

Solomon Islands

Public Financial Management - Performance Report

Final report

Client: European Commission

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Abbreviations and Acronyms

AusAID	Australian Agency for International Development
COFOG	Classification of Functions of Government
CNURA	Coalition for National Unity and Rural Advancement
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DSA	Debt Sustainability Analysis
EC	European Commission
EU	European Union
FIs	Financial Instructions
FMIS	Financial Management Information System
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HDI	Human Development Index
IAU	Internal Audit Unit
IFAC	International Federation of Accountants
IFI	International Financial Institutions
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MoFT	Ministry of Finance and Treasury
MEHRD	Ministry of Education and Human Resource Development
MDA	Ministries, Departments and Agencies
MDPAC	Ministry of Development Planning and Aid Coordination
MID	Ministry of Infrastructure Development
MPGIS	Ministry of Provincial Government and Institutional Strengthening
MPS	Ministry of Public Service
MTDS	Medium-Term Development Strategy
MTFS	Medium-Term Fiscal Strategy
NPF	National Provident Fund
NZAID	New Zealand Agency for International Development
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PACE	PAC ific E xecutive Leadership Program
PEFA	Public Expenditure and Financial Accountability
PFM PMF	Public Finance Management Performance Measurement Framework
PGSP	Provincial Government Strengthening Programme
PI	Performance Indicator
RAMSI	Regional Assistance Mission to Solomon Islands
RCDF	Rural Constituency Development Fund

SAI	Supreme Audit Institution
SICCI	Solomon Islands Chamber of Commerce and Industry
SIDS	Small Island Developing States
SIG	Solomon Islands Government
SOE	State Owned Enterprises
SOEASP	SOE Accounts Strengthening Programme
SPASAI	South Pacific Association of Supreme Audit Institutions
TA	Technical Assistance
TIN	Tax Identification Number
UNDP	United Nations Development Programme
WHO	World Health Organisation

Executive Summary

Assessment of performance

This assessment of Public Financial Management (PFM) in the Solomon Islands is based on the PFM Performance Measurement Framework (PMF). This framework was developed by the Public Expenditure and Financial Accountability (PEFA) partners, as a tool that can provide reliable information on the performance of PFM systems, processes and institutions over time.

The analysis has been carried out for the period 2004 to 2008. Calculation of differences between original appropriated budget and actual audited expenditure is based on the financial years 2004 – 2006. The exercise has been done jointly by the Solomon Islands Government (SIG) and donors. The findings are based on a review of a wide range of documentation, two discussion workshops, and interviews with a large number of stakeholders. The overall results of the analysis are set out in table 1 below, with more detail provided in Annex A.

Table 0.1 Overall summary of results

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			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
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B				B
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	C			C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				C
PI-6	Comprehensiveness of information included in budget documentation	M1	C				C
PI-7	Extent of unreported government operations	M1	C	C			C
PI-8	Transparency of inter-governmental fiscal relations	M2	D	D	D		D
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	D			D
PI-10	Public access to key fiscal information	M1	C				C

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	D	D	C		D+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	A	D	C	C
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	D	D	D		D
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	D	D	C		D+
PI-15	Effectiveness in collection of tax payments	M1	N/S	B	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	A	A		D+
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	C	C		C
PI-18	Effectiveness of payroll controls	M1	D	B	C	B	D+
PI-19	Competition, value for money and controls in procurement	M2	D	C	D		D+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	D	C		D+
PI-21	Effectiveness of internal audit	M1	D	D	D		D
C (iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	D			C
PI-23	Availability of information on resources received by service delivery units	M1	D				D
PI-24	Quality and timeliness of in-year budget reports	M1	B	A	C		C+
PI-25	Quality and timeliness of annual financial statements	M1	C	D	D		D+
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	B	C	B		C+
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	D	C	D+
PI-28	Legislative scrutiny of external audit reports	M1	C	B	B		C+
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	N/A				N/A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	C	D			D+
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

Overall assessment

In the last four years, SIG with support from its partners has achieved a number of important goals. Most importantly, it has eliminated the backlog of central government financial statements, commenced a rigorous and transparent audit regime and paid off its debt interest and trade creditor arrears. Revenues have also increased substantially. The Public Accounts Committee (PAC) has been actively participating in the oversight of government expenditures and review of government estimates.

Reforms are ongoing and addressing many of the weaknesses identified in this assessment. These reforms include tax administration reforms, upgrading of payroll and financial management software, and an exercise to prepare and audit the outstanding financial statements of the State Owned Enterprises (SOEs). The team recognises the reform endeavours; however, the scores only reflect the current situation. This is to enable a baseline to be established, against which reform efforts can be monitored, as well as to help identify any gaps. All stakeholders recognise that significant challenges remain, particularly given the difficult economic environment, which will seriously constrain government revenues. The Government has committed in its medium-term fiscal strategy, to continue its prudent approach to debt management, and to control expenditure growth through improvements in financial management.

Credibility of the budget

Based on the original approved estimates and the actual expenditure for the period 2004 – 2006, the budget has not been a very credible indicator of actual expenditure, although it is improving. Aggregate variance in 2004 was 25.4% and in 2006 2.3% for the combined revenue and development estimates. At an administrative level, composition of overall expenditure has not deviated significantly. There has been overspending on recurrent expenditure and under spending on development expenditure for 2006. There was under spending in both recurrent and development expenditure in 2005 and overspending on both for 2004. Actual revenue received has been consistently greater than forecast, although the variance is diminishing. Since 2004, the government has addressed its arrears and the level of arrears is considered small¹; however, there is no formal mechanism for monitoring trade creditor arrears. During the assessment, arrears in the provincial health offices (utilities, National Provident Fund (NPF)) were identified as an issue.

Comprehensiveness and transparency

There are some concerns over reporting on special funds, which do not form part of the consolidated budget. Improvements have been made in relation to the Civil Aviation Special Fund², but accounts for the National Disaster Funds administered by the National Disaster Committee have never been produced (since 1989) and no accounts prepared for the 2007 Tsunami Disaster Relief Fund. The requirement to account quarterly for the 2008 Rural Constituency Development Fund (RCDF) has been waived³ through a ministerial directive; however, normal accountability (audit) requirements remain in place. Regular (in-year) reporting on donors' cash programmes is limited to Republic of China (RoC), AusAID (health) and NZAID's education support⁴. Information contained in the budget documentation is quite comprehensive. No annual monitoring of SOEs takes place and their accounts are not up-to-date. At the provincial government level, an exercise has been carried out to identify some liabilities e.g. debt, NPF, utilities, but this may not represent the full extent of outstanding liabilities.

¹ Many trade suppliers do not provide credit to the government.

² 2006 accounts are currently being audited.

³ This does not apply to other constituency related funds, which have a different mechanism for the approval and administration of funds.

⁴ According to the OECD DAC definition, NZAID (education) and AusAID (health) is not strictly sector budget support and has therefore been treated as programme support.

The transparency of inter-governmental fiscal relations is poor; a formula was developed many years ago, but is not yet updated to reflect the current situation⁵. There is no consultation with provincial governments during the central government budget process (top-down approach). Proactive supply of user-friendly information is limited (the late Auditor General being an exception). Some information is available, but restricted to those who understand the system.

Policy-based budgeting

In recent years, the budget process has not followed a consistent timetable, because of political factors. A calendar and guidelines (written and oral) are provided, but adherence to deadlines has been problematic for a variety of reasons. There is no public sector investment programme, policy statements have changed frequently and sector strategies have not been coasted. A medium-term perspective has not yet been developed and the link between recurrent cost implications and capital investments (particularly donor-funded and central government investments in the provinces) is weak.

Predictability and control in budget execution

Spending agencies are provided with a full year's allocation; however, annual cash flow forecasts are not prepared, which makes it difficult for government to plan the use of its cash effectively. Cash balances for the main treasury-managed accounts are consolidated daily and the debt position is reported monthly. Tax legislation and procedures are outdated and not user-friendly, penalties have rarely been imposed and there is no appeals mechanism. Debt management records for central government debt (external and domestic) are considered complete, but accurate information about on-lent loans and guarantees may be incomplete. A strategy is in place for the contracting of loans and guarantees (Honiara Club Agreement), but in 2007 and 2008, loan guarantees for two SOEs were provided, despite lack of accurate information on their financial position.

The Office of the Auditor General (OAG)'s payroll audit identified many shortcomings, some of which have been subsequently addressed; however, regular reconciliation between payroll, personnel records and nominal roll still does not take place. In terms of procurement practices, there is no systematic mechanism for collecting data on the use of open competition, no effective complaints mechanism and no public disclosure of contracts awarded.

Expenditure commitment controls are in place, but are only partially effective as they do not cover all expenditure e.g. utilities. Financial instructions (FIs) need some updating, to reflect current business processes and improved controls e.g. discretionary grant approval and administration. Approval of virements is highly centralised. General understanding of FIs is an issue; although the Auditor General has noted considerable improvements in recent years, concerns over compliance remain including splitting of tenders; waiving of FI provisions without due process e.g. utility bill payments without adequate documentation/approval and waiving of tender requirements. Internal audit is weak; it does not have its own mandate and is not actively involved in systems monitoring, partly

⁵ A new formula has been developed as part of the provincial strengthening programme, but this is not yet implemented for the fixed services grant.

due to limited capacity and partly because of a general lack of understanding of its importance in the overall internal control framework.

Accounting, recording and reporting

Treasury-managed accounts are reconciled monthly (two main accounts daily), but reconciliation of bank accounts in line ministries is not up to date. There are some issues in suspense accounts relating to computer system problems and general problems with the retirement of advances and special imprests. In-year budget reports (funds available and month end) are prepared monthly, but there are concerns over the reliability of the data. Some ministries claim that they do not receive reports on a regular basis. A massive effort has taken place to bring central government financial statements up to date. The 2007 accounts are currently being finalised. They are prepared in accordance with the legislation (1978 Public Finance and Audit Act), but there are no national accounting standards in the Solomon Islands, and they are not compliant with international public sector accounting standards (IPSAS). The Auditor General has issued a qualified opinion on all government's financial statements to date (until financial year (FY) 2006), but did note a significant improvement in the standard of the reports.

External scrutiny and audit

In the last four years, there has been a major effort by the OAG to audit the central government's accounts and begin a rigorous and candid auditing regime, according to international auditing standards. The Office's independence is established in the Constitution, although some issues remain on independence over personnel recruitment and financial resources⁶. The PAC reviews the estimates, although it has only had limited time for scrutiny and at a relatively late stage in the budgeting process, which means that their findings cannot be properly incorporated into the current estimates. It has reviewed all but four of the Auditor General's reports (two issued in 2007, one - August 2008, one - September 2008), and has produced reports with recommendations. Responsibility for action rests with the ministries, and since 2006, they have prepared audit action plans. There is evidence that some ministries have taken action, although this is not universal. In subsequent audits, OAG also follow up and PAC requests updates at subsequent meetings; however, certain action relies upon the judicial system, which has a long backlog of cases.

Donor practices

Applying the OECD DAC definition of sector budget support, which requires the use of all government systems, there is no direct budget support in the Solomon Islands. NZAID (education) and AusAID (health) are appropriated through the Recurrent Estimates but use some of their own systems. RoC funding is appropriated through the Development estimates and uses government systems, but is directed towards specific development projects.

Information on projected disbursements is provided by most of major donors, albeit not always in required format or on a timely basis. Some donors e.g. RoC understate their technical assistance (TA) and other non-cash assistance. Projections for global and regional funds are limited. Information on actual expenditure is more limited and is

⁶ It should be noted that in practice, these have not been an issue in recent years.

provided annually at budget submission stage. Some donors provide information directly to ministries, but internal coordination is weak.

Most aid is non-appropriated (SBD1.62 billion of the SBD 1.84 billion). In terms of local support, NZAID (Education) and AusAID (health) use their own accounting and reporting system (MYOB), but use SIG's authorisation procedures (at ministerial level). Both intend to use the OAG for audit purposes and to work with government on future use of SIG systems. RoC already uses SIG systems for the use of its project-orientated assistance and UNDP will use some SIG procedures for the assistance to provinces. The Regional Assistance Mission to Solomon Islands (RAMSI) uses a combination of federal procedures, AusAID, NZAID and SIG procedures. In overall terms, the use of SIG procedures is limited, as most expenditure is in the form of technical assistance and non-cash. Other major donors e.g. European Union (EU), Asian Development Bank (ADB), Japan, World Health Organisation (WHO) use their own procedures.

Impact of strengths and weaknesses on budgetary outcomes

A rigorous and transparent audit process means that the government can be held more accountable for efficient and rules based management of resources and increases pressure on government to allocate and execute the budget in line with its stated policies. The erosion of the backlog in financial statements means that increased effort can be placed on improving the quality and accuracy of data, thus enabling governments to control budget totals more effectively.

Weak controls of payrolls, procurement and expenditure processes create the opportunity for corrupt practices, leakages and patronage (made worse by lack of internal audit in the Solomon Islands) and thus affect service delivery, allocative efficiency and aggregate fiscal discipline. Weak control arrangements also may result in resource utilisation that is significantly different from original intentions. In theory, the highly centralised virement arrangement should improve aggregate fiscal discipline, in practice; it appears that it is affecting service delivery adversely. The level of detail in the budget (line item appropriation) also increases the requirement for virements and thus potential delays.

Weak budgeting procedures (including lack of cash flow forecasting and revenue forecasting) and frequent disruptions to the process for political factors mean frequent virements, delays in budget execution and the subsequent negative impact on service delivery. Lack of attention to the recurrent costs of capital expenditure will also affect service delivery negatively. Limited active involvement of line ministries (and provincial governments) in the budgeting process, means a greater probability of ad-hoc decisions and limits discussions over alternative uses of resources.

Lack of information on fiscal risks (provincial governments, SOEs and Statutory Bodies) limits the government's ability to maintain aggregate fiscal discipline. Excessive use of contingency warrants adversely affects aggregate fiscal discipline and allocative efficiency. Non-compliance with the budget (poor budget credibility) may also reflect personal preferences rather than service delivery intentions.

Prospects for reform planning and implementation

PFM related reforms are coordinated through the Permanent Secretaries (PS)s of Finance and Treasury, and Development and Aid Coordination, in close consultation with the relevant ministers. Ongoing reforms, supported by RAMSI, are aimed at improving capacity and building long-term sustainable systems; although a long-term strategy or plan for PFM has not been developed and reform coordination is limited. Despite the significant progress made to date, reformers (and potential reformers) in government face a number of challenges. These include the public service recruitment process, lengthy delays in making substantive appointments and a high level of vacancies. The government has to compete with the private sector for a limited number of qualified personnel, and its ability to attract and retain experienced personnel (technical and managerial) is limited by the overall terms and conditions of service. Other reformers lack managerial support. The fragile and volatile political climate, resulting in frequent changes in government, also hampers effective political support for reforms of PFM and accountability. Civil society's role in demanding PFM reforms is also weak. The ability of the reforms to demonstrate their impact on service delivery will be an important means of gaining wider support. Sustainable change will also only take place with full participation of all those affected and suitable incentive schemes.

Donors are supporting PFM reforms and development generally in the Solomon Islands. PFM reforms are long-term endeavours, donors in the Solomon Islands have concentrated their support on getting the basics right rather than introducing sophisticated processes. The majority of funding is non-appropriated, but support to education and health is increasingly using government systems, which reduces duplication in processes and also helps to strengthen government systems.

In conclusion, since 2004, the SIG has worked hard to improve its PFM performance. The challenge for all stakeholders is ensuring the sustainability of these improvements and moving forward to address the remaining weaknesses. This is of particular importance given the economic challenges that lie ahead. The government has indicated its intention to submit this report to the Solomon Islands Cabinet in order to facilitate a strategic response to the identified weaknesses.

1 Introduction

1.1 Objective of the Public Financial Management (PFM)-Performance Report (PR)

The overall objective of the report is to provide all stakeholders with an assessment of Public Financial Management (PFM) in the Solomon Islands, using the Public Expenditure and Financial Accountability (PEFA) methodology. This methodology allows measurement of country PFM performance over time, and is an important element of the new strengthened approach to PFM reforms. This approach developed jointly by development partners and governments, recognises the need for strong government ownership of any assessment or reform programme. Detailed information on the history and methodology can be found at www.pefa.org. In the short term, a PEFA assessment can: i) provide government and donors with a common pool of information on which to base dialogue on PFM matters; and ii) be one aspect of a wider assessment of general or budget sector support eligibility. It can also help guide⁷ governments in the preparation or revision of their PFM reform strategy and/or action plan.

In the last four years, the Solomon Islands Government (SIG) with the support of its partners has achieved a number of important goals including eliminating the backlog of accounts for central government and their respective audits: eliminating its debt interest arrears and settling the arrears of identified trade creditors. In March 2008, SIG and its development partners decided to carry out a PEFA assessment in order to establish a baseline PFM situation. This baseline assessment will then be used to monitor progress in PFM reforms, as well as help SIG to prioritise its reform efforts.

1.2 Process of preparing the PFM-PR

1.2.1 Methodology

The (SIG) and donors established a PEFA taskforce to oversee the PEFA assessment process. The taskforce is co-chaired by the Permanent Secretaries (PS) and representatives of the Ministry of Finance and Treasury (MoFT) and the Ministry of Development Planning and Aid Coordination (MDPAC). It also includes a representative from the Central Bank of the Solomon Islands (CBSI), the Acting Auditor General (observer) and representatives from the European Union (EU), Regional Assistance Mission to Solomon Islands (RAMSI), AusAID, NZAID and the World Bank. The

⁷ Sustainable reform programmes need also to be based on a clear understanding of capacity constraints, and capacity building needs to be more widely interpreted than merely training.

Taskforce led by the MoFT and MDPAC prepared the Terms of Reference (see Annex B), with the EU acting as lead donor and funding the team leader and AusAID funding the local consultant.

Prior to the actual mission, the team leader from ECORYS (Carole Pretorius) provided the taskforce with an indicative work plan and an initial request for documentation. She also attended a briefing session with European Commission (EC) officials in Brussels. The rest of the team included a local consultant (Peter Lokay) and a MoFT official (Haggai Arumae). The fieldwork commenced on the 15th September with a team meeting with the task force. A half-day introductory workshop was held on the 16th September, attended by more than twenty government and donor officials.

Following the workshop, the team held individual or group discussions with officials and advisers from: i) the MoFT; ii) MDPAC; iii) Office of the Auditor General (OAG); iv) Central Bank of Solomon Islands (CBSI); v) Ministry of Public Service (MPS); vi) Ministries of Infrastructure Development (MID), Education and Human Resource Development (MEHRD), Provincial Government and Institutional Strengthening (MPGIS) and Health and Medical Services (MHMS). The team visited Malaita Provincial Government and held discussions with the Investment Corporation of the Solomon Islands (ICSI) and the Ombudsman. Meetings were held with donor representatives, members of civil society, including members of the Solomon Islands Chamber of Commerce and Industry (SICCI) and the local chapter of Transparency International. A complete list of persons interviewed and attending workshops is included as Annex C. A list of the documentation reviewed is included in Annex D. Some individuals and departments completed a self- assessment and the SICCI distributed copies of PI10, 13 and 19 to their members for comments.

An *Aide Memoire* was discussed with the PEFA taskforce on the 7th October and a second workshop was held on the 8th October to discuss preliminary findings with a wider audience. This session was used to share initial findings and to validate the scores. The fieldwork for the mission ended on the 10th October with the submission of this draft report. The team would like to thank everyone who has participated in the preparation of this report. Particular thanks are due to the Acting Auditor General for use of his office, to Ms Lorraine Gua Galo for assisting in arranging the meetings and to Mr Doug Sade for coordinating the collection of all the documentation.

1.2.2 Scope of the assessment

The assessment covers central government expenditure. Expenditure at central government level includes 23 ministries⁸ (see Annex E), the Office of the Prime Minister and Cabinet, National Parliament, the Governor General's Office and the OAG, as well as the National Judiciary (which includes the various courts). Several ministries have taken over responsibility for activity at the provincial level. Consequently, grants to Education Authorities⁹ from the MEHRD, and grants from MHMS to their provincial health offices

⁸ The number of ministries has expanded since 2006.

⁹ Under the Education Act, Education Authorities include provincial assemblies, churches and independent schools.

are included in this assessment, and these provincial offices are considered as de-concentrated units of central government.

Inter-governmental fiscal relations with the nine Provincial Administrations and Honiara City Council are assessed in performance indicator (PI) 8, and the oversight of aggregate fiscal risk of State Owned Enterprises (SOEs)¹⁰ (see section 3.8.2 for further information on SOEs and Statutory bodies) and sub-national government in PI 9. In the 2008 estimates, the fixed services grant to the Provincial Administrations and Honiara City Council represented approximately 2.4%¹¹ of central government recurrent expenditure (see section 3.8.1 for further details on activities at provincial level).

¹⁰ There are currently 4 SoEs, 8 statutory bodies and 3 companies with minority share holdings.

¹¹ Payment for civil servants working at the Provincial governments represented a further 0.1%.

2 Country background information

2.1 Description of country economic situation

2.1.1 Country context

The Solomon Islands, a Small Island Developing State (SIDS) is in the South-West Pacific and lies East of Papua New Guinea and Northeast of Australia. There are 997 islands in the archipelago, many uninhabited. Rainforest mountain ranges are found on the main islands of Choiseul, New Georgia, Santa Isabel, Guadalcanal, Malaita, and Makira, while the smaller islands are mainly atolls and raised coral reefs. The need for effective communication, transport and infrastructure poses a significant challenge to the Islands' social and economic development.

Estimated population is 552,438 (2006)¹², with the capital city, Honiara having the largest population, approximately 54,000. Some 85% of the population live in rural areas. Population growth is high at 2.8%¹³. The population figures also reveal that 50% of the population is below the age of 19 years, and 39% is below the age of 15 years. In the 2007 Human Development Index (HDI) report, the Solomon Islands are ranked 129 out of 177, the second lowest in the Pacific Islands.

In 1999, widespread social unrest, commonly known as “The Tensions” broke out on Guadalcanal Island, although the conflict receded after the signing of the Townsville Peace Agreement (2000), tensions remained. In July 2003, at the formal request of the Government, 2,200 Australian and Pacific Island police officers and troops arrived in the Solomon Islands, under the auspices of the Australian-led Regional Assistance Mission to Solomon Islands (RAMSI), to help restore law and order and stabilise the budget. Following an election in April 2006, riots broke out again, and much of Chinatown was destroyed. Further Australian, New Zealand and Fijian police and troops were dispatched to quell the unrest. The elected Prime Minister resigned and the Grand Coalition for Change Government was formed. Following a vote of no confidence, the Coalition for National Unity and Rural Advancement (CNURA) assumed political leadership on 21st December 2007.

From an environmental perspective, the islands face a number of potential natural threats. There are several active (e.g. Tinakula and Kavachi) volcanoes and deforestation is leading to increasing incidences of flooding and mudslides. Outlying islands are prone to occasional cyclones and earthquakes. In 2007, the Islands were struck by a tsunami

¹² Household Income and Expenditure Survey.

¹³ Some data suggests 3.4%.

triggered by an 8.1 magnitude earthquake 349km (217 miles) northwest of the capital Honiara. It mainly affected the Western and Choiseul provinces. The resulting death toll was at least 52 people, with more than 900 homes destroyed and thousands of people left homeless.

According to the IMF¹⁴, the Solomon Islands economy experienced very strong growth in 2007, (10.3%) primarily due to stronger than expected growth in the forestry sector, although, with the exception of fisheries, there was also strong growth in other commodities. The maintenance of law and order, ongoing regulatory reforms and improved business confidence also contributed to the strong 2007 outcome. Economic growth for 2008 is projected to slow down to around 7%¹⁵.

The logging sector represents around 18% of the Solomon Islands economy, employs approximately 5,000 people and receives around 17% of its revenue from duties on export round logs. From 2009, the Government's Medium Term Fiscal Strategy (MTFS) projects an economic slowdown in the Solomon Islands because of decreasing revenues from the forestry (logging) sector, a consequence of unsustainable logging practices. Current projections are that the natural forests will be depleted of all of their viable forestry resources by 2013. This will have significant effects on the economy, and GDP per capita currently at US \$764 (est. 2007) is forecast to decline. Government finances will also be adversely affected and a deficit for 2009 is already projected, even with a decline in the growth of government expenditure to 20% from over 30% in 2007¹⁶. Latest figures (August 2008) indicate that inflation is now at 23%¹⁷, due primarily to rising international food and fuel prices. Foreign exchange reserves have dropped, and are currently at less than 3 months of projected imports.

Donors provide significant support to the Solomon Islands (> 50% of overall government and donor expenditure). The major donors include RAMSI, AusAID bilateral, NZAID bilateral, Republic of China (RoC), Japan, Asian Development Bank (ADB) and the EU. According to the 2008 development estimates, total donor assistance to government was forecast to be SBD 1,836 million; SBD 224.2 million was appropriated through the Consolidated Fund.

2.1.2 Overall government reform program

In response to the country's economic challenges, the Government is pursuing a number of reforms with the aim of creating a better business environment and more income earning opportunities for Solomon Islanders. The Government has identified a number of hurdles to economic growth including: high administrative and regulatory costs; high utility costs caused by inefficiencies in state-owned enterprises (SOEs) and inadequate infrastructure; high cost of taxation; underdeveloped and limited access to financial services; and a lack of local capacity to start and operate businesses.

¹⁴ IMF - Concluding statement – 2008 Article IV consultations.

¹⁵ Figures forecast before the global financial crisis.

¹⁶ Medium Term Fiscal Strategy 2008 -2013.

¹⁷ There are some concerns that the CPI basket does not reflect purchasing patterns for the majority of Solomon Islanders.

Since 2003, the government has embarked on a number of reforms to address these issues including changes to foreign investment legislation and work and residency procedures and the enactment of the Secured Transactions Act. Further changes to modernise the legal business environment, and reduce the cost of doing business in the Solomon Islands include a new Companies Act, Insolvency and Companies Receivership Act and Trustees Act.

Tax reforms have also resulted in improved compliance and a more modernised system. Further work is being done to make the Solomon Island tax system fair and simple, while also broadening the tax base, and creating a more conducive environment for investment and economic growth.

Access to financial services has been addressed through a number of initiatives including Rural Banking Services and Small Business Guarantee Schemes. Planned reforms include improved availability of finance for business projects and better access to loans for local entrepreneurs.

Specific industry reforms in the tourism, agriculture and fisheries sectors are also being followed to counter the anticipated decline in the logging sector. SOE reform is being actively pursued with assistance from various donors, and SIG is in the process of privatising Home Finance Limited and Sasape Marine Limited.

2.1.3 Rationale for PFM reforms

As a result of ‘The Tensions’ and the complete breakdown of law and order, the government found itself unable to pay civil servant salaries, its debt obligations or provide any services. In July 2003, at the government’s request, RAMSI came to help restore law and order and to stabilise the finances. Between 2003 and 2004, efforts were concentrated on budget stabilisation. Improved budget and financial controls resulted in increased government revenues and improvements in service delivery.

Continuing reforms are aimed at building capacity in MoFT, line ministries and the provincial governments. From a technical perspective, financial management systems are very outdated and technical support to the payroll system will cease in 2009. Beyond 2010, there will be significant pressure on the government’s fiscal position, in order to bring expenditure growth under control, the Government is committed to “further strengthening and tightening the budget processes so that expenditure is transparent and optimally targeted” (MTFS: p7). The Government’s aim is also to improve public and donor confidence in the government’s financial management systems.

2.2 Description of budgetary outcomes

2.2.1 Fiscal performance

According to the CBSI, total revenue in 2007 was SBD 1207 million¹⁸, an increase of 28%, of which SBD1,091 million, was sourced domestically. Total expenditure increased by 31% over the 2006 figures to SBD 1,196.1 million. Approved SIG expenditure (recurrent and development) for 2008 is SBD 1,571 million. Initial indications (IMF, July 2008) show that there was overspending in the first half of 2008. A supplementary budget of SBD 201 million (approx 3% of GDP) was also passed in August 2008. **Error! Reference source not found.** shows the increase in government spending as a % of GDP.

Table 2.1 Government finances as a % of GDP 2004 – 2007

Nominal GDP = US\$389 million (2007 est)	2004	2005	2006	2007	2008(*)
Central government expenditure (% of GDP)				(est)	(proj)
Total Revenue	48.1	78.8	64.7	69.0	62.0
<i>Recurrent Revenue</i>	26.3	29.7	32.3	36.8	33.2
<i>Grants</i>	21.8	49.1	32.5	32.2	28.8
Total Expenditure	39.1	63.6	63.0	70.4	66.4
<i>Recurrent Expenditure</i>	21.6	26.7	30.7	33.0	33.7 (?)
<i>Development Expenditure</i>	17.4	36.9	32.3	37.5	30.0 (?)
Overall Balance	9.0	15.2	1.7	-1.5	-4.5
<i>Foreign financing (net)</i>	0	4.7	2.1	3.2	-1.0
<i>Domestic financing (net)</i>	-6.7	-2.3	-1.8	-1.1	-0.1
<i>Other</i>	-2.3	-2.4	-0.1	0.7	0.4
Financing gap	0	-14.5	1.8	0.1	-5.2

Source: IMF – Concluding Statement – 2008 Article IV Consultation (Table 1 Solomon Islands: Selected Economic Indicators, 2003 -2009.

*excludes supplementary estimates.

The Government has made significant efforts to regularise its debt situation, whereby in 2002, it was defaulting on all its obligations. Since 2004, public sector debt (excluding contingent liabilities and guarantees) has gone down from SBD 1,679 million¹⁹ to SBD 1,516 million²⁰ in July 2008. This represents a debt: GDP ratio of approximately 53%. The reduction in debt is due, in part to repayment of debt arrears, and partly to debt forgiveness under the Honiara Club Agreement. The Government continues to allocate 15% of its revenue to debt management, with the ultimate goal of reducing debt to around 30% of GDP.

¹⁸ Unaudited figures.

¹⁹ This figure includes principal arrears of SBD 393.27 million and interest arrears of 104.31 million.

²⁰ This figure contains principal and interest arrears of SBD 22.76 million and SBD 2.26 million respectively related to the EIB loan for DBSI (currently in administration) and SBD 7.26 million in principal and interest arrears to EXIM Bank which is being repaid by the Republic of China (RoC).

2.2.2 Allocation of resources

The new Government's priority policy areas are set out in the CNURA policy statements²¹. These include support for reconciliation and rehabilitation; building national security and foreign relations; maintenance and development of infrastructure developments; support for the social sector; assistance for civic affairs and the development of the economic and productive sector. These policy statements were translated into a Policy Translation and Implementation Framework in February 2008. A Medium-Term Development Strategy (MTDS) has also been developed and recently discussed by Cabinet.

Budget allocations (for SIG expenditure) over the three years 2004 – 2006 are shown in **Error! Reference source not found.** In terms of budgeted and actual figures, for the three years, education, health and law enforcement received the highest allocations, while finance and planning spent more during the years, through supplementary appropriations.

Table 2.2 Actual expenditure and original budget allocations by sectors (as a percentage of total SIG expenditures)

	Budget			Actual		
	2004	2005	2006	2004	2005	2006
Agriculture and Lands	4.4%	5.1%	4.3%	4.2%	3.7%	3.8%
Auditor General	0.4%	0.6%	0.5%	0.2%	0.3%	0.3%
Education and Human Resources Development	29.4%	30.4%	32.4%	28.1%	27.9%	31.9%
Finance and Planning	4.6%	9.6%	6.8%	15.1%	10.3%	10.5%
Foreign Affairs and Commerce and Industries	3.8%	4.9%	5.6%	4.2%	5.0%	4.6%
Governor General	0.4%	0.4%	0.3%	0.4%	0.5%	0.3%
Health and Medical Services	17.2%	14.6%	13.6%	13.4%	14.9%	13.2%
Infrastructure Development	5.8%	4.7%	6.4%	4.8%	5.3%	6.8%
National Parliament	2.9%	2.5%	2.0%	3.3%	2.8%	2.7%
Natural Resources	2.4%	2.6%	3.3%	1.8%	2.1%	2.1%
Prime Minister and Cabinet	5.9%	4.5%	3.8%	5.7%	5.4%	5.2%
Pensions and Gratuities	0.9%	0.5%	0.5%	0.4%	0.4%	0.4%
Police and Justice	15.0%	12.0%	11.0%	11.2%	12.7%	10.0%
Provincial Government and Home Affairs	6.9%	7.6%	9.4%	7.2%	8.8%	8.3%
Total	100%	100%	100%	100%	100%	100%

Source: MoFT Financial statements, 2004-2006 audited. Note: The calculations are based on consolidated data from Financial Statements and covers only recurrent expenditure, SIG funded projects and donor funds appropriated through recurrent budget.

²¹ The previous coalition had a separate set of policy statements.

2.3 Description of the legal and institutional framework for PFM

2.3.1 The legal framework for PFM

Constitution

The Constitution sets out the foundations for PFM in the Solomon Islands. This includes the presentation of estimates before Parliament, the operation of the Consolidated Fund, the establishment of other funds, the imposition of taxation. It also establishes the OAG as a Public Office, and sets out the Auditor General's mandate and independence.

Public Finance and Audit Act (CAP 120) 1978

The 1978 Public Finance and Audit Act (CAP 120) and its associated Financial Instructions (FIs) (updated to 2005) regulates among others: i) the powers and duties of the Minister of Finance; ii) the powers and duties of the Permanent Secretary (Finance), and Accountant General; iii) the duties and responsibilities of the Accounting Officers; iv) government borrowing; v) procedures for procurement and payments from the funds; vi) procedures for collection and receipt of revenue; vii) procedures for advances, imprests, deposits and suspense accounts; viii) the custody of public money and ix) the custody and control of other assets.

The Act also sets out the powers and responsibilities of the Auditor General, including the requirement to certify the accounts of the SIG and report on the outcomes of such audits to the National Parliament. Reports are to be submitted through the Speaker and/or the Speaker and the relevant Minister, within twelve months of the end of the financial year (FY).

Revenue legislation

The main laws applicable to tax revenue include: i) the Income Tax Act 1965 (plus amendments); ii) the Goods Tax Act 1993 plus subsequent amendments; iii) the Customs & Excise Act (CAP 121) 1960 (plus amendments); iv) the Sales Tax Act (1990) and v) the Stamp Duties Act 1940. Some reforms have been introduced, as amendments or revisions to existing legislation, but a comprehensive review and revision of the legislation has not yet taken place.

Procurement

Procurement regulations are contained in the FIs 1994 (updated to 2005). This sets out the procedures for the purchase of goods and services. Currently, all expenditure greater than SBD 50,000 is required to go out to tender, through either Ministerial (SBD 50,000 – SBD 500,000) or Central (> SBD 500,000) Tender Boards.

2.3.2 The institutional framework for PFM

The country became independent on the 7th July 1978, and the first post-independence elections took place in August 1980. The Solomon Islands is a Constitutional Monarchy and has a parliamentary system of government. The head of state is Queen Elizabeth II, represented by the Governor-General who is chosen by the Parliament for a five-year term. For sub-national government, the country is divided into 10 administrative areas, of

which nine are provinces (Central, Choiseul, Guadalcanal, Isabel, Makira-Ulawa, Malaita, Rennell and Bellona, Temotu and Western) administered by elected provincial assemblies, and the tenth is the town of Honiara, administered by the Honiara City Council, also an elected body.

Under the Provincial Government Act, responsibility for the provision of various services e.g. education, health, agriculture extension was assigned to the provincial governments. Central government retained responsibility for police, security and national issues. Due to lack of capacity, provincial governments were unable to provide some of their assigned services and the services were recentralised. For example, health services are now provided through deconcentrated offices of the MHMS. Education services are provided through Education Authorities²², overseen by MEHRD.

Legislative

Legislative power is vested in a unicameral parliament with 50 members, elected for four years. Currently, Parliament has two sessions a year, as directed by the Prime Minister, but is planning to establish a formal programme. The Public Accounts Committee (PAC) is a Standing Committee (appointed under Standing Order 69 (1)), and is responsible for the examination of: public accounts, the Auditor General reports and the draft estimates. The Committee is chaired by a Member of the Opposition and currently has seven members, with the Auditor General acting as Secretary.

Executive

The Head of Government is the Prime Minister, who is elected by Parliament, and chooses the other members of the Cabinet. Each ministry is headed by a cabinet member, who is assisted by a permanent secretary, appointed on a four-year contract, who directs the staff of the ministry.

Judiciary

The legal system is based on English Law. The highest court is the Court of Appeal, below which there is a high court, magistrates' courts and local courts. There is a Director of Public Prosecutions, Public Solicitor and Attorney General.

Auditor General

The Governor General appoints the Auditor General upon the advice of the Public Service Commission. Currently, the OAG is an office under the Office of the Prime Minister (OPM). It is a member of the International Organisation of Supreme Audit Institutions (INTOSAI) and the South Pacific Association of Supreme Audit Institutions (SPASAI). According to the Constitution, the Auditor General is required to audit and report, annually, on the public accounts of Solomon Islands, of all ministries, offices, courts and authorities of the government, and all provincial governments. The State Owned Enterprise (SOE) Act 2007 also now makes the OAG responsible for audits of all SOEs formed under the Companies Act. The Office is currently responsible for 54 audit entities and 34 annual certifications of financial statements. These include SIG National

²² Provincial assemblies are the official education authorities, but in practice education services are run through provincial education offices.

Accounts (1); Ministries (25); Provincial Governments (9); Local Government (1); Statutory Bodies and SOEs (14) and Special sign offs (4).

In 2003, the Office had only three personnel including the Auditor General. Reform of the Office has led to significant increases in numbers. Current staffing levels are shown in **Error! Reference source not found.**

Table 2.3 Staffing levels at OAG 2006 - 2008

Year	Establishment	Actual ²³	Management	Senior	Junior
2006	33	23	4	6	13
2007	38	33	4	10	19
2008	41	33	3	10	20

Central Bank of Solomon Islands

The CBSI is responsible for regulation, issue, supply, availability and international exchange of money; advising the government on banking and monetary matters; promoting monetary stability; supervising and regulating the banking business, promoting a sound financial structure and fostering financial conditions conducive to the orderly and balanced economic development of the nation.

Administration

Since 2007, the Business of Government is carried out by 23 ministries and departments (see Annex E). The MoFT is responsible for overall financial and economic management and is divided into four divisions, Treasury, Inland Revenue, Customs and Excise and Finance (see Annex F for current organisation chart). The MDPAC is responsible for overall development planning and coordination of assistance. Various Service Commissions, public, police and prisons and teachers are ultimately responsible for the approval of all matters related to personnel. The MPS is responsible for human resource management (with the exception of teachers).

2.3.3 The key features of the PFM system

The FY for central government is from 1st January to 31st December. The FY for provincial government and Honiara City Council is April to March. For central ministries and departments, SIG has a centralised payments system and uses Maximise financial software (last upgraded 1999). Processing and recording of transactions is done centrally. Accounting and reporting is done on a cash basis and consolidated financial statements are produced by MoFT. Currently the payroll is maintained centrally on the “Telepay” system (last upgraded 1999). All employees are paid fortnightly and the payroll is subdivided into five categories: establishment; non-establishment; teachers; police and one payroll for a small number of pensioners²⁴. Budget preparation is centrally driven with MoFT providing sector ministries with baseline estimates, sector ministries are then

²³ This figure includes 6 technical advisors in 2006 and 5 in 2007.

²⁴ Only parliamentarians and persons employed prior to the introduction of the National Provident Fund (NPF) in 1976 are eligible for government pensions. Service after this date required payment into the NPF.

required to request additional support. For ministries and departments, the budget process should be as follows: appropriation (by parliament), authorisation (by the Minister through the signing of a general warrant), commitment (by the relevant accounting officer through the raising of a local purchase order) and payment (on receipt and validation of invoice by Treasury).

3 Assessment of the PFM systems, processes and institutions

3.1 Budget Credibility

The indicators in this group assess to what extent the budget is realistic and implemented as intended, firstly by comparing the actual revenues and expenditures with original approved ones, and then by analysing the composition of expenditure out-turn. “Hidden” expenditure is also assessed by reviewing the stock and level of monitoring of expenditure arrears. The table below summarises the assessment of indicators relating to the “credibility of the budget” dimension of PFM performance.

No.	Credibility of Budget	Score	Dimensions	Scoring methodology
PI-1	Aggregate expenditure out turn compared to original approved budget	C	(i) C	M1
PI-2	Composition of expenditure out-turn compared to original approved budget	B	(i) B	M1
PI-3	Aggregate revenue out-turn compared to original approved budget	A	(i) A	M1
PI-4	Stock and monitoring of expenditure payment arrears	C+	(i) A (ii) C	M1

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

The budget is the central mechanism for controlling expenditure in accordance with amounts appropriated by parliament. The ability to implement the budgeted expenditure is an important factor in supporting the government’s ability to deliver agreed public services as expressed in policy statements.

In the Solomon Islands, a comparison of the aggregate actual expenditure figures²⁵ and the original approved budget for the FYs 2004 – 2006 shows that the actual expenditure deviated from budgeted expenditure by 24.4% for 2004, 6.3% for 2005 and 2.3% for 2006. Large deviations in 2004 are indicative of poor budgeting and poor controls, following the period of tension. These results indicate that the original budgets were not credible for those years. However, the variances have improved by 2006. The figures used are the audited consolidated financial statements for the years 2004 to 2006. The

²⁵ The figures used are exclusive of debt and donor funded projects.

debt servicing and donor funds for projects are excluded from this assessment. There was under spending of the budget in 2005 by 6.3%. The credibility of the development budget is of concern for 2005 (under spent by 73%) and 2006 (under spent by 55%). **Error! Reference source not found.** overleaf shows a summary of actual expenditures and original estimates for the period 2004 – 2006. Detailed calculations for PI 1 and PI 2 are included as Annex G.

Table 3.1 Comparison of actual and original estimates for expenditure 2004 – 2006 SBD Millions

	2004	2004	2004	2005	2005	2005	2006	2006	2006
	Est	Act	Var	Est	Act	Var	Est	Act	Var
Total recurrent	307.96	381.93	73.97	568.33	543.04	-25.30	682.90	724.73	41.83
Total recurrent + dev't	308.07	386.46	78.39	582.34	546.85	-35.48	727.20	744.53	17.33

Source: MoFT 2004 – 2006 audited financial statements.

Based on the detailed calculations set out in Annex G, the score for indicator PI 1 is set out below.

Score	Minimum requirements	Justification and cardinal data
C	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.	The deviation was calculated based on the audited consolidated financial accounts for the years 2004-2006. The deviation has been calculated for the recurrent and development expenditures appropriated to line ministries. The deviation of the actual budget is against the original approved budget. Debt service payments and donor funds for projects are excluded. Actual expenditure deviated from budgeted expenditure by 24.4% for 2004, 6.3% for 2005 and 2.3% for 2006

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

The second indicator assesses the extent to which there is a re-allocation of expenditure between administrative or functional heads above overall deviation in aggregate expenditure as defined in PI 1.

The resulting score for this indicator is given below.

A comparison between approved expenditure allocations across the main administrative budget lines and actual expenditure during the last three years is provided in Annex G. This analysis is based on combined recurrent and development expenditure and shows that individual deviations show deviations ranging from 0.9 % to 311.7 %. The reason for this is that some Ministries incurred additional expenditure during the years in the recurrent budget, therefore requiring supplementary budgets, but grossly under spent their development budget.

As shown in **Error! Reference source not found.**, expenditure composition variances (based on absolute deviations) did differ from the aggregate figures by more than 5% in 2006 indicating that at this level of detail, actual expenditure indicated a redirection of intent.

Table 3.2 Expenditure composition variance in excess of total expenditure deviation

Year	For PI-1 total expenditure deviation	Total expenditure variance	For PI-2 variance in excess of total deviation
2004	25.4%	29.4%	3.9%
2005	6.3%	9.7%	3.5%
2006	2.3%	11.7%	9.4%

Source: Consultant's calculations based on data from MoFT.

The resulting score for the indicator is shown below.

Score	Minimum requirements	Justification and cardinal data
B	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.	Variance in excess of total deviation amounts to 3.9%, 3.5% and 9.4% respectively in the three years 2004 to 2006. <i>Source of information: Accounts 2004 – 2006.</i>

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

This indicator assesses the quality of revenue forecasting by comparing domestic revenue estimates in the original approved budget to actual domestic revenue collection based on tax and non tax recurrent revenues.

Responsibility for revenue forecasts lies with the Customs and Excise and Inland Revenue Divisions within the MoFT for tax revenue, and the Ministries for non-tax revenue. Forecasts for tax revenues are based on the levels collected in the previous years adjusted using selected percentage increase. There is no formal mechanism in place for the forecasting of revenue. It does not take into account growth in GDP and forecasted inflation.

The data for the last three years in terms of the difference between the actual and forecast revenue collection indicated that the revenue budget was under-estimated in each of the three years. The forecasting seemed to improve a bit in 2005 and 2006. The table below presents the deviation of actual revenue from the original budget.

Table 3.3 Revenue performance over the period 2004 – 2006 (all figures in SBD million)

	2004		2005		2006	
	Revenue forecast	Actual revenue	Revenue forecast	Actual revenue	Revenue forecast	Actual revenue

	2004		2005		2006	
	Revenue forecast	Actual revenue	Revenue forecast	Actual revenue	Revenue forecast	Actual revenue
Total recurrent revenue	362.03	627.18	588.86	680.67	749.40	877.62
Deviation recurrent (%)	173%		116%		117%	

The resulting score for this indicator is shown below.

Score	Minimum requirements	Justification and cardinal data
A	(i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.	The calculation is based on recurrent revenue (tax and non-tax) The actual revenue collection was 173%, 116% and 117% in 2004, 2005 and 2006 correspondingly. This score does mask the low level of revenue collections pre – 2004 and notwithstanding the rating derived from the evaluation process the revenue estimation process is a significant concern to SIG. <i>Source of information: Accounts.</i>

3.1.4 PI-4 Stock and monitoring of expenditure payment arrears

The presence of expenditure payment arrears constitutes a form of non-transparent financing that affects the credibility of the budget. A credible budget requires that the government is well informed on the size of its payment arrears and that the stock of arrears is low compared to total expenditures.

This indicator considers to what extent stock of arrears is a concern, as well as to what extent it is addressed and consequently controlled. The SIG has a centralised payments system incorporating a commitment control system, which does not allow commitments without budgetary provision. There are no arrears on formal debt and payroll. An exercise was carried out in 2004 to clear all arrears for both loans and trade creditors. All identified arrears were cleared in the period 2004 to 2007. Trade creditor arrears are not considered a material problem, since most suppliers demand cash before delivery of goods and services. There may be a few payments outside the system in particular for Ministries having offices in the Provinces such as health and education, but these will not represent a significant percentage of total expenditure.

The SIG accounts are produced on cash basis, and there is no formal mechanism for the monitoring of trade creditors. Formal debts are monitored on a monthly basis and on an annual basis as part of the IMF Article IV consultation.

Score	Minimum requirements	Justification and cardinal data
A	(i) The stock of arrears is low (i.e. Below 2% of total expenditure).	There are no debt arrears for loans or payroll, and an exercise in 2004 has identified trade creditor arrears, which were liquidated from 2004 to 2007. <i>Source of information: Accounts 2004 -2006, CBSI, Debt Management Unit.</i>
C	(ii) Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.	Monthly report on formal debt maintained by CBSI and Debt Management Unit. There is no formal mechanism for the monitoring of trade creditors. One comprehensive exercise carried out in 2004 to identify and clear arrears. An average score of C has therefore been assigned to this indicator to reflect the fact that debt arrears are monitored monthly and trade creditors > 3years ago. <i>Source of information: MoFT, CBSI,</i>

3.2 Comprehensiveness and transparency

The indicators in this group assess to what extent the budget and the fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The table below summarises the assessment of indicators relating to the ‘comprehensiveness and transparency’ dimension of PFM performance.

No.	B. Key cross-cutting issues: Comprehensiveness and Transparency	Score	Dimensions	Scoring methodology
PI-5	Classification of the budget	C	(i) C	M1
PI-6	Comprehensiveness of information included in budget documentation	B	(i) B	M1
PI-7	Extent of un-reported government operations	C	(i) C (ii) C	M1
PI-8	Transparency of inter-governmental fiscal relations	D	(i) D (ii) D (iii) D	M2
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	(i) D (ii) D	M1
PI-10	Public access to key fiscal information	C	(i) C	M1

3.2.1 PI-5 Classification of the budget

A robust classification system which is used consistently for the formulation, execution and reporting of the central government’s budget is an important element of fiscal transparency.

In Solomon Islands, the central government’s budget is based on economic and administrative classification for formulation, execution and reporting. The chart of

accounts for the centralised Financial Management Information System (FMIS) is based on economic and administrative classification, which is compatible with Government Finance Statistics (GFS). The development estimates also have a functional classification in line with Classification of Functions of Government (COFOG). Although the FMIS System chart of accounts set-up differs from the GFS economic reporting requirements, it can produce consistent documentation according to those standards.

Score	Minimum requirements	Justification and cardinal data
C	(i) The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.	Economic and administrative classification for recurrent estimates is compatible with GFS. Development Estimates also has a functional classification in line with Classification of Functions of Government (COFOG) <i>Source of information: SIG Annual Financial Statements, Annual Budget Estimates, and Chart of Accounts.</i>

Ongoing Activities

An exercise to review the chart of accounts is currently under way. This will address the chart of accounts requirements in the central government, compatibility with international standards and the ability to consolidate with other parts of government.

3.2.2 PI-6 Comprehensiveness of information included in budget documentation

Annual budget documentation (the annual budget and budget supporting documents) submitted to the legislature for scrutiny and approval should provide a complete picture of the government's fiscal forecasts budget proposals and previous year's outturns. In the Solomon Islands, the government presents the following documentation: Budget Speech, Budget Strategy and Outlook and the Recurrent and Development Estimates. Budget documentation is quite comprehensive

The 'Budget Strategy and Outlook' discusses the basis of the budget preparation and the new spending areas of the government. It also sets out the priority areas, the budget is going to address. The document does not provide forecasts with regard to inflation and economic growth, but does include current and historical data.

Development estimates are allocated to development sectors and ministries and provinces (for SIG expenditure). Exchange rates used for calculation of external assistance are also included. **Error! Reference source not found.** summarises the availability of the agreed set of budget information for the legislature in the Solomon Islands

Table 3.4 Availability of information in budget documentation

Elements of budget documentation	Availability	Notes
1. Macro-economic assumptions , incl. at least estimates of aggregate growth, inflation and exchange rate	Partial	Only information on exchange rate is provided in the development estimates. There is no information on estimates of aggregate growth and inflation
2. Fiscal deficit , defined according to GFS or other internationally recognised standard	Yes	The budget documentation notes that the government is required to budget for a surplus under the Honiara Club Agreement
3. Deficit financing , describing anticipated composition	Yes	The budget documentation notes that there should be no deficit financing of the budget since the establishment of the Honiara Club in 2004/2005.
4. Debt stock , incl. details at least for the beginning of the current year	Yes	This is provided in the Budget Strategy and Outlook document.
5. Financial assets , incl. details at least for the beginning of the current year	No	This information is not provided
6. Prior year's budget out-turn , presented in the same format as the budget proposal	Yes	This is provided in the budget estimates in the same format as the budget proposal
7. Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	This is provided in the budget estimates in the same format as the budget proposal.
8. Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	Yes	This is provided in the budget estimates.
9. Explanation of budget implications of new policy initiatives , with ests of the budgetary impact of all major revenue policy changes and/or some major changes to exp programs	No	No such information is provided as part of the budget documentation. There is no assessment of assessment of budget implications for changes in policy.

The resulting indicator scores are shown below.

Score	Minimum requirements	Justification and cardinal data
B	(ii)Recent budget documentation fulfils 5-6 of the 9 information benchmarks	Budget documentation fulfils 6 of 9 benchmarks. Consequently, the Budget documents are quite comprehensive. Limited information is included on financial assets, and the budget implications of new policies. <i>Source of information: Budget documentation</i>

3.2.3 PI-7 Extent of unreported government operations

The extent of unreported government operations is assessed against two dimensions: i) unreported extra-budgetary expenditure, and ii) income/expenditure information on donor-funded projects, which is included in fiscal reports.

It is difficult to quantify the extent of unreported government operations. The major potential sources of unreported government operations in Solomon Islands are: i) Special Funds; ii) Revolving Funds; iii) Grants administered by Members of Parliament and iv) donor funding of projects, the bank accounts for which the government is a signatory. There are no autonomous government agencies such as regulatory bodies.

Those managing special funds are required to produce accounts on an annual basis for the Auditor General to audit. To date, the National Disaster fund is yet to produce financial statements since its establishment in 1989. One other special fund, the Civil Aviation Special fund only produced accounts up to the financial year 2006 and this was audited by the Auditor General. Based on the audits carried out in 2008 by the Auditor General, the estimated amount involved is SBD 25 million²⁶. There are also revolving funds being administered by Ministries that operate outside the SIG system. The Auditor General reported only one such fund (seeds trust account), but there could be others operating. One of the grants administered by Members of Parliament is the Rural Constituency Fund (RCDF)²⁷. This is appropriated through the development budget but for 2008, the requirement for the Members of Parliament (MPs) to retire (or account) for the 2008 tranche was postponed. It remains subject to normal audit procedures. This amounts to \$25 million in 2008. These types of funds represent 5% of average expenditure in recent years.

Most aid assistance is provided in the form of non-cash (TA and equipment). Some donors provide cash grant direct to the implementing ministries and the management of these funds are jointly undertaken by the donor and the ministry. Some of these are New Zealand aid assistance to MEHRD, where reports are produced monthly, AusAID assistance to the health-sector support programme in MHMS, and UNDP assistance to MPGIS. ROC assistance is managed through the SIG system. A few other Ministries may have also received direct grants from donors, but these are not material. There are no loan-financed donor projects in existence.

²⁶ Estimate based on report of Auditor General 2008.

²⁷ This 'postponement' does not apply to other funds, such as Rural Constituency Livelihoods fund, which is administered differently.

Score	Minimum requirements	Justification and cardinal data
C	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitute 5-10% of total expenditure.	Special funds, revolving funds and RCDF are estimated to be 5% of total government expenditure in recent years. <i>Source of information: interviews, audit reports</i>
C	(ii) Complete income/expenditure information for all loan-financed projects is included in fiscal reports.	SIG has not borrowed since the signing of the Honiara Club Agreement and no loan-financed donor projects exist. NZAID is administered by Ministry of Education and monthly reports are provided. AusAID health project is managed in the Ministry of Health and quarterly reports are produced. The new SWAP Health project will also follow the same process. These represent the portion of 'cash' funds that are appropriated. Regular information on other 'cash' funds is not included in regular reporting and information flows between ministries and planning is limited, thus the score of C is assigned. <i>Source of Information: interviews, health and education project reports.</i>

3.2.4 PI-8 Transparency of inter-governmental fiscal relations

This indicator assesses the transparency of inter-governmental fiscal relations against the following dimensions: i) transparency and objectivity in the horizontal allocation among SN governments; ii) timeliness of reliable information to SN governments on their allocation; and iii) extent of consolidation of fiscal data for general government according to sectoral strategies

Sub-national government in Solomon Islands is well established in terms of legislative power contained in the Constitution and the Provincial Government Act. There are nine provinces and the Honiara City Council, which operates under an Act of its own (Honiara City Council Act). Not all the provinces can perform most of the functions they are legally responsible for, due to lack of capacity in terms of human and financial resources. The central government has taken over the responsibility for these services such as education, health, road maintenance and transport. Funds therefore being transferred from central government represent only a small percentage (less than 3%) of total government recurrent expenditure. Grants given to the provinces are based on a very old formula devised in the 1980's based on population, infrastructure, productivity and remoteness (distance). Since this date, grants are incremented on an annual basis. There is current work being done under the Provincial Government Strengthening Program (PGSP) to revise the formula for grants to the provinces, but this was not implemented for the 2008 budget.

Provincial governments have a different financial year to the central government (April to March for Provinces and January to December for central government). Central government contributions should be known prior to the approval of the budget by the

Provinces. This was not the case for 2008 since the central government budget was not passed until April 2008. The 2007 central government budget was also delayed slightly, providing little time for provinces to incorporate the figure in their estimates. They are not involved in the central government budget process.

The accounts of the provincial governments had not been prepared for some time. In 2007, through the Provincial Financial Management Improvement Project (PFMIP), all the provincial accounts were updated to 2007 financial year and audited. Since the accounts were not up to date and the format was different from the central government, there is no consolidation of accounts between the central government and SN governments.

Score	Minimum requirements	Justification and cardinal data
D	(i) No or hardly any part of the horizontal allocation of transfers from central government is determined by transparent and rules based systems	The formula is very old and basis unknown. Provinces are not involved in the budget process. Grants increase by a percentage each year. The provinces do not know the reason for the percentage increment. <i>Source of information: Interview, MoFT, MPGIS, Malaita Province Budget estimates</i>
D	(ii) Reliable estimates on transfers are issued after SN government budgets have been finalised, or earlier issued estimates are not reliable.	In the last two years, the Provinces were not informed in time of their allocations of the budget. <i>Source of information: Interview, MoFT, MPGIS, Malaita Province Budget estimates</i>
D	(iii) Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure or if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.	Provincial governments are not up to date with their accounts. Currently central government does not collect data from this level of administration. <i>Source of information: Interview, MoFT (statistics), MPGIS, Malaita Province Budget estimates</i>

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

This indicator assesses the extent to which central government has a formal role in relation to the oversight of other public sector entities. It is assessed against two dimensions: i) extent of central government monitoring of Autonomous Govt Agencies (AGAs) and PEs and ii) extent of central government monitoring of SN governments' fiscal position.

This indicator reflects the extent to which central government monitors fiscal position of autonomous government agencies, public enterprises and SN governments.

The government has a majority shareholding in four State Owned Enterprises (SOEs), minority shares in three companies, and public interests in eight statutory bodies. The performance of AGAs and PEs should be monitored by the Economic Reform Unit of

MoFT; however, most of the SOEs and Statutory Authorities are yet to produce up-to-date financial statements.

It is well known that a number of these entities are experiencing financial difficulties, and in the past have had to request support from central government. Lack of up-to-date information on the true status of the state enterprise sector, consequently represents a major fiscal risk to the government. In 2007 and 2008, the SIG issued two loan guarantees to two SOEs (Soltai and Solomon Airlines), even though their accounts are not up to date. This contravenes the Honiara Club Agreement.

There is no annual monitoring of the fiscal position of the provincial governments and as noted above, accounts are not up to date. The Provincial Government Strengthening Program (PGSP) is designed to strengthen accountability and governance in the Provinces.

Score	Minimum requirements	Justification and cardinal data
D	(i) No annual monitoring of AGAS and PEs takes place , or it is significantly incomplete	There is no annual monitoring of SOEs due to no up to date accounts. The Debt Management Unit has done a debt swap arrangement with some of the Statutory Authorities. <i>Source of information: interview, MoFT (ERU, ICSI, Auditor General Report</i>
D	(ii) No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete	SN accounts not up to date, in recent exercise, SIG took over formal debt but other liabilities remain. PGSP addresses accountability and governance issues. <i>Source of information: interviews – MoFT, malaita province, MPGIS and OAG report - 2008</i>

Ongoing Activities

Recruitment for personnel for a SOE Monitoring unit in the MoFT is currently ongoing. The unit's mandate will be to monitor the performance of SOEs. The RAMSI funded State Owned Enterprises Accounts Strengthening Project (SOEASP) will clear the backlog of audited financial statements of a number of the SOEs. This exercise is expected to be finalised by mid 2009.

3.2.6 PI-10 Public access to key fiscal information

Transparency will depend on whether information on fiscal plans, position and performance of the government is easily accessible to the general public or at least interested groups. In the Solomon Islands, information is provided in hard copy. Only a limited amount of information is available on the government's website e.g. www.oag.gov.sb.

Currently there is no Freedom of Information Act and public access to information is limited. At the same time, demand for government accountability by the public is not well developed. This is shown in **Error! Reference source not found.** overleaf

Table 3.5 Public Availability of financial information

Elements of information for public access	Availability and means
Annual budget documentation when submitted to the legislature	No. After the budget has been approved by the legislature, copies of the approved estimates are made available. These are free of charge to the public and can be obtained from the Budget Unit.
In-year budget execution reports within one month of their completion	Ltd. Information on tax and non-tax revenue is provided in the CBSI's quarterly report. This report is available in hard copy and on the CBSI website. Actual vs. budget reports are only available internally to Ministries.
Year-end financial statements within 6 months of completed audit	No. This is currently not available partly due to the backlog in the production of financial statements.
External audit reports within 6 months of completed audit	Yes. The audit report is a public document once it is tabled with the Parliament and is available on the auditor general's website.
Contract awards (app. USD 100,000 equiv.) published at least quarterly	No. This is not published.
Resources available to primary service unit at least annually	No. This is not available

The resulting score for this indicator is show in the table below.

Score	Minimum requirements	Justification and cardinal data
C	(i)The government makes available to the public 1-2 of the 6 listed types of information	Budget estimates and other fiscal information become available after being tabled in Parliament. Some information is available in websites (CBSI + OAG). Public access is limited unless they have access to the offices where the documents are located. Audit reports are available. Thus, a score of C is assigned. <i>Source of information: interviews and written responses from SICCI members, TI, MoFT, OAG</i>

3.3 Policy-based budgeting

The indicators in this group assess to what extent the budget is prepared with due regard to government policy. The table below summarises the assessment of indicators relating to the “policy-based budgeting” dimension of PFM performance.

No.	C(i) Policy-based Budgeting	Score	Dimensions	Scoring methodology
PI-11	Orderliness and participation in the annual budget process	D+	(i) D (ii) D (iii) C	M2
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	(i) D (ii) A (iii) D (iv) C	M2

3.3.1 PI-11 Orderliness and participation in the annual budget process

This indicator shows the quality of the budget preparation process as well as the involvement of budget end users in the process. There are 3 dimensions to assess: i) existence of and adherence to a fixed budget calendar; ii) clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent); iii) timely budget approval by the legislature (within the last three years);

The budget process and the steps to take in the preparation of the annual budget are spelled out in Chapter 6 of the Financial Instructions 1994 (amended 2005). The budget guidelines issued to ministries by MoFT also clearly sets out the requirements to follow when preparing the budget. A workshop was also held at the beginning of each budget launch to explain the required actions. Budget calendars were prepared each year but were not consistent from year to year, making it difficult for ministries to plan. Ministries were not informed in advance. The length of time given is not always suitable for Ministries with offices in different (and distant) geographical locations. Some Ministries are unable to submit proposals on time due to lack of capacity. Budget calendars are not fixed due to political reasons. For development estimates, detailed planning and costing of projects has been done after approval, causing delays in execution. This is a particular problem for projects with an infrastructure ‘input’.

Budget circular was issued and the requirements are clear but no ceilings were provided to each administrative or functional area to enable them to prepare bids according to those ceilings. Only the baseline was already fixed. Some concerns were expressed by sector ministries and the PAC on the completeness of this baseline. Cabinet only review and approve proposals after being submitted by the Ministries. Parliament approved the budget within two months of the start of the year for 2006 and 2007 but not for 2008 due to political factors.

Score	Minimum requirements	Justification and cardinal data
D	(i) A budget calendar is not prepared or it is generally not adhered to or the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions	Budget calendar is prepared each year but not consistent from year to year. <i>Source of information: Budget circular, interview sector ministries, MoFT (budget), MDPAC</i>
D	(ii) A budget circular is not issued to MDAs, or the quality of the circular is very poor or Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.	Budget circular is issued and is clear but cabinet is only involved in review and approval after the ministries have already done the proposals. <i>Source of information: Budget circular, interviews sector ministries, MoFT (budget) MDPAC</i>
C	(iii) The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year	The budgets for 2006(1 st Jan = gen warrant) and 2007 (Feb. = gen warrant) were approved within two months of the start of the financial year. The 2008 budget was not approved until April 2008 due to political issues <i>Source of information: Budget documentation</i>

3.3.2 PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

Expenditure policy decisions have multi-year implications and must be aligned with the availability of resources in the medium term perspective. Therefore, multi-year forecasts including debt sustainability analysis should be the basis of policy changes. The indicator is assessed against four dimensions: i) preparation of multi-year fiscal forecasts and functional allocations; ii) scope and frequency of debt sustainability analysis; iii) existence of sector strategies with multi-year coatings of recurrent and investment expenditure and iv) linkages between investment budgets and forward expenditure estimates.

Multi-year budgeting is not a feature of the budget for the Solomon Islands even though attempts have been made to incorporate this into the budget process. No forecasts of fiscal aggregates based on main economic classification e.g. personnel emoluments are prepared for a three-year period. The horizon of the budget estimates is limited to the fiscal year even though an attempt has been made to forecast for two years following the budget year. There is no formal mechanism for revenue forecasting. Revenue estimates are only incremented, based on the previous years actual.

As part of the IMF Article IV consultation process, a debt sustainability exercise for both domestic and external debt has been carried on an annual basis in consultation with government.

Five Ministries have developed sector strategies but no costing is being done so that these can be linked to the budget during the budget process. All Ministries have corporate plans and annual work plans are included but no costing is included. These plans are linked to the current government's policy statement (Coalition for National Unity and Rural

Advancement (CNURA) Policy Statement). The Medium Term Development Strategy (MTDS) is yet to be available to the Ministries during the budget process. It is understood that the MTDS was finalised and submitted to cabinet in July 2008. The link between approved projects and policies is not always clear and influenced sometimes by political factors.

In the budget submissions (2008 and 2009), an attempt was made to create some linkages between recurrent and capital costs, but the links are very weak. This is a particular problem for donor-funded projects and projects in the provinces, which have consequences for provincial governments.

Score	Minimum requirements	Justification and cardinal data
D	(i) No forward estimates of fiscal aggregates are undertaken	The medium-term fiscal strategy shows economic projections, but currently no forecasts of fiscal aggregates on the basis of main economic classification e.g. personnel emoluments are prepared for a three year period <i>Source of information, budget estimates, budget submission documents, interviews (MoFT – ERU + budget), MDPAC</i>
A	(ii) DSA for external and domestic debt is undertaken annually.	Debt sustainability exercises have been carried out since 2003 for domestic and external debt as part of the IMF Article IV consultation process. <i>Source of information. interviews CBSI and Debt Management Unit – MoFT</i>
D	(iii) Sector strategies are prepared for some sectors, but none of them have costing of investments and recurrent expenditure.	Some sectors like education, health, justice have developed sector strategies but these are just lists of plans or programs that the sectors would like to implement. No costing has been done. <i>Source of information: interviews, - sector ministries, MDPAC, budget estimates, Ministry sector strategies, work plans.</i>
C	(iv) Many investment decisions have weak links to sector strategies and their recurrent costs implications are included in forward budget estimates only in a few cases.	There are weak links between capital and recurrent estimates particularly for donor-funded projects. Capital projects when built or donated by donors or the SIG have few links to future maintenance and the capacity of the recipient to maintain those projects. This is a particular problem for SIG investments at provincial level. <i>Source of information: interviews, - sector ministries, MDPAC, budget estimates, Ministry sector strategies, work plans</i>

3.4 Predictability and control in budget execution

This set of indicators reviews the predictability of funds for budget execution, and the internal controls and measures in place to ensure that the budget is executed in an accountable manner.

No.	C(ii) Predictability, Control and Budget Execution	Score	Dimensions	Scoring methodology
PI 13	Transparency of taxpayer obligations and liabilities	D	(i) D (ii) D (iii) D	M2
PI 14	Effectiveness of measures for taxpayers registration and tax assessment	D+	(i) D (ii) D (iii) C	M2
PI 15	Effectiveness in collection of tax payments	D+	(i) N/S (ii) B (iii) D	M1
PI 16	Predictability in the availability of funds for the commitment of expenditures	D+	(i) D (ii) A (iii) A	M1
PI 17	Recording and management of cash balances, debt and guarantees	C	(i) C (ii) C (iii) C	M2
PI 18	Effectiveness of payroll controls	D+	(i) D (ii) B (iii) C (iv) B	M1
PI 19	Competition, value for money and controls in procurement	D+	(i) D (ii) C (iii) D	M2
PI 20	Effectiveness of internal controls for non salary expenditure	D+	(i) C (ii) D (iii) C	M1
PI 21	Effectiveness of internal audit	D	(i) D (ii) D (iii) D	M1

3.4.1 PI-13 Transparency of taxpayer obligations and liabilities

Effective assessment of tax is very dependent on the direct involvement and co-operation of taxpayers from the individual and corporate private sector. This indicator therefore assesses i) the clarity and comprehensiveness of tax liabilities; ii) taxpayer access to information on tax liabilities and administrative procedures and iii) existence and functioning of a tax appeals mechanism.

In recent years, revenue collections have increased significantly because of improved tax administration, including improved operational procedures and audit and enforcement

activity. Recent changes to thresholds also mean that many individuals are no longer required to file tax returns.

The main tax laws in the Solomon Islands were originally enacted in the 1960's. They have been subject to numerous amendments over the years, but no comprehensive review. Consequently, they are not comprehensive and lack clarity in many areas. In some cases, e.g. the Customs & Excise Act, the legislation does not reflect current international trade practices. Several exemption practices have been removed, but the 2007 CBSI annual report noted that the issue of determined prices of logs remained unresolved and was losing the Solomon Islands, SBD 1 million a week. In April 2008, it was gazetted that the price should remain unchanged.

Inland Revenue legislation is available in hard and soft copy, but difficult to access by non-practitioners. There are very few procedural guidelines in place. The Customs & Excise Act is not readily available and is quite expensive to purchase. There are some explanatory materials available for the public, but generally, access to information on tax liabilities is considered very poor by taxpayers. Dissemination of information is also difficult because of the geographic spread of the country and poor communication facilities, although it is noted that Customs have regular contact with most of their regular 'clients'.

There is a process for legislative appeals, but no administrative tax appeals procedures for any of the taxes.

Score	Minimum requirements	Justification and cardinal data
D	(i) Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities.	Legislation is generally out dated and in need of review, large area lack comprehensiveness and lack clarity, some discretionary powers are noted. <i>Source of information: IRD and customs self assessment, Private sector replies, legislation, CBSI report, IMF Article IV 2007</i>
D	(ii) Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient	Public access to legislation, procedural guidelines or taxpayer education material is very limited. There are no taxpayer awareness campaigns or user-friendly information. The Private sector notes that this is a particular problem for local investors. <i>Source of information: IRD and customs self assessment, Private sector replies, legislation</i>
D	(iii) No functioning tax appeals mechanism has been established	There is no tax appeals mechanism, appeals can only take place through the legal system <i>Source of information: IRD and customs self assessment, Private sector replies, legislation</i>

Ongoing activities

Support for the government's tax reforms is being provided through the RAMSI supported Economic Governance and Growth Program including the provision of technical assistance. RAMSI assistance (through the Australian Customs Service) is also being provided to Customs and Excise Division.

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

The effectiveness of taxpayer registration and tax assessment is assessed by reviewing: i) controls in taxpayer registration; ii) effectiveness of penalties for non-compliance with registration and declaration obligations and iii) planning and monitoring of tax audit and fraud investigation programmes.

There is a single tax identification number (TIN) assigned to all taxpayers; however, taxpayers' information is maintained on separate databases. Currently, there is no mechanism to link the databases except through a manual process. Links with other registers is also weak/non-existent, because of limited information in these areas.

In Inland Revenue, penalties exist but are rarely imposed. In Customs, the penalties are very low (SBD 200) and do not deter importers or exporters from acting contrary to the law.

The Inland Revenue Department has a programme of tax audits, basic planning and reporting is in place, but the development of risk assessment criteria is in its early stages. Customs has recently introduced PC Trade. It also has an audit plan but this is not yet based on clear risk assessment criteria.

Score	Minimum requirements	Justification and cardinal data
D	(i)Taxpayer registration is not subject to any effective controls or enforcement systems	A single TIN is in place and thus there are some basic controls in place, although information is maintained in separate databases. In order to achieve a higher score, the next level (C) requires some linkages with other government registration systems (even manual) or occasional surveys of potential taxpayers. <i>Source of information: IRD and customs self assessment, Interviews</i>
D	.(ii)Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed)	Penalties are rarely imposed or are considered too low to be an effective deterrent <i>Source of information: IRD and customs self assessment, Interviews</i>
C	.(iii) There is a continuous programme of tax audits and fraud investigations, but audit programmes are not based on clear risk assessment criteria.	A programme of tax audits is in place, but this is not based on risk assessment criteria <i>Source of information: IRD and customs self assessment, Interviews</i>

3.4.3 PI-15 Effectiveness in collection of tax payments

The effectiveness in collection of tax payments is assessed based on the following criteria: i) debt collection ratios for the past two years; ii) effectiveness of transfer of tax collection to the Treasury and iii) frequency of complete accounts reconciliation.

Because of 'the Tensions' and very poor revenue administration during this period, accurate information on tax arrears (inland revenue) is not available. A tax amnesty was

also introduced in 2004 and 2005 to encourage people to pay tax liabilities without the imposition of penalties. Accurate debt collection ratios cannot therefore be calculated.

In Honiara, revenue is paid directly into the main treasury revenue account. In Auki and Gizo, money is deposited in treasury-managed bank accounts in the commercial banks, but is only deposited weekly.

Regular reconciliations take place between collections and deposits, but as noted above arrears information is lacking.

Score	Minimum requirements	Justification and cardinal data
N/S	(i) The debt collection ratio in the most recent years was below 60% and the total amount of tax arrears is significant	Inland Revenue do not have accurate information on tax arrears to enable them to calculate debt collection ratios. <i>Source of information: IRD and customs self assessment, Interviews</i>
B	(ii) Revenue collections are transferred to the Treasury at least weekly.	Tax is paid into accounts maintained by the Treasury in Honiara or other provincial centres, but in outlying islands is only deposited weekly. <i>Source of information: IRD and customs self assessment, Interviews MoFT</i>
D	(iii) Complete reconciliations of tax assessments, collections, arrears and transfers to treasury does not take place annually or is done with more than 3 months delay.	Reconciliations take place between collections and cash deposited, but not to arrears (not known) or tax assessments. <i>Source of information: IRD and customs self assessment, Interviews</i>

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

The effective execution of the budget, in accordance with work plans, requires that the spending ministries, departments and agencies receive reliable information on the availability of funds within which they can commit expenditure for recurrent and capital inputs. Key elements of predictability in the availability of funds for commitment of expenditure include (i) the extent to which cash flows are forecasted and monitored; (ii) reliability and horizon of periodic in-year information to Ministries, Departments and Agencies (MDAs) on ceilings for expenditure; and (iii) frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.

Neither sector ministries nor the MoFT prepare cash forecasts as part of the budget preparation process. Procurement plans are also not prepared. Treasury monitor the cash position daily and prepare a cash summary monthly for discussion at the 4M²⁸ meeting.

Following the Appropriation Bill, for recurrent estimates, the Minister of Finance and Treasury issues a general warrant and the PS (Finance and Treasury) issues Accounting

²⁸ Monthly monetary management meeting.

Warrants for each Ministry's total allocation. Issuing of this warrant allows ministries to commit against the full amount of their approved budgets. For Development Estimates, warrants are issued but expenditure can only take place after the approval of the Ministry's work plans by the MDPAC.

Adjustments to budget allocations, which are decided above the level of management of ministries, departments and agencies resulting in a reallocation between Ministries, are not allowed (see PI 20 for virements and PI 27 for contingency warrants).

Score	Minimum requirements	Justification and cardinal data
D	(i) Cash flow planning and monitoring are not undertaken or of very poor quality.	Cash monitoring takes place on a regular basis; however no cash-flow forecasts are prepared, which makes effective cash management more difficult. <i>Source of information: Budget guidelines and interviews MoFT (treasury) and sector ministries</i>
A	(ii) MDAs' are able to plan and commit expenditure for at least six months in advance in accordance with budget appropriations.	The full-appropriated allocation is 'released' at the start of the year for recurrent estimates and once work plans have been improved for development estimates. This enables ministries to plan and commit against the estimates. <i>Source of information: Interviews MoFT (budget), (treasury) FIs and sector ministries</i>
A	(iii) Significant in year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.	There is no evidence that changes that affect the composition of the estimates (re- allocation between administrative, functional or economic classification levels) have taken place. <i>Source of information: Interviews MoFT (budget), (treasury) FIs and sector ministries</i>

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

Proper recording and management of cash balances, debt and guarantees is an important component of PFM. This indicator looks at: i) the quality of debt data recording and reporting; ii) extent of consolidation of the government's cash balances and iii) systems for contracting loans and issuance of guarantees.

Details and documents for central government's loans are maintained by the Currency & Banking Operations Department of the CBSI. The department maintains the primary external debt database using the Commonwealth System for Debt Recording and Management System (CS-DRMS). Information on domestic debt is maintained on an access database. The Debt Management Unit (DMU) at the MoFT maintains a secondary database for external debt, also using CS-DRMS. The DMU works closely with CBSI, and is responsible for managing and preparing the actual payments of servicing the loans. The CBSI produces a monthly schedule on the formal debt stock situation for both

external and domestic debt. The DMU supplement this information with known data on on-lent loans and other liabilities for the 4M report²⁹. Information on central government external and domestic debt is considered complete and accurate, with a few minor exceptions. There was a reconciliation problem between the information presented in the government's financial statements and that maintained on the CS-DRMS, but this has recently been resolved. Complete and reconciled information on on-lent loans, and guarantees to SOEs is not available because of the backlog of SOE accounts.

There are two main treasury managed bank accounts, one maintained at the CBSI and one at ANZ bank. Other treasury-managed bank accounts are in the CBSI, provincial branches of the Bank of South Pacific. Cash balances of treasury-managed accounts are not automatically consolidated, but balances are calculated daily.

The Public Finance and Audit Act (Cap 120) states that only the Minister of Finance and Treasury may approve guarantees of loans. Under the Government Loans and Securities Act (Cap 119), Parliament is required to authorise as part of the Appropriation Act the amount that the government can borrow. Under the Honiara Club Agreement, the Solomon Islands are committed to no new borrowings or government guarantees; surplus recurrent budgets and 15%³⁰ of revenue set aside for debt servicing. In 2007 /2008, SIG guaranteed two loans for Soltai and Solomon Airlines to enable them to continue operations. This was done in the absence of a clear understanding of the organisations' financial position, as indicated in PI 9.

Score	Minimum requirements	Justification and cardinal data
C	(i) Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognised,	External debt records are maintained on CS-DRMS. Domestic debt records are maintained using an Access database. Reports are produced monthly. Information on central government debt is considered reasonably complete. Information on on-lent loans /guarantees may be incomplete. Information is not yet reconciled quarterly. <i>Source of Information: Interviews Debt management unit, CBSI. Debt reports, OAG 2008 report.</i>
C	(ii) Calculation of most government cash balances takes place at least monthly but the system does not allow consolidation	Balances on the two main treasury managed accounts are calculated daily but the accounts are not consolidated (in the banking system) <i>Source of information; Interviews, MoFT, CBSI and cash summary reports</i>
C	(iii) Central government's contracting of loans and guarantees are always made by a single responsible entity but are not decided on the basis of clear guidelines, criteria or overall ceilings	Only the Minister of Finance can approve guarantees, parliament must approve borrowing and then minister can obtain loans. The government's debt strategy is set out in the Honiara Club Agreement, but has not been strictly applied so a score of C is given. <i>Source of information; MTFs, PFAA, FIs Interviews, MoFT (DMU), and CBSI</i>

²⁹ Meeting of MoFT, CBSI and MDPAC to consider the overall situation of government finances as well as the monetary position of the economy.

³⁰ The figure for 2008 is 15%, in 2009, it will be 10% with the remaining 5% being assigned to development expenditure.

3.4.6 PI-18 Effectiveness of payroll controls

The assessment of the effectiveness of payroll controls are based on the following criteria: (i) degree of integration and reconciliation between personnel records and payroll data, (ii) timeliness of changes to personnel records and the payroll, (iii) internal controls of changes to personnel records and the payroll, and (iv) existence of payroll audits to identify control weaknesses and/or ghost workers.

Payroll data for the 10,000+ central government employees is maintained centrally on the Telepay system by the MoFT. Personnel records are maintained by the individual sector ministries and by the MPS (or public service commission). The nominal roll (the list of people who should be paid) should be maintained by MPS and the sector ministries. For teachers, the education authorities are responsible for recruitment, so information is maintained at this level, as well as the teaching service section of MEHRD. The OAG's special audit on the payroll (2006) noted that a regular reconciliation between the three lists does not take place. This is still the situation, as the current payroll system does not produce simple audit trails.

Changing records (e.g. through salary authority forms) can take up to three months, partly because of the geographical spread of the islands and partly because of delays in submission of information by e.g. the education authorities. The payroll system does not maintain information to assess this dimension accurately. Interviews and recent audit findings suggest that delays of up to three months can take place, but this affects only a minority of changes.

Following the 2006 payroll audit by the OAG, a number of improvements in controls have been put in place (confirmed by ongoing payroll audits); however, weaknesses remain e.g. no user-friendly audit trails

In 2006, the OAG carried out a special payroll audit. In response to some of the OAG's findings, the MEHRD carried out a detailed teacher survey in 2007, in conjunction with teacher's unions. In 2008, the OAG is carrying out another payroll audit.

Score	Minimum requirements	Justification and cardinal data
D	(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between three lists	Reconciliation between the nominal roll (maintained by MPS, sector ministries or education authorities) personnel records and the actual payroll does not take place. <i>Source of information: OAG report (payroll), interviews MPS, MoFT (treasury), OAG</i>
B	(ii) Up to three months delay occurs in updating changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.	There is no report, which monitors the time taken to implement changes; however interviews with sector ministries and MoFT as well as recent audit findings suggest that only a few changes take up to three months to implement. <i>Source of information: OAG report (payroll), interviews MPS, MoFT (treasury), OAG</i>
C	(iii) Controls exist but are not sufficient to ensure full integrity of data	The OAG report identified a number of weaknesses in controls, some of these have been addressed. Other control weaknesses require the implementation of a new system <i>Source of information: OAG report (payroll), interviews MPS, MoFT (treasury), OAG, sector ministries, PAC report (payroll)</i>
B	A payroll audit covering all central government entities has been conducted at least once in the last three years	The OAG carried out a special audit of the payroll in 2006. In 2007, MEHRD carried out a detailed teacher survey in 2007. OAG is currently carrying out a payroll audit as part of its annual audit process. . <i>Source of information: OAG report (payroll), interviews MPS, MoFT (treasury), OAG, sector ministries, PAC report (payroll)</i>

Ongoing activities

A new payroll system, Aurion has been selected and will be installed in 2009. Initially, only the basic functionalities will be introduced. As part of the recently commenced Public Sector Improvement Programme (PSIP), the management of human resource records will also be assessed.

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

This indicator looks at whether there is: (i) evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contracts awards that are above the threshold); (ii) extent of justification for use of less competitive procurement methods; and (iii) existence and operation of a procurement complaints mechanism. It does not assess procurement controls, which are assessed in PI -20.

OAG's reports highlight the fact that there was poor compliance with the competitive bidding requirements set out in the FIs. The OAG is now including audit of procurement

activities in its regular audit process; however, there is no systematic reporting mechanism, which can provide accurate data on use of open competition. Tender Boards (central and ministerial) are not required to issue reports on their proceedings.

The FIs require the use of open competition for all purchases above SBD 50,000. There is no requirement for reports to be produced justifying use of less competitive methods.

There is no specific procurement complaints mechanism. Bidders can complain to the Ombudsman’s Office, but the Ombudsman can only make recommendations.

Score	Minimum requirements	Justification and cardinal data
D	(i) Insufficient data exists to assess the method used to award public contracts OR the available data indicates that use of open competition is limited.	OAG conducts an audit of procurement as part of its audit process, but there is no systematic reporting requirements to show the actual extent of open competition <i>Source of information: OAG reports, interviews CTB, sector ministries OAG, SICCI responses</i>
C	(ii) Justification for use of less competitive methods is weak or missing	FIs require the use of open competition for all purchases above SBD 50,000. There is no regular reporting on why less competitive methods are used <i>Source of information: OAG reports, FIs interviews CTB, sector ministries OAG, SICCI responses.</i>
D	(iii) No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process.	There is no specific procurement complaints mechanism <i>Source of information: OAG reports, interviews CTB, sector ministries OAG, Ombudsman, SICCI responses</i>

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

This indicator assesses the effectiveness of the internal control framework based on the following dimensions: (i) effectiveness of expenditure commitment controls; (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures; (iii) Degree of compliance with rules for processing and recording transactions.

The current FMIS (Maximise) has in-built expenditure commitment controls. The controls check whether there are sufficient funds left in the budget, before a commitment³¹ can be made. This control is partially effective, as it can be overridden. It does not cover all expenditure e.g. utility payments, as these do not require a local purchase order to be raised.

FIs set out the basic rules and regulations. An initial review of the FIs in 2006, showed that the bulk of payment requests by ministries were for small amounts. In order to facilitate their payments, standing imprests (SBD 10,000 – 150,000)³² for payments of

³¹ In the form of a local purchase order.

³² The amount varies depending on the ministries’ ability to manage the imprests.

less than SBD 2,000 were provided to all ministries. This helped to resolve some of the bottlenecks in payments, for those ministries that managed their imprests. In executing their budget, virements between line items are requested frequently within the year, even within the first quarter. Currently, approval for every virement is required from the Minister of Finance and Treasury. This problem is made worse by the level of detail in the Estimates (detailed line item appropriation). General understanding of FIs is noted as a problem. In processing payments, query forms are maintained by MoFT, but not analysed to assess problem areas. From an internal control perspective, certain areas e.g. tendering procedures, grant approval and administration, administration of rental schemes appear particularly weak.

In his testing of controls for the years 2004-2006, the OAG³³ noted lack of supporting documentation for all types of transactions, acquittal of imprests and compliance with procurement regulations (e.g. splitting of tenders to avoid tendering process) as of particular concern. It noted that this lack of compliance was consistent across all ministries, but there was a pattern of progressive improvement during the period 2004 – 2006 (a fact partly reflected in reduction of overspending (see PI 1)). It is understood that this pattern of general improvement is continuing; however, there are a significant number of instances whereby FIs are being waived without due process and simplified procedures are being adopted e.g. payment of utility bills.

Score	Minimum requirements	Justification and cardinal data
C	(i) Expenditure controls exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	FMIS controls commitment, for certain types of expenditure, but can be overridden and do not cover all expenditure. <i>Source of information: OAG reports, interview MoFT (treasury)</i>
D	(ii) Clear comprehensive control rules/procedures are missing in other important areas.	Controls and procedure are weak in some areas e.g. grant approval and administration, rental schemes, understanding of rules appear weak in some ministries <i>Source of information: OAG reports, interview MoFT (treasury), sector ministries</i>
C	(iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern	OAG report identifies many instances of non-compliance with transaction rules and procedures. Improvements have been made in many areas and therefore a C is assigned. <i>Source of information: OAG reports, interview MoFT (treasury)</i>

Ongoing Activities

The Financial Instructions are currently being reviewed. Review of Chart of Accounts and level of detail provided in estimates will also affect extent of virements.

³³ Status of audits as at 30th June 2008.

3.4.9 PI-21 Effectiveness of internal audit

Internal control mechanisms can be improved through the effective use by management of internal audit. Internal audit capability is assessed by reviewing: i) its coverage and quality; ii) frequency and distribution of reports; iii) extent of management response.

The current mandate for the internal audit function is contained in the FIs and is essentially limited to a ‘policing’ function. The Internal Auditor has prepared a detailed strategic plan to develop a more systems orientated internal audit function, which can provide assurance to the ministries of the soundness (or otherwise) of their internal control systems. Currently, the internal audit unit in MoFT only has three staff and other sector ministries do not have an internal audit function in their establishment. There are therefore considerable constraints on its effectiveness.

Most of the work carried out by the internal auditors is ad hoc investigations at the request of the Permanent Secretary. Some reports e.g. Ministry of Agriculture and Livestock (MAL) has looked at more systemic issues and identified some critical issues; however, management support for the function is limited and response rate is very poor. At the moment, the OAG is not able to place reliance on the work of internal audit in assessing its own work plan.

Score	Minimum requirements	Justification and cardinal data
D	(i) There is little or no internal audit focused on systems monitoring	No mandate for internal audit except for ad hoc investigations. Limited capacity (3 people). <i>Source of information. FIs, interviews internal audit, sector ministries, OAG</i>
D	(ii) Reports are either non existent or very irregular	A report has been introduced for MAL, but lack of capacity means this is irregular. <i>Source of information. FIs, interviews internal audit, sector ministries, OAG report, IA report</i>
D	(iii) Internal audit recommendations are usually ignored (with few exceptions).	No evidence of response found, OAG not able to rely on report and head of IA confirmed. <i>Source of information, interviews internal audit, sector ministries, OAG</i>

Ongoing Activities

The health and education ministries are looking at the establishment of internal audit units, but these are not yet functional.

3.5 Accounting, recording and reporting

This set of indicators assesses the quality and timeliness of accounting, recording and reporting. A summary of the scores are set out in the table below.

No'	Accounting, Recording and Reporting	Score	Dimensions	Scoring Methodology
PI 22	Timeliness and regularity of accounts reconciliation	C	(i) B (ii) D	M2
PI 23	Availability of information on resources received by service delivery units.	D	(i) D	M1
PI 24	Quality and timeliness of in year budget reports	C+	(i) B (ii) A (iii) C	M1
PI 25	Quality and timeliness of annual financial statements	D+	(i) C (ii) D (iii) D	M1

3.5.1 PI-22 Timeliness and regularity of accounts reconciliation

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. This is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. High quality of bank reconciliation requires that large differences are not left unexplained. Two critical types of reconciliation are: (i) reconciliation of fiscal data, held in the government's books, with government bank account data held by central and commercial banks and (ii) reconciliation of suspense accounts and advances

Treasury manage sixteen bank accounts and reconcile all at least monthly, within four weeks of month end. Two accounts held in commercial banks dedicated specifically for recurrent expenditures basically for payroll and other charges. These should be reconciled daily, although there have been some delays in the payroll account but efforts taken to bring it up to date. The other main bank account held at the CBSI for revenue collection is reconciled daily. The other thirteen bank accounts reconciled monthly- eight held at CBSI and five at the commercial banks. The reconciliation is done through the FMIS (Maximise) and a bank reconciliation report is produced immediately. The cashbook is also balanced with the ledger accounts and differences immediately addressed and fixed. Currently, reconciliation of bank accounts managed by ministries is a problem.

Reconciliation and clearance of suspense account is done as part of the year-end accounting process in MoFT. However, issues relating to the financial system mean that there are some uncleared balances. Special imprests should be acquitted on specified date, with automatic deduction from salary/wages, but there have been some problems with this process. Standing imprests are to be reconciled at the year-end, but there have been problems with standing imprest maintained by some of the ministries.

Score	Minimum requirements	Justification and cardinal data
B	(i) Bank reconciliations for all treasury managed accounts take place at least monthly, usually within four weeks from the end of the month	Bank reconciliation for all treasury-managed bank accounts at least monthly within four weeks of period end. Bank reconciliation report and a soft copy saved daily for the two main accounts as recommended by the audit report 2004-2006. Reconciliation of bank accounts managed by ministries is not done on a timely basis. <i>Source: Bank reconciliation files.</i>
D	(ii) Reconciliation and clearance of suspense accounts and advances takes place either annually with more than two months delay or less frequently	Reconciliations are done but there are some issues relating to the FMIS re- suspense and some issues with respect to the timely reconciliation of the standing imprest accounts maintained by the ministries and some special imprest accounts <i>Source Interviews MOFT (treasury), OAG reports</i>

Ongoing activities:

A project under the **Pacific Executive Leadership (PACE)** program will be carried out by the Financial Reporting Section (of Treasury) to reconcile all the standing imprest bank accounts managed by the Ministries with the commercial banks by the end of 2008. A list has been obtained from OAG and efforts are being made to identify the bank accounts and request the Ministries to identify which accounts are to be closed.

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

Information on resources (cash and in kind) received by service delivery units is an important indicator of the reliability and integrity of the fund flows from the centre to the “front line”.

There is no information available on total resources received (cash or in kind) by the service delivery units. Schools and health facilities receive funds through support from sector wide approach of NZAID (education) and AusAID (health). Grants have been provided to the service delivery units on a monthly basis; however, no special surveys, audits or reports on the service provided, whether in cash or in kind, are produced. There is some evidence that money is also provided to service delivery units by provincial governments.

Score	Minimum requirements	Justification and cardinal data
D	(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last three years	No information on resources received at service delivery level (no poverty expenditure tracking survey or similar) within last 3 years (potential for double payments e.g. provincial gov't + school grants <i>Source of information. OAG reports, interviews, MERHD, MHMS, Malaita Province</i>

Ongoing Activities

SIG supported by NZAID is planning to address some audit recommendations by managing and monitoring of the flow of funds to the recipients.

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

The quality and timeliness of in year budget reports is an important measure of a government's ability to "bring in" the budget. The indicator is assessed based on: i) scope of reports in terms of coverage and compatibility with budget estimates; ii) timeliness of the issue of the reports and iii) quality of information.

All line Ministries are provided with reports from Financial Reporting Section (FRS) in MoFT after the month end. Reports are produced from FMIS (Maximise) system, the Funds Available report (incl. commitments and payments and the NZAID budget support), ledger details, actual vs. budget. Customised reports are also available upon request by ministries for cost centres for e.g. Education by cost centres. Monthly Financial summary produce by FRS on the actual overall operation of SIG by months and presented at the 4Ms meeting for fiscal and economics purposes. The treasury used to produce media releases on SIG operation monthly and quarterly, however discontinued until authorised by the Cabinet.

Miscoding, lack of supporting documentation and system errors result in some concern over the data accuracy but these do not undermine the overall usefulness of the information.

Score	Minimum requirements	Justification and cardinal data
B	(i)Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages.	Standard and customised reports produced by the Maximise system shows, the actual, commitments and budget for all cost centres, programmes and activities.(but not deconcentrated offices at provinces) <i>Source: FMIS - Maximise</i>
A	(ii)Reports are produced quarterly or more frequently and issued within four weeks of end of period.	Reports are available after the end of month and issued as requested immediately to all Ministries : <i>source: FRS Monthly process</i>
C	There are some concerns over the accuracy of information, which may not always be highlighted in the reports, but this does not undermine their basic usefulness.	Miscoding and minimal supporting documents as well as system error may result in some inaccuracy of information provided. Efforts been taken to reduce these issues. <i>Source Interviews - Treasury</i>

Ongoing activities:

Upgrading of Maximise and payroll system in 2009 will likely reduce system error. Improving of procedures in MoFT and one to one training of accountants in line ministries will be ongoing.

3.5.4 PI-25 Quality and timeliness of annual financial statements

The quality and timeliness of annual financial statements are assessed by looking at: i) the completeness of financial statements, ii) the timeliness of submission and iii) the accounting standards used.

The financial statements are prepared according to the PFAA (1978) requirements and should be prepared within six months of year-end. However, an extension of 180 days is possible on the approval of the Auditor General. They include statements on income and expenditure as well as on assets and liabilities. Complete information is not available on financial assets and liabilities (ref PI 9) and the Auditor General has provided a qualified opinion on the accounts, particularly on the statement of assets and liabilities.

Tremendous efforts have been taken to clear off the backlog of National Accounts and bring the accounts up to date with the assistance from RAMSI. The financial statement FY1997-2003 were completed and audited in 2007 and FY2004-2006 were prepared and audited in 2008. There are no national accounting standards in the Solomon Islands. Financial statements do not follow IPSAS, but are presented in a consistent format.

Score	Minimum requirements	Justification and cardinal data
C	(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant	Consolidated financial statements are prepared including information on income and expenditure and assets and liabilities. The Auditor General has provided a qualified opinion on the accounts, particularly (more recently) on the statement of assets and liabilities. <i>Source OAG report on financial statements 2004 - 2006</i>
D	(ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year.	Backlog now addressed, but have been more than 15 months late (2004, 2005 + 2006 submitted May 2008 source: Audit report 2008 <i>Source OAG report on financial statements 2004 - 2006</i>
D	(iii) Statements are not presented in a consistent format over time or accounting standards are not disclosed.	Statements are produced in consistent format over time (1978 PFAA) but there are no national accounting standards in the Solomon Islands and International Standards are not yet followed <i>Source OAG report on financial statements 2004 - 2006</i>

Ongoing Activities

FY 2007 was completed in November 2008. The intention is to move to IPSAS – cash basis of reporting in the medium to long-term.

3.6 External Scrutiny and Audit

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

This set of indicators looks at the quality and timeliness of external scrutiny of the government's estimates as well as the public accounts. The following table provides a summary of the scores for the individual indicators.

No	External scrutiny and audit	Score	Dimensions	Scoring Methodology
26	Scope, nature and follow-up of external audit	C+	(i) B (ii) C (iii) B	M1
27	Legislative scrutiny of the annual budget law	D+	(i) C (ii) B (iii) D (iv) C	M1
28	Legislative scrutiny of external audit reports	C+	(i) C (ii) B (iii) B	M1

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of quality of the external audit function comprise: (i) the scope/nature of the external audit performed and the adherence to auditing standards; (ii) timeliness of submission of audit reports to the legislature; (iii) evidence of follow up on audit recommendations.

From 2001 – 2003, the OAG was virtually non-existent with only three personnel including the Auditor General. From 2004, with support from the RAMSI funded Machinery of Government (MoG) programme, capacity was significantly developed through a programme of special audits. Since 2006, the OAG has also been carrying out its traditional audit function. Under this function, it now carries out audits of all ministries and heads of expenditure (imprest accounts, bank accounts, procurement and expenditure, revenue, payroll (except 2007), staff advances and assets). Audits are carried out in accordance with INTOSAI standards. OAG independence is established in the Constitution, although complete independence from the administration on personnel and financial matters is not yet secured³⁴.

Four special audit reports were tabled with Parliament in December 2005 and a further seven in October 2006. In August 2007 and 2008, the OAG tabled their composite audit reports, ‘status of audits as at 30th June’ that included a summary of their special audits and financial audits. In September 2008, the OAG issued its annual report on its activities for the period until 31st December 2007. As capacity has been developed, timeliness of its audit of financial statements has increased significantly as shown in

overleaf.

Table 3.6 Status of audited financial statements

Auditee	Year	Sign off by auditee	Sign off by OAG	Tabled
SIG accounts	1998	November 2000	June 2007	August 2007
SIG accounts	1999	January 2002	June 2007	August 2007
SIG accounts	2000- 2003	May 2007	June 2007	August 2007
SIG accounts	2004	November 2007	July 2008	August 2008
SIG accounts	2005	November 2007	July 2008	August 2008

³⁴ This has not been an issue in recent years, but clearly was a problem in earlier periods.

SIG accounts	2006	May 2008	July 2008	August 2008
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From 2006, all ministries are required to develop an action plan detailing their responses to the various recommendations made by the Auditor General including the responsible officer and action taken or to be taken. Some ministries have identified individuals to follow up (e.g. Under Secretary Finance and Administration in MEHRD); while other ministries have formed working groups (e.g. MHMS). The latter prepared a detailed plan for all 161 recommendations in the special audit report, while the MoFT provided a summary action plan and detailed response to the recommendations in the payroll audit (see OAG Annual report 2002 -2006). In general, the action taken varies between ministries, although some actions are also dependent on the judicial system. In response to lack of action on some of the special audits carried out in 2005, the OAG issued a special report “insight into corruption” in October 2007.

Score	Minimum requirements	Justification and cardinal data
B	(i) Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues.	Since 2006, the OAG has been carrying out traditional audits and covering all central government entities. Audits of extra budgetary funds take place when accounts are received. INTOSAI auditing standards are followed and significant issues clearly stated, but full independence has not been attained yet and no performance audits have been carried out. Consequently a B has been given. <i>Source OAG reports, interview Acting Auditor General</i>
C	(ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the audit office)	The OAG has successfully addressed the audit backlog and is now tabling audit of financial statements within 9 months ³⁵ . For 2004 and 2005, the period was 10 months and for 2006 = 3 months, therefore an average of 8 months. In addition to the composite status reports, for 2006 and 2007, Annual reports summarising the activities of the OAG were also prepared for the period 2002-2006 and 2007, the former being tabled in latter being tabled in August 2008. <i>Source of information. OAG reports (see annex D), Interview with Aud Gen (acting)</i>
B	(iii) A formal response is made in a timely manner, but there is little evidence of systematic follow-up.	Audit plans are prepared, follow-up does take place but response varies across ministries <i>Source of information. OAG reports (see annex D), Interview with Aud Gen (acting) and sector ministries; audit plans</i>

Ongoing activities

The OAG has issued a five-year strategic audit plan and tactical audit plan annually since 2005. In the latest plan for the period 2008 – 2012, the OAG propose to continue with the

³⁵ Delay was partly due to the need to appoint an acting auditor general, following the death of the Auditor General.

ongoing capacity building programme and its ongoing education programmes. In addition, new legislation has been drafted to establish a National Audit Office,

3.6.2 PI-27 Legislative scrutiny of the annual budget law

Legislative scrutiny of the annual budget law is an important element of its oversight responsibilities. The indicator is assessed based on: i) scope of the legislature’s scrutiny; ii) extent to which procedures are well established; iii) adequacy of the time provided for scrutiny; iv) rules for in year amendments without ex ante approval.

The legislature is only involved in the review of revenue and expenditure estimates at the end of the budgeting process. In order to carry out this function, the Public Accounts Committee (PAC) under standing order 69 (2) is required to examine and report to Parliament on the draft estimates supporting the annual appropriation bill. Its recommendations are presented to Parliament, but given the lateness of its review, it has little chance to influence major decisions. It has carried out this function (for both draft and supplementary estimates) since the eighties. In general this requirement is respected, although for the 2008 supplementary estimates, it did not receive the information until after the first reading of the Appropriation Bill. Its ability to carry out its scrutiny is severely limited by the limited time provided. In the last three years, this has been less than one week.

The government’s ability to increase the approved budget without ex-ante approval by the legislature is set out in the Constitution and FIs. Contingency warrants can be issued by the Minister of Finance and Treasury, ahead of supplementary estimate approval for ‘urgent and unforeseeable expenditure’. In practice, contingency warrants are used quite extensively, in response to poor budgeting practices (circumstances could have been predicted) and political factors, instances of contingency warrants being issued and money distributed through MPs is raised in audit reports.

Score	Minimum requirements	Justification and cardinal data
C	(i)The legislature’s review covers details of revenue and expenditure, but only at a stage where detailed proposals have been finalised.	The legislature reviews the proposals at the end of the budgeting process. <i>Source: PAC report, interview PAC Chairman</i>
B	(ii)Simple procedures exist and are generally respected	The PAC’s responsibilities are set out in a standing order and it is required to review the estimates and present a report to Parliament. <i>Source: PAC report, interview PAC Chairman</i>
D	(iii)The time allowed for the legislature’s review is clearly insufficient for a meaningful debate, significantly less than one month.	PAC review is typically one week, with an additional week for the Parliament. <i>Source: PAC report, interview PAC Chairman</i>
C	(iv)Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.	Rules for the use of contingency warrants exist, but they have been used extensively in recent years. <i>Source: PAC report on supplementary estimates (2008), interviews OAG</i>

3.6.3 PI-28 Legislative scrutiny of external audit reports

The legislature has a key role in scrutinising the execution of the budget. This indicator therefore assesses: i) timeliness of examination of audit reports; ii) extent of hearings; iii) issuance of recommendations.

Special audit reports tabled in 2005 were reviewed by Parliament. All OAG reports tabled since 2006 are reviewed by the Public Accounts Committee (PAC). Table 3.7 shows the current situation with respect to the review of OAG reports. Reviews of the latest reports were delayed by a number of events: vote of no confidence and change of government (December 2007); review of Budget estimates (April 2008); death of Auditor General (July 2008). In mid October 2008, the process of reviewing the OAG reports commenced.

Table 3.7 Status of PAC review of OAG reports

Name of report	Date OAG report tabled	Date of hearings	PAC report issued
Annual report 2007	September 2008		
Status of Audits as at 30 th June 2008	August 2008		
Insight into corruption	October 2007		
Status of Audits as at 30 th June 2007	August 2007		
1997 Accounts	October 2006	October 2006	October 2006
NHMS + national referral hospital	October 2006	November 2006	January 2007
Civil Aviation	October 2006	March 2007	July 2007
Immigration	October 2006	March 2007	July 2007
Tertiary scholarships	October 2006	May 2007	July 2007
Payroll	October 2006	May 2007	July 2007
Land registration	October 2006	May 2007	July 2007

The print and broadcast media is invited to PAC meetings and most responsible officials of the entities involved are required to appear before the Committee. The Auditor General acts as Secretary. The PAC issues a report with recommendations.

As noted in PI 26, for all audits tabled since October 2006, ministries are required to submit an audit action plan. This action plan is reviewed by the PAC as part of the review of the OAG's report. PAC are reported as requesting to see progress during review of estimates, but this is not done in a systematic way and effectiveness is restricted because of the limited number of parliamentary sessions

Score	Minimum requirements	Justification and cardinal data
C	(i)Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of reports.	Only one of the outstanding reports is more than 12 months old and there are exceptional circumstances for this situation. <i>Source: PAC report, interview PAC Chairman, OAG</i>

B	(ii) In depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion.	Hearings do take place with most officials from the entities involved. <i>Source: PAC report, interview PAC Chairman, OAG</i>
B	(iii) Actions are recommended to the Executive some of which are implemented according to existing evidence	Recommendations are made, there is evidence that some are followed but not universally and PAC does follow up but not systematically or in a timely fashion partly due to the limited number of parliamentary sessions. <i>Source: PAC report, interview PAC Chairman, OAG</i>

Ongoing activities

The Parliamentary Strengthening project supported by the UNDP is providing support to parliamentary committees and the capacity of Parliament.

3.7 Donor practices

The indicators in this group assess the extent to which donor practices impact the performance of country PFM systems. The table below summarises the assessment of indicators relating to the “donor practices” dimension of PFM performance.

No.	D. Donor practices	Score	Dimensions	Scoring methodology
D-1	Predictability of Direct Budget Support	N/A	(i) ii)	M1
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	(i) C (ii) D	M1
D-3	Proportion of aid that is managed by use of national procedures	D	(i) D	M1

3.7.1 D-1 Predictability of Direct Budget Support

In the Solomon Islands, no donor provides general budget or sector budget support using the OECD DAC definition. Support provided by RoC is appropriated through the Development estimates and allocated to specific projects/funds. Money is deposited in a separate bank account in the CBSI and then disbursed to various projects/funds in accordance with SIG procedures. NZAID support to education is appropriated (single line) through the recurrent estimates. Funds are deposited on a quarterly basis for the first three quarters; the amount disbursed in the fourth quarter depends on cash balances. Funds are paid into a separate account at the CBSI, which is then transferred to a MERHD bank account. Transactions are then processed using SIG’s authorisation procedures (ministerial level) but payments are made at the ministerial level, not through the MoFT central payments system. Data is maintained on MYOB accounting software

and the information is then transferred to MoFT, where the information is incorporated into the Maximise system by means of journal vouchers.

AusAID (health swap) will follow a similar system, although disbursements will depend on funds spent and incorporation of information into the Maximise system may have to be restricted to a single line item. Both NZAID and AusAID have indicated their desire to work towards greater use of SIG systems.

3.7.2 D-2 Financial information provided by donors for budgeting and reporting on project and program aid

The MDPAC issue a spreadsheet to development partners (for 2009 submissions, in mid September 2008) for information on projected disbursements for 2009, indicative figures for 2010 and 2011. Information is also requested on actual expenditure and funding for previous and current years. The request for estimates is broken down into Cash (operating costs and equipment) and TA/Non-cash.

Most of the major donors provide some information (as evidenced by the development estimates) prior to the appropriation process, although timeliness and inability to provide the level of detail requested by SIG is highlighted as a problem by both donors and government. Some donors e.g. RoC understate their technical assistance (TA) and other non-cash assistance. Projections for global and regional funds are limited.

NZAID (Education), AusAID (Health) and RoC use SIG systems for reporting and therefore information is available on a monthly basis. For other projects/programmes, which use separate reporting procedures, information on actual expenditure on a quarterly basis is not requested or in most cases provided. Information is provided to sector ministries by some donors e.g. through the NAO support office arrangement, but internal coordination is weak.

Score	Minimum requirements	Justification and cardinal data
C	(i) At least half of donors including the five largest provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior to its start. Estimates may use donor classification and not be consistent with the government budget classification.	Most donors provide information prior to the appropriation of the budget, although some donors have difficulties in complying with the breakdown requested by government e.g. operating and capital costs. <i>Source: Interviews donors, MDPAC, Spreadsheet (donor estimates)</i>
D	(ii) Donors do not provide quarterly reports within two months of end of quarter on the disbursements made for at least 50% of the externally funded project estimates in the budget	NZAID, ROC, AusAID provide information in this format as it forms part of the government's reports but this amounts to <220 million which is only 15% of total. <i>Source: Development estimates interviews with donors</i>

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

This indicator analyses to what extent the principles of the Paris Declaration have resulted in some harmonisation and alignment of externally funded projects to the use of the national procedures (procurement, payment, auditing and reporting). The indicator is assessed on the proportion of aid funds to central government that are managed through national procedures. **Error! Reference source not found.** attempts to identify the extent of the use of national procedures by donors.

Table 3.8 Use of national procedures

	RAMSI ³⁶	AusAID ³⁷ (health)	NZAID (ed'n)	AusAID (bilateral)	NZAID	RoC	EU	Japan	World Bank	ADB	UNDP
2008 estimates SBD Millions	1,127	80	45	45	68 ³⁸	94	213	34	38	32	13
Procurement	Ltd	Yes	Yes	No	No	Yes	No	No	No	No	PGSP ³⁹
Payment/Accounting	No	No	No	No	No	Yes	No	No	No	No	PGSP
Audit	No	Yes	Yes	No	No	Yes	No	No	No	No	PGSP
Reporting	No	Partial	Yes	No	No	Yes	No	No	No	No	PGSP
Pro rata proportions	10(a)	50	34			94					10(b)

a) This is an estimated figure to include e.g. purchase of payroll system;

b) This is an estimated figure to represent proportion of PGSP that is provided as grants.

Based on the above analysis, the resulting score for this indicator is shown below.

Score	Minimum requirements	Justification and cardinal data
D	(i) Less than 50% of aid funds to central government are managed through national procedures	See above table. <i>Source: Development estimates interviews- donors</i>

3.8 Specific Country Issues

3.8.1 Sub National Government

Since their establishment, Provincial Governments⁴⁰ either never commenced or ceased to produce statements for audit. Prior to the commencement of the Provincial Governance Strengthening Programme (PGSP) supported by UNDP, EU (through UNDP) and RAMSI, RAMSI funded an interim project, Provincial Financial Management

³⁶ RAMSI uses a combination of procedures, federal, AusAID, NZAID and some SIG.

³⁷ The first instalment was disbursed in August, earlier support to the Health Sector Support Programme was provided from remaining funds of an earlier initiative.

³⁸ This figure includes 8.5 million through RAMSI.

³⁹ Funding for PGSP from EU and RAMSI is managed by the lead donor on the project, UNDP.

⁴⁰ Temotu was an exception, although there are no records of receipt in the OAG's office.

Improvement Project (PFMIP) to catch up on all outstanding financial statements from each of the Provincial Governments as at 31st March 2007 (total 143 years). Given the differing circumstances in the various Provinces and the extent of work to be carried out, a pragmatic view was taken and special forms designed to cover those years for which information was acknowledged to be incomplete. Now, all Provinces have audited financial statements to 31st March 2007. Only Honiara City Council has not produced financial statements for audit (since 1994).

As outlined in the Institutional framework, there appears to be a lack of clarity over responsibility for service provision in the provinces. Currently, provision of education and health services is primarily through the main ministries by means of a grant. Provincial governments also provide for some contributions in their estimates. At the same time, some money provided through disaster funds, constituency funds is funding the building of health clinics etc. Donor funded support programmes, e.g. PGSP and the health sector support programme (HSSP) are also providing assistance. Consequently, there appears to be some potential for duplication of payments, uncoordinated capital expenditure and insufficient funding of recurrent costs.

As most of the population live in the rural areas, service delivery particularly for social services is mainly at the provincial level. Ongoing discussions are taking place about the introduction of a federal system of government, although many observers consider that the cost of such a system is prohibitive.

3.8.2 State Owned Enterprises

As can be seen from **Error! Reference source not found.**, most SOEs and statutory bodies have not produced accounts for many years. A RAMSI supported project, the SOE Accounts Strengthening Project (SOEASP) commenced in September 2008 to bring up to date and audit the accounts of SOEs (marked in italics). The World Bank and RAMSI is providing support the SI Electricity Authority (SIEA) and prior to this support, an exercise has been carried out to ‘swap debt’ between SIG, SIEA and NPF. The impact of costly and non-transparent enterprises is recognised by many observers and ADB is providing support to the improved governance and restructuring of the SOE sector.

Table 3.9 Status of accounts for SOEs and Statutory bodies

SOEs and statutory bodies	Last Audited statement	Sign off by auditee	Sign off by OAG
CBSI	2007	April 2008	April 2008
<i>SI Broadcasting Corporation</i>	1997	Undated	March 1999
<i>SI Electricity Authority</i>	1996	December 1999	June 2001
<i>SI Water Authority</i>	1998	Undated	September 2006
<i>SI Postal Corporation</i>	1997	Ongoing	
SI National Provident Fund (NPF) ⁴¹ (Yr end June 30 th)	2007	October 2007	October 2007
SI College of Higher Education ⁴²	1992	Undated	1994
<i>SI Port Authority</i>	2004	March 2007	June 2007
SI Visitors Bureau	2006	June 2008	June 2008
<i>Commodities Export Marketing Authority</i>	1998		November 1999
Development Bank of SI (currently under official management pending liquidation)	2005		September 2007
Investment Corporation of SI	2002	Ongoing	
• Sasape Marina Limited (100%)	2004		
• Solomon Airlines Limited (100%)	2005		
• <i>Solomon Island Printers</i> ⁴³ (100%)	2000		
• Soltai Fishing and Processing Limited (51%)			
• Kolombangara Forest Products Limited (49%)			

⁴¹ The SI NPF is the key investment fund responsible for the retirement plans of SI workers. The fund is financed from employer contributions of 7.5% and 5% from each employee.

⁴² Audits were arranged without intervention of OAG, OAG currently undertaking audits for 1993-2007.

⁴³ Under existing contract, but will be taken over by OAG.

4 Government (PFM) reform process

4.1 Description of recent and on-going reforms

4.1.1 PFM reform and related programmes

The RAMSI Economic Governance Program provides assistance to MoFT through the Financial Management Strengthening Program, which aims to improve budget sustainability and build capacity in areas such as budget, treasury, internal revenue and customs. Advisory support to the Economic Reform Unit is also provided through RAMSI, and NZAID is providing support to strengthen the statistics office.

The RAMSI Machinery of Government (MoG) program is providing support to the Leadership Code Commission, the Ombudsman's Office as well as the OAG. The Public Service Improvement Programme (PSIP) is also commencing with support from the MoG, and will clearly have close links with the ongoing PFM reforms. General TA support to IT systems across government is also being supported through MoG. Short-term support and the provision of training in financial management areas are also provided by the PFTAC.

Other reforms including: i) support to the development of Parliament and its committees (UNDP and RAMSI); ii) the development of law and justice (RAMSI), particularly police capacity and court administration; iii) SOEASP (supported by RAMSI) and the ADB support to SOEs also directly and indirectly impact on PFM reforms.

Support to the health and education sectors (AusAID, World Bank, NZAID) also include supporting the improvement of financial management at the sector level. Support at the provincial level, through the PGSP is also designed to improve the financial management capacity at the Ministry of Provincial Government and Institutional Strengthening (MGPIS) and provincial government.

In the initial 'post tension' period, the emphasis was on regaining budget sustainability. In the last two years, the emphasis has broadened to the development of capacity.

4.2 Institutional factors supporting reform planning and implementation

4.2.1 Government leadership and ownership

The late Auditor General, with technical support from development partners, made significant strides in improving the oversight of government funds. There is now a

rigorous and transparent audit process in place. Senior government officials are requesting additional special audits to be carried out, indicating an increasing recognition of the importance of the audit function and the need for improvements in systems and procedures. Ministries are implementing changes to their establishments to include personnel specifically responsible for monitoring the implementation of audit recommendations.

Government's own support for increased transparency is clearly shown through the significant improvement and increase in funding for the OAG. In 2004 and 2005, funding for the office was SBD2.02 million and SBD3.55 million respectively. This represented a 513.7% increase and a 978.6% increase in funding over the original 2003 budget allocation. The approved estimate for 2008 was SBD5.6 million.

Government leadership, through the Permanent Secretaries of Finance and Treasury, and Development Planning and Aid Coordination in the PEFA assessment process is a clear indication of these ministries' desire to improve PFM. Active and enthusiastic participation in the PEFA process by a number of other Permanent Secretaries and senior government officials also shows a clear interest in improving the government's financial management system. The PAC, in its regular scrutiny of estimates and audit reports also shows MPs' recognition of the importance of their oversight role.

In its continuing reform process, SIG is faced with serious capacity constraints at both the technical and middle management level, as it competes with the private sector for limited resources. Furthermore, PFM reforms are not just technical exercises; inevitably, they include political and institutional changes. The political will to carry out some of these changes in a volatile and fragile political environment is unclear. The Government has committed to a number of improvements in overall management of public finances including fiscal prudence, which are being undermined by other political factors. Public pressure for improvements in government's financial management is also limited, and the need for greater 'accountability' not well defined.

Annex A Summary Table of Performance Indicators

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	The aggregate original budget was not credible compared to the aggregate actual expenditure, although the trend is improving. The 2004 budget was overspent by 25.4% while the 2005 budget was under spent by 6.3% and the 2006 budget was overspent by 2.3%. Debt servicing and donor funding were excluded from the calculations. <i>Source of information: Audited Financial statements and Estimates 2004 -2006.</i>
PI-2	Composition of expenditure out-turn compared to original approved budget	B	The variances in excess of total deviation for the three years are as follows: 2004 3.9%, 2005 3.5% and 2006 9.4%. <i>Source of information: Audited Financial statements and Estimates 2004 -2006.</i>
PI-3	Aggregate revenue out-turn compared to original approved budget	A	The domestic revenue collections for the three years were well above original estimates. There seemed to be under estimation of revenue for those years, as there was no revenue wind falls collected in any of the years. The variances as follows: 73% in 2004, 16% in 2005 and 17% in 2006. The variance has reduced by 57% in 2005. There is no data on arrears of revenue for those years. <i>Source of information: Audited Financial statements and Estimates 2004 -2006.</i>
PI-4	Stock and monitoring of expenditure payment arrears	C+	An exercise was carried out in 2004 to eliminate arrears, debt interest arrears now addressed, no payroll arrears, trade creditor arrears limited because suppliers do not provide on credit, but no mechanism to monitor. Some arrears identified in provincial health offices e.g. utilities, NPF. <i>Source of information: Audited Financial statements and Estimates 2004 -2006, monthly debt report. Interviews, MoFT (DMU), sector ministries, CBSI.</i>
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	C	Recurrent estimates are classified by administrative and economic classification compatible with GFS (2001). Development estimates are also summarised according to functional (COFOG) classification. <i>Source of information:</i>

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			<i>Estimates (Recurrent and Development), Interviews – MoFT. (treasury), MoFT (budget), MoFT (statistics) MDPAC.</i>
PI-6	Comprehensiveness of information included in budget documentation	B	Information provided in the budget documentation is fairly comprehensive. The Development estimates include information on exchange rate, the budget outlook/speech contain information on growth and inflation for current year. Estimates contain prior year actuals (unaudited) and current year estimated outturns, as well as various summaries. The government has been budgeting for surpluses, not deficits. Thus these two indicators were not included in calculation. <i>Source of information: Estimates, Budget Speech, Budget Outlook.</i>
PI-7	Extent of unreported government operations	C	Information on aviation special fund not up to date, some concerns over disaster funds and waiving of RCDF. Information on NZAID provided, but other information not provided on a regular basis (only by donors at budget submission). <i>Source of information: Estimates, OAG reports, PFAA Interviews OAG, MoFT (treasury), MDPAC, donors.</i>
PI-8	Transparency of inter-governmental fiscal relations	D	The formula for the services grant is outdated and not well known. The Provincial governments are not involved in the central budget formulation process. In the last two years, information has not been provided in a timely manner for P.G budget approval process. Collation of information not done due to non-production of accounts and use of different classifications. <i>Source of information: Budget Speech, PAC reports- Interviews MoTF (treasury) MoFT (statistics) Provincial governments, MPGIS.</i>
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D	Accounts for most SOEs are not up to date; accounts for provincial governments have also only recently been brought up to date. Consequently accurate information on liabilities is limited, although an exercise has been carried out to address the situation in provincial governments; this may not be complete. <i>Source of information: Budget Speech, OAG reports- Interviews MoTF (ERU), Provincial governments, PS Finance.</i>
PI-10	Public access to key fiscal information	C	Very limited information has been made available to public, audit reports being main exception. Budget after approval. No contract awards. <i>Source of information: Private sector and civil society, MoFT (treasury).</i>
C.	BUDGET CYCLE		
C(i)	Policy-Based Budgeting		
PI-11	Orderliness and	D+	A basic budget calendar exists, but consistent application

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
	participation in the annual budget process		has been difficult because of political factors, some ministries consider the time available for completion is too limited, partly because of geographic spread of its operations. Overall 'Ceilings' by ministry are not given, but baseline figures provided and request for bids for additional funds. Cabinet is not involved until a late stage. <i>Source of information: Estimates, budget speech, budget calendar 2009, budget guidelines 2008. Interviews – MoFT (ERU), MoFT (budget), MDPAC, sector ministries.</i>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	There are no multi-year forecasts, debt sustainability analysis is carried out annually as part of article iv consultations, sector strategies exist e.g. education, health, communications but they are not coasted. A medium-term development strategy (coasted) has recently been completed. Links between recurrent and capital costs are weak, although efforts are made to link them. <i>Source of information: Estimates, budget speech, budget outlook, policy statements, policy translation and implementation framework. IMF Article IV. Interviews – MoFT (ERU), MoFT (budget), MoFT (DMU) MDPAC, sector ministries.</i>
C(ii)	Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	D	Legislation is outdated, not comprehensive and unclear. Information available to taxpayers is very limited and there is no administrative tax appeals mechanism. <i>Source of information: Legislation. IRD self assessment, IMF 2007 CBSI annual report – 2007. Interviews – IRD, Customs, Private sector</i>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+	There is a single tax identification number, but tax databases are separate and there are no links with other business databases. Penalties are rarely imposed. There is a programme of audits but not based on risk assessments. <i>Source of information: Legislation. IRD self assessment Interviews – IRD, Customs.</i>
PI-15	Effectiveness in collection of tax payments	D+	Tax collections in Honiara are deposited into the treasury managed account daily. In outlying islands, money is deposited at least weekly into treasury managed commercial bank account. Information on debtors/arrears is incomplete. <i>Source of information: Legislation. IRD self assessment Interviews – MoFT, IRD, Customs.</i>
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	Once the appropriation bill has been passed and the general and accounting warrants have been issued, sector ministries know the level of funding available to them. No cash flow forecasts are prepared, although the cash situation is monitored. No in-year budget adjustments that affect the allocation of funds between MDAs have taken

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			place in recent years. <i>Source of information: Estimates, Accounts, General warrants, Accounting warrants Interviews – MoFT (treasury), MoFT (budget), sector ministries.</i>
PI-17	Recording and management of cash balances, debt and guarantees	C	Cash balances for treasury-managed accounts are calculated daily, but not consolidated. Debt records are now considered complete (with minor exceptions) for central government stock but records may not be complete for guarantees. The Honiara Club Agreement sets out government debt strategy, although 2 guarantees have been issued in 2008. <i>Source of information: OAG reports, .Interviews – MoFT (DMU), MoFT (treasury), CBSI.</i>
PI-18	Effectiveness of payroll controls	D+	A payroll audit was carried out in 2006 and MEHRD also carried out a review of its teachers in 2007. Action has been taken and controls have improved, delays in recording changes are not significant, but there is no reconciliation of three lists, payroll, personnel records and nominal roll. <i>Source of information: OAG reports (payroll) .Interviews – OAG, MoFT (payroll), MPS, sector ministries.</i>
PI-19	Competition, value for money and controls in procurement	D+	No data is systematically collected on use of open competition, justification for use of other methods is weak and there is no effective complaints mechanism. <i>Source of information: OAG reports, .Interviews – OAG, MoFT, sector ministries, CTB (secretary), Ombudsman.</i>
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	Auditor General notes improvement in internal controls, but significant weaknesses remain, e.g. splitting of tenders, waiving of FIs without due process, expenditure commitment controls exist but can be over ridden. FIs in need of update to reflect business processes and upgraded to include e.g. improved procedures for grant approval and administration. <i>Source of information: OAG reports, FIs Interviews – MoFT, IAU, sector ministries.</i>
PI-21	Effectiveness of internal audit	D	Internal audit functions are weak due to lack of support from management, lack of capacity and the need for a proper mandate in the regulations. <i>Source of information: OAG reports, IA report Interviews OAG, MoFT (IAU).</i>
C(iii)	Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	C	Treasury managed accounts are reconciled daily but reconciliations of other bank accounts are a problem. Suspense accounts relating to system errors/issues are yet to be resolved and advances provided by SIG and NZAID to be retired. <i>Source of information: OAG reports, .Interviews – MoFT (treasury), MEHRD.</i>

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
PI-23	Availability of information on resources received by service delivery units	D	No information is available on resources received by service delivery units and no public expenditure tracking exercise has taken place. <i>Source of information: Interviews –MoFT, Civil Society, Sector Ministries, Provincial Government.</i>
PI-24	Quality and timeliness of in-year budget reports	C+	In-year budget reports are prepared monthly within 2 weeks of month end and cover commitments as well as payments, although not for deconcentrated units e.g. provincial health offices or education authorities. There are some concerns over the reliability of data, but not to undermine the fundamental usefulness of the information. <i>Source of information: Funds available reports, Interviews – MoFT, sector ministries.</i>
PI-25	Quality and timeliness of annual financial statements	D+	Significant time and effort has been involved in eliminating the backlog of SIG accounts. The 2007 accounts are being finalised now (October 2008) for submission to the Auditor General. They are prepared in the format set out in the 1978 Public Finance and Audit Act but SI has no national accounting standards and the accounts are not IPSAS compliant. The Auditor General also has concerns over the completeness of the accounts (e.g. assets and liabilities). <i>Source of information: OAG reports on SIG accounts, Interviews – OAG, MoFT (Treasury).</i>
C(iv)	External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	C+	In the last four – five years, there has been a significant effort to audit SIG accounts and commence a rigorous audit regime in accordance with international auditing standards. More than 75% of expenditure is covered in the routine audit process and is supplemented by special audits. Management recommendations are issued and follow-up forms part of the annual audit cycle, as well as the requirement for an audit action plan by ministries (ref also PI 28). <i>Source of information: OAG reports, Interviews – OAG, PAC, sector ministries, audit action plans.</i>
PI-27	Legislative scrutiny of the annual budget law	D+	The PAC reviews the estimates and conducts hearings with officials and issues recommendations, although the review is at a relatively late stage of the process and time allowed is only one week. There is no follow up during the execution of the budget. Unjustified use of contingency warrant is highlighted as a problem. <i>Source of information: PAC reports, Interviews – OAG, PAC, sector ministries.</i>
PI-28	Legislative scrutiny of external audit reports	C+	The PAC conducts hearings with relevant ministry officials, reviews the majority of audit reports within 12 months and there is evidence of follow-up by ministries, although systematic follow-up by all ministries is not achieved yet.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			<i>Source of information: PAC reports, Interviews – OAG, PAC, sector ministries, audit action plans.</i>
D.	DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	N/A	<p>The OECD DAC definition of budget support requires donor assistance to use all government systems and procedures. No donor currently fulfils these criteria. NZAID (Education), AusAID (Health) support is appropriated through the recurrent budget but uses separate banking, accounting (MYOB) and reporting procedures. RoC's support is appropriated through the development budget, but is directed to specific projects e.g. RCDF. It does use government procedures, once released.</p> <p><i>Source of information: NZAID report, HSSP – AusAID subsidiary agreement and Interviews – NZAID, HSSP (AusAID), RoC.</i></p>
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	<p>In response to a request for information by the MDPAC, most of the major donors provide some information (albeit with some delay) to be included in the estimates. This is divided into Cash and Non Cash (TA and Cash o/seas). RoC assistance is understated (excludes TA and offshore support e.g. scholarships). Information on quarterly disbursements is very limited and only provided by a few donors e.g. EU to their line ministry (through NAO process).</p> <p><i>Source of information: Development Estimates, budget submission request form, NZAID report, HSSP – AusAID subsidiary agreement, Interviews – donors, MDPAC.</i></p>
D-3	Proportion of aid that is managed by use of national procedures	D	<p>In the 2008 estimates, NZAID (Education) and AusAID (Health) are appropriated through the SIG's recurrent estimates. RoC support is appropriated through the development estimates and uses government procedures once it is released from the special account. Most aid is provided in the form of technical assistance/overseas payments. The majority of donors (EU, ADB, AusAID (other), Japan, World Bank) use their own procedures.</p> <p><i>Source of information: Development Estimates, budget submission request form, Interviews – donors, MDPAC.</i></p>

Annex B Terms of Reference

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

A. Background

The Solomon Islands (SI) consist of over 990 islands of which six are large. The country has a total land area of 27,990 km² and an ocean within an exclusive economic zone of 1.34million km². The geographic isolation and fragmentation, in combination with the vulnerability of the country to external shocks and natural disasters pose a major challenge within the socio-economic development context. A recent example was on 2 April 2007 when a massive earthquake and a subsequent tsunami took lives and affected communities and their livelihoods in the Western and Choiseul Provinces.

The total population in 2005 was approximately 470,000 with a growth rate of approximately 2.8% per annum. Most (80%) of the population live in rural areas and are largely engaged in subsistence Agriculture. More than 50% of formal employment is concentrated in the capital Honiara.

Between 1999 and 2002 the country experienced a breakdown of law and order which was arrested by the arrival of the military intervention force, RAMSI, (Regional Assistance Mission to Solomon Islands) in mid 2003. Riots occurred in Honiara in April 2006 following the General Election. After a vote of no confidence in December 2007 a new government was formed. There are ongoing concerns over governance issues and the future stability of the government, and the country relies heavily on its donors and neighbours for continued peace, prosperity and economic growth. The major issues facing the SIG (Solomon Islands Government) are addressing the root causes of the ethnic conflict, capacity building in government and the private sector (incl. the civil society), commitment to the reform process, the urgent need to improve living standards in rural areas and addressing the issue of federalisation, which some provinces are demanding. The present government is committed to addressing these challenges and as a step in this way the SIG is at the moment developing a National Medium-Term Development Strategy (MTDS) and a Mid-Term Fiscal Strategy (MTFS), in close partnership with its development partners and in consultation with civil society.

In line with improving governance, especially in the field of public expenditure, it was agreed in the EU-SIG Political Dialogue meeting in the end of March 2008 to jointly with the government and development partners undertake a comprehensive assessment of Public Financial Management (PFM) in Solomon Islands using the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework.

There is on-going reform of the Solomon Islands PFM framework. Work to update the Financial Instructions is ongoing (commenced with support from PFTAC, to be continued by RAMSI), which together with the Public Finance and Audit Act of the SI, 1978, provide for the control and management of public finances in the Solomon Islands. The Ministry of Finance and Treasury (MoFT) has made improvements to the budgetary process in making the budget more transparent and readable, and thus more accessible for a public review of the nature of government spending.

B. Objectives of the mission

The overall aim of the mission is to produce a comprehensive Public Financial Management - Performance Report (PFM-PR) prepared according to the PEFA methodology, which will provide an assessment of the current performance of PFM processes and systems in Solomon Islands.

The objectives of the mission are threefold:

1. In the short-term, the PEFA exercise will provide relevant information to facilitate dialogue between SIG, development partners and technical assistance (TA) providers on PFM, and to help facilitate improved coordination on future reform activities;
2. In the longer term, the PEFA assessment report will provide baseline data for SIG's use in future monitoring and evaluation of PFM processes and systems; and
3. The findings of the exercise will also contribute to determining the eligibility of the country to further budget support in line with article 61(2) of the Cotonou Agreement.

There are potential harmonisation benefits from SIG and development partners using a widely accepted framework, such as PEFA, to assess PFM systems. As well as encouraging a common understanding of the strengths and weaknesses of PFM systems, it may reduce the administrative burden on SIG from hosting multiple donor missions.

C. Main actors of the mission

- The Solomon Islands Government:

The mission team will report to the Permanent Secretary for Finance and Treasury. An official nominated by the Permanent Secretary will be a central part of the mission team. Government officials of, and principal technical advisers to, the Ministry of Finance and Treasury, the Ministry of Development Planning and Aid Coordination and other relevant government ministries and agencies will be consulted in this mission as appropriate. The Auditor-General and the Governor of the Central Bank of Solomon Islands will also be consulted during this assessment mission.

- The donor community:

The EC Delegation in Solomon Islands will be the *chef de file* of the mission and will provide logistical support throughout its duration. The EC Delegation will disseminate the information and consolidate and coordinate development partners' comments on preliminary findings. The EC Delegation will distribute the draft report and the final report amongst donors.

RAMSI, AusAid, NZAID, ADB, World Bank, PIFS and IMF/PFTAC will be consulted during the planning of this mission (including developing these terms of reference). The EC Delegation in Solomon Islands will send an official communication to development

partners and other stakeholders informing them of the Terms of Reference, name(s) of the experts and dates for the field mission. This letter should reach the authorities at least two weeks prior to the field mission.

In addition to being involved in mission consultations (as appropriate for donors operating in Solomon Islands), 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 document approved by the Steering Committee of PEFA will constitute the guidelines for the fieldwork and reporting. This 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. This Performance Measurement Framework has been used in other Pacific countries – Fiji, Samoa, Tuvalu, Vanuatu, Tonga and PNG.

Existing available information on public finance and economic reforms in Solomon Islands will be accessed and analysed by the Team Leader prior to the mission, and will form the basis of the background section of the report. Possible sources of relevant information include SIG, ADB, World Bank, IMF/PFTAC, PIFS and development partners.

An *indicative work plan* will be presented by the mission team to SIG and development partners at the start of the field phase. The work plan will need to summarise the principal stages of the mission, include a list of people to be consulted and also preview the information to be collected from stakeholders. The work plan should also include a mid-term meeting with development partners and key SIG officials.

E. PEFA training and Dissemination

The mission team will conduct a *half-day preparatory workshop* in Honiara for all the stakeholders at the beginning of the field mission, including government, 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). This workshop will include two types of sessions: one providing a brief overview including general information about PEFA and the mission, the other detailing the techniques to be applied and the indicators directed at government representatives and their advisers.

At the end of the mission, a *half-day workshop* for stakeholders will be held to distribute and discuss the findings contained in the aide-mémoire, with the aim of achieving agreement on the scores between the mission team and SIG officials. Development partners will be invited to this workshop as observers.

F. Reporting

During the workshop towards the end of the field mission, the mission team should provide an **aide-mémoire** (maximum 10 pages, excluding annexes) to the government

and the lead donors in 5 copies. The aide mémoire should indicate the main findings and reflections 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 fieldwork, the mission team will submit a **draft report** (in English) complying with the PEFA PFM Performance Measurement Framework (cf. Annex 2).

This will incorporate comments and feedback received by the mission team during the final workshop. The draft report will be sent electronically to the SIG Ministry of Finance and Treasury, participating donors, and the PEFA Secretariat in Washington.

Comments from SIG, development partners and the PEFA Secretariat will be forwarded within one week of receipt of the draft report. The EC Delegation in Solomon Islands will consolidate the comments from donors.

The mission Team Leader will have one week from the receipt of feedback about the draft report to submit **the final report**. Comments from the Government will be attached in full in an annex. The final report will be sent – in hard and electronic copies – to the SIG Ministry of Finance and Treasury, participating development partners, and the PEFA Secretariat in Washington. SIG has agreed to allow the PEFA Secretariat to publish the final report on its website.

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. Mission team's composition

- **Composition:** The mission team will comprise **three members**:
 - **Team Leader / Expert:** The Team Leader will be an independent consultant, contracted by EC. His/her role is to facilitate the work of the team, and provide support as required. S/he should possess at least 8 years experience in public finance and practical experience in developing countries, and at least five years experience in the analysis of regional, national and international public finance / statistics / economics. Good knowledge and experience of working within small and developing Pacific Island states is highly desirable and having previously performed a PEFA assessment in a Pacific Island state would be an advantage.
 - **Team Member / Local TA:** A Solomon Islands expert with relevant skills and experience in analysis of financial information will be engaged to assist the team with fieldwork and help develop the draft report. The local TA will be contracted by SIG, with funding for the contract to be provided by AusAid. He/she will have substantial knowledge of the Solomon Islands public service, and have good writing and communication skills in English.
 - **Team Member / SIG official:** Assisted by technical advice from the team leader, and supported by other members the mission team, the SIG official will be responsible for planning and executing the field work. In particular, the SIG official will ensure access to information and documents, and that relevant people

are consulted and informed about the mission. The SIG official will have good writing and communication skills in English.

H. Timing of the Mission

The indicative date for the start of the field phase of mission in Solomon Islands is 18 August 2008. Briefing, work plan development and meeting arrangements would occur prior to this date. The overall field phase of this mission is estimated at 28 calendar days, with an additional seven days for reporting. See Annex 1 for more details.

I. Mission Cost

The overall mission cost is estimated at €50,000.

Annexes: Annex 1: Schedule for the preparation and execution of the PEFA mission

Annex 2: PEFA PFM Performance Measurement Framework

Annex I: Schedule (original) for the preparation and execution of the PEFA mission

Tasks	Responsible	Calendar
Validation of the ToR	Donors (country offices)	
Discussion of the ToR		6/6/08
Approval of the ToR		16/6/08
Awareness making of the government	Lead Donor (country office)	
Establish the modalities of Government involvement as well as the list of documentation that the government has to provide before the start of the mission on the spot		16/6/08
Agreeing the mission timetable	Lead Donor (country office)	
Dates agreed taking into account other donor missions and the budget calendar of the government.		16/6/08
Recruitment of the mission team Various		
Recruitment of consultants according to the specific recruitment procedures of each contracting donor <ul style="list-style-type: none"> • Team Leader (international consultant) • Team Member (local consultant) • Team Member (SIG official) 	EC SIG SIG to nominate	All to be completed by 15/8/08
PEFA Assessment Mission Various		
Collection of initial documentation	Various	Before 18/8/08
Briefing in EC HQ of Team Leader	EC / Team Leader	Before 18/8/08
Mission commences fieldwork	Mission team	18/8/08
Initial workshop	Mission team	19/8/08
Analysis of documentation and interviews/consultation with SIG, civil society, donors, and preparation of the aide mémoire	Mission team	19/8/08 to 10/9/08
Final workshop	Mission team	11/9/08
Draft report submitted, field work ends	Mission team	12/9/08
Comments due back	Various, EC to collate	19/9/08
Final report submitted	Team Leader	26/9/08
Debriefing in EC HQ of Team Leader	EC / Team Leader	After 26/9/08

Annex C Interviews and Workshop Attendees

Institutions	Name	Position
Central government		
Ministry of Finance and Treasury		
	Shadrach Fanega	Permanent Secretary
Debt Management Unit	Cyril Teboana	Director
	Matthew Wheadon	Technical Adviser
Budget Unit	Andrew Idutee	Acting Director
Internal Audit Unit	Michael Wale	Director
Economic Reform Unit	Dalcy Tozaka	Policy Analyst (SOE)
	Shaun Anthony	Senior Adviser
Treasury Division	Geoff Kavanagh	Acting Accountant General
	Lyall Patovaki	Acting Chief Payroll Officer
Inland Revenue Division	Andrew Minto	Acting Commissioner
Statistics Division	Nick Gagahe	Government Statistician
	Joachim Gaiafuna	Economic Statistician
Customs & Excise Division	Nathan Kama	Comptroller
Central Tender Board	Dick Oli	Secretary
Ministry of Development Planning and Aid Coordination		
	Jane Waetara	Permanent Secretary
Aid Coordination	Allan Daonga	Acting Under Secretary/ Director of Aid Coordination
Development Planning	Lyn Legua	Director Planning (Dev Budget)
	Daniel Beto Rove	Director Planning (Social Sector)
	Andrew Prakash	Chief Planning Officer (Economic Sector)
Sector Ministries		
Ministry of Infrastructure Development	Mr John Ta'aru	Permanent Secretary
Ministry of Education and Human Resource Development (MEHRD)	Ms Mylyn Kuve	Permanent Secretary
Health Sector Support Program	Justin Baguley	Health Development Program Specialist (AusAID)
Health Sector Support Program	John Izard	Senior Public Health Specialist (AusAID)
Health Sector Support Program	Ruby Tupitil	Program Officer
Health Sector Support Program	Ethel Wasaku	Program Officer
Ministry of Provincial Government and Institutional Strengthening (MPGIS)	Lydinah Kopana	Principal Accountant

Institutions	Name	Position
Ministry of Health and Medical Services	Dr Cedric Alependeva	Under Secretary Health Care
Ministry of Health and Medical Services	Mr Oswald Ramo	Under Secretary Finance and Administration
Ministry of Health and Medical Services	Mr Divi Ogaoga	Under Secretary Health Improvement
Office of the Auditor General (OAG)		
	Mr. Eric Muir	Auditor General (Acting)
Central Bank of the Solomon Islands		
	Denton Rarawa	Governor
	Gane Simbe	Manager – Financial Institutions
	Daniel Haridi	Manager Currency and Banking Operations
	Judy Anii	Currency and Banking Operations
Parliament		
Public Accounts Committee	Hon. Francis Zama	Chairman
Statutory bodies/ Government owned companies		
Investment Corporation of the Solomon Islands (ICSI)	Mr John Maneniaru	General Manager
Other Government Bodies		
Ombudsman's Office	Mr Joe Porowai	Ombudsman
Provincial Government (Malaita Province)		
	Richard Irosaea	Premier
	Harold Leka	Provincial Secretary
	Robert Kaua	Deputy Provincial Secretary
	James Taeburi	Provincial Treasurer
Donors		
Delegation of the European Union	Mr Abdoul- Aziz Mbawe	Charges d'Affaires
	Ms. Jenny Brown	Rural Development Adviser
	Ms. Mikaela Gronqvist	Attache Education
EU (National Authorising Office Support Unit)	Mr Peter Reddish	Programme Manager
	Mr Franck Chombarat	Deputy Programme Manager
Australian High Commission	Ms Alison Duncan	Acting High Commissioner
	Ms Deanna Easton	Third Secretary
AusAID	Ms Aileen Croghan	First Secretary Development Cooperation
NZAID	Mr Guy Redding	First Secretary
	Ms Rebecca Spratt	NZAID Manager
JICA	Mr Yoshiko Nishimura	Project Formulation Advisor
RoC Taiwan Embassy	Mr George Chan	Ambassador
	Mr Ben Wang	Political Counselor
US	Ms Keithie Saunders	Consular Agent
World Bank	Ms Edith Bowles	Country Manager
British High Commission	Mr Richard Lyne	High Commissioner
WHO	Dr William Adu-Krow	Country Liaison Officer

Institutions	Name	Position
	Ms Salome Ziku	Finance Officer
UNDP	Ms Christina Carlson	Deputy Resident Representative
RAMSI	Dr Kylie Coulson	Senior Development Program Specialist
	Mr Paul Kelly	Development Coordinator
Civil society		
Transparency International (SI)	Jean Tafoa	Chief Executive
	Brenda Wara	Administrative Assistant
Private sector		
AJ&G Blum Ltd	Ms Julie Haro	Manager
South pacific oil	Mr Michael Hemmer	Managing Director
Guadalcanal Plains Palm Oil Ltd	Mr Harry Brock	Project Manager
Solomon Islands Chamber of Commerce and Industry (SCCI)	Daniel Tuhonuku	Chief Executive Officer
Workshop attendees (A = 16th Sept B = 8th October)		
Ministry of Finance and Treasury	Mr Shadrach Fanega (A)	Permanent Secretary
Ministry of Finance and Treasury	Ms Elizabeth Kausimae (B)	Under Secretary (treasury) – Acting PS
Delegation of the European Union	Mr Abdoul- Aziz Mbawe (B)	Charges d'Affaires
British High Commission	Mr Ray Davidson (A)	Deputy High Commissioner
European Union	Ms Jenny Brown (A)	Rural Development Adviser
World Health Organisation	Mr William Adu-Krow	Country Liaison Officer
Regional Assistance Mission to Solomon Islands	Dr Kylie Coulson (A +B)	Senior Development Program Specialist, Economic Governance
Regional Assistance Mission to Solomon Islands	Mr Tony O'Brien (A+B)	Senior DPS Economic Governance
Regional Assistance Mission to Solomon Islands	Mr James Hall (A)	Deputy Development Coordinator
MHMS	Mr George Malefoasi (A+B)	Permanent Secretary
World Bank	Mr Cameron McFarlane (A+B)	PFM Adviser
Civil Aviation	Mr Ben Kere	Controller Civil Aviation
Central Bank of Solomon Islands	Mr Gane Simbe (A+ B)	Manager (Financial Institutions)
Ombudsman's Office	Mr Joe Porowai (A+B)	Ombudsman
Ministry of Land and Housing Services	Mr Ronald Unusi	Permanent Secretary
Australian High Commission	Ms Deanna Easton (A+B)	Third Secretary
National Parliament	Ms Taeosi Sanga	Clerk to Parliament
National Parliament	Ms Florence Naesol (A+B)	Deputy Clerk
National Parliament	Ms Mari Oru (A+B)	Accountant
Office of the Auditor General	Mr Eric Muir (A+B)	Acting Auditor General
Ministry of Police and National Security	Mr George Hiele	Permanent Secretary
United Nations Development Programme	Mr Samson Rihuoaha	CDM
Solomon Islands Government	Ms Ruth Liloqula	Secretary to the Cabinet
MEHRD	Ms Mylyn Kuve	Permanent Secretary
Ministry of Justice and Legal Affairs	Mr James Kemobatu (A+B)	Permanent Secretary

Institutions	Name	Position
New Zealand Aid	Mr Guy Redding	Aid Manager
Ministry of Communication and Aviation	Mr John Kabolo	Financial Controller
UNICEF	Mr Winston Pitakomoki	Program Officer
Investment Corporation of the Solomon Islands (ICSI)	Mr John Maneniaru (B)	General Manager
MoFT	Mr Geoff Kavanagh (B)	Acting Accountant General
Economic Reform Unit	Ms Darcy Tozaka (B)	Policy Analyst (SOEs)
MDPAC	Mr Samuel Wara (B)	Principal Planning Officer
Ministry of Infrastructure Development	Mr John Ta'aru (B)	Permanent Secretary
Health Sector Support Program	John Izard (B)	Senior Public Health Specialist (AusAID)
CBSI	Mr Daniel Haridi	Manager
IRD	Mr Eric Saelea	Deputy Revenue Commissioner
RoC	Mr Ben Wang	Political Counselor
MoFT (ERU)	Mr Shaun Anthony	Senior Adviser
MDPAC	Lyn Legua	Director Planning (Dev Budget)
MDPAC	Daniel Beto Rove	Director Planning (Social Sector)
JICA	Mr Yoshiko Nishimura	Project Formulation Advisor
AusAID	Ms Aileen Croghan	Aid Counsellor
MoFT (Treasury)	Mr Douglas Sade	Chief Accountant

Annex D List of documents consulted

Title	Author	Date
Laws and regulations		
Income Tax Act Cap 123 – 1965 (including subsidiary legislation) – consolidation for internal use	Inland Revenue Division	Consolidated to 1 January 2006
Goods Tax Act Cap 122 – 1993 (Including subsidiary legislation) – consolidated for internal use		Consolidated to 31 December 2003
Financial Instructions 1994 (amended 2005)	Ministry of Finance and Treasury	Updated to 7 th November 2005
Sales Tax Act Cap 125 (1990)		Consolidated to 31 December 2003
Stamp Duties Act 126 (1940)		
Public Finance and Audit Act		
Budget documents		
The 2008 Budget Speech	Government of Solomon Islands	25 th March 2008
The 2007 Budget Speech	Government of Solomon Islands	6 th February 2007
The 2006 Budget Speech	Government of Solomon Islands	28 th November 2005
The 2005 Budget Speech	Government of Solomon Islands	2 nd December 2004
Approved Recurrent Estimates Year 2005	Solomon Islands Government	1 st January 2006 (General warrant issued)
Approved Recurrent Estimates Year 2007	Solomon Islands Government	26 th February 2007
Approved Recurrent Estimates Year 2008	Solomon Islands Government	Gazetted 7 th April
Budget Strategy and Outlook 2008	Solomon Islands Government	
Budget Strategy and Outlook 2007	Solomon Islands Government	
Budget Strategy and Outlook 2006	Solomon Islands Government	
Budget Strategy and Outlook 2005	Solomon Islands Government	
New Spending Measures Budget 2007		
New Spending Measures Budget 2005		
Budget Calendar 2009	MoFT/MDPAC/MPS	
Policy documents		
Policy Translation and	CNURA	February 2008

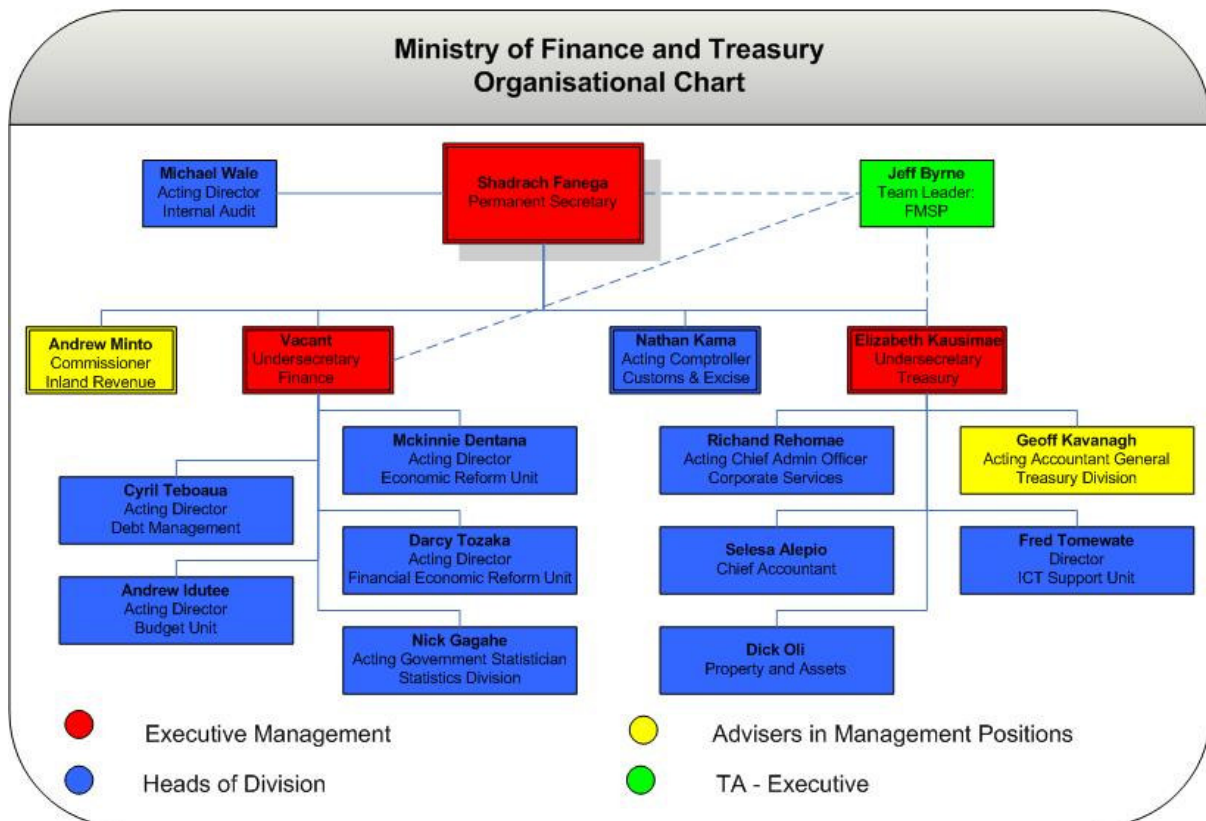
Title	Author	Date
Implementation Framework		
Policy Statements	CNURA	January 2008
Medium Term Fiscal Strategy 2008 -2013	SIG	
Medium Term Development Strategy (draft)	SIG	June 208
Internal audit reports		
Compliance Audit into the Ministry of Agriculture and Livestock - 2007	Internal Audit Bureau - MoFT	May 2008
Monitor reports		
SI Debt as @ 29 th February 2004	SIG	
SI Debt as @ 31 July 2008	SIG	
2008 Grants to Provinces and Honiara City Council	MoFT	
Ministry of Health and Medical Services & Health Sector Support Programme - Quarterly Report	Ministry of Health and Medical Services (MoHMS)	31 st July 2008
CBSI Quarterly Review March 2008	CBSI (www.cbsi.com.sb)	
CBSI Annual Report	CBSI	
External audit reports		
Annual report 2007	OAG	17 th September 2008
Status of Audits of SIG Entities as @ 30 June 2008	OAG	28 th August 2008
Status of Audits of SIG Entities as @ 30 June 2007	OAG	7 th August 2007
Annual Reports 2002 - 2006	OAG	
Special Audit Report into the Treasury Division Central Payroll	OAG	11 th October 2006
Insight into Corruption	OAG	31 October 2007
Audit Action Plan	OAG	
Strategic Audit Plan and tactical audit plan	OAG	28 th November 2007
OAG report on the accounts of the SIG for the year ended 31 st December 2004	OAG	24 th July 2008
OAG report on the accounts of the SIG for the year ended 31 st December 2005	OAG	24 th July 2008
OAG report on the accounts of the SIG for the year ended 31 st December 2006	OAG	24 th July 2008
PAC reports		
Consideration of the 2008 Draft Estimates	PAC	21 st March 2008

Title	Author	Date
PAC report – Immigration Division	PAC	16 th July 2007 (tabled October 2006) – hearings 30 th March 2007
Consideration of the 2006 Supplementary Estimates	PAC	9 th October 2006
PAC report MHMS + National Referral Hospital		25 th January 2007 (tabled October 2006 – hearings 23 and 24 November
Consideration of the 2007 Supplementary Estimates	PAC	13 th August 2007
Consideration of the 2008 Supplementary Estimates	PAC	18 th August 2008
PAC report – 1997 accounts	PAC	10 th October 2006 (tabled October 2006 – hearings 3 rd – 4 th October 2006
Consideration of the 2007 Draft Estimates	PAC	5 th January 2007
PAC – Tertiary Scholarships	PAC	16 th July 2007 (tabled October 2006) – hearing 24 th May
PAC – Payroll	PAC	16 th July 2007 (tabled October 2006) – hearing 24/5 th May
PAC – MAL Land registration procedures/Kukum sub division	PAC	16 th July 2007 (tabled October 2006) – hearing 24 th May 2007
PAC – MID and Civil Aviation Division	PAC	16 th July 2007 (tabled October 2006) – hearing 29 th /30 th March 2007
Other reports		
Processing of NZAID Budget Support	NZAID	
Memo for PEFA Assessment - Debt	SIG DMU	8 th September 2008
Article IV concluding statement	IMF	2008
Article IV Consultation Report	IMF	2007
Article IV Consultation Report	IMF	2006
Country Strategy (EDF 10)	EU	
Websites (AusAID, RAMSI, ADB, NZAID)		

Annex E Breakdown of cost centres

Development Estimates (Heads) = 4;
Recurrent Estimates (Heads) = 2;
Budget Support = 3;
70: Ministry of Agriculture and Livestock;
71 Office of the Auditor General;
72 Ministry of Education and Human Resource Development;
73 Ministry of Finance and Treasury;
74 Ministry of Foreign Affairs and Trade;
75 Governor General;
76 Ministry of Health and Medical Services;
77 Ministry of Infrastructure Development;
78 National Debt Servicing;
79 National Parliament;
80 Ministry of Forestry and Research;
81 Office of the Prime Minister and Cabinet;
82 Pensions and Gratuities;
83 Ministry of Police and National Security;
84 Ministry of Provincial Government;
85 Ministry of Lands, Housing and Survey;
86 Ministry of Development Planning and Aid Coordination;
87 Ministry of Culture and Tourism;
88 Ministry of Commerce, Industries and Employment;
89 Ministry of Communication and Aviation;
90 Ministry of Fisheries and Marine Resources;
91 Ministry of Public Service;
92 Ministry of Law and Justice;
93 Ministry of Home Affairs;
94 Ministry of National Unity, Peace and Reconciliation;
95 Ministry of Mines, Energy and Rural Electrification;
96 National Judiciary;
97 Ministry of Women, Youth and Children's Affairs;
98 Ministry of Rural Development and Indigenous Affairs;
99 Ministry of Environment, Conservation and Meteorology.

Annex F Organisation Chart for MoFT



Annex G Calculation of Variances

Table 2 Combined recurrent and development expenditure (excluding donor-funded projects)					
Data for year =	2004				
<i>Administrative head</i>	original	actual	difference	absolute	percent
70 Agriculture and Lands	13,658.998	16,156.004	2,497.006	2,497.006	18.3%
71 Auditor General	1,170.075	605.806	-564.269	564.269	48.2%
72 Education and Human Resources Dev	90,421.872	108,697.398	18,275.526	18,275.526	20.2%
73 Finance and Planning	14,144.029	58,227.797	44,083.768	44,083.768	311.7%
74 Foreign Affairs and Commerce	11,636.732	16,192.969	4,556.237	4,556.237	39.2%
75 Governor General	1,207.774	1,403.231	195.457	195.457	16.2%
76 Health and Medical Services	52,980.902	51,645.241	-1,335.661	1,335.661	2.5%
77 Infrastructure Development	17,900.078	18,662.396	762.318	762.318	4.3%
79 National Parliament	9,075.375	12,938.662	3,863.287	3,863.287	42.6%
80 Natural Resources	7,519.649	6,938.682	-580.967	580.967	7.7%
81 Prime Minister and Cabinet	18,195.270	21,885.545	3,690.275	3,690.275	20.3%
82 Pensions and Gratuities	2,640.000	1,702.506	-937.494	937.494	35.5%
83 Police and Justice	46,108.041	43,468.088	-2,639.953	2,639.953	5.7%
84 Provincial Government and Home Affairs	21,408.148	27,932.768	6,524.620	6,524.620	30.5%
Total expenditure	308,066.943	386,457.093	78,390.150	78,390.150	25.4%
Composition variance	308,066.943	386,457.093		90,506.838	29.4%

Table 3 Combined recurrent and development expenditure (excluding donor-funded projects)					
Data for year =	2005				
<i>Administrative head</i>	budget	actual	difference	absolute	percent
70 Agriculture and Lands	29,659.646	20,304.281	-9,355.365	9,355.365	31.5%
71 Auditor General	3,553.614	1,833.823	-1,719.791	1,719.791	48.4%
72 Education and Human Resources Dev	177,276.059	152,727.017	-24,549.042	24,549.042	13.8%
73 Finance and Planning	55,846.873	56,400.924	554.051	554.051	1.0%
74 Foreign Affairs and Commerce	28,642.174	27,150.806	-1,491.368	1,491.368	5.2%
75 Governor General	2,453.723	2,636.872	183.149	183.149	7.5%
76 Health and Medical Services	85,047.691	81,259.847	-3,787.844	3,787.844	4.5%
77 Infrastructure Development	27,418.157	28,722.992	1,304.835	1,304.835	4.8%
79 National Parliament	14,583.475	15,543.433	959.958	959.958	6.6%
80 Natural Resources	15,293.422	11,541.374	-3,752.048	3,752.048	24.5%
81 Prime Minister and Cabinet	26,260.274	29,612.179	3,351.905	3,351.905	12.8%
82 Pensions and Gratuities	2,719.200	1,668.902	-1,050.298	1,050.298	38.6%
83 Police and Justice	70,210.132	69,259.633	-950.499	950.499	1.4%
84 Provincial Government and Home Affairs	44,370.776	48,142.636	3,771.860	3,771.860	8.5%
Total expenditure	583,335.216	546,804.719	-36,530.497	36,530.497	6.3%
Composition variance	583,335.216	546,804.719		56,782.013	9.7%

Table 4 Combined recurrent and development expenditure (excluding donor-funded projects and debt servicing)					
Data for year =	2006				
<i>Administrative head</i>	budget	actual	difference	absolute	percent
70 Agriculture and Lands	31,427.786	28,032.913	-3,394.873	3,394.873	10.8%
71 Auditor General	3,788.956	1,908.479	-1,880.477	1,880.477	49.6%
72 Education and Human Resources Dev	235,520.286	237,532.306	2,012.020	2,012.020	0.9%
73 Finance and Planning	49,229.497	78,412.887	29,183.390	29,183.390	59.3%
74 Foreign Affairs and Commerce	40,588.524	34,229.846	-6,358.678	6,358.678	15.7%
75 Governor General	2,187.346	1,941.346	-246.000	246.000	11.2%
76 Health and Medical Services	99,229.810	98,003.554	-1,226.256	1,226.256	1.2%
77 Infrastructure Development	46,502.748	50,617.687	4,114.939	4,114.939	8.8%
79 National Parliament	14,576.173	19,853.603	5,277.430	5,277.430	36.2%
80 Natural Resources	24,117.255	15,621.374	-8,495.881	8,495.881	35.2%
81 Prime Minister and Cabinet	27,859.412	38,401.309	10,541.897	10,541.897	37.8%
82 Pensions and Gratuities	3,541.294	3,242.438	-298.856	298.856	8.4%
83 Police and Justice	79,991.113	74,780.061	-5,211.052	5,211.052	6.5%
84 Provincial Government and Home Affairs	68,643.312	61,553.582	-7,089.730	7,089.730	10.3%
Total expenditure	727,203.512	744,131.385	16,927.873	16,927.873	2.3%
Composition variance	727,203.512	744,131.385		85,331.79	11.7%

Table 5 - Results Matrix (combined recurrent and development expenditure (excluding donor- funded projects and debt servicing)

	for PI-1		for PI-2
year	total exp. deviation	total exp. variance	variance in excess of total deviation
2004	25.4%	29.4%	3.9%
2005	6.3%	9.7%	3.5%
2006	2.3%	11.7%	9.4%