**A**	12
PI-6	Comprehensiveness of information included in budget documentation	M1	B				**B**	13
PI-7	Extent of unreported government operations	M1	A	B			**B+**	15
PI-8	Transparency of inter-governmental fiscal relations	M2	N/A	N/A			**N/A**	15
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	N/A			**C**	16
PI-10	Public access to key fiscal information	M1	B				**B**	18
	C. BUDGET CYCLE							
	C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	B	D	C		**C**	20
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	C	D	C	**D+**	22
	C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	B	B		**B**	24
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	C		**C+**	25
PI-15	Effectiveness in collection of tax payments	M1	NR	A	B↑		**NR**	26

[2] The measurement of the scores in this table follows closely the PEFA Guidelines (see www.pefa.org for a description of the calibration of scores for each indicator). For indicators with more than one dimension, a separate score is given for each dimension, and the overall score for the indicator is shown in bold and box-framed.

[3] Scoring method M1 is used for indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance of other dimensions of the same indicator. Scoring method M2 is used where a low score on one dimension of the indicator does not necessary undermine the impact of a high score on another dimension of the same indicator.

[4] Each indicator includes one or more dimensions. A separate score is given for each dimension. Where there is more than one dimension, the overall score for the indicator is arrived at by combining the dimension ratings according to the prescribed methodology (M1 or M2) for the indicator.

Performance Indicators Summary (cont'd)

	PFM Performance Indicator	Scoring Method[5]	Dimension Ratings[6]				Overall Rating	Explanation of scores
			i	ii	iii	iv		
	C(ii) Predictability and Control in Budget Execution							
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	A	N/A		**A**	27
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	D	B		**C**	28
PI-18	Effectiveness of payroll controls	M1	D	B	A	D	**D+**	30
PI-19	Competition, value for money and controls in procurement	M2	C	D	D	D	**D**	32
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	B	B		**C+**	33
PI-21	Effectiveness of internal audit	M1	N.A	N/A	N/A		**N/A**	34
	C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			**B**	35
PI-23	Availability of information on resources received by service delivery units	M1	B				**B**	36
PI-24	Quality and timeliness of in-year budget reports	M1	B	B	C		**C+**	37
PI-25	Quality and timeliness of annual financial statements	M1	B	D	B		**D+**	38
	C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	A	B	C		**C+**	40
PI-27	Legislative scrutiny of the annual budget law	M1	C	C	D	D	**D+**	42
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D		**D**	43
	D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	N/A	N/A			**N/A**	44
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			**D**	44
D-3	Proportion of aid that is managed by use of national procedures	M1	D				**D**	45

5 Scoring method M1 is used for indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance of other dimensions of the same indicator. Scoring method M2 is used where a low score on one dimension of the indicator does not necessary undermine the impact of a high score on another dimension of the same indicator.

6 Each indicator includes one or more dimensions. A separate score is given for each dimension. Where there is more than one dimension, the overall score for the indicator is arrived at by combining the dimension ratings according to the prescribed methodology (M1 or M2) for the indicator.

1. Introduction

Objective of the PFM-PR

The overall objective of the assessment is to produce a comprehensive Public Financial Management Performance Report (PFM-PR) prepared according to the PEFA methodology. It aims to establish the baseline for the current performance of PFM processes and systems in the Cook Islands, in terms of an integrated assessment of relative strengths and weaknesses. The assessment covers the fiscal years 2007/08, 2008/09, and 2009/10, and the information is assessed as of May 2011. The PFM-PR is expected to provide an important input into the preparation of a roadmap for PFM reform measures, and the government aims to repeat the exercise after 3-4 years.

Process of Preparing the PFM-PR

The PFM-PR was prepared by a team comprising Cook Islands government staff and national and international consultants. IMF/PFTAC was the lead donor, working closely with the EU, who jointly provided logistical and financial support throughout the duration of the PEFA in the form of an external consultant and a local consultant, respectively. Other development partners, including New Zealand and Australia, were consulted during the assessment.

The government team comprised officials from the Ministry of Finance and Economic Management (MFEM), the Office of the Prime Minister (OPM), and the Public Service Commission (PSC). A large number of government officials were involved in participating in stakeholder interviews providing information and documentary evidence.

Methodology for Preparation of the Report

The assessment methodology involved: (i) pre-assessment collection and analysis of existing documentation on PFM in the Cook Islands; (ii) initiating stakeholder workshop; (iii) in-country collection of data, information and other evidence; (iv) interviews with government stakeholders with key responsibilities within the PFM system; (v) triangulation of data and information from complementary interviews, including from representatives of the private sector and civil society, and/or from available recent reports; and (vi) debriefing stakeholder workshop. The two stakeholder workshops were conducted to discuss key issues and build consensus. The first discussed the methodology, whilst the second presented the initial results from the assessment.

The draft report will be submitted for review to CIG, the main development partners (including NZ Aid Programme, AusAid, IMF/PFTAC, EU, and ADB) and the PEFA Secretariat.

Scope of the assessment

The public sector in the Cook Islands[7] comprises central government (including Crown agencies) and state-owned public enterprises. Public expenditure in the Cook Islands is largely centralised, and central government expenditures cover around 72% of consolidated Crown (public sector) expenditures, with the balance representing state-owned public enterprises (see Table 1.1).

Since the Crown accounts consolidate the accounts of all public sector entities (including state-owned public enterprises), the assessment of the Cook Islands' PFM systems covers all public expenditures and the institutions responsible for such. The assessment of systems has focussed primarily on central government (including crown agencies).

Table 1.1: Structure of the Public Sector

Institutions	Number of entities	% of public (Crown) expenditures
Central government[1]	53	72.5%
State-owned enterprises	7	26.5%
1. Includes ministries, line agencies, and crown-funded agencies Source: 2007/8 public accounts		

[7] May be referred to as the Crown

2. Background

2.1 Description of Country Economic Situation

Country context

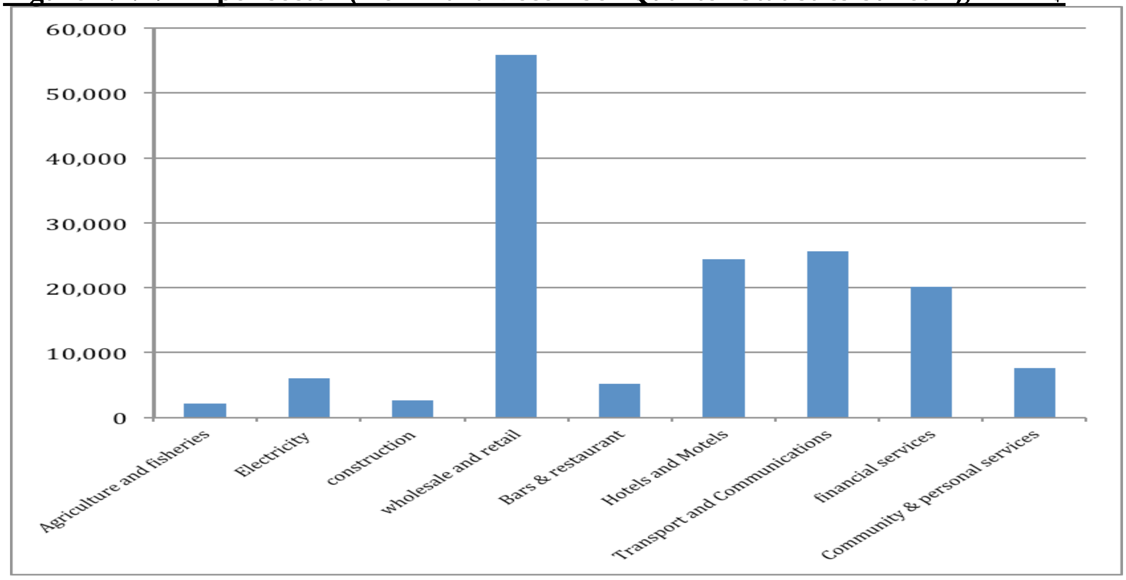
Cook Islands (CI) comprise 15 islands and atolls in the South Pacific, with a total land area of 237 sq km spread across 2 million sq km. CI is a self-governing state in free association with New Zealand. This allows Cook Islanders to travel freely into New Zealand, using New Zealand passports. The Cook Islands has adopted the New Zealand dollar as its currency.

The Cook Islands has a total population of 24,600[8], of which approximately half live in Rarotonga. The country's real per capita GDP is estimated at NZ$12,492.[9] An estimated 28.4%[10] of the population lies under the poverty line, but it is recognized that poverty exists in the form of a lack of access to emergency health care services and policing in the smaller, isolated outer islands. Well over 90% of the country's economic activity is generated on the main island of Rarotonga, with Aitutaki, the second most populous island, making the only other significant contribution to GDP (RMD, 2011).

The main industry and primary economic driver of the Cook Islands is its tourism industry. Direct receipts account for over 50% of GDP but indirectly tourism is driving the demand and activity of over 90% of the economy (see Figure 2.1). The second largest contributor to GDP is the offshore banking industry, making up approximately 8% of GDP.

The country's primary dependence on tourism makes it extremely vulnerable to external shocks such as oil price rises and terrorism attacks. The 9/11 terrorist attacks in 2001 fundamentally altered the demographic of the tourism market, with the contraction of the North American tourist market leading to the reduction of flights to and from the US and Canada thereby increasing the country's reliance on the New Zealand market, and resulting in lower yields across the industry.

Figure 2.1: VAT per sector (from 2010 December Quarter Statistics bulletin), in NZ$



8 Source: Cook Islands Statistics Office
9 Source: Cook Islands Statistics Office
10 Source: ADB Cook Islands Country report 2006

As shown in Table 2.1, the Cook Islands economy contracted in the 2008/2009 and the 2009/2010 fiscal years. This downward movement reflects the effects of the global financial crisis. There is a slight recovery forecast for the current 2010/2011 fiscal year. Inflation has been relatively low since 2009. In the 2009 calendar year there was a significant hike in fuel prices effecting energy prices, transport, and the cost of imported commodities.

Table 2.1: Overview of Macroeconomic Indicators, 2008/09-2010/11 (in NZ$)

Economic Indicators			
Fiscal Year	**2008-09** *Actual*	**2009-10** *Actual*	**2010-11** *Current*
Economic Activity			
Nominal GDP ($'000)	331,300	336,900	346,700
% Change	3.2%	1.7%	2.9%
Real GDP (at Constant 2006 Prices, $'000)	274,000	273,700	276,800
% Change	-3.5%	-0.1%	1.1%
Inflation			
Consumer Price Index (base Dec. 2006 = 100)	115.7	117.7	119.8
% Change	10.3%	1.8%	1.8%

Source: Extracted from the 2010 Half Year Fiscal Economic Update

The cost of business is considered to be high due to numerous factors. The country's small size and isolation mean the majority of inputs for production are imported. The high cost of finance is also seen as a major challenge to business investment and development (ANZ commercial base lending rate in the Cook Islands as at June 2011 was 9.95% vs. ANZ in New Zealand 6.24%).

Another impediment to economic growth is the limited labour force in the country. The accessibility of New Zealand and Australia by way of the Cook Islands relationship with New Zealand has meant that there has, and continues to be, considerable outward migration. The last decade has seen an influx of foreign labour from Fiji, Tonga and the Philippines working predominantly in the lower paying jobs. The need for business to import labour to supplant the outward migrating local labour force has added to the cost of business in the Cook Islands.

Overall Government reform programme

The Public Financial Management system that exists is largely a creation of the reform process that the country under took between 1996 and 1998 when government had become insolvent as it was unable to meet its debt obligations as they fell due. It was during this time that much of the legislation that is the foundation of the current PFM was developed including, the MFEM Act (1995/96), Income Tax Act (1997), VAT Act (1997), PERCA Act (1995/96), PSC Act (1996) and the CIIC Act (1997/98).

These reforms were heavily focused on the fiscal framework and were successful in overhauling the financial processes and the credibility of the PFM. There have been incremental improvements to the PFM over time with the development of the financial policies and procedures manual in 2001

(CIGFPPM) and more recently the development of a mid-term budgeting framework (which projects only aggregate budget totals). However, either, because of the focus on the challenging fiscal issues at that time, or because of the relatively rapid economic and fiscal turn around, the reforms in the fiscal sector were not complemented by a more holistic reform process addressing governance and planning.

Attempts were made later to address the gaps in planning with the development of *Te Kaveinga Nui*, the country vision document, and the National Sustainable Development Plan (NSDP 2007-2011), the mid-term guiding document to implement Te Kaveinga Nui. In addition, the PSC Act (2009) replaced the repealed PSC Act (1996) to further prescribe practices in the Public Service. Further developments to occur in 2011 include the second iteration of the NSDP (2011-2016), scheduled to be published in July, and the commissioning of a functional review of the Public Sector.

Rationale for PFM reforms

With economic contraction in the last two years, and the change in government in the November 2010 elections, there is a strong impetus for change and improvement of government systems. MFEM has continued to make incremental improvements in an effort to continuously upgrade the PFM. CIG has committed to the development of a PFM Road Map in looking to structure these improvements over time. It is hoped that these efforts will be complemented by the outcomes of the functional review of the public service, in improving the effectiveness and efficiency of government as a whole.

2.2 Budgetary Outcomes

Fiscal performance

Analysis of the budget from the fiscal period between 2007/08 and 2009/10 (Table 2.2) shows a clear trend in increased government spending as well as a reduction in revenues as a percentage of GDP. The reduction in the budgeted revenues reflects the effect of the global economic crisis and its impacts on the global tourism market. The marked increase in government expenditure in the 2009/10 year was in part due to spending on the costs of hosting the 2009 Pacific Mini Games.

Table 2.2: Overview of Central Government Budgetary Operations, 2007/08-2009/10

Central Government Budget (in Percent of GDP)			
	2007/08	2008/09	2009/10
Total Revenue			
- *Own revenue*	30.3	29.2	29.0
- *Grants*	9.6	6.4	9.0
Total expenditure			
- *Non interest expenditures*	32.9	31.6	37.3
- *Interest expenditures*	0.2	0.3	0.3
Aggregate Surplus (including grants)	6.8	3.7	1.0
Primary Deficit	-2.5	-2.4	-8.0
Net Financing			
- *external*	15.7	19.2	N/A
- *domestic*	0.2	0	N/A

Note: 1. Excludes debt service payments, and external financing.
Source: Annual budget documents for 2007/08, 2008/09, 2009/10. Cook Islands Statistics office (GDP)

Allocation of resources

Tables 2.3 and 2.4 summarise trends in budgetary allocations by sector and by economic classifications over the past three years. The effect of meeting the infrastructure needs for the Pacific Mini-Games in 2009/10 is clearly shown.

Table 2.3: Allocations of resources by sector, 2007/08-2009/10

Actual Budgetary Allocations by Sectors (as a percentage of GDP)			
	2007/08	2008/09	2009/10
Economic Development	7.5	7.8	0.1
Governance	13.8	14.5	6.1
Infrastructure	9.0	9.1	33.5
Health	10.9	10.8	5.4
Education	11.9	12.1	6.0
Social welfare	9.8	11.1	6.2
Law and Order	5.6	5.9	2.8
Rural Development (outer islands)	13.1	13.1	5.2
Social Development	1.3	1.9	1.1
Environment and conservation	1.0	1.1	0.5

Notes on definition of sectors:
Economic Development Includes: Business Trade and Investment Board; Ministry of Agriculture; Ministry of Marine Resources; Cook Islands Tourism Corporation; Cook Islands Pearl Authority; Financial Services Development Authority; Economic Stimulus (ADB loan); Airline Subsidies
Governance includes: Office of the Prime Minister; Office of the Public Service Commissioner: Ministerial Support; Ombudsman; Crown Law; Parliament and Parliamentary Services; Head of State Office
Infrastructure includes: Ministry of Infrastructure and Planning; Ministry of Transport; Road and Water Upgrade
Health includes: Ministry of Health
Education includes: Ministry of Education; Department of National Human Resource Development
Social Welfare includes: Ministry of Internal Affairs; Welfare Payments
Law and Order includes: Ministry of Police; Ministry of Justice
Social Development includes: Ministry of Culture; South Pacific Mini Games;
Environment & Conservation includes: National Environment Service, Natural Heritage Trust

Source: Annual budget documents for 2007/08, 2008/09, 2009/10. Cook Islands Statistics office (GDP)

Table 2.4: Allocations of resources by economic classification, 2007/08-2009/10[1]

Actual Budgetary Allocations (as percentage of total expenditures)			
	2007/2008	2008/2009	2009/2010
Current Expenditures	57.5	57.6	62.2
- Wages and Salaries	*39.2*	*37.2*	*25.5*
- Goods and Services	*15.5*	*17.5*	*22.8*
- Interest Payments	*0.7*	*0.7*	*0.5*
- Subsidies	*N/A*	*N/A*	*1.9*
- Social benefits	*N/A*	*N/A*	*6.7*
- Grants	*N/A*	*N/A*	*0.0*
- Depreciation	*2.1*	*2.2*	*3.0*
- Others	*36.1*	*36.5*	*1.8*
Capital Expenditures[2]	6.4	5.9	37.8

Notes: 1. Classification presented according to the GFS classification began in 2009/10; consistent breakdown prior to that not available.
2. Transactions in non-financial assets (fixed assets)

Source: Source: Annual budget documents for 2007/08, 2008/09, 2009/10 (Schedule 20 – Operating Statement)

2.3 Legal and Institutional framework for PFM

The legal framework

The central piece of legislation shaping the PFM is the MFEM Act (1995-96). This Act empowers the Ministry to provide financial regulations to the public sector, and sets out budgeting procedures and reporting requirements for debt obligations, financial statements and limits to authorities. Under this Act sits the Financial Policies and Procedures regulations in the Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM), which have been continuously revised since 2001. The other guiding legislation includes the PERCA Act (1995-96), which outlines procedures for external scrutiny. The tax system is governed by the Income Tax Act (1997), and supported by the Value Added Tax Act (1997), and the Customs Act (1913). As of 2011, the Customs Act was being redrafted and likely to be replaced by new and more future proofed legislation.

The Constitution under Section 7 also governs parts of the PFM pertaining in particular to the government's ability to spend over and above its appropriation.

The governance of public enterprises is covered under the CIIC Act (1997/98). Each State Owned Enterprise (SOE) also has its own legislation.

The institutional framework for PFM

The Cook Islands is a self-governing Parliamentary democracy, centred on the 1964 Constitution.

Legislative

The legislative branch consists of a Legislative Assembly (Parliament) of 24 members operating predominantly under a two-party system. The Cook Islands use the Westminster, first-past the post system of government. Throughout the last decade, the country was governed by six different coalition governments. Amendments were made to the Electoral Act in 2007 following the 2006 elections to address the issues of instability with coalition governments. A stable majority government was maintained up until December 2009 when the Prime Minister of the time removed his Deputy Prime Minister and operated until the November 2010 elections with a minority government. In November 2010 a new majority government was elected. The elections are held every four years. There exists no system of local or regional government, with all public goods and services provided for by central government.

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

The Judiciary

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

The Executive

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

Ministry of Finance and Economic Management

The Ministry of Finance and Economic Management (MFEM) is responsible for much of the maintenance of the PFM. There are four divisions within MFEM: Treasury Management (TMD); Revenue Management (RMD), Statistics, and Aid Management (AMD).

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

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

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

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

PERCA (Audit Office) and PERC

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

Ministries and Line Agencies (MLAs)

In total there are 20 ministries and line agencies and 10 island administrations (which essentially act and function as line agencies). MLAs are responsible for keeping their own accounts and must provide monthly accounts to MFEM, including an analysis of actual to budget against appropriation, the year to date profit and loss statement, and balance sheet.

Crown-funded Agencies

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

State-Owned Enterprises

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

Office of the Prime Minister

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

Key Features of the PFM System

The PFM system in the Cook Islands operates only at a central level; there is no local government sector. The Ministry of Finance and Economic Management is the central agency responsible for PFM. Apart from the use of centralised payment systems for personnel and capital expenditures, the management of non-personnel recurrent expenditures are decentralised to the MLAs. The fiscal year runs from 1 July to 31 June. Section 3 below provides details for each element of the PFM system.

3. Assessment of PFM System, Processes and Institutions[11]

This section provides details of the main findings of the assessment by indicator. For each indicator, the scores should be read in conjunction with the accompanying narrative explanation.

3.1 Budget Credibility

The budget is the central mechanism for controlling expenditure in accordance with amounts set out in Appropriation Acts as passed by Parliament. The ability to implement budgeted expenditures as planned is an important factor in supporting the government's ability to deliver on its national policy priorities. Budget credibility requires both actual budgetary releases to be similar to voted budgets and the means to enforce appropriate fiscal discipline to be in place. The CIG budget is formulated on an accrual accounting basis, and, as such, depreciation, a non-cash item, is included in the appropriations and therefore in the assessment.

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

In aggregate, expenditures over the past three years have differed significantly from that planned in the original budget; this is evidenced *inter alia* by the number of supplementary budgets that were approved during this period, including three in one year (2008/09). Deviations between budgeted and actual expenditures for central government were calculated based on the information provided in the audited financial statements for 2007/08 and the un-audited financial reports for 2008/09 and 2009/10, as audited financial statements were not available (as at May 2011). Debt service payments were excluded from the calculations, as these were statutory obligations, as were externally-financed expenditures.

The resulting analysis for 2007/08 to 2009/10 shows that at the aggregate level, actual primary expenditure deviated from original budgeted primary expenditure by 3.2%, 24.8% and 13.9% respectively. Whilst maintaining a budget surplus during those years, CIG's public finances were put under pressure by the global financial crisis, particularly given the degree of open-ness of CI's economy, and the unforeseen effects of the crisis and their extent would have made budget planning more difficult.

However, caution should be used in the interpretation of these figures. Whilst the first year of the assessment (2007/08) utilised finalised accounts, the remaining two years, 2008/09 and 2009/10, utilised unaudited financial reports, as finalised statements were not available (as at May 2011). The CIG has maintained a decentralised accounting system since the reforms of the 1990s, and a shortage of staff skilled in accrual accounting across the 53 financial entities in central government means that backlogs have arisen in finalised accounts on a regular basis.

The detailed data for this indicator are contained in Annex D.

[11] The measurement of the scores in this section follows closely the PEFA Guidelines (see www.pefa.org for a description of the calibration of scores for each indicator). For indicators with more than one dimension, a separate score is given for each dimension, and the overall score for the indicator is shown in bold and box-framed.

Indicator (M1)	Score	Brief Explanation
A. Credibility of the Budget		
PI-1. Aggregate expenditure out-turn compared to original approved budget	**C**	The percentage deviations between actual and budgeted primary expenditures as a proportion of the original approved budget were: 2007/08: 3.2% 2008/09: 24.8% 2009/10: 13.9% Thus, actual expenditures in only one of the last three years varied by more than 15% over the original budget.

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

(i) Extent of variance in expenditure composition

Where the composition of the budget varies considerably from the original budget, the budget will not be a useful indicator of planning and intent on behalf of CIG. This sub-dimension assesses the extent to which there is a re-allocation of expenditure amongst administrative heads (MLAs), above the overall deviation in aggregate expenditure as defined in PI-1. The analysis for 2007/08 to 2009/10 shows that, at the MLA level, variances in the composition of primary expenditures across budget heads (excluding contingency) amounted to 16.5%, 10.4% and 5.2%, respectively.

However, these data should also be interpreted with caution. Different levels of disaggregation in fiscal data between the Appropriation Act and the annual accounts make it difficult to compare budgeted and actual data with certainty for some expenditure lines, and this has an impact on the data on variance in the composition of expenditures across MLAs.

The detailed data for this indicator are contained in Annex D.

(ii) Average amount of expenditure charged to the contingency vote

Two types of contingency exist: (i) a small contingency reserve set out in the Appropriation Act, which, when used, is appropriated through the supplementary budget directly from the contingency budget line (Vote); and (ii) Executive Council Order (under the terms of the Constitution), which may be in an amount up to 1.5% of total expenditures. In practice, over the past three years, the average amount charged to the contingency vote was very small (0.24%).

Indicator (M1)[12]	Score	Brief Explanation
PI-2. Composition of expenditure out-turn compared to original approved budget	**C+**	
(i) Extent of the variance in expenditure composition during the last 3 years	*C*	The variances in the composition of primary expenditures across budget heads (excluding contingency) were: 2007/08: 16.5% 2008/09: 10.4% 2009/10: 5.2% Thus, variance in expenditure composition in only one of the last three years varied by more than 15% over the original budget.
(ii) Average amount of expenditure actually charged to the contingency vote over the last 3 years	*A*	Expenditures charged to contingency vote was less than 1% (0.24%) on average over the last three years, as follows: 2007/08: 0.2% 2008/09: 0.2% 2009/10: 0.4%

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

Actual domestic revenue receipts as a proportion of budgeted revenue projections were 106.4%, 100.9% and 112.1% in 2007/08, 2008/09, and 2009/10, respectively.[13] Whilst actual revenue receipts outperformed the budgeted amounts in all three years, a stronger than expected recovery in visitor numbers following the global financial crisis helped push receipts higher than anticipated in 2009/10.

The detailed data for this indicator are contained in Annex D.

Indicator (M1)[14]	Score	Brief Explanation
PI-3. Aggregate revenue out-turn compared to original approved budget	**B**	Actual domestic revenue receipts as a proportion of budgeted domestic revenue for the last 3 years were: 2007/08: 106.4% 2008/09: 100.9% 2009/10: 112.1%

PI-4: Stock and monitoring of expenditure payment arrears

(i) Stock of expenditure payment arrears

There is no statutory definition of arrears. Normal business practice for the settlement of invoices in the public sector is payment by the 20th of the month following the date of the invoice. Information from private sector suppliers indicates that public sector agencies normally settle their invoices within

12 Uses the revised PEFA methodology (January 2011)

13 The score for this indicator has been revised from the original draft, based on revised data subsequently received for 2008/09 and 2009/10. These revisions are said by MFEM to reflect additional accruals for VAT, income tax and company tax not included in the data available in May; nonetheless, whilst upward adjustments were made to the 2008/09 data, it is curious that downward revisions were made to the data on 2009/10 receipts for these tax types. At the same time, it is noted that the Economic Update in the 2009/10 Appropriation Act indicates that revenues from income tax were significantly lower in 2008/09; this seems to contradict the revised data. Similarly, the Economic Update in the 2010/11 Appropriation Act implies a less-rosy view of the actual tax take for 2009/10, compared to the revised data. The broader point is that such revisions are possible until the end-of-year accounts are audited, reflecting significant delays in the finalisation of the accounts (see PI-25). This indicator may need to be reviewed once the audited accounts for 2008/09 and 2009/10 become available.

14 Uses the revised PEFA methodology (January 2011)

this timeframe. Data from 2006/07 and 2007/08 indicate that creditor (payable) days for non-personnel (operational) payments were 51 days and 79 days, respectively, at year-end.[15] However, this sub-dimension has not been given a specific score, as it was not possible to estimate the exact proportion of invoices which were not paid within the time period of normal business practice (i.e. between 20 and 50 days after invoice, depending on how close to the date of invoice is to the last day of the month), either currently or in recent years.

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

At the same time, MFEM do not collect data on the age of outstanding payments; under its accruals system, outstanding payments are treated as payables under current liabilities.

Indicator (M1)	Score	Brief Explanation
PI-4. Stock and monitoring of expenditure payment arrears	**NR**	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	*NR*	It was not possible to estimate the exact value of invoices which are were not paid within the normal 30-day payment settlement period, either currently or in recent years.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	*D*	There is no system for collecting data on outstanding payments and hence no data are available.

3.2 Transparency and Comprehensiveness

PI-5: Classification of the budget

The Cook Islands operates a decentralised financial management system, with a Chart of Accounts (CoA) applicable to the Crown (consolidated public accounts), and separate ones for each ministry and line agency. The MLA CoAs are cross-walked to the Crown CoA in order to prepare the consolidated CIG budgets and public accounts; there are no issues with this cross-walking process.

The central government budget is formulated, executed and reported by administrative unit, economic item, and output, the last of which equates to a sub-function (programme). The classifications used produce consistent fiscal documentation (budgets, execution, and reporting) across years. The budget is appropriated by administrative unit, and MLAs are afforded delegated authority to manage their appropriations for in-year budget execution and reporting according to outputs (programmes) and economic items. The economic classification equates to the one-digit GFS level one classification[16] and is consistent over time. It is also shown in the budget documents according to the GFS level two classification.

Indicator (M1)	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-5. Classification of the budget	**A**	The budget is formulated, executed and reported by the administrative, economic and programmatic (output) classifications, with the latter equivalent to sub-function. The classifications produce consistent budget documents, executed budgets, and financial reports over time.

15 No data are yet available for 2008/09 and 2009/10.

16 International Monetary Fund (2001), Government Finance Statistics Manual, Washington, DC.

PI-6: Comprehensiveness of budget documentation

The annual budget documents include: (i) Budget Estimates Part I: the Appropriations Bill Appropriations and Commentary; (ii) Budget Estimates Part IIA: Ministry Output Specifications; (iii) Budget Estimates Part IIB: Ministry Output Specifications (Outer Islands Administrations); and (iv) the Minister's Speech. The Budget Policy Statement (BPS), which provides the macroeconomic and fiscal context for the coming budget, is prepared by the 31st March each year, but is not submitted to Parliament either separately or together with the draft Budget. The documents provide near-complete information on the macroeconomic context, revenues, expenditures, and financial assets; not included is systematic information on prior year's outturns and a detailed analysis of the fiscal implications of new policies (see Table 3.1).

Table 3.1: Completeness of Budget Documentation[1]

Item	Included in budget documentation?	Relevant Section of Appropriation Bill
Macro-economic assumptions (aggregate growth, inflation, and exchange rate)[2]	Yes	Part I, Section 4 - Fiscal strategy report
Fiscal deficit (IPSAS standards)	Yes	Part I, Section 4 - Fiscal strategy report
Deficit financing (includes anticipated composition)	Yes	Part I, Section 4 - Fiscal strategy report
Debt stock (includes detail for current year)	Yes	Part I, Section 5 – Schedules analysing the appropriations
Financial assets (includes detail for current year)	Yes	Part I – Section 6 – Financial update
Prior year's budget outturn	No	
Current year's budget, presented in the same format as the budget proposal	Yes	Part I – Section 2 – Appropriation Bill 2010 (Schedule 1a)
Summarised budget data	No	NB: summarised data for previous years are not included alongside current year and coming budget year
Explanation of budget implications of new policy initiatives	Some	The 2009/10 and 2010/11 Fiscal Strategy Reports contain some analyses of expenditure allocations, as well as brief explanations of why 1-2 broad categories of revenue may change.[17]

Notes: 1. Information based on current year budget documents (2010/11)
2. The Cook Islands use the NZ dollar as their currency; thus, the explicit exchange rate policy is 1:1 correspondence with the NZ dollar.

Indicator (M1)	Score	Brief Explanation
PI-6. Comprehensiveness of information included in budget documentation	**B**	The annual budget documents contains 6 of the 9 information benchmarks, including details of macroeconomic assumptions, fiscal deficit, deficit financing, debt stock, financial assets, and the current year's budget.

[17] However, the analyses are insufficiently comprehensive to meet the standards as set by the PEFA for this item

PI-7: Extent of unreported government operations

(i) Level of extra-budgetary expenditures which is unreported

Fiscal reports (budgets, in-year budget execution reports, and annual reporting) are comprehensive of Crown and MLAs' revenues, centralised (Crown) and decentralised (MLA) expenditures, and fiscal information on hypothecated public funds (specifically, the Superannuation Fund) is reported to MFEM and Parliament. The use of accrual accounting means that expenses incurred for a given fiscal year (including non-cash expenses such as depreciation) are recorded as being spent in that year, giving a full picture of revenues and expenditures relevant to that year.

Upon analysis of potential sources of unreported activities, the PEFA assessment found very little evidence of unreported government operations in practice. The analysis revealed that all central agencies, line agencies, crown-funded agencies and state-owned enterprises (SOEs) are consolidated into the annual Crown financial statements, with the exception of the Financial Supervisory Commission (FSC). As an independent agency, the FSC has a legislative requirement to be independent of the Crown and it sources its operating revenues from fees imposed by legislation; it produces audited financial statements which it reports annually to the Minister of Finance. The Crown also accounts for and reports foreign exchange gains and losses, and gains and losses on the sale of assets.

Unreported government operations have been identified as revenues raised directly by School Committees, Islands Councils,[18] and the differential between market rates and that paid by CIG (through CIIC) to SOEs for rental of Government offices and services provided for boat moorings. There are other social costs incurred by SOEs on behalf of the Crown which are reimbursed by the Crown for cash, or which SOEs reduce the annual dividend payment to the Crown. The total unreported government operations have been estimated in Table 3.2.

Table 3.2: Estimate of Total Unreported Government Operations, 2009/10

Agency or Crown Entity	Unreported Government Operations, 2009/10 (NZ$'000)[1]
Cook Islands Investment Corporation[2]	695
School Committees	190
Island Councils	500
Total Unreported	**1,385**
Total budgeted expenditures for 2009/10[3]	215,538
% Unreported Activities	0.64%

1. Net profit
2. Differential between market rates and that paid by CIG to SOEs.
3. Audited financial statements of actual expenditures are not yet available; appropriated expenditures were used as a proxy.
Source: CIIC Statement of Corporate Intent, Ministry of Education, Island Council estimates from interviews with TMD.

(ii) Income/expenditure information on donor-funded projects included in fiscal reports

A review of fiscal reports (annual budget documents, in-year and end-year accounts, and audit reports) shows that they cover all loan-financed expenditures and more than 50%[19] of grant-financed expenditures received in cash (i.e. other than those in kind). This estimate was corroborated by interviews with stakeholders. A key reason for the lack of inclusion of grant-financed data in fiscal documents is the difficulty in obtaining relevant information on likely disbursements, particularly from donors without an on-the-ground presence in the Cook Islands, including the People's Republic of China (PRC).

18 Outer Islands Local Government Act (1987) provides for a community-based group to administer matters of interest to outer islands communities. They are unable to raise taxes on the population or expend monies on behalf of the Crown, but are able to raise limited resources through community fund-raising efforts.

19 But not as high as 90% of such expenditures.

Indicator (M1)	Score	Brief Explanation
PI-7. Extent of unreported government operations	**B+**	
(i) Level of unreported extra-budgetary expenditure	*A*	Estimates of unreported government operations indicate that they represent less than 1% of total government expenditures.
(ii) Income/expenditure information on donor-funded projects	*B*	Fiscal reports (annual budget documents, in-year and end-year accounts, and audit reports) cover all loan-financed expenditures and between 50 and 90% of grant-financed expenditures received in cash.

PI-8: Inter-governmental fiscal relations

This indicator is not applicable as there is no sub-national level of government in the Cook Islands.

Indicator (M2)	Score	Brief Explanation
PI-8. Transparency of Inter-Governmental Fiscal Relations	**N/A**	
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	*N/A*	There is no sub-national level of government in the Cook Islands.
(ii) Timeliness and reliable information to SN governments on their allocations	*N/A*	There is no sub-national level of government in the Cook Islands.
(iii) Extent of consolidation of fiscal data for general government	*N/A*	There is no sub-national level of government in the Cook Islands.

PI-9: Oversight of aggregate fiscal risk

(i) Extent of central government monitoring of AGAs and PEs

There is limited active oversight of aggregate fiscal risk. Some information on fiscal risks is presented with the budget, but there is little systematic analysis of risks to the medium term fiscal situation. In particular, as indicated above, information is presented on government guarantees and some other contingent liabilities,[20] but no assessment is made of the likely fiscal impact.

Public enterprises (SOEs) are governed by the Cook Islands Investment Corporation Act (1997-1998). This overarching legislation sets out the governance structure and reporting requirements of state owned enterprises. SOEs report by business unit and consolidate their annual financial performance and position together with the parent entity, the Cook Islands Investment Corporation (CIIC). The CIIC's financial position is consolidated annually into the Crown accounts.

Regular reporting by all SOEs and Crown-funded agencies to MFEM (and CIIC in the case of SOEs) consists of: (i) forward-looking annual Statements of Corporate Intent, setting out their business plans and performance indicators for the coming 3 years, submitted usually in July of each year; and (ii) annual Audited Financial Accounts, submitted for audit usually in October/November of each year. In addition, some SOEs submit more frequent financial reports (e.g. semi-annual) to CIIC and MFEM. There is no requirement to submit annual reports, in addition to the annual financial

[20] The budget appropriation documents include a statement of fiscal risks, including amounts of guarantees and indemnities, uncalled capital and legal proceedings and disputes.

statements.

Whilst the CIIC is the agency responsible for the oversight of public enterprises, it performs very little systematic oversight of public enterprises, and it does not produce any oversight reports. Similarly, whilst MFEM receives SOEs' accounts, it does not review them systematically to identify any fiscal risks or analyse them in a written report.

There is no oversight authority for Crown-funded agencies[21] (e.g. Pearl Authority), and no systematic process to identify risks associated to those agencies.

(ii) Extent of central government monitoring of SN governments' fiscal position

This sub-dimension is not applicable as there is no sub-national level of government in the Cook Islands.

Indicator (M1)	Score	Brief Explanation
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	**C**	
(i) Extent of central government monitoring of AGAs/PEs	*C*	All public enterprises (SOEs) and Crown agencies provide their audited annual Financial Statements to Parliament and MFEM. However beyond receiving their financial statements, central government does not monitor or provide oversight over the operations of SOEs or Crown agencies, and no consolidated report of risk is prepared by central government.
(ii) Extent of central government monitoring of SN governments' fiscal position	*N/A*	There is no sub-national level of government in the Cook Islands

PI-10: Public access to fiscal information

Access to timely, accurate, comprehensive and useful information on a country's fiscal activities helps ensure accountability of the government to its population.

The primary fiscal information to which the public have timely access are the budget documents, including the Appropriation Schedules and Supplementary Budget (s), which are put on the MFEM website after the Appropriation Act has been passed in Parliament, which in practice is soon after the Bill has been tabled (see PI-27). In past years, prior to this information being provided on the website, the public was notified via the media of the availability for purchase of hard copies of the budget appropriation. MFEM no longer holds hard copies of the budget documents for sale, and does not routinely prepare media releases to coincide with key milestones on the budget calendar. It is noted that the PEFA assessment team did not find it easy to locate key documents on the MFEM website.

In addition to the Annual Appropriation Act, MFEM makes available on the MFEM website the Budget Policy Statement (BPS) by the 31st of March each year, the Half Year Economic and Fiscal Update (HYEFU) by the 31st of December each year, and the pre-election fiscal update prior to elections. The consolidated annual accounts are said to be made available to the public after they have been tabled in Parliament; however, the PEFA team were unable to find the latest (2007/08) year-end audited consolidated public accounts on the MFEM website, which were tabled in Parliament in March 2011.

[21] These are usually governed by a specific Act, overseen by a Board appointed under the Act, and do not come under the PSC.

Once audit reports and audited financial statements are tabled in Parliament, the documents become public, and the Audit Office uploads its quarterly reporting and special audit reviews to its website. The most recent quarterly audit reports on the website are for the 30th June 2010 period; there are no quarterly reports on the website for the period to 31st March 2011. The most recent audit reports (the Audit Office's annual report for 2009/10 and special audits covering 2009/10) are available in hard copy in the main Post Office in Rarotonga; these were provided within three months of their completion (see PI-26 for dates of completed audit).

Information on resources provided to primary service units such as primary health centres or schools are available to interested members of the public through a request to the school or health centre or directly to the Ministry of Education or Health, under the Official Information Act (OIA) 2008.

Other fiscal information (i.e. winning tenderers) is not routinely made available to the public.

The fiscal information available to the public is summarised in Table 3.3. In practice, however, for those outside of Rarotonga and/or without easy access to the internet, particularly those on the Outer Islands, public access to published fiscal information is difficult.

Table 3.3: Public Access to Fiscal Information[1]

Item	Does public have access?	When made available?	Currently on the website?	Meets PEFA criteria?
1. Annual budget documentation – Appropriation Bill, (3 volumes) Minister's Budget Speech	Yes – published on MFEM website, hard copies printed	When Appropriations Act has been passed in Parliament[2]	Yes	Yes
Annual budget documentation - Budget Policy Statement	Yes – published on MFEM website	Around its statutory due date (MFEM Act, which says no later than 31st March). In 2010/11 budget docs were posted on 1st April; in 2011/12, on 31st March.	Yes	(Included in row above)
2. In-year budget execution report – monthly variance report	No	N/A	No	No
Half-Year Fiscal and Economic Update	Yes – published on MFEM website	Around the 31st December each year	Yes	(Included in row above)
3. Year-end financial statements	Yes – published on MFEM website	Following tabling in Parliament	No	No
4. External audit reports	Yes – quarterly and annual audit reports and special review audits are on PERCA website; hard copies for latest audit reports (including special audits) posted in the Post Office.	Following tabling in Parliament	Latest annual report is for 2007/08; latest quarterly report is for 4th quarter 2009/10	Yes[3]
5. Contract awards	No	N/A	N/A	No
6. Resources available to primary service units	Available on request (OIA) directed to the relevant MLA	N/A	N/A	Yes

Notes: 1. Information based on current fiscal year (2010/11).
2. Soon after its tabling in Parliament.

3. The score is based on the availability in hard copy of the latest reports in the central Post Office in Rarotonga.

Indicator (M1)	Score	Brief Explanation
PI-10. Public access to key fiscal information	B	Government provides the public with access within the specified time to 3 of the 6 types of information listed. Generally not available to the public are in-year budget execution reports, timely annual financial statements, and tender contract awards.

3.3 Policy-based Budgeting

PI-11: Orderliness and participation

(i) Existence of and adherence to a fixed budget calendar

Each year, MFEM circulates a formal budget calendar in January for the coming budget year. The main steps for the 2010/11 calendar are set out in Table 3.4. The process begins with the circulation of the Budget Instructions, which summarise the aggregate fiscal parameters from the Budget Policy Statement for the coming budget year and the updated Half-Year Economic and Fiscal Update (circulated the previous December) and broad instructions to MLAs on e.g. levels of personnel increases, etc. Ministries and line agencies prepare and submit to MFEM their Business Plans and Budget Submissions (baseline plus bids for additional resources), and MFEM provides comments to the MLAs, after which they update their submissions.

In practice, in recent years, MLAs have based their budget estimates on a nominal flat baseline ceiling and have the opportunity to apply for new funding opportunities for new initiatives depending on the Budget Policy statement and the availability of funds. With the global economic crisis in 2008 and the Aitutaki cyclone (and resulting rebuilding effort) of 2009, and extraordinary (i.e. supplementary) expenditure on the hosting of the Pacific Mini Games in 2009, there has been little new funding available to MLAs. In addition, the lack of indexing of baseline expenditures has meant that government has suffered real reductions whilst trying to provide the same level of service.

Following the MLAs' final budget submissions, the Budget Support Group, chaired by the Minister of Finance and consisting of key government officials and representatives of the private sector,[22] reviews the MLAs' Budget Submissions, including the bids for additional resources, and prepares a report to the Minister of Finance setting out recommendations for allocations. The Minister tables the recommendations in Cabinet. Following Cabinet deliberation, the final budget is sent to MFEM for preparation of the draft Appropriations Bill, which is sent to Crown Law (Solicitor General) for approval. Finally, the Minister of Finance tables the Bill in Parliament, and, once it is passed, MFEM prints copies for distributing to all Heads of Ministries (HOMs), Crown Agencies and Parliament.

[22] Until 2011/12, the previously-named Budget Committee consisted exclusively of representatives of the private sector.

Table 3.4: Overview of Budget Preparation Timetable[1]

Budget Preparation Step	Timing
MFEM sends budget submission templates and budget instructions to MLA HOMs	February
MLAs submit estimates of ROBOCs	February
MLAs hold internal discussions on their business plans, chaired by HOMs	March
MLAs submit draft business plans and budget submissions to MFEM	March
MFEM provides comments to MLAs on draft submissions	March
MLAs submit final budget submissions to MFEM	March
Budget Committee[2] discusses BPS, fiscal context, previous year's financial and audit reports	April
Budget Committee hearings with MLAs on their budget submissions	May
Budget Committee produces its report and submits its recommendations to Minister of Finance, circulates to MLA HOMs	May
MLA HOMs provide comments on recommendations	June
Budget Committee submits its recommendations (revised, if necessary), together with HOMs' comments, to Cabinet	
MLA HOMs hold ministerial meetings to discuss the Budget Committee's recommendations	June
Cabinet deliberates on proposed budget, and decides on final budgetary allocations to go to Parliament	June/July
Start of fiscal year	**1 July**
MFEM advises MLAs of Cabinet's final decision on budgetary allocations	July
MLAs submit their final output (programme) descriptions	July
Minister of Finance submits Appropriation Bill to Parliament	July
Parliament approves Appropriation Act	July
MFEM prints distribution copies of the Appropriation Act and	After Approp Act passed
Note: 1. Based on 2010/11 Budget Calendar 2. Beginning with the 2011/12 budget year, the new form of this Committee is known as the Budget Support Group	

During two of the last 3 years, the budget calendar gave MLAs at least 6 weeks to prepare their draft budget submissions (Table 3.5). Given that there has been limited or no growth in the baseline for MLAs in recent years, MLAs report that the time given is sufficient for them to prepare their submissions. In one year, 2009/10, there was a delay in the circulation of the budget instructions and hence the timetable for MLA budget preparation was significantly shorter.

Table 3.5: Timeframe for MLAs to Complete their Budget Estimates

Budget year	Circulation of Budget Instructions by MFEM to MLAs	Date for Final Submission of Estimates by MLAs to MFEM	Number of Weeks given to MLAs for Submission of Estimates
2009/10	26th February 2009	16th March 2009	2.5 weeks
2010/11	9th February 2010	30th March 2010	7 weeks
2011/12	1st February 2011	16th March 2011	6 weeks

(ii) Guidance on the preparation of budget submissions

The main guiding document for budget preparation is the Budget Policy Statement, which is usually prepared during February, when MLAs are preparing their budget submissions but before they finalise them. The BPS contains aggregate macroeconomic and fiscal economic parameters for the medium term, the Statement of Fiscal Responsibility, containing *inter alia* the debt sustainability ratios (see PI-17 below), and the main sectoral and cross-sectoral budget priorities. It also contains the main sectoral budget priorities for the coming budget year. Cabinet approves the BPS by the end of March each year.

Neither the BPS nor the budget instructions circulated to MLAs contains expenditure ceilings by ministry. Over the past three years, the budget instructions have indicated that MLAs should set their initial baseline estimates on the same aggregate nominal baseline expenditure as for the current budget year, but this blanket statement to all MLAs does not represent an individual MLA ceiling. MLAs then are guided to put in bids for new investment proposals, which are often significantly higher than the amounts that they receive in allocations, to be decided by Cabinet after the MLAs have put in their final Estimates.

(iii) Timely budget approval by the legislature

For two of the last three years (2009/10 and 2010/11), the original Appropriation Bill was approved by Parliament after the beginning of the fiscal year, but within two months of the start of the fiscal year. The specific timings of approval are summarised in Table 3.6.

Table 3.6: Approval of Appropriation Bill, 2008/09-2010/11[1]

Fiscal year	Type of Budget	Date of Parliamentary approval[2]
2008/09	Original Appropriation Bill	30 June 2008
	Supplementary Budget 1	15 September 2008
	Supplementary Budget 2	27 November 2008
	Supplementary Budget 3	1 April 2009
2009/10	Original Appropriation Bill	30 July 2009
	Supplementary Budget	11 August 2010
2010/11	Original Appropriation Bill	16 August 2010
	Supplementary Budget	18 April 2011

Notes: 1. The assessment for PI-11(iii) has been made on the basis of the dates of approval of the original Appropriation Act.
2. The dates of Parliamentary approval shown for the original Appropriation Bill indicate when the Bill became an Act (i.e. with the assent of the Queen's Representative); the dates of the Supplementary Budget shown indicate the date of promulgation by the whole House (2009/10 and 2010/11) or the date of submission to Parliament (2008/09).
Source: Office of the Clerk of Parliament

Indicator (M2)	Score	Brief Explanation
C(i) Policy-Based Budgeting		
PI-11. Orderliness and participation in the annual budget process	**C**	
(i) Existence of, and adherence to, a fixed budget calendar	*B*	A fixed budget calendar exists and is generally adhered to. For most years, it has allowed MLAs at least 6 weeks to complete their Estimates. However, some delays have been experienced in the last 3 years.
(ii) Guidance on the preparation of budget submissions	*D*	The budget instructions circulated to MLAs do not contain ministry ceilings.
(iii) timely budget approval by the legislature	*C*	The budget has been approved by Parliament within 2 months of the budget year in each of the last 3 years.

PI-12: Multi-year perspective

(i) Multi-year fiscal forecasts and functional allocation

Over the last 2-3 years (since 2009/10), MFEM has been developing a Medium Term Budget Framework (MTBF), which currently takes the form of a database held by MFEM. No accompanying MTBF document is prepared, setting out the detailed medium-term budgetary parameters (e.g. forward estimates) within the overall macro-fiscal context and highlighting the link between the allocations and the policies and priorities by sector. The process of linking forward planning and budgeting is still evolving; it has not necessarily been comprehensively institutionalised across government. According to consultations during the assessment, budgetary planning by MLAs does not yet reflect the MTBF, with the vast majority of MLAs still planning year to year. At the same time, in the absence of ministry ceilings, there are no links between forward estimates and subsequent setting of annual budget ceilings.

CIG prepares fiscal forecasts each year on a rolling basis for the coming year plus two forward years. These forecasts are based on aggregate medium-term projections that are determined by MFEM. Forward projections are provided in the budget documents as follows: (i) macroeconomic aggregates (as part of the Medium Term Fiscal Update), (ii) Statement of Financial Performance (aggregates); (iii) Operating Statement (Schedule 20) (aggregates); (iv) Statement of Financial Position (balance sheet) (aggregates); (v) Statement of Borrowings; and (vi) broad classes of tax type. The forward projections are subject to change and therefore not a predictable indicator of future planning.

(ii) Scope and frequency of debt sustainability analysis

One debt sustainability analysis was undertaken in the last 3 years, covering external debt.

In the current (2010/11) budget year, TMD developed a debt sustainability model, which now allows the country to assess its ability to carry debt sustainably. Prior to this, debt sustainability analyses were conducted in an *ad hoc* manner in response to government interest in taking on new debt. The last *ad hoc* analysis was conducted in 2008 for a loan from the Chinese government for the development of road infrastructure. Subsequently, following the debt sustainability analyses, the loan commitment was withdrawn.

(iii) Existence of costed sector strategies

Two sector strategies exist (for the education and health sectors); neither has been costed. The over-arching strategic plan, the NSDP, sets out goals and targets, but does not provide guidance on future budgetary indications or prioritisation between sectors or initiatives. In response to the NSDP, ministries produced medium-term strategy frameworks, setting out the relevant ministry's vision, strategic goals, key activities and action plan, but these contain no fiscal parameters. The government has indicated its plans to develop sector strategies across all sectors, but this has not yet been done.

The OPM has drafted an Economic Development Strategy costing the major development investments the government plans to undertake over a ten-year period. OPM is expected to work with MFEM on implementing a medium-term planning framework that will complement the MTBF and enable medium-term indicative budget ceilings for MLAs.

(iv) Linkages between investment budgets and forward expenditure estimates

Links between investment expenditures and forward expenditure estimates are weak due to the lack of comprehensive sector expenditure strategies, including detailed costings, and to weaknesses in medium-term planning and budgeting processes, both of which make it difficult to plan a detailed investment programme and the likely future recurring expenditure implications. One recent significant example was the capital expenditure outlay facilities for the Pacific Mini Games 2009, for which there was little planned budget in advance, as evidenced by the need for allocations made in a supplementary budgetary that year. In practice, whilst MLAs are in theory responsible for planning their forward service costs but in practice they are not required to do so, according to MLA stakeholders. Thus, the full impact of likely future recurrent costs is not routinely being factored into future budgets. Nevertheless, stakeholders indicated that, in some main cases, recurrent costs were included in forward budget estimations.

Indicator (M2)	Score	Brief Explanation
PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D+**	
(i) multi-year fiscal forecasts and functional allocations	*C*	CIG prepares aggregate fiscal forecasts each year on a rolling basis for the coming year + 2 forward years for the main categories in the economic classification but not for MLAs (administrative classification). In the absence of ministry ceilings, there are no links between forward estimates and subsequent setting of annual budget ceilings.
(ii) scope and frequency of debt sustainability analysis	*C*	One debt sustainability analysis was undertaken in the last 3 years, covering external debt.
(iii) existence of costed sector strategies	*D*	Sector strategies have been prepared for health and education, but neither has been costed.
(iv) linkages between investment budgets and forward expenditure estimates	*C*	Investment decisions have weak links to sector strategies (which themselves are limited in number) and their recurrent cost implications are not systematically included in forward planning, except in a few cases.

3.4 Predictability and Control in Budget Execution

PI-13: Transparency of taxpayer obligations and liabilities

(i) Clarity and comprehensiveness of tax liabilities

The Cook Islands operate a relatively simple tax system, with the main taxes being Valued Added Tax (VAT), Personal Income Tax (a three-tier progressive system), Company Tax and Departure Tax.

The Cook Islands tax system is prescribed under the Income Tax Act (1997) and supporting tax legislation, including Value Added Tax (1997), Customs Act (1913), International Departure Tax Act (1984) and amendments. The system is straightforward and the legislation is comprehensive. The administration of the legislation is carried out by the Revenue Management Division (RMD) of MFEM. In addition to the four main taxes listed above, other taxes include customs levies, and licensing and registrations.

The Income Tax Act (and its supporting legislation, covering VAT, PAYE, and company tax) limits the discretionary power exercised by RMD in the application of assessments and penalties, and provides for prescriptive formulas for providing relief from assessments in most cases. In the case of income tax, for example, the Collector has applied discretion to amend assessments in approximately 25% of appeals. In general, for the major taxes, tax authorities have reasonably limited discretionary powers, where they use their judgement.

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

Taxpayers have access to comprehensive tax information with the legislation and educational materials being available on the MFEM website and in hard copy at the RMD offices in the major centres or the government administration building in the remote outer islands. The tax forms are very easy-to-use with clear filing instructions, and Tax Officers are available to visit start up businesses upon request to set up tax reporting systems. Triangulation with stakeholders representing taxpayers confirmed that RMD were helpful in explaining obligations to taxpayers and that there is a strong general knowledge of tax systems and administration amongst taxpayers. This can also be attributed to the aforementioned simplicity of the tax system.

RMD officers make periodic visits (up to bi or tri-annually) to the outer islands to undertake audits and carry out tax awareness and education. These visits are irregular because of the high cost of travel to, and the low value of, economic activity in these remote communities.

(iii) Existence and functioning of a tax appeals mechanism

Tax legislation provides for a two-level system for appeal of tax assessments. In the first instance the taxpayer can object to the assessment directly to the Revenue Collector. In the second instance, the taxpayer may lodge an appeal with, and have their cases considered by, the Cook Islands High Court. All of the Cook Islands High Court Judges are currently sourced from the New Zealand High Court and appointed to the Cook Islands High Court by warrant under the aegis of the Cook Islands Queens Representative. In practical terms, as appeals generally relate to technical interpretations of the Income Tax Act (1997) and supporting tax legislation, it is common for tax appeals to be convened in New Zealand. This improves timeliness and efficiency and reduces the cost of dealing with tax appeal cases, because most specialist legal tax practitioners are resident in New Zealand. The High Court judges presiding over tax cases are specialists in the tax field and preside over similar cases in the New Zealand jurisdiction. There is no independent mechanism for appeal before recourse to the High Court.

Since 2008, the number of appeals of tax assessments to the Collector has averaged 12 per annum. Approximately 25% of those appeals have resulted in a revision of the assessment. Around 1% of those (i.e. an average of 1 per annum) have resulted in an objection being lodged by the taxpayer with the High Court. As indicated above, the nature of the objections brought before the High Court are generally highly technical in nature where a taxpayer disagrees with the Collector's interpretation of the legislation.

Indicator (M2)	Score	Brief Explanation
PI-13. Transparency of taxpayer obligations and liabilities	**B**	
(i) Clarity and comprehensiveness of tax liabilities	*B*	Cook Islands tax procedures are set out in specific legislation for each type of major tax. The legislation is unambiguous and comprehensive for all taxes. Exercise of discretionary power is limited to the Collector of Inland Revenue. The Collector occasionally exercises discretion using the prescriptive formula established within the legislation in most instances or the use of judgement in limited cases.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	*B*	Taxpayers in the major centres have access to comprehensive, user-friendly and up to date information on tax liabilities and administrative procedures through the MFEM website and RMD offices. Taxpayers in remote areas can access comprehensive and up to date information but, as there are no RMD offices in remote locations, it may be more difficult to gain access to information in these areas. Taxpayer awareness campaigns are conducted in the outer islands but cost factors mean that these campaigns are not necessarily carried out regularly.
(iii) Existence and functioning of a tax appeals mechanism	*B*	A two-level system of tax appeals is provided for in tax legislation, covering the Collector in the first instance, and the High Court thereafter. There is no independent mechanism for appeal before recourse to the High Court.

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

(i) Controls in the taxpayer registration system

All taxpayers of income tax (including withholding taxes), company tax, customs tax or Value Added Tax are required to register with the Revenue Management Division of MFEM, and are given a unique identification code in the RMD computerised database known as the Revenue Management System (RMS). RMS is a stand-alone system that is not linked to any other government registration database but which processes all types of tax receipts.

Whilst there are no direct links with other government registration databases, RMD regularly check local newspapers and websites to identify unregistered potential taxpayers in order to supplement taxpayer registration system controls. In addition, all employers are required to furnish returns monthly on PAYE, and these are reconciled annually against individual taxpayers. All businesses are required to file VAT returns monthly and annual company returns.

International departure taxes are also managed by RMD. The level of the tax is set under the Act and RMD sells departure tax vouchers to Westpac Bank who then on sells to departing passengers at various outlets including the International Airport. Westpac receives a commission for each sale, and the receipted cash is reconciled against each banking entity in the same manner as other taxes. Airport Customs check that all outgoing passengers have paid their departure tax.

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

The individual Acts covering legislation for each of the main types of tax set out penalties for not complying with rules for registering and submitting returns. Penalties are charged in accordance with the Income Tax Act (1997) on late payment of VAT, PAYE, Company and Provisional taxes at the rate of 5% for late filing and a further 1% on the outstanding amount at the end of each month from the due date. All other taxes, such as customs tariffs and departure taxes, are required to be paid prior to the receipt of bonded goods or on departure and therefore no penalties apply. In practice, the full annual rate of penalties is approximately 17% (5% plus 12% monthly charge) as opposed to the current base commercial lending rate of 9.95%. The cost of compliance is significant enough to deter non-compliance.

However, whilst the RMD's computer system automatically calculates and charges penalties, given limited resources, active follow-up of collections may be focused relatively more on the largest debts. In some cases, e.g. for businesses in financial difficulties, it is financially more amenable for them to delay tax payment to preserve their cash flow. In these cases, RMD works with these businesses in terms of penalties with the view to encourage business sustainability and further generation of taxation rather than force a business into bankruptcy.

(iii) Planning and monitoring of tax audit programmes

RMD undertakes tax audits on taxpayer entities upon receipt of tax returns. The level of audit review is determined by the taxpayer risk as perceived by the Tax Auditor. The Tax Auditor will assess risk of avoidance or evasion by a taxpayer based on the size or nature of the taxpayer entity and the quality of the information provided in the tax return or in past returns. Non-routine tax audits are performed by RMD when information is received that indicates potential unreported tax liabilities by taxpayer entities.

Indicator (M2)	Score	Brief Explanation
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**C+**	
(i) Controls in taxpayer registration system	*C*	All taxpayer entities have a unique identification code in the RMD RMS system. RMS is a stand-alone system that records taxpayer assessments and receipts. RMS is not linked with other government registration and licensing systems. RMD use *ad hoc* measures to identify unregistered potential taxpaying entities.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	*B*	The individual tax Acts set out penalties that are sufficiently high (relative to e.g. interest rates) so as to deter non-compliance. Resource constraints may mean that active follow-up of debts is focused relatively more on higher-value debts.
(iii) Planning and monitoring of tax audit and fraud investigation programs	*C*	RMD undertakes tax audits on receipt of tax returns on a continuous basis but does not prepare a formal documented annual audit plan each year. RMD focuses its resources on the audit of higher risk taxpayers and when examining returns uses risk criteria based on their experience/judgement (e.g. anomalies on P&L) to detect fraud.

PI-15: Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears

As indicated above, the RMS system collects data by unique taxpayer code for all types of taxes including income tax, company tax, customs tax or value added tax. Annual assessments and payments are recorded in the system by taxpayer code. The system does not generate reports of taxes assessed and tax liability by year. This affects the completeness and accuracy of the tax revenue and tax receivables figures each year. This has been an on-going significant issue that has resulted in a scope limitation on tax revenue and receivables in the 2008 annual audited financial statements. Numbered departure tax vouchers are reconciled against passenger list records held by Customs to ensure payments are complete.

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

Tax receipts for all types of taxes received in the main centres are transferred to the public account administered by TMD on the day following receipt. A system generated banking schedule based on tax type is produced from RMS and reconciled daily back to the physical deposit book. This schedule is provided to TMD each day. TMD perform the reconciliation of the public account at least monthly. Less than 1% of the tax take (RMD estimates) is receipted in the remote outer islands. This is banked daily and TMD is provided a schedule by RMD which is reconciled at least monthly. However due to the isolated nature of some of the tax offices, some tax receipts come through on a monthly basis, but the amount is not considered material.

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

In the current (2010/11) fiscal year, as a result of audit qualifications of tax revenue and reporting on receivables, RMD began reconciling the movement of tax balances. It now produces a monthly reconciliation that summarises the opening tax assessment outstanding position, adds assessments, removes payments during the month, to come to a closing tax receivable position.[23]

Indicator (M1)	Score	Brief Explanation
PI-15. Effectiveness in collection of tax payments	**NR**	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	*NR*	The RMS system is unable to analyse tax received and receivable against total tax assessed for the current and subsequent periods. No system or manual reconciliations are prepared to verify the reported figure.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	*A*	All tax revenue is paid directly into accounts controlled by the Treasury daily, and daily reconciliations of receipts are system-generated and are matched back to the deposit records. Some non-material amounts from remote outer islands may be collected and banked monthly, but is insufficiently material to affect the overall score.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	*B*↑	As of the current fiscal year, complete reconciliations of tax assessments take place at least monthly usually within two weeks of month-end. Prior to that, reconciliations were performed quarterly. The score reflects the average over the last three years, whilst the upward arrow reflects the recent progress recorded.

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

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

Following the passage of the Appropriation Act, ministries and line agencies prepare their annual cash flow forecasts at the beginning of the fiscal year, disaggregated monthly and in line with MLAs' appropriation amounts. These forecasts are broken down according to trading revenue, personnel, operating costs, Payments on Behalf of the Crown (POBOCs),[24] capital, and depreciation (non-cash). MLAs' forecasts are sent to MFEM (Treasury Department). During the year, MLAs adjust their cash flow forecasts monthly (as required) to reflect changes in actual cash flows; these adjusted forecasts

[23] A score of B has been recorded due to the fact that the complete reconciliation only took place in one year and it is too early to tell whether the new practice will be maintained.

[24] Where an MLA acts as a payment agent on behalf of central government (e.g. pension payments)

are sent back to MFEM. Physical monitoring of cashflows is carried out by both Treasury and the MLAs on a monthly basis, and the two sets of records are reconciled monthly.

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

Evidence shows that Treasury allocates MLA expenditure resources in accordance with their cashflow forecasts. Treasury provide MLAs with cash to cover their requested non-personnel expenditures and POBOCs less depreciation; personnel and capital expenditures are paid by Treasury centrally. MFEM authorisation covers the entire fiscal year; thus, MLAs are able to plan their commitments reliably for the entire fiscal year (i.e. up to 12 months in advance), in accordance with appropriations.

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

Following the reforms of 1996, and codified in the MFEM Act of 1996, MLAs were accorded delegated spending authority. The head of each MLA (HOM) has wide discretion in managing its overall MLA allocations. HOMs are permitted to move spending items within their overall MLA appropriation (single figure for the MLA), i.e. between one line item and another, and between one output (programme) and another.[25] They are not permitted to spend above the total amount appropriated for their Vote, as this requires approval by Parliament (assessed under PI-27 below).

Thus, because there is no level of transfer approval between the level of MLA management and Parliament, this sub-dimension is not considered to be applicable.[26]

Indicator (M1)	Score	Brief Explanation
PI-16. Predictability in the availability of funds for commitment of expenditures	**A**	
(i) Extent to which cash flows are forecast and monitored	*A*	At the beginning of the fiscal year, MLAs prepare their annual cash flow forecasts for all types of expenditures. These are broken down by month, and MLAs update them monthly (as required) in line with actual cash inflows and outflows.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	*A*	MLAs can plan their expenditures monthly for the fiscal year (i.e. up to 12 months in advance according to appropriations) since Treasury allocates MLA expenditure resources in accordance with MLAs' monthly cashflow forecasts.
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MDAs	*N/A*	Under MLA delegated authority, there is no level of approval for transfers required above the management of MLAs and below the level of Parliament.

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

(i) Quality of debt data recording and reporting

The Treasury Management Division (TMD) is responsible for recording and reporting on debt issues. Treasury use the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) to manage its debt information. The only borrowing incurred by Central government is external. Given the small number of loans (16), reconciliation of debt records is undertaken annually, but TMD

[25] According to the MFEM Act, MLAs are supposed to inform MFEM of transfers between outputs; there is no evidence that they do so. It was noted that the definition of "outputs" appears to be inconsistent in the MFEM Act and thus is not clear.

[26] Adjustments which must be decided above the level of MFEM and must be dealt with by Parliament (i.e. through supplementary appropriations) are discussed under PI-27.

continuously monitor exchange rates and process unrealised exchange rate adjustments when fluctuations become significant in-year. Data are considered of reasonable quality, and regular summary reports are produced and files on each loan are well maintained. TMD is awaiting further technical training from Commonwealth Secretariat on CS-DRMS.

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

Neither the Treasury accounting nor the Cook Islands domestic banking system allows the consolidation of bank balances, and the calculation of consolidated bank balances is not carried out systematically.

(iii) Systems for contracting loans and issuance of guarantees

According to the MFEM Act (Section 53), all new loans must be reviewed by the Central Agencies Committee (CAC) for comment, then endorsed by Cabinet, and signed by the Minister of Finance. Evidence (including review of Cabinet Minutes) on the limited loans provided to CIG shows that this process happens in practice.

CIG follows systematically a set of fiscal responsibility ratios, which set an upper limit on net debt/GDP. The government developed these ratios in order to manage the government's debt sustainability levels in its post-reform (post-1996) environment; the ratios were originally developed as part of the conditionalities set out under the Manila Agreement. Upon amortisation of the debt structured by the Manila Agreement in 2008, the government reviewed its debt sustainability ratios and updated its fiscal targets. The revised targets cover both loans and government guarantees. The list of government guarantees is contained in the notes to the budget appropriations each year.

The fiscal responsibility requirement was tested in 2009/10 when an in-principle agreement for a loan from PRC was re-evaluated and, consequently, failed to reach final agreement following detailed analysis according to the debt sustainability ratios.

The MFEM Act provides for the issuance of guarantees. In the last 3 years, new guarantees have been granted each year to the Cook Islands Tourism Corporation (CITC) to subsidise selected Air New Zealand flights.[27] The process to approve the guarantee was approved by Cabinet, following comments made by CAC, and signed by the Minister of Finance. The estimated amount to be paid under the guarantee is appropriated each year.

Indicator (M2)	Score	Brief Explanation
PI-17 Recording and management of cash balances, debt and guarantees	**C**	
(i) Quality of debt data recording and reporting	*C*	Full updating and reconciliations of debt records are carried out at least annually (CI has only external debt). The quality of recording and reporting and maintenance of debt records is good. Unrealised foreign exchange gains or losses are posted periodically.
(ii) Extent of consolidation of the government's cash balances	*D*	Neither the Treasury accounting nor the CI banking system allows the consolidation of bank balances, and the calculation of balances is not carried out systematically.
(iii) Systems for contracting loans and issuance of guarantees	*B*	All loans and guarantees must be approved by the Finance Minister on the concurrence of Cabinet and are required to go through Parliamentary appropriation; no loan or guarantee has been made in practice without this chain of approval in recent years. Loans and guarantees are made within overall net debt/GDP limits as specified by CIG.

[27] The actual cash amount of the guarantee each year is determined according to the flight loading factor and is included in the Appropriation Bill.

PI-18: Effectiveness of payroll controls

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

Prior to the 1996 reforms, the Public Service Commission (PSC) was the regulator for human resources (HR) and held a personnel database for all public servants. During the reform, HR activities were decentralised and ministries were empowered to manage their own HR activities. At the moment, PSC's only role with regards to personnel is to approve organisational structures, an establishment list, and remuneration job sizing as per structure and job description. Subsequently, they only have a supposed number of employees, whether vacant or not, according to their approved structure.

Public entities maintain three lists of personnel and payroll records: (i) payroll, maintained by MFEM and the line ministries; (ii) personnel records (staff records), maintained by the line ministries; and (iii) establishment list (ministry structure with all posts), maintained by PSC. The 3 databases are separate, and there is no evidence of any reconciliation amongst the 3 lists.

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

Line ministries administer their own personnel database and personnel records and deal directly with MFEM with regards to payroll. Timesheets are submitted to MFEM who then directly pays into employees' respective accounts on a fortnightly basis. The fortnight timesheets are then used as a form of reconciliation of the personnel to payroll records, and if people are not paid then it is corrected usually before the next fortnight. Regular variations are processed promptly and this is likely due to the small size of the public payroll and the personal contact with the payroll clerk at MFEM. In recent years, delays of up to 3 months have occurred on occasion, requiring retroactive adjustments to payroll.

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

Changes to personnel are timely, and records indicate that payroll variations are made promptly, usually within 48 hours. All new employees verified with PSC are processed within a week, provided a job description has already been approved. In 2009, an establishment work assessment was conducted which resulted in a large number of staff becoming eligible for pay variations resulting from revised work level standards. These variations were not provided for in the budget and the issue has not yet been resolved.

Internal controls have clear audit trails providing evidence of 3 separate officials, the preparer, the checker and the authoriser. Back ups are available in most cases; however, the absence of the authoriser may delay processing on rare occasions.

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

There is no clear evidence of systematic payroll audits.

Indicator (M1)	Score	Brief Explanation
PI-18. Effectiveness of payroll controls	**D+**	
(i) Degree of integration and reconciliation between personnel records and payroll data.	*D*	There is no evidence of reconciliation amongst the 3 data lists (payroll, personnel, and establishment).
(ii) Timeliness of changes to personnel records and the payroll	*B*	In general, changes to personnel and payroll records are completed within four weeks, and usually in time for the next fortnightly payroll. In recent years, delays of up to 3 months have occurred on occasion, requiring retroactive adjustments to payroll.
(iii) Internal controls of changes to personnel records and the payroll.	*A*	Approvals by three separate officials - the preparer, the checker and the authoriser - leaves a clear audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	*D*	There is no clear evidence of a systematic payroll audit in recent years.

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

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

Section 63 of the MFEM Act (1995-96) empowers the Ministry (MFEM) to issue instructions to MLAs to ensure compliance with financial disciplines. These instructions are documented in the Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM), and the process for procurement is set out in Part D sections 2 and 3. The procedures apply to any procurement undertaken by ministries, outer island administrations, and crown-funded agencies (i.e. central government). The process set out is highly prescriptive and details step by step how a procurement or tender process should be administered by MLAs. Members of the public may download the whole Manual (287 pages) from the MFEM website to view Part D, but generally it is not easily available to those not in Rarotonga without reliable internet access; this is considered to pertain only to a relatively small percentage of the population.

The procurement procedures follow a hierarchical structure which applies to the use of all government funds, but precedence of procurement legislative framework and procedures is not clearly established. The CIGFPPM procedures do not clearly define when departures from procurement processes are allowable; rather, the procedures allow MLAs to provide justifications for any departures from policy. Additionally, there is no independent tender review process for handling procurement complaints by participants before contracts are awarded.

As summarised in Table 3.7, Cook Islands' procurement procedures do not meet a number of the PEFA criteria.

Table 3.7: Overview of Comprehensiveness of Procurement Legislative Framework

Item[1]	**Covered in Legislative Framework?**
(i) be organised hierarchically and include clearly-established precedence	No (precedence)
(ii) freely and easily accessible to the public	Yes (through internet)
(iii) apply to all procurement undertaken using government funds	Yes
(iv) make open competitive procurement the default method of procurement and define clearly the situation in which other methods can be used and how this is to be justified	No
(v) provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No
(vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	No
1. Refer to criteria listed in PEFA manual under PI-19 (i)	

(ii) Use of competitive procurement methods

CIGFPPM provides for the use of non–competitive methods of procurement. It does not clearly define when departures are applicable, but provides for the use of discretionary power by the Financial Secretary, who chairs the 2-person Tender Committee and sits with the Solicitor General to decide what is appropriate under "exceptional circumstances" or reasons of "urgency". There have been noted issues relating to the lack of clarity, including what constitutes urgent and exceptional circumstances, and how these exceptions are applied. As indicated above, stakeholders interviewed for the assessment indicated frequent and non-transparent use of such exceptions. This matter has been recognised at the time of the drafting of this report, and MFEM is reviewing the tender procedures.

The Audit Office has conducted a number (8) of special reviews into specific tenders over the last three years. The findings from the overwhelming majority (more than three-quarters) of these reviews have been that the tender procedures were not followed. In general, whilst procurement procedures are set out clearly, the assessment's review confirmed with a number of sources, including the Audit Office, the Ministry of Infrastructure & Planning and the Chamber of Commerce, that CIGFPPM processes were not strictly adhered to across Government.

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

Public access to procurement information is not comprehensive and complete (see Table 3.8). Government does not produce or publish procurement plans. Though capital procurement is provided for in the budget there seems to be no clear indication to interested parties of a holistic list of projects that will be tendered with a given period (the financial year), i.e. MLAs' procurement plans. Information on bidding opportunities is advertised publicly but at times it is not done in a timely manner, with complaints from potential bidders that the period given to submit tenders is often too short, considering the onerous work required in compiling the required tender documents. When a contract is awarded, there is no requirement to have an official notice to publicise the award of a tender. Tenders may be publicised via news articles if they are deemed "newsworthy" through newspaper, radio or TV reporting. There is also no reporting of complaints as there is not an official complaints procedure provided for in the policies and procedures manual (see next paragraph).

Table 3.8: Overview of Public Access to Procurement Information

Item[1]	Public Provided Timely Access?
Government procurement plans	No
Bidding opportunities	Yes (though not always timely)
Contract awards	No
Data on resolution of procurement complaints	Not available
Note: 1. Refers to PEFA criteria in PI-19.	

(iv) Existence of an independent administrative procurement complaints system

As mentioned above, there is no formalised procedure for dealing with complaints about the tender or procurement process. Any complaints usually go to the Audit Office which then investigates. This would be retrospective and the time it takes for the Audit Office to investigate will depend on the perceived importance or urgency of the complaint.

Indicator (M2)[28]	Score	Brief Explanation
PI-19. Competition, value for money and controls in procurement	**D**	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	*C*	The legal and regulatory framework for procurement meets 2 out of 6 (criteria ii and iii) of the PEFA criteria.
(ii) Use of competitive procurement methods	*D*	There is no centralised database to manage Government procurement processes. No reliable data were available to calculate the volume of use of non-competitive methods.
(iii) Public access to complete, reliable and timely procurement information	*D*	The public has access to only one of the PEFA criteria (bidding opportunities).
(iv) Existence of an independent administrative procurement complaints system	*D*	No independent administrative procurement complaints body exists

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

(i) Effectiveness of expenditure commitment controls

Non-salary expenditures (including ministry operating, POBOCs, and capital expenditures) are managed by MLAs[29] and reported monthly to MFEM on an accrual basis (including depreciation). Non-salary recurrent expenditure is generally referred to as operating expenditure. This is bulk funded into MLA bank accounts by TMD on the 20th day of each month. MLAs who fail to report the monthly variance report on time each month have their bulk funding suspended until the following month, and this threat of withholding (which has occurred in practice) is the basis of commitment controls on MLAs. For other types of expenditures, MFEM holds the cheque-book for POBOCs and capital funding and do not make payments without the required supporting documentation. MLA managers have full autonomy to prepare their cashflow projections and spend their budgets to deliver

[28] Uses the revised PEFA methodology (January 2011)
[29] Capital expenditures are paid centrally, whilst payments for recurrent expenditures and POBOCs are handled by MLAs directly.

outputs. MLA managers are solely responsible for signing off on all expenditure commitments. While these controls could be quite effective in theory, in practice the lack of monitoring of internal controls surrounding non-salary expenditure has been raised as a significant control weakness by the Audit Office in relation to operating expenses of specific MLAs.

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

Since the introduction of the CIGFPPM there has been an increasing level of awareness and understanding by MLA managers and finance officers of procedures relating to non-salary expenditures for the larger MLAs. The smaller MLAs, particularly those in the remote outer islands, continue to demonstrate a lack of understanding of procedures, as evidenced by the raising by external audit of material concerns in relation to operating expenses of specific MLAs. In the absence of internal audit, it was not possible to assess the cost-effectiveness of procedures.

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

The degree of compliance is greater for the (relatively) larger MLAs (i.e. non-remote outer island MLAs, representing the majority of MLAs), who have fewer audit qualifications for completeness, validity and accuracy of their operating expenditures. MLAs with more limited financial expertise, particularly in the more remote outer islands, demonstrate non-compliance with procedures on operating expenditure, as evidenced by audit qualifications. In practice, the number of MLAs with regular audit qualifications is limited.

Indicator (M1)	Score	Brief Explanation
PI-20. Effectiveness of internal controls for non-salary expenditure	**C+**	
(i) Effectiveness of expenditure commitment controls.	*C*	As CI's budget is executed on an accruals basis, expenditures are recorded as soon as a spending obligation is entered into. Commitment controls for MLAs' recurrent expenditures centre on sanctions for non-timely submission of monthly reports to Treasury; MLAs that fail to provide their monthly expenditure variance reports have their monthly bulk funding suspended. For POBOCs and capital expenditures, Treasury do not make payments without the required documentation from MLAs. However, there is no system of internal procedures to monitor the accuracy and completeness of commitments.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	*B*	The CIGFFPM includes a comprehensive set of internal rules and procedures, which appear to be understood by finance officers and MLA managers in most MLAs, but, in the absence of internal audit, they are not subject to internal monitoring and compliance checks. It is not possible to assess the cost effectiveness of the controls.
(iii) Degree of compliance with rules for processing and recording transactions.	*B*	The degree of compliance appears to be high amongst large MLAs in Rarotonga with competent finance officers but smaller MLAs particularly in the outer islands without access to qualified finance officers have lower compliance levels, as evidenced by qualifications to their annual audits.

PI-21: Effectiveness of internal audit

CIG does not operate an internal audit function. MFEM received a budget appropriation in the 2010/11 fiscal year to establish an internal audit division and is in the process of making the unit operational. The unit currently has no staff and has not carried out any monitoring or evaluation of internal control systems.

Indicator (M1)	Score	Brief Explanation
PI-21. Effectiveness of internal audit	**N/A**	
(i) Coverage and quality of the internal audit function	*N/A*	CIG does not operate an internal audit function.
(ii) Frequency and distribution of reports.	*N/A*	CIG does not operate an internal audit function.
(iii) Extent of management response to internal audit findings.	*N/A*	CIG does not operate an internal audit function.

3.5 Accounting, recording and reporting

PI-22: Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

The Cook Islands Government operates 30 central treasury managed bank accounts, and all other MLAs independently manage their own operating bank accounts (data on the exact number of non-treasury accounts are not kept by government). In line with the CIGFPPM, all accounts are required to be reconciled within 10 working days of month end.

Reviews of month-end bank reconciliations for the large recurrent expenditure bank accounts managed by TMD confirmed that reconciliations were performed at month-end within the 10-day time period, and that there were no unexplained reconciling items for any of the line agencies or material unexplained deposit items in the large recurrent expenditure treasury accounts. Review of the monthly financial reports received by the central Treasury from MLAs confirmed that TMD systematically monitored the receipt of bank reconciliations on a monthly basis and checked the reconciliations against bank statements for accuracy. However, the quality of bank reconciliations rests with the MLAs.

Our review of the monthly reporting submitted by MLAs to TMD confirmed that, of the 47 submitting agencies, only one did not systematically submit their bank reconciliations (based on a review of the last six months). As there is no internal audit function there is no routine checking of bank reconciliations each month.

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

Suspense accounts are uncharacteristic in the chart of accounts of central government and line agencies. Review of audited financial statements and supporting documentation did not uncover any forms of suspense accounts. Interviews with key central government personnel confirmed that the use of suspense accounts was atypical. Line agencies noted seeking advice from the CIGFPPM for correctly accounting for less recurrent events, but suspense accounts were not generally used. Our review of the monthly reports identified the use of one suspense account by one MLA, but this was cleared before year-end. As is usual practice in an accruals system, cash advances are recorded in the accounts as a (current) receivable and are cleared as a current receivable at least annually. In the year-end accounts, few balances are brought forward.

Indicator (M2)	Score	Brief Explanation
PI-22. Timeliness and regularity of accounts reconciliation	**B**	
(i) Regularity of bank reconciliations	*B*	Bank reconciliations are prepared at least monthly for the vast majority of central government bank accounts (and for all Treasury-managed accounts), and at least weekly for higher volume bank accounts. All Treasury-managed bank accounts are reconciled within 10 working days after month end, and there is no evidence of material unexplained reconciling items.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	*B*	Little evidence of the use of suspense accounts in central government or line agencies in recent years, with one exception, which was cleared before year-end. Cash advances are recorded in the accounts and cleared at least annually; in the year-end accounts, few balances are brought forward.

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

Resources received by primary schools or health clinics comprise recurrent operational expenditures; salary payments and capital expenditure invoices are paid centrally. The Ministry of Education (MoE) oversees the disaggregation of bulk funding to schools. The schools receive bulk funding on a per head basis. MoE deposits the bulk funding directly into the school accounts on the 20th of each month. The schools provide copies of supporting documentation to MoE, including evidence of resources received.

MoE prepares monthly financial reports on behalf of each school.[30] The schools in the northern islands scan and email their supporting documentation, while the schools in the southern islands mail copies of their supporting documentation to the Ministry headquarters in Rarotonga. The Ministry monitors the reports and compares actual spending to budget on a monthly basis and this information is consolidated with the Ministry monthly financial reporting to MFEM. The bulk funding to schools is also included as part of the Ministry annual financial reporting.

In addition, a separate financial audit of each school is carried out annually by MoE to check that the funds raised and in-kind donations provided to each school committee are being spent for the purpose of education, since, as noted, the financial reports of each school committee are not consolidated with the government accounts.

The Ministry of Health (MoH) also has a centralised reporting system by health clinic and manages the payment of all expenditures against budget. Each health clinic operates a cash imprest system and the supporting documentation is emailed through to the MoH headquarters who reimburse the cash imprest upon reconciliation of the documentation. Each health clinic's transactions are included in the consolidated reporting of MoH. These monthly consolidated reports are sent to TMD within 10 working days of month end. Likewise, health clinics' annual reporting are consolidated in the MoH annual financial reporting. Cash and in kind donations are receipted and included in monthly reporting by the Ministry of Health, but audited accounts are not timely.[31]

[30] As indicated in PI-7 above, these do not include funds raised directly by the School Committee.

[31] A B has been recorded for this indicator because of some qualifications over the timeliness and accuracy of these data, as evidenced by significant delays in the auditing of their accounts.

Indicator (M1)	Score	Brief Explanation
PI-23. Availability of information on resources received by service delivery units	**B**	Financial reporting is routinely collected and reported monthly by all primary schools and primary health clinics to their respective Ministries. This information includes all cash and in kind donations but there are qualifications over the timeliness and quality of annual reporting. These monthly reports are consolidated into MoE and MoH's annual financial reports.

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

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

In-year budget reporting exists in the form of monthly variance reports to TMD from MLAs, and central fiscal reports, including the half-year fiscal and economic update and the monthly Statement of Fiscal Responsibility. The MLA reports provide information about actual versus budget appropriation on a year to date basis. Variance analysis is undertaken by each MLA, and information is provided to support any significant variances. The reporting framework has been designed to directly compare with budget estimates but the chart of accounts for each MLA is unique and so mapping across CoAs can present challenges. The monthly reports by MLA also include a Statement of Performance, Statement of Financial Position, bank reconciliation and reconciliation between TMD balances and MLA balances. With accounts produced on an accruals basis, both commitments and payments are captured in the accounts.

TMD do not consolidate the MLA monthly reports into Solomons (the Crown's accounting software) to produce monthly public accounts. However, TMD pays out personnel and operating bulk funds to MLAs each month and these cash payments are reflected in Solomons, and the Crown can take a flash picture of the aggregate position at any point in time but this does not reflect any cash holdings or committed expenditures in the MLAs.

The receipt of line ministry reports is monitored and controlled by TMD to ensure that reports are timely and in the correct format. The lack of audited opening positions and the varied quality of internal controls in some MLAs provides some risk as to the quality of information and has resulted in material qualifications of audited accounts.

In addition, TMD prepares a monthly financial report, the Statement of Fiscal Responsibility, which includes a variance analysis of cumulative budgeted and actual revenues and expenditures, broken down by the main categories of each, and a more detailed analysis of monthly and cumulative actual revenue receipts compared to budgeted revenues. The variance analysis includes a narrative explanation of the main factors behind significant variations. TMD also produces a Half-Year Fiscal and Economic Update by 31 December each year, which provides a commentary and update of economic indicators and a consolidated financial update of balances from Solomons against budget.

(ii) Timeliness of the issue of reports

MLAs provide financial reports within 10 working days of month end to TMD. Whilst most MLAs meet the 10-day deadline, one MLA (one of the Outer Island administrations) consistently did not meet the monthly deadline.[32] As indicated in PI-10 above, these reports are not available to the public, and TMD does not produce monthly consolidations or unaudited public accounts for release to the public during the year (other than the Half Year Economic and Fiscal Update).

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

(iii) Quality of information

MLAs on the whole are reporting in a timely manner but the quality of data accuracy has been a significant audit issue in the latest audited financial statements and while most MLAs have been attempting to address the quality of information, resource constraints and varying degrees of financial competency in MLAs, particularly those that are smaller in size and in remote locations, has attributed to ongoing qualifications in audited accounts.

Indicator (M1)	Score	Brief Explanation
PI-24. Quality and timeliness of in-year budget reports	**C+**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	*B*	Reporting formats allow for direct comparison against the original budget for each MLA but only with some aggregation. Expenditures are recognised on an accrual basis, including all committed expenditure and unpaid items (payables); in other words, expenditures are recorded at both commitment and payment stages.
(ii) Timeliness of the issue of reports	*B*	Most MLA reports are prepared monthly, within 10 working days of month-end, and the central crown accounting function monitors and collates MLAs' reports but does not consolidate them. The scoring reflects the fact that at least one MLA consistently did not meet the monthly deadline.
(iii) Quality of information	*C*	There are material concerns over the accuracy and quality of the information given that audited opening balances are not available for most entities, and some entities have received audit qualifications on the basis of insufficient supporting documentation for expenditure.

PI-25: Quality and timeliness of annual financial statements

(i) Completeness of the financial statements

A consolidated annual financial statement is prepared for the Crown (whole-of-government, including SOE) accounts. This statement includes complete and consolidated information on revenues, expenditures, assets and liabilities on an accrual basis. They include the Statement of Financial Position (balance sheet), Statement of Financial Performance (profit and loss), Statement of Cash Flows, Statement of Movements in Equity, and statements on commitments, continent liabilities, and borrowings. The consolidated Crown financial statements provide good coverage of Crown operations, including SOEs (as described in PI-7 above). There are 60 MLAs, Crown entities and SOEs consolidated in the most recently audited public accounts for the year ended 30 June 2008, and each of those 60 entities was audited prior to consolidation.

The process to prepare the consolidated financial statements is undertaken as follows. Upon completion of the financial year ended 30 June, each MLA prepares a financial report which it submits to TMD. When required TMD assist MLAs to prepare the financial report in compliance with IPSAS, and with any inter-government adjusting balances for depreciation and surpluses. As soon as they have finished checking each MLA's accounts, TMD submits the completed financial statement to the Audit Office, which then undertakes an audit of the MLA financial report; this process is done sequentially (i.e. finalised accounts are sent to the Audit Office as soon as they are completed). On completion of each MLA's audited financial statements, TMD adds those to the consolidated position. Public enterprises (SOEs) are also audited individually and then audited at the group level. The group accounts of the parent entity, Cook Islands Investment Corporation, are consolidated into the Crown Accounts. Once all of the MLAs' and SOEs' accounts are audited TMD prepares a consolidated set of accounts. These are sent to the Audit Office for auditing.

The financial performance of School Committees and Island Councils are not included in the Crown Accounts, but the value of the omissions is immaterial.

(ii) Timeliness of submission of the financial statements

There is currently a significant backlog in the completion of MLA financial statements. This is attributed to capacity constraints within MLAs, both in terms of numbers of qualified accountancy personnel and in technical expertise in accrual accounting. This necessitates review by TMD of all financial statements before they go to the Audit Office.

This bottleneck is reflected in the completion of the consolidated financial statements, which are presently two years out of date. The latest completed consolidated Crown Accounts are for the fiscal year ending 30 June 2008; these were submitted for audit in December 2010 and, following audit, to Parliament in March 2011. For the 2008/09 Crown Accounts, MLAs' individual accounts are still in the process of being audited; as of May 2011, approximately 80% of MLA 2008/09 accounts had been sent to the Audit Office for auditing, and were either in the process of being audited or the audits had already been completed. Public enterprise (SOE) accounts are complete for 2008/09, but not for 2009/10.

(iii) Accounting standards used

The Crown Accounts are prepared in accordance with the MFEM Act (1995-96) and, since 2007, in compliance with International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB). Public enterprise (SOE) accounts are prepared on an old New Zealand GAAP basis but are converted to an IPSAS basis on consolidation in the Crown Accounts. The SOEs have indicated that they will maintain these standards in the future.

Indicator (M1)	Score	Brief Explanation
PI-25. Quality and timeliness of annual financial statements	**D+**	
(i) Completeness of the financial statements	*B*	Annual financial statements include complete consolidated information (for the whole of government, including SOEs) on revenues, expenditures, assets and liabilities on an accrual basis. The statements contain a limited number of qualifications as to their completeness.
(ii) Timeliness of submission of the financial statements	*D*	In the past three years, the consolidated financial statements took well in excess of 15 months from the end of the fiscal year to be submitted for audit.
(iii) Accounting standards used	*B*	IPSAS accounting standards are used for Crown Accounts. SOE accounts do not use IPSAS or IFRS.

3.6 External scrutiny and audit

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

(i) Scope/nature of audit performed

External audit is the responsibility of the Audit Office under the Public Expenditure Review Committee and Audit (PERCA), which derives its mandate from the Constitution (Section 71). The duties of the Audit Office are set out in the PERCA Act (1995-96). It is mandated to audit and report on the accounts and financial statements of public institutions, including all SOEs, covering a total of 60 institutions. These audit reports must then be submitted to Parliament for examination and follow-through on recommendations. Performance audits and special reviews are undertaken in specific areas.

The Cook Islands Audit Office follows NZ auditing standards.

(ii) Timeliness of submission of audit reports to legislature

In line with the PERCA Act, the Audit Office submits its audit reports to the Minister of Finance, the relevant Minister, the Public Expenditure and Review Committee (PERC), and Parliament.

A summary of external audit reports submitted to Parliament over the past 3 fiscal years is set out below (Table 3.9).

Table 3.9: Summary of external audit reports submitted to Parliament, 2007/08-2009/10

Types of Audit	**2007-08**	**2008-09**	**2009-10**
Crown Audit opinions	2	1	2
Ministries, Crown Agencies & SOEs Financial Audits	43	54	43
Performance Audits, Special Reviews & Investigations	21	16	21
Stock takes & vehicle verification reports	21	10	21
Total	**87**	**81**	**87**
Source: Audit Office Annual Reports, 2007/08, 2008/09, and 2009/10			

External audit reports can only be submitted to (tabled in) Parliament when the latter is in session. The dates of the submission of audit reports over the last 3 years are shown in Table 3.10. As indicated, Parliament has considered audit reports up to 8 months following the end of the relevant reporting period. An analysis of the timing for submission to, and completion by, the Audit Office of 2007/08 consolidated annual accounts and 2008/09 individual MLAs' accounts shows that audits of financial statements are also completed within 8 months of their receipt by the Audit Office (and, in the case of the consolidated accounts for 2007/08, they were tabled in Parliament within a much shorter period than 8 months).[33]

[33] As indicated in the PEFA Guidelines for this dimension, a distinction has been made between the time period for the submission of the audit of financial statements to Parliament (based on the time taken by the audit office relative to when it received the reports) and other audit reports (relative to the end of the period covered). As such, the requirements for a B score have been met.

Table 3.10: Dates of Submission of Audit Reports to Parliament

Audit report	End of audit reporting period	Date of tabling of audit report in Parliament	Number of months between end of audit reporting period and tabling of report
Annual report 2008/09	30 June 2009	23 November 2009	5 months
Annual report 2009/10	30 June 2010	18 February 2011	7.5 months
Quarterly report, Q1 2008	31 March 2008	16 April 2008	0.5 months
Quarterly report, Q2 2008	30 June 2008	15 September 2008	2.5 months
Quarterly report, Q3 2008	30 September 2008	24 November 2008	2 months
Quarterly report, Q4 2008	31 December 2008	9 February 2009	1.5 months
Quarterly report, Q1 2009	31 March 2009	25 June 2009	3 months
Quarterly report, Q2 2009	30 June 2009	13 July 3009	0.5 months
Quarterly report, Q3 2009	30 September 2009	23 Nov 2009	2 months
Quarterly report, Q4 2009	31 December 2009	29 July 2010	7 months
Quarterly report, Q1 2010	31 March 2010	29 July 2010	4 months
Quarterly report, Q2 2010	30 June 2010	29 July 2010	1 month
Quarterly report, Q3 2010	30 September 2010	18 February 2011	4.5 months
Quarterly report, Q4 2010	31 December 2010	15 April 2011	3.5 months
Source: Office of the Clerk of Parliament			

(iii) Evidence of follow-up on audit recommendations

Upon completion of each audit, the Audit Office provides to each MLA a Management Letter which details any significant issues raised during the auditing process. Under the PERCA Act, MLAs are required to provide a formal response to the Audit Office's Management Letter within a 14-day period. There is evidence of some responses from MLAs taking up to 2 months in occasional cases. Nonetheless, there is both very little evidence of any follow-up to the Audit Office's recommendations as set out in the Management Letters, and evidence (from the fact that the same issues arise in subsequent audit reports) that MLAs are not addressing matters which have been raised in the Audit Office's management letters.

Indicator (M1)	Score	Brief Explanation
PI-26 Scope, nature and follow-up of external audit	**C+**	
(i) Scope/nature of audit performed	*A*	All public entities and SOEs are audited annually in accordance with NZ Auditing standards. The audited financial statements cover revenues, expenditures, and assets and liabilities. Special reviews and performance audits are carried out by the Audit Office to deal with matters of significance as they arise.
(ii) Timeliness of submission of audit reports to legislature	*B*	Over the last 3 years, audit reports have been tabled within 8 months of the period covered.
(iii) Evidence of follow-up on audit recommendations	*C*	The audit reports include formal management responses that are received within 14 days with some exceptions. There is little evidence of any follow up after those management responses are received. Some key issues continue to arise in subsequent audits.

PI-27: Legislative scrutiny of the annual budget law

(i) Scope of the legislature's scrutiny

The Standing Orders for the Parliament of the Cook Islands (Part XXXV) set out the scope and procedures for budget and financial scrutiny by Parliament. Under Rule 306, a Committee of the Whole House, termed the Committee of Supply, considers the Budget Estimates on the second reading of the Appropriation Bill. This Committee votes on each 'Departmental vote'.

However, Parliament does not currently have a regular process in place to scrutinise financial information in detail. As part of Parliamentary procedures, a specific select committee, namely the Finance and Expenditure Committee, has the mandate to review departmental performance, government finance, revenue and taxation. However, this committee has not been activated (established in practice) in recent years.

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

Parliamentary procedures for reviewing the Appropriations Bill are set out clearly in the Standing Orders. However, some important procedures, such as the role of the Finance and Expenditure Committee, as provided for under Rule 316 of the Standing Orders to provide more detailed scrutiny of the Appropriation Bill, has not been set up ("selected") in recent years, as indicated above.

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

Parliamentary Hansard records show the level of debate and the approval of budget line items. They indicate that, in recent years, the debate on the budget has been concluded within the standing rule for ten sitting days (and in many cases has been considerably shorter). This time frame means that debate or in-depth consideration of appropriations may be very limited. There is, however, some evidence of detailed discussion of new initiatives on occasion, such as the pension increase, recorded in Hansard.

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

The Constitution provides for in-year amendments to the Appropriation Act and the MFEM Act prescribes how those amendments must be presented and laid before the House. Given that some of the recent supplementary budgets have been approved after the end of the relevant fiscal year (e.g. Appropriation Amendment and Validation Act, 2009/10), some in-year budget expenditure changes which should have been approved *ex-ante* were in fact approved *ex-post*. In addition, public accounts in recent years have shown actual expenditures for individual MLAs that were above the voted appropriation (including the supplementary budget).

Indicator (M1)	Score	Brief Explanation
PI-27 Legislative scrutiny of the annual budget law	**D+**	
(i) Scope of the legislature's scrutiny.	*C*	Parliament considers the budget only after it has been finalised. The whole House (Committee of Supply) discusses only the appropriation lines for revenues and expenditures.
(ii) Extent to which the legislature's procedures are well-established and respected.	*C*	Parliamentary procedures for the review of the budget are clear in the Standing Orders but there appears to be gaps in their implementation (e.g. the functioning of the Finance and Expenditure Committee).
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	*D*	Parliamentary Standing Orders indicate a maximum of ten sitting days for consideration of draft Estimates. In practice, this means that consideration ceases at the expiration of ten sitting days, significantly less than one month.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	*D*	Rules for in-year budget amendments without *ex ante* approval exist; specifically, the Constitution specifies the limits on which in-year expenditures may exceed appropriations. However, there is evidence that these rules are not always followed (actual expenditures for individual MLAs that were above the voted appropriation [including the supplementary budget] as well as the Constitutional limit), and in some cases *ex post* approvals, e.g. through the approval of Supplementary Budgets after the end of the fiscal year.

PI-28: Legislative scrutiny of external audit reports

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

The Audit Office submits their external audit reports to Parliament for tabling. The Standing Orders of the Parliament provide clear rules for handling tabled audit reports. Under Rule 316(2)(c), the Finance and Expenditure Select Committee has responsibility for reviewing the audits of the Crown's and departmental financial statements. However, the Committee has not been set up (selected) in the past several years. In addition, evidence from Hansard records indicates that Parliament as a whole has not examined any audit reports in recent years, with the sole exception of a limited number of special reports, such as the review of the fuel farm purchase. The lack of Parliamentary oversight of the Audit Office potentially reduces the effectiveness and credibility of external scrutiny, and risks affecting the quality of transparency and public accountability.

Outside of Parliament, PERC is the only body that reviews audit reports in practice, but it is not a legislative body and cannot hold hearings or compel stakeholders to attend meetings.

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

In the absence of the Finance and Expenditure Committee, Parliament has undertaken no in-depth hearings on audit findings over the last several years.

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

There is no evidence of any reports containing recommendations being issued by Parliament.

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

3.7 Donor Practices

More than 75% of reported aid to CIG is received from New Zealand and Australia;[34] these funds are managed by the Government of New Zealand. The following table (Table 3.11) shows reported aid disbursements by donor for three calendar years from 2007 to 2009.

Table 3.11: Disbursements of Reported Aid by Donor, 2007-2009[1]

	US$ '000
New Zealand	12,391
Australia	6,341
Other/unidentified	5,218[1]
Japan	161
GEF	159
UNDP	67
Italy	58
Canada	9
Total	US$ 24,404

Note: 1. Data refer to calendar years and include reported disbursements only.
2. Data for 2006/7 and 2007/8, converted from NZ$

Source: OECD-DAC, 2007/8 Audited Financial Statements

In addition to these amounts, the PRC has constructed a number of public buildings over a similar period, including the national police headquarters and the national sports arena on Rarotonga. These facilities were transferred to the CIG on completion. There are no reliable data on the valuation of these facilities.

D-1: Predictability of Direct Budget Support

The Government of the Cook Islands has not received any direct budget support to date.

34 Although the precise value of disbursements from China/other donors over this period cannot be determined with certainty.

Indicator (M1)	Score	Brief Explanation
D-1 Predictability of Direct Budget Support	**N/A**	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	*N/A*	The Government has not received any direct budget support in the past 3 years.
(ii) In-year timeliness of donor disbursements.	*N/A*	The Government has not received any direct budget support in the past 3 years.

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

The five largest donors (all providing project aid) to the Cook Islands over the last three years have been New Zealand, Australia, PRC, Japan and GEF (the UN), representing 99% of total reported aid. In fact, three of these 5 account for nearly all of total donor aid, specifically, New Zealand, Australia and PRC, representing 98% of total reported aid.

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

A three-year forward aid programme is agreed by New Zealand and Australia with CIG. Australian aid is provided through the NZ Aid Programme[35] under a specific agreement, and a Forward Aid Program (FAP) is agreed between the NZ Aid Programme and CIG. The National Development Programme Committee attempts to align aid with the NSDP.

The other major donor, PRC, does not provide a long-term forward aid programme. Development assistance is provided in consultation with CIG on a project basis, and, to date, the aid modality has been in the form of own-source construction of significant infrastructure assets and turn key handover to CIG at a mutually agreed value.

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

The major donors do not routinely provide quarterly reports to CIG on their actual project aid disbursements.

Indicator (M1)	Score	Brief Explanation
D-2 Financial information provided by donors for budgeting and reporting	**D**	
(i) Completeness and timeliness of budget estimates by donors for project support	*D*	Some major donors do not provide projections of their disbursements to CIG prior to the commencement of the fiscal year on 1 July.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	*D*	Donor reports on actual project aid disbursements from the major donors are not provided to CIG on a quarterly basis.

[35] Which is managed by the NZ Ministry of Foreign Affairs and Trade.

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

By definition, direct budget support *inter alia* uses national procedures. Since CIG does not receive such budget support, other sources of data are required to assess this indicator, such as the Paris Declaration Monitoring Survey; however, the Cook Islands are not included in the Survey. Data from donors and AMD indicate that less than 50% of aid disbursed is managed by the use of complete CIG procedures, covering planning, budgeting, appropriating, execution, banking, procurement, recording, accounting, reporting and audit.[36] A number of projects appear to be managed directly with MLAs and not through the central agencies. PRC contributions are managed and constructed by PRC. Whilst NZ Aid Programme data indicates that closer alignment of aid provided by New Zealand and Australia is possible in future, that provided by PRC is not transparent.

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

36 This estimate is based on the fact that the value of in-kind and other disbursements by PRC, which do not use CIG procedures, is larger than the amount which is reported.

4. Government Reform Process

4.1 General Description of Recent and On-Going Reforms

The process of reform began in 1996 with the legislated simplification of the revenue collection system, and the introduction of updated rules to govern the public sector. This included public sector decentralisation, public enterprise management, the encouragement of a private sector led economy, and public sector financial management reform.

There has been a continual process of reform since the transition of the government systems in 1996, with the revision of key central government legislation in the form of the Ministry of Finance & Economic Management Act (1995/1996), Public Service Act (1995/96 – repealed) Public Service Act (2009); Public Expenditure Review Committee & Audit Act (1995/96); Cook Islands Investment Corporation (1997/98). This suite of reform legislation sets out to improve public sector governance and accountability.

The key change principles advocated during the reform of the public sector provided autonomy to line agencies to carry out their functions with limited oversight by the central government agencies, Cabinet, Government and Parliament.

Since the time of enactment of the key reform legislation the Government has been in the process of bedding down the revised legislative framework and fine-tuning the policies and procedures. This has resulted in compliance by Government Agencies with the Cook Islands Government Financial Policies and Procedures Manual which has been used since 2001 to support the PFM reform process.

Successive Governments have understood the need to continue improving the system of internal and external reporting and have increased funding of the finance ministry and the Audit Office to improve transparency and timeliness of reporting.

In 2009 the Government introduced the Medium Term Budgeting Framework, which is still in the process of implementation across all government agencies.

4.2 Institutional Factors Supporting Reform Planning and Implementation

Government ownership and leadership of reform programme

Strong leadership is critical to carry through the reform programme; frequent changes in governments can make this a challenge. The new Government, inaugurated earlier this fiscal year, recently held an Economic Summit to identify key economic priority areas which require attention and to help establish reform priorities more broadly. Initiatives from the summit have been included in the current budget appropriation and are intended to be included in the medium term budgeting framework.

Co-ordination and appropriate sequencing of reforms

The Office of the Prime Minister, the Ministry of Finance and Economic Management, and the Office of the Public Service Commissioner are at the heart of the public sector reform programme. The Office of the Prime Minister has responsibility for co-ordinating the reform programme, including the co-ordination of national and sector planning. A new medium-term National Sustainable Development Plan is being planned, followed by detailed sector strategies. In addition, following review of the PEFA assessment, MFEM plans to prepare a PFM road map to prioritise and sequence PFM reforms. More broadly for the public sector, mention is made of the on-going review and reform of both systemic and agency specific issues. Agencies that have undergone review in the past five years include Marine Resources, Police, MFEM, PSC and Infrastructure.

The Public Service Commission is currently carrying out a functional review of the machinery of the whole of Government to identify what changes may be required to the existing legislation to improve public sector management. Furthermore, the functional review includes the production of a Human Resource Manual and a performance management framework for agencies.

Capacities to continue to implement the reforms

PFM reforms have faced challenges in capacity constraints from having a limited pool of qualified technical financial expertise in country. The difficulty in hiring and retaining qualified finance officers has disrupted the timeliness of financial reporting at the agency level, which has impacted on the timeliness of the release of the audited consolidated financial position of the Government each year. This will continue to impact on the Government's ability to render timely and complete financial reports and facilitate accountability for PFM.

List of Annexes

Annex A: List of stakeholders met
Annex B: List of documents consulted
Annex C: Evidence used for indicators
Annex D: Background data for PI to PI-3
Annex E: Terms of reference
Annex F: Structure of MFEM

Annex A

List of Stakeholders Met

	Stakeholder	Institution	Position	Workshop attendee[1]
Mr	Alex Henry	Office of the Public Service Commissioner	Acting Chief Executive Officer	✓
Ms	Alouise Kado	Ministry of Foreign Affairs	Director, Finance and Administration	✓
Mrs	Ana Silatolu	Ministry of Health	Finance Manager	✓
Mr	Andrew Haigh	MFEM	Treasurer, RMD	✓
Mrs	Ani Woods	Ministry of Infrastructure and Planning	Finance Officer	
Mr	Anthony Brown	Ministry of Agriculture	Head of Ministry	✓
Mr	Anthony Turua	Ministry of Education	Chief Financial Controller	✓
Mr	Ben Ponia	Ministry of Marine Resources	Head of Ministry	✓
Mr	Bim Tou	Ports Authority	Manager	
Mr	Bobby Turua	Parliament	Interpreter and Translator	
Ms	Bredina Drollett	Ministry of Internal Affairs Budget Support Group	Head of Ministry Member	✓
Mr	Carl Hunter	Ministry of Foreign Affairs & Immigration	Acting Head of Ministry	✓
Ms	Carmel Beattie	Cook Islands Tourism Corporation	Chief Executive Officer	✓
Mrs	Christina Newport	Budget Support Group	Member	
Mrs	Claudine Anguna	Ministry of Justice	Acting Head of Ministry	✓
Mr	Cyrus Nielsen	Ministry of Internal Affairs	Corporate Advisor (on attachment from New Zealand Ministry of Social Services)	
Ms	Dallas Young	MFEM	Budget & Economy Policy Manager, TMD	✓
Mrs	Daphne Ringi	MFEM	EU Programme Assistant, AMD	✓
Ms	Donye Numa	Ministry of Infrastructure and Planning	Acting Head of Ministry	✓
Mrs	Elizabeth Tommy	MFEM	Finance Consultant, AMD	
Mrs	Florence Epati	Airport Authority	Finance Manager	✓
Dr	Fran McGrath	Ministry of Health	Acting Head of Ministry	✓
Mrs	Frances Topa-Fariu	Department of National Human Resources	Manager	✓
Ms	Gail Townsend	Ministry of Education	Director Policy and Planning	✓
Mr	Geoff Stoddart	PERC	Member	
Mr	Hamish Weir	Audit Office	Manager Financial Audits	✓
Mr	Harry Ivaiti	Office of the Queens Representative	Chief Executive Officer	✓
Mrs	Heather Webber-Aitu	Office of the Public Service Commissioner	Governance Advisor	✓
Ms	Ina Kamana	National Environment Service	Chief Administration Officer	✓
Mr	Isaac Solomona	Parliament	ICT Officer	

	Stakeholder	Institution	Position	Workshop attendee[1]
Ms	Janet Maki	Budget Support Group	Member	
Mr	Jim Armistead	MFEM	Acting Manager, AMD	✓
Mr	John Hobbs	Financial Supervisory Commission	Commissioner	✓
Mr	John Kenning	Budget Support Group	Member	
Mr	Jonathon Roe	NZ High Commission	Programme Manager	
Mr	Joseph Ngamata	Airport Authority	CEO	
Ms	Kairangi Samuela	Punanga Tauturu Inc (NGO)	Legal Rights Training Officer	✓
Mrs	Liz Wright-Koteka	Office of the Prime Minister	Policy Manager	
Ms	Lynn Yeoman	Office of the Public Service Commissioner	Technical Advisor (ADB funded)	✓
Mr	Mac Mokoroa	Office of the Prime Minister	Chief of Staff	✓
Ms	Marianna Bryson	MFEM	Finance Officer, AMD	
Ms	Marie Francis	PERC	Chairman	
Hon	Mark Brown	Minister of Finance	Minister	
Ms	Mata Taramai	Ministry of Health	Senior Finance Officer	
Mr	Metua Vaiimene	Cook Islands Tourism Corporation	Director Destination Development	✓
Mrs	Mii Kauvai	Muri Environment Care Group	Chair	
Mr	Mona Ioane	MP for Vaipae Tautu	Leader of the House	
Ms	Nane Holmes	Cook Islands Red Cross Society	Finance Officer	✓
Mr	Nga Valoa	Parliament	Clerk of the Parliament	
Mr	Ngametua College	MFEM	Funds Manager, TMD	
Mr	Ngatokorua Elikana	Audit Office	Senior Auditor	
Ms	Ngatuaine Maui	Ministry of Internal Affairs	Director of Social Welfare	
Mr	Nick Carter	MFEM	Manager, Crown Accounting, TMD	✓
Mr	Paul Allsworth	PERCA	Director	✓
Mrs	Peerui Tepuretu	MFEM	Accountant, Crown Accounting, TMD	
Mr	Peter Tierney	NZ High Commission	Development Programme Coordinator	
Mr	Philip Eyre	MFEM	Senior Tax Advisor, RMD	
Ms	Priscilla Maruariki	MFEM Budget Support Group	Acting Financial Secretary Member	✓
Mr	Ratu Mato	Business Trade & Investment Board	Acting Chief Executive Officer	✓
Mrs	Sarah Takairangi	Office of the Clerk of Parliament	Administration Officer	
Mr	Siva Gounder	MFEM	Senior Crown Accountant, Crown Accounting, TMD	
Mrs	Sharon Paio	Ministry of Education	Head of Ministry	
Mr	Solomona Charlie	MFEM	Treasury Officer, TMD	
Mr	Sonny Williams	Ministry of Culture	Head of Ministry	
Mr	Steve Anderson	Chamber of Commerce	President	✓
Mr	Steve Barrett	MFEM	Senior Project Officer, AMD	✓
Mrs	Taamo Heather	Ministry of Internal Affairs	Finance Manager	✓

	Stakeholder	Institution	Position	Workshop attendee[1]
Mrs	Tai Tereapii	MFEM	Tax Officer, RMD	
Mr	Tamarii Pierre	Cook Islands Investment Corporation	CEO	
Mrs	Tapu Vaiimene	Ministry of Justice	Head of Corporate Services	✓
Mrs	Tauturu Jones	Cook Islands National Council of Women	Assistant Secretary	✓
Ms	Te Tika Mataiapo	House of Ariki	Member	✓
Ms	Teina Frank	Ministry of Infrastructure and Planning	Corporate Services Manager	
Mr	Tekao Herrmann	Muri Environment Care Group	Engineer (EU funded TA)	
Mrs	Tepaeru Hagai	Cook Islands Investment Corporation	Finance Officer	✓
Mrs	Tereapii Jacob	MFEM	Payroll Supervisor, TMD	
Mr	Terry Piri	MFEM	Finance & Numismatic Officer	
Mr	Teu Teulilo	MFEM	Treasury Operations Manager	
Mrs	Theresa Manarangi-Trott	Chamber of Commerce	Secretary	✓
Mr	Tingika Elikana	Crown Law	Solicitor General	✓
Mr	Trevor Pitt	Cook Island Herald	Journalist	

Note: 1. Marks attendance at either or both of the initial and final stakeholder workshops.

Annex B

Documents Consulted

ADB Country Partnership Strategy for Cook Islands, 2008-2012, June 2008

Airport Authority Annual Financial Statements, 2009/10

Annual Report of the Audit Office, 2007/08

Annual Report of the Audit Office, 2008/09

Annual Report of the Audit Office, 2009/10

Appropriation Act, 20010/11

Appropriation Act, 2007/8

Appropriation Act, 2008/9

Appropriation Act, 2009/10

Appropriation Amendment and Validation Act, 2009/1

Appropriation Amendment Bill (Supplementary Budget 1), 2008/09

Appropriation Amendment Bill (Supplementary Budget 2), 2008/09

Appropriation Amendment Bill (Supplementary Budget 3), 2008/09

Appropriation Amendment Bill (Supplementary Budget), 2009/10

Audit Office, Quarterly Audit Report, Jan-March 2011

Audit Office, Quarterly Audit Report, July-Sept 2008

Audit Office, Quarterly Audit Report, July-Sept 2009

Audit Office, Quarterly Audit Report, July-Sept 2010

Audit Office, Quarterly Audit Report, Oct-Dec 2010

Audit Office, Special Review Reports, March 2011

Audit Office, Summary of Ministries and Crown Agencies' Audit Opinion for year ended 30 June 2008, 2009 and 2010

Avatea Primary School, Annual Audited Report for Year Ended 31st December 2010

Budget Instructions, 2007/08

Budget Instructions, 2008/09

Budget Instructions, 2009/10

Budget Policy Statement, 2007/08

Budget Policy Statement, 2008/09

Budget Policy Statement, 2009/10

Budget Policy Statement, 2010/11

Budget Policy Statement, 2011/12

CIIC Statement of Corporate Intent, 2010-2013

Cook Islands – EC EDF 10: Country Strategy Paper and National Indicative Programme, 2008-2013, October 2006

Cook Islands Constitution

Cook Islands Gazette, 13 April 2011

Cook Islands Government Financial Policies and Procedures Manual

Cook Islands Government Property Corporation, Annual Report, 2008/-09

Cook Islands Investment Corporation Annual Report, for Year Ended 30 June 2009

Cook Islands Tourism Corporation: Cabinet Submission, Business Plan, CITC Budget, MFEM Queries

Cook Islands/New Zealand/Australia Draft Profile of Assistance, 2010/11-2011/12

Education Master Plan, 2008-2023

Examples of ministries' annual/monthly cashflow plans and adjusted cashflow plans

Financial Statements of the Government of Cook Islands, (Audited), 2006/07

Financial Statements of the Government of Cook Islands, (Audited), 2007/08

Half-Year Economic and Fiscal Update, 2010/11

Income Tax Act

List of and findings from special reviews on procurement conducted by Audit Office, 2008-2011

List of Special Reviews and Performance Audits Completed since 2009

MFEM Act, 1995/96 (with 1997 Amendment)

MFEM Business Plan

Ministry of Education Monthly Financial Reports for 10 months ended 30 April 2011

Ministry of Infrastructure and Planning, Presentation to the Budget Support Group

Ministry of Internal Affairs, 2010/11 Budget Preparation documents, monthly accounts, 2010/11 cashflow plans

National Sustainable Development Plan, 2007-2010

Official Notification of Dates of Assent by the Queen's Representative of Appropriation Acts 2007, 2008, 2009, and 2010

Parliamentary Debates (Hansard), Debates on Appropriation Bills and Supplementary Bills, 2007/08-2009/10

Parliamentary Debates Official Report (Hansard), Volume 9, 46th Session 2008

PERCA Act

Ports Authority Annual Report, 2009/10

Ports Authority Annual Report, for 6 months ended 31 December 2010

PSC Act

Reports from CS-DRMS

School monthly report, budget analysis, May 2011

Standing Orders of the Parliament of the Cook Islands (2010 printed version)   3 June 2004

Statement of Corporate Intent, Financial Supervisory Commission, 2011-12

Tabling dates for audit reports to Parliament

Terms of Reference, PERC

Annex C

Evidence Used for Indicators

Indicator	Specific Documentary Information Sources Used[1]
A. Credibility of the Budget	
1. Aggregate expenditure out-turn compared to original approved budget	Appropriation Acts (original), 2007/08-2010/11 Audited Crown Accounts, 2007/08 Unaudited Financial Statements (Statement of Financial Performance), 2007/08, 2008/09, and 2009/10 Half-Year Economic and Fiscal Update, 2007/08-2009/10
2. Composition of expenditure out-turn compared to original approved budget	Appropriation Acts (original), 2007/08-2010/11 Audited Crown Accounts, 2007/08 Unaudited Financial Statements (Statement of Financial Performance), 2007/08, 2008/09, and 2009/10 Half-Year Economic and Fiscal Update, 2007/08-2009/10
3. Aggregate revenue out-turn compared to original approved budget	Appropriation Acts (original), 2007/08-2010/11 Audited Crown Accounts, 2007/08 Unaudited Financial Statements (Statement of Financial Performance), 2007/08, 2008/09, and 2009/10 Half-Year Economic and Fiscal Update, 2007/08-2009/10
4. Stock and monitoring of expenditure payment arrears	Audited Crown Accounts, 2007/08 Unaudited Financial Statements (Statement of Financial Performance), 2007/08, 2008/09, and 2009/10
B. Comprehensiveness and Transparency	
5. Classification of the budget	Crown Chart of Accounts Chart of Accounts for MLAs
6. Comprehensiveness of information included in budget documentation	Budget documents, 2007/08-2010/11
7. Extent of unreported government operations	Example of school monthly accounts, bank reconciliations Island Council accounts
8. Transparency of Inter-Governmental Fiscal Relations	N/A
9. Oversight of aggregate fiscal risk from other public sector entities	Statements of Corporate Intent and Annual Audited Accounts from: Airport Authority, Ports Authority, FSC, CIIC, CITC
10. Public access to key fiscal information	www.mfem.gov.ck www.auditoffice.gov.ck Audit reports, Central Post Office, Rarotonga
C(i) Policy-Based Budgeting	
11. Orderliness and participation in the annual budget process	Budget Instructions, 2007/08, 2008/09. 2009/10, 2010/11 Dates of Assent of Appropriation Acts, 2007/08, 2008/09. 2009/10 MFEM Budget Templates MLA budget preparation materials
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	NSDP Education Sector Plan Health Sector Plan
C (ii) Predictability and Control in Budget Execution	
13. Transparency of taxpayer obligations and liabilities	Income Tax Act VAT Act Customs Act International Departure Tax Act
14. Effectiveness of measures for taxpayer	Income Tax Act

Indicator	Specific Documentary Information Sources Used[1]
registration and tax assessment	VAT Act Customs Act International Departure Tax Act
15. Effectiveness in collection of tax payments	Reconciliation reports
16. Predictability in the availability of funds for commitment of expenditures	MLA cashflow plans, original and updated, 2010/2011 MLA monthly accounts, including variance report, April 2011 MFEM Act
17. Recording and management of cash balances, debt and guarantees	MFEM Act Reports from CS-DRMS
18. Effectiveness of payroll controls	PSC Act Audit trail of sample changes to personnel and payroll databases Change reports from TMD
19. Competition, value for money and controls in procurement	CIGFPPM Special audit reports
20. Effectiveness of internal controls for non-salary expenditure	CIGFPPM External audit reports
21. Effectiveness of internal audit	N/A
C (iii) Accounting, Recording and Reporting	
22. Timeliness and regularity of accounts reconciliation	Bank reconciliation statements Crown and MLA Chart of Accounts MLA monthly, annual accounts
23. Availability of information on resources received by service delivery units	Example of school, health clinic monthly accounts, bank reconciliations
24. Quality and timeliness of in-year budget reports	Full set of MLA monthly accounts, April 2011 Cook Islands Government Monthly Financial Report, February/ March/ April 2011
25. Quality and timeliness of annual financial statements	Audited Crown Financial Statements, 2007/08 Unaudited Financial Statements (Statement of Financial Performance), 2007/08, 2008/09, and 2009/10
C (iv) External Scrutiny and Audit	
26. Scope, nature and follow-up of external audit	Annual and quarterly audit reports Audit status of 2008/09 and 2009/10 MLA audits Examples of MLA responses to Audit findings (Management Letter)
27. Legislative scrutiny of the annual budget law	Parliamentary Standing Orders Tabling dates of Appropriation Bill, 2007/08, 2008/09, 2009/10 Dates of passage of Appropriation Act, 2007/08, 2008/09, 2009/10 Hansard report for 2008/09 and 2009/10 Monthly Government Gazette, April 2011
28. Legislative scrutiny of external audit reports	Tabling dates of audit reports, 2007/08, 2008/09, 2009/10
D. Donor Practices	
D-1 Predictability of Direct Budget Support	N/A
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	OECD-DAC database
D-3 Proportion of aid that is managed by use of national procedures	Paris Declaration Monitoring Survey
Note: 1. Supplemented by detailed interviews with stakeholders	

Annex D

Background Data for Evaluation of PI-1, PI-2, and PI-3

PI-1 and PI-2

Table 1 - Fiscal years for assessment

	Year 1 =	2007/08
	Year 2 =	2008/09
	Year 3 =	2009/10

Table 2

	Data for year =	**2007/08**				
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Education	10,580,178	10,935,796	10,944,775.1	-8,979.1	8,979.1	0.1%
Health	9,075,131	8,787,906	9,387,863.6	-599,957.6	599,957.6	6.4%
Benefits & Unrequited Expenses	8,171,363	8,915,697	8,452,951.4	462,745.6	462,745.6	5.5%
Outer Islands Administration	4,316,019	506,084	4,464,750.7	-3,958,666.7	3,958,666.7	88.7%
Tourism Corporation	4,076,931	4,125,428	4,217,423.6	-91,995.6	91,995.6	2.2%
Finance & Economic Management	3,957,483	3,552,686	4,093,859.4	-541,173.4	541,173.4	13.2%
Parliamentary Services	3,699,957	4,485,583	3,827,459.0	658,124.0	658,124.0	17.2%
Police	2,489,400	2,733,000	2,575,185.7	157,814.3	157,814.3	6.1%
Other Expenses	1,933,998	1,886,473	2,000,644.3	-114,171.3	114,171.3	5.7%
Foreign Affairs & Immigration	1,754,728	1,905,867	1,815,196.6	90,670.4	90,670.4	5.0%
Internal Affairs	1,674,582	2,317,400	1,732,288.8	585,111.2	585,111.2	33.8%
Works Infrastructure & Planning	1,549,619	1,512,029	1,603,019.5	-90,990.5	90,990.5	5.7%
Marine Resources	1,417,818	1,437,873	1,466,676.6	-28,803.6	28,803.6	2.0%
Justice	1,277,545	1,296,427	1,321,569.7	-25,142.7	25,142.7	1.9%
Prime Minister Office	1,232,532	1,505,348	1,275,005.5	230,342.5	230,342.5	18.1%
Human Resource Development	1,215,000	1,659,141	1,256,869.4	402,271.6	402,271.6	32.0%
Ministerial Support	1,027,459	1,078,051	1,062,865.6	15,185.4	15,185.4	1.4%

Data for year =	2007/08 (cont)					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Environment Service	896,764	915,756	927,666.8	-11,910.8	11,910.8	1.3%
Cultural Development	878,699	1,021,847	908,979.3	112,867.7	112,867.7	12.4%
Agriculture	817,057	728,895	845,213.1	-116,318.1	116,318.1	13.8%
Sum of the Rest (=21)	3,531,339	6,526,007	3,653,030.3	2,872,976.7	2,872,976.7	78.6%
allocated expenditure	65,573,602	67,833,294	67,833,294	0	11,176,219	
contingency	275,000	117,855				
total expenditure	65,848,602	67,951,149				
overall (PI-1) variance						3.2%
composition (PI-2) variance						16.5%
contingency share of budget						0.2%

Table 3

Data for year =	2008/09					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Education	8,447,654	12,689,049	10,548,983.0	2,140,066.0	2,140,066.0	20.3%
Health	4,437,830	4,462,830	5,541,727.1	-1,078,897.1	1,078,897.1	19.5%
Benefits & Unrequited Expenses	4,098,944	4,253,428	5,118,544.2	-865,116.2	865,116.2	16.9%
Outer Islands Administration	3,845,499	4,217,035	4,802,055.5	-585,020.5	585,020.5	12.2%
Tourism Corporation	3,414,926	3,457,971	4,264,378.8	-806,407.8	806,407.8	18.9%
Finance & Economic Management	2,703,257	4,914,042	3,375,684.2	1,538,357.8	1,538,357.8	45.6%
Police	2,015,316	2,052,324	2,516,619.9	-464,295.9	464,295.9	18.4%
Parliamentary Services	1,884,536	1,916,938	2,353,308.8	-436,370.8	436,370.8	18.5%
Other Expenses	1,640,235	1,751,671	2,048,238.6	-296,567.6	296,567.6	14.5%
Internal Affairs	1,635,615	6,772,865	2,042,469.4	4,730,395.6	4,730,395.6	231.6%
Foreign Affairs & Immigration	1,495,588	1,461,490	1,867,611.1	-406,121.1	406,121.1	21.7%
Ministerial Support	1,484,563	1,542,803	1,853,843.7	-311,040.7	311,040.7	16.8%
Works Infrastructure & Planning	1,401,229	1,373,632	1,749,780.6	-376,148.6	376,148.6	21.5%
Marine Resources	1,253,102	1,326,275	1,564,807.4	-238,532.4	238,532.4	15.2%
Justice	1,134,325	1,096,138	1,416,485.0	-320,347.0	320,347.0	22.6%
Human Resource Development	985,832	840,807	1,231,054.8	-390,247.8	390,247.8	31.7%
Prime Minister Office	948,982	963,081	1,185,038.5	-221,957.5	221,957.5	18.7%

Data for year =	2008/09 (cont)					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Environment Service	926,098	1,159,716	1,156,462.1	3,253.9	3,253.9	0.3%
Cultural Development	809,212	851,837	1,010,501.1	-158,664.1	158,664.1	15.7%
Transport	692,491	727,876	864,746.1	-136,870.1	136,870.1	15.8%
Sum of the Rest (=21)	84,254,350	103,892,903	105,212,371.0	-1,319,468.0	1,319,468.0	1.3%
allocated expenditure	129,509,584	161,724,711	161,724,711	0.0	16,824,146.5	
contingency	275,000	200,000				
total expenditure	129,784,584	161,924,711				
overall (PI-1) variance						24.8%
composition (PI-2) variance						10.4%
contingency share of budget						0.2%

Table 4

Data for year =	2009/10					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Benefits & Unrequited Expenses	3,922,968	3,767,361	4,460,023.8	-692,662.8	692,662.8	15.5%
Education	3,911,598	4,201,782	4,447,097.3	-245,315.3	245,315.3	5.5%
Health	3,468,629	3,446,900	3,943,485.7	-496,585.7	496,585.7	12.6%
Outer Islands Administration	2,559,966	5,324,799	2,910,426.3	2,414,372.7	2,414,372.7	83.0%
Other Expenses	2,015,581	2,035,949	2,291,514.8	-255,565.8	255,565.8	11.2%
Tourism Corporation	1,858,885	1,842,847	2,113,367.1	-270,520.1	270,520.1	12.8%
Finance & Economic Management	1,611,605	1,618,953	1,832,234.4	-213,281.4	213,281.4	11.6%
Police	1,578,905	1,596,859	1,795,057.7	-198,198.7	198,198.7	11.0%
Parliamentary Services	1,444,053	1,504,345	1,641,744.4	-137,399.4	137,399.4	8.4%
Works Infrastructure & Planning	1,397,644	1,453,546	1,588,982.0	-135,436.0	135,436.0	8.5%
Internal Affairs	1,208,326	1,236,675	1,373,746.3	-137,071.3	137,071.3	10.0%
Foreign Affairs & Immigration	1,040,715	1,071,096	1,183,189.3	-112,093.3	112,093.3	9.5%
Ministerial Support	909,684	1,623,274	1,034,220.1	589,053.9	589,053.9	57.0%
Human Resource Development	887,465	970,282	1,008,959.3	-38,677.3	38,677.3	3.8%
Justice	854,076	847,916	970,999.3	-123,083.3	123,083.3	12.7%
Marine Resources	799,104	840,921	908,501.6	-67,580.6	67,580.6	7.4%
Prime Minister Office	704,510	703,767	800,957.7	-97,190.7	97,190.7	12.1%

Data for year =	2009/10 (cont)					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Environment Service	688,898	706,283	783,208.4	-76,925.4	76,925.4	9.8%
Cultural Development	540,450	540,450	614,437.8	-73,987.8	73,987.8	12.0%
Agriculture	477,514	479,046	542,885.9	-63,839.9	63,839.9	11.8%
Sum of the Rest (=21)	85,168,383	97,259,956	96,827,967.7	431,988.3	431,988.3	0.4%
allocated expenditure	117,048,959	133,073,007	133,073,007	0.0	6,870,829.6	
contingency	150,000	451,872				
total expenditure	117198959	133524879				
overall (PI-1) variance						13.9%
composition (PI-2) variance						5.2%
contingency share of budget						0.4%

Table 5 - Results Matrix

	for PI-1	for PI-2 (i)	for PI-2 (ii)
Year	total exp. deviation	composition variance	contingency share
2007/08	3.2%	16.5%	
2008/09	24.8%	10.4%	0.2%
2009/10	13.9%	5.2%	

Score for indicator PI-1:	C
Score for indicator PI-2 (i)	C
Score for indicator PI-2 (ii)	A
Overall Score for indicator PI-2	C+

Background Data for PI-3
Comparison of Total Revenue - Budget vs. Actual according to past three (3) fiscal years (NZ$)

	2007/08			2008/09[37]			2009/10[38]		
REVENUE	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
Trading Revenue									
Miscellaneous Revenue	0	4,487	(4,487)	0	0	-	0	0	-
Trading Revenue - Sale of Currency	190,000	310,951	(120,951)	190,000	201,285	(11,285)	50,000	396,311	(346,311)
Total Trading Revenue	**190,000**	**315,438**	**(125,438)**	**190,000**	**201,285**	**(11,285)**	**50,000**	**396,311**	**(346,311)**
Revenue on Behalf of Crown (ROBOCs)									
Value Added Tax	33,500,000	33,954,740	(454,740)	33,857,336	34,702,579	(845,243)	34,212,393	36,604,273	(2,391,880)
Income Tax	22,708,000	22,162,518	545,482	23,232,644	25,668,749	(2,436,105)	22,119,045	25,172,316	(3,053,271)
Company Tax	9,100,000	8,522,549	577,451	9,359,850	6,872,075	2,487,775	8,842,663	11,705,784	(2,863,121)
Import Duties/Levies	9,000,000	9,809,700	(809,700)	10,668,027	9,594,694	1,073,333	10,361,233	10,182,594	178,639
Departure Tax	2,140,000	2,988,920	(848,920)	2,920,884	3,464,647	(543,763)	5,616,842	5,526,430	90,412
Environment Tax	1,130,000	0	1,130,000	923,998	0	923,998	0	0	-
Immigration Fees	400,000	495,490	(95,490)	400,000	512,210	(112,210)	525,000	508,960	16,040
Justice Fines	26,000	128,220	(102,220)	40,000	68,230	(28,230)	74,000	44,540	29,460
Police Fines	79,400	81,400	(2,000)	85,320	117,942	(32,622)	129,500	130,938	(1,438)
Fishing Licenses	335,000	595,340	(260,340)	810,000	1,075,770	(265,770)	683,575	2,858,748	(2,175,173)
Dividend Income	1,650,000	2,350,000	(700,000)	4,385,000	2,948,000	1,437,000	2,660,000	2,328,000	332,000
Financial Supervisory Commission	400,000	325,000	75,000	0	177,351	(177,351)	821,114	607,398	213,716
Numismatic Revenue	400,000		400,000	300,000	516,604	(216,604)	350,000	514,684	(164,684)
Censorship Fees	0	0	-	24,000	29,253	(5,253)	24,000	18,916	5,084

[37] Revised data received by MFEM, July 2011
[38] Revised data received by MFEM, July 2011

	2007/08			2008/09			2009/10		
REVENUE	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
Drivers License Fees	388,836	402,613	(13,777)	408,450	673,964	(265,514)	594,974	716,770	(121,796)
Motor Vehicle Registration Fees	435,500	655,102	(219,602)	565,000	588,085	(23,085)	559,032	681,365	(122,333)
DIB Registrations	5,000	27,900	(22,900)	13,000	12,000	1,000	13,000	16,850	(3,850)
Interest Income (Crown Accounts)	3,000,000	4,008,608	(1,008,608)	2,256,943	2,838,772	(581,829)	2,000,000	2,372,793	(372,793)
Interest Income from SOE Advances	69,285	69,285	(0.01)	0	65,553	(65,553)	324,000	65,374	258,626
Upper Air Space Fees	340,000	354,395	(14,395)	340,000	360,556	(20,556)	341,000	392,011	(51,011)
Liquor Licenses	25,000	30,375	(5,375)	26,000	26,145	(145)	26,000	28,057	(2,057)
Shipping Registry & Licenses	45,000	27,000	18,000	50,000	50,000	-	55,000	65,000	(10,000)
International Shipping License	10,000	10,000	-	10,000	5,000	5,000	10,000	5,000	5,000
Tattslotto	180,000	187,888	(7,888)	160,000	148,019	11,981	160,000	148,129	11,871
Other ROBOCs	9,900	312,524	(302,624)	232,779	470,825	(238,046)	50,530	446,974	(396,444)
Total ROBOCs	**85,376,921**	**87,499,568**	**(2,122,647)**	**91,069,231**	**90,987,021**	**82,210**	**90,552,901**	**101,141,904**	**(10,589,003)**
Other Revenue									
Other Revenue	0	0	0	0	0	0	0	33,403	(33,403)
SOES's Return of Equity	0	2,958,270	(2,958,270)	0	0	-	0	0	-
Gain on Fixed Asset Sale	0	12,900	(12,900)	0	16,502	(16,502)	0	200	(200)
Gain on Foreign Exchange	0	220,017	(220,017)	0	908,048	(908,048)	0	0	-
Total Other Revenue	**0**	**3,191,188**	**(3,191,188)**	**0**	**924,550**	**(924,550)**	**0**	**33,603**	**(33,603)**
TOTAL REVENUE	**85,566,921**	**91,006,194**	**(5,439,273)**	**91,259,231**	**92,112,856**	**(853,625)**	**90,602,901**	**101,571,818**	**(10,968,916)**

Annex E

Terms of Reference

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

A. Background

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

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

The Government of The Cook Islands has indicated their interest in undertaking a PEFA assessment. This document sets out the Terms of Reference for an assessment of PFM in the Cook Islands based on the PEFA Performance Measurement Framework.

B. Objectives of the assessment

The overall aim of the assessment is to produce a comprehensive Public Financial Management Performance Report prepared according to the PEFA methodology which will provide an assessment of the current performance of PFM processes and systems in Cook Islands and lead to the development of a PFM Road Map for the future, with PFTAC assistance.

The objectives of the assessment are two-fold:

1. Develop the PEFA performance indicators which will provide the baseline data to support the monitoring and evaluation of PFM reforms. The Ministry of Finance and Economic Planning anticipates the PEFA assessment will be repeated every three or four years; and

2. Prepare the PFM Report to support the indicator scores, provide an integrated assessment of the strengths and weaknesses in PFM performance, identify the impact of PFM weaknesses and establish the links between the indicators and potential reform initiatives to enable the development of a PFM Road Map for the Cook Islands

There are potential harmonisation benefits from government and development partners using a widely accepted framework, such as PEFA, to assess PFM systems. This includes encouraging a common understanding of the strengths and weaknesses of PFM systems and assistance with the development of an integrated PFM Road Map that would help in improving PFM in the country.

C. Main assessment agents

The Government of Cook Islands:

The assessment team will report to the Financial Secretary. An official, or officials, nominated by the Financial Secretary will be a central part of the assessment team {referred to hereinafter as "Team"} (refer *Assessment team's composition* below). Government officials of, and principal technical advisers to the Ministry of Finance and Economic Management (MFEM) , and other relevant Government ministries and agencies, will be associated with and consulted in this assessment as appropriate. The Audit Office will also be consulted during the assessment.

The donor community:

IMF/PFTAC, working with, EU will provide support throughout the duration of the PEFA in the form of an external consultant, and a local consultant (provided by EU, if necessary). Both will work with Cook Island officials to disseminate relevant information, consolidate and coordinate development partner comments on preliminary findings and provide the draft report and the final report.

The EU and IMF/PFTAC will be consulted closely during the planning of this assessment (including developing these terms of reference). The "Team", comprising of the consultants and Cook Island officials nominated by the Government for this purpose, working in close collaboration with other Cook Island counterparts, will send an official communication to development partners and other stakeholders informing them of the ToR, names of the experts and dates for the field mission phase. This letter should reach the development partners and other stakeholders at least two weeks prior to the field mission phase.

IMF/PFTAC, will provide the "Team" back stopping support, and guidance where necessary. On completion of the PEFA assessment, IMF/PFTAC will assist Cook Islands develop the PFM Road Map, including action plans to improve PFM in the future.

Donors will have the opportunity to comment on the draft report, and will receive a copy of the final report.

D. Methodology

The primary reference for the exercise will be the PEFA PFM Performance Measurement Framework. Annex 1 and 2 of the PEFA PFM Performance Measurement Framework will constitute the guidelines for fieldwork and reporting.[39] The Performance Measurement Framework aims to support integrated and harmonised approaches to assessment and reform in the field of public expenditure, procurement and financial accountability. Relevant documentation can be found on www.pefa.org.

Available information on public finance and economic reforms in the Cook Islands will be accessed and analyzed by the Team Leader / Expert prior to the field mission phase, and s/he will work with the "Team" to form the basis of the background section of the report. Possible sources of relevant information include the Government, EU, NZAID, IMF/PFTAC and other development partners.

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

An indicative work plan will be presented by the assessment "Team", comprising of the consultant and the Cook Island officials, to the Government and development partners prior to the start of the field mission phase. The work plan, broadly comprising of a field mission phase and a report drafting phase, followed by a report finalization phase, will need to summarise the principal stages of the assessment, including a list of people to be consulted and also outline the information to be collected from stakeholders. The work plan should also include a mid-term review meeting with development partners and key government officials.

E. PEFA training and dissemination

The "Team" will conduct a one-day preparatory workshop in The Cook Islands for all stakeholders at the beginning of the field mission phase, including government, development partners, private sector and civil society stakeholders. The core material for the preparation of the workshop can be found on the website of the PEFA Secretariat (www.pefa.org). Care should be taken to include the recent changes in assessment process for three indicators[40]. This workshop will include two types of sessions: one providing a brief overview including general information about PEFA and the assessment; and the other detailing the techniques to be applied and the indicators directed at Government representatives and their advisers.

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

F. Reporting

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

On completion of the field mission phase, the assessment team will submit a draft report complying with the PEFA PFM Performance Measurement Framework (refer **Annex 2**). This will incorporate comments and feedback received by the assessment team during the final workshop. The draft report will be sent electronically to the MFEM, participating donors[41], and the PEFA Secretariat in Washington DC, by the "Team".

Comments from government, participating donors and the PEFA Secretariat will be forwarded within one week of receipt of the draft report. The "Team" will receive and consolidate the comments from donors and thereafter finalist the report.

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

[40] Changes have recently been made to the assessment of indicators PI-1, PI-3, and PI-19.
[41] These shall comprise of the EU, PFTAC, NZAID, AUSAID and ADB.

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

G. Assessment team's composition

The assessment team[42] will comprise at least four members:

Team leader / Expert: The Team Leader / Expert will be an independent consultant, **Ms Mary Betley**, contracted by PFTAC. Her role is to facilitate the work of the team, and provide support as required. She shall coordinate closely with the IMF/PFTAC PFM Advisor in Suva during the entirety of this work.

Local Consultant: The local consultant will be required to work closely with and support the team leader/expert to develop the PEFA performance indicators and prepare the PEFA report to support the indicator scores and provide an integrated assessment of the strengths and weaknesses in PFM performance. S/he shall be appointed by the Cook Islands Government with possible funding by the EU

Team members / Government officials (3 or 4): Assisted by technical advice from the team leader/expert, and supported by other members of the assessment team, the government officials will be responsible for planning and executing the field work. In particular, the Government officials will ensure access to information and documents, and that relevant people are consulted and informed about the assessment. The Government officials will have good writing and communication skills in English.

In addition to the assessment team described above, the IMF/PFTAC PFM Advisor, based in Suva, shall provide back stopping support and advice to the team in the completion of this assessment.

H. Timing of the assessment

The indicative date for the start of the field mission phase in The Cook Islands is **May 2011**. Briefing, work plan development and meeting arrangements would occur prior to this date. The overall field mission phase is estimated at 14 calendar days (including the one-day preparatory workshop and the one-day completion workshop), with an additional 14 days for reporting, not including travel time. Refer **Annex 1** for more details.

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1) Team member / Government official costs which will be covered by the Government (see *Assessment team's composition* above).
2) Local consultant costs, if any, will be covered by the EU.
3) All external consultant/ Team Leader/Expert costs , including back stopping costs, travel, accommodation and per diem for participation of IMF/PFTAC staff, if necessary, will be borne by IMF/PFTAC

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

Tasks	Responsible	Calendar
Awareness raising within the Government		
Establish the modalities of Government involvement as well as the list of documentation that the Government has to provide before the start of the field mission phase	Government, "Team", IMF/ PFTAC, EU, NZAID	25 Feb 2011
Agreeing the field mission phase timetable		31 March 2011
Dates agreed taking into account other donor missions and the budget calendar of the Government.	Government, "Team", IMF/ PFTAC,	01 April 2011
Recruitment of the assessment team		**02 May 2011**
Recruitment of consultants according to the specific recruitment procedures of each contracting donor. - Team leader / Expert (international consultant) - Team member / National consultant - Team member / Government official	 IMF/PFTAC with EU, NZAID, input Government With IMF/PFTAC input	 02 May 2011 21 April 2011 08 April 2011
PEFA assessment		
Briefing of Team leader / Expert	Government, Team leader / Expert and "Team", IMF/ PFTAC, EU	02 May 2011
Collection of initial documentation	"Team"	02 May 2011
Assessment team commences fieldwork	"Team"	03 May 2011
Preparatory workshop	"Team"	03 May 2011
Analysis of documentation and interviews / consultation with Government, civil society, donors, and preparation of the aide mémoire	"Team"	12 May 2011
Completion workshop	"Team"	13 May 2011
Draft report submitted, field work ends	"Team"	14 May 2011
Comments due back	"Team"	20 May 2011
Final report submitted	"Team"	27 May 2011
Debriefing by Team leader / Expert	Government , Team, EU, IMF/ PFTAC, NZAID, AUSAID, ADB	30 May 2011

Annex 2: The Public Financial Management – Performance Report (PFM-PA)[43]

Summary assessment

1. Introduction

2. Country background information
2.1. Description of country economic situation
2.2. Description of budgetary outcomes
2.3. Description of the legal and institutional framework for PFM

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

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

Annex 1: Performance Indicators Summary

Annex 2: Sources of information

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

Annex F

Ministry of Finance and Economic Development

Organisation Chart