



TECHNICAL ASSISTANCE REPORT

TONGA

Public Expenditure and Financial Accountability Assessment: Agile Report

JANUARY 2020

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KINGDOM OF TONGA



PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT 2019

Final Report

January 13, 2020



KINGDOM OF TONGA PEFA ASSESSMENT 2019

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

PEFA Secretariat
January 10, 2020

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Abbreviations and Acronyms

AFS	Annual Financial Statements
ADB	Asian Development Bank
AGD	Accountant General Department
DFAT	Australian Department of Foreign Affairs and Trade
CDCC	Cabinet Development Coordination Committee
COFOG	Classification of Functions of Government
DMS	Debt Management Strategy
DSA	Debt Sustainability Analysis
EBU	Extra-Budgetary Unit
EC	European Commission
EV	Expenditure Voucher
FY	Fiscal Year
GDP	Gross Domestic Product
GFSM	Government Financial Statistics Manual
GRB	Gender Responsive Budgeting
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
JICA	Japan International Cooperation Agency
KPI	Key performance indicator
MoF	Ministry of Finance
MoRC	Ministry of Revenue and Customs
NIIP	National Infrastructure Investment Plan
PAC	Public Accounts Committee
PC	Public Corporation
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPP	Public Private Partnership
PS	Permanent Secretary
PSC	Public Service Commission
PSIP	Public Sector Investment Program
RBT	Royal Bank of Tonga
SDG	Sustainable Development Goals
SNG	Sub-National Government
TC	Tropical Cyclone
TSDf	Tonga Strategic Development Framework
VAT	Value Added Tax

1. INTRODUCTION

This report presents the findings of the Tonga PEFA assessment 2019, piloting the PEFA Secretariat's new 'Agile PEFA' approach.

Country context

Government

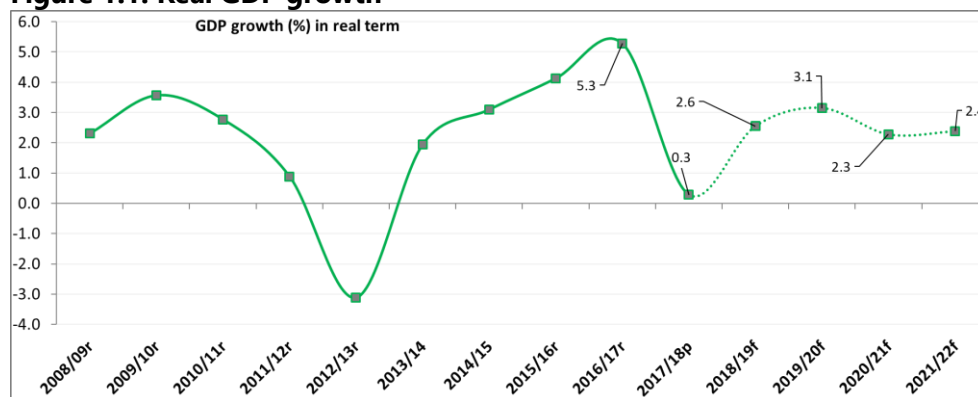
The Kingdom of Tonga is a constitutional monarchy with a legal system based on English common law. The Chief of State is the King, and the Head of Government is the Prime Minister who is elected by a unicameral Parliament. Parliament consists of 17 people's representatives directly elected in single-seat constituencies by simple majority vote, and nine indirectly elected by hereditary leaders; members serve five-year terms.

Economy

The population of Tonga is estimated at 106,000 (2018) with a per capita income of US\$ 5,900 as at 2017¹. Tonga's economy grew 0.32 percent in 2017/18, against 1.1 percent initially forecast, reflecting the impact of Tropical Cyclone (TC) Gita which caused serious damage to various sectors of the economy.

Nevertheless, as can be seen from the chart 1.1 below, real GDP is expected to accelerate in 2019/20 and the following fiscal years.

Figure 1.1: Real GDP growth



Data source: Tonga Ministry of Finance Statistics Department

Fiscal trends

The government's 2019/20 Budget Statement set out the main economic indicators and fiscal targets. It also includes information on numerical and qualitative objectives as well as quantitative targets for the budget year and the following two fiscal years based on four key 'fiscal anchors' as set out in table A1 below: i) raise domestic revenue collections to pre-global financial crisis levels (at least 22% of GDP); ii) minimize external borrowing, and only borrow externally on highly

¹ CIA The World Factbook 2018

² Budget Statement 208/19

concessional terms; iii) maintain nominal external debt below 50 percent of GDP; and iv) maintain staff cost at no more than 53 percent of domestic revenue.

Table A1: Government of Tonga ‘Fiscal Anchors’

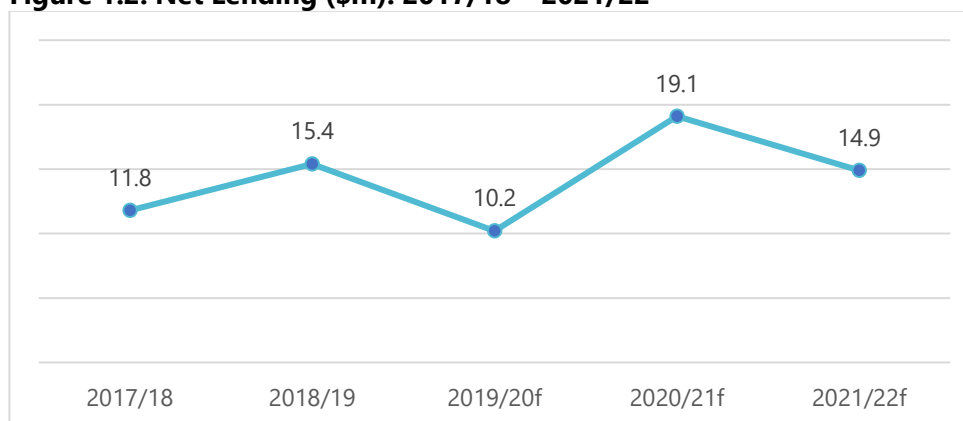
Fiscal anchor	2016/17	2017/18	2018/19	2019/20	2020/21	2020/22
Domestic revenue to GDP (>22%)	24.3	25.1	25.2	26.4	25.5	24.5
Compensation of employees (<53% of domestic revenue)	53.2	47.9	51.6	53.1	52.2	51.2
Compensation of employees (<45% of operating expenditure)	76.7	61.0	53.3	55.2	59.8	59.8
External Debt to GDP (<50% of GDP)	45.0	46.4	42.7	42.5	40.3	38.0

Data source: Tonga Ministry of Finance, Budget Statement 2019/20

The 2019/20 budget projects a small positive fiscal balance (net lending \$10.2m), in 2019/20, and positive fiscal balances projected for the two following fiscal years as shown in chart A2. However, it should be noted in this context, that the budget is very dependent on development partner revenues for general budget support and development fund expenditure (major capital investment and other projects).

Building on these positive balances, external debt for 2019/20 is projected at 42.7% of GDP, below the government’s target of 50%, but higher than the IMF’s suggested target of 40%.

Figure 1.2: Net Lending (\$m): 2017/18 – 2021/22



Data source: Tonga Ministry of Finance, Budget Statement 2019/20

Rationale and purpose of the assessment

The objective of the Tonga PEFA assessment is to measure the current performance of public financial management (PFM) systems using an objective, internationally-recognized standard. This assessment, together with the draft supplementary gender responsive budgeting (GRB) assessment, identifies the key weaknesses in PFM and the main underlying causes. It also tracks PFM performance against the most recent formal PEFA assessment in accordance with the PEFA Secretariat’s guidance.

The assessment will be used to report progress against Tonga’s existing PFM Roadmap and identify reforms, milestones and deadlines in developing a new PFM Roadmap going forward. The assessment will also provide a basis for dialogue within the government on determining its

future PFM reform priorities and for development partners to plan their technical support accordingly. The assessment has also provided country officials with experience in using the PEFA to build country capacity to periodically conduct their own self-assessment.

Assessment management and quality assurance

The PEFA assessment was led by the Ministry of Finance (MoF) of the Government of Tonga and was funded by IMF Pacific Financial Technical Assistance Center (PFTAC). The Chief Executive Office of the MoF chaired the oversight team managing the assessment. The oversight team also included the Deputy Auditor General, Deputy CEOs of the Ministries of Finance, Infrastructure and Education and Training, and a representative of the local office of the World Bank.

The assessment team was led by Celeste Kubasta (PFTAC advisor) and included Richard Neves (PFTAC advisor) and Kris Kauffman (PFTAC expert), Martin Bowen and Urška Zrinski (PEFA Secretariat), and Kelera Kolivuso Ravono (MoF Fiji). Quality assurance has been applied in accordance with the PEFA Secretariat guidelines. Five reviewers have been nominated: Ministry of Finance, PEFA Secretariat, IMF Fiscal Affairs Division, World Bank, and the Australian Department of Foreign Affairs and Trade.

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

Methodology

The PEFA assessment was undertaken in accordance with the PEFA 2016 methodology using the pilot 'Agile PEFA' approach. The assessment covers 31 indicators and 91 dimensions. As Tonga has no SNGs, PI-7 and PI-10.2 are NA. A supplementary annex tracking performance of selected indicators since the previous PEFA assessment in 2010 using the 2005 framework has also been prepared. The assessment also included the application of the supplementary assessment framework for GRB, recently developed by the PEFA Secretariat. This is presented as a separate report.

Scope and coverage

The scope of the PEFA assessment covers the central government, i.e. entities receiving budget allocations from the central government's budget including 25 budgetary units (line ministries and agencies); three project management units that represent extrabudgetary operations and, to the extent that they present a fiscal risk to the government, 15 public corporations. There are no units that are classified as extrabudgetary units³. Two entities, the National Retirement Benefit Fund and Retirement Fund Board are considered to be public sector organizations in accordance with GFS, i.e., outside central government. For the purposes of the agile assessment, all budgetary units and the five largest public corporations were reviewed as part of this assessment. A list of agencies covered by the assessment is presented at Annex 2.

PFM legal framework

³ In this report there is a distinction between "extrabudgetary units" and "extrabudgetary operations". Extrabudgetary units are government entities whose entire operations are not budgeted or included within the scope of the government's financial reports, whereas extrabudgetary operations are certain activities of otherwise budgetary units that are not budgeted for and included within financial reports.

Public financial management is underpinned by the Public Financial Management Act 2002. The Act is supported by detailed Treasury Instructions 2010. A separate Public Audit Act 2007 provides the legal framework for audit activity. The Revenue Services Administration Act of 2002 governs the Ministry of Revenue and Customs.

Time period

The assessment is based on the following timelines:

In-country field work	November 11 -22, 2019
Country fiscal year:	July 1 to June 30
Last three fiscal years covered:	FY 2018/19, 2017/18, and 2016/17
Latest budget submitted to legislature:	FY 2019/20
Time of assessment (planned cut-off):	November 22, 2019

Sources of information

The assessment team consulted a wide range of documents from various sources including government ministries and development partners. Evidence used is highlighted for each indicator and dimension. Where this information is available publicly on the government website the relevant link is noted. A consolidated list of documents used for this assessment, including by indicator, can be found in Annex 3. The names of all persons interviewed are listed in Annex 4.

Exchange rate

Exchange rate effective as of November 22, 2019

Currency unit = Pa'anga

USD1.00 = TOP2.3063

2.SUMMARY OF FINDINGS

Main strengths and weaknesses of PFM systems

Budget planning and preparation appears to be sound. A clear budget calendar exists, with budget envelopes issued to ministries with the annual budget circular, medium term budget estimates prepared and presented by program, administrative, and economic classification. However, ministries have only three weeks from the time the instructions are issued to prepare their detailed estimates.

Notwithstanding a largely sound budget preparation processes, budget reliability has been weak in the last two years due to significant variances in aggregate expenditure and revenue as well as expenditure composition. The variances are largely attributable to overestimates and/or underspending of budget support and development funds. Estimates of both budget support and development funds are prepared in consultation between the Ministry of Finance and development partners during budget preparation. Development partners' contributions are based on planned spending and projects in consultations with the MoF. Anecdotally, it would appear a large proportion of the variance was the result of external events, in particular Cyclone Gita. The response of development partners led to a significant increase in budget support and development fund allocations, but also delays in some other previously planned projects. Further analysis may be required to determine whether there are additional systemic issues related to projections of development partners' funding presented in the estimates, including delays in project approval and implementation.

Ministries are required to prepare, annually, three-year corporate plans which set out objectives, planned, and in some cases achieved, outputs and outcomes, although the relevance and quality of performance information is variable. Only one of the five largest ministries provided costings as part of their corporate plans.

In-year budget adjustments are below the threshold permitted by parliament. There is no available data on the value of arrears as Treasury systems do not capture accounts payable when goods and invoice are received and, as such, data on the value and age profile of arrears is not reported.

Budget preparation documentation is generally comprehensive and timely, with the exception of an explanation of macroeconomic assumptions, new spending proposals, and tax expenditures.

There is good coverage of the budget, and fiscal reports, with only an increasingly small number of project management units handling development funds not using treasury systems for accounting and reporting. Indeed, one of the issues with regarding comparability of budget and reporting is that all development funds are in the budget (including in-kind) but only those funds that flow through the treasury are included in financial statements.

Financial statements of budgetary units are prepared annually and include a financial balance sheet. However, reports have split expenditure between "operating" and "development" elements and it is not clear what proportion or what expenditures at the ministry level are capital. This grouping of all development expenditure in a single line item in financial reports makes the presentation inconsistent with government finance statistics (GFS).

Although timely, in-year budget reports are highly aggregated, showing only economic classification. However, due to reconciliation issues, there is a mismatch between reconciled figures in the FMIS and the bank accounts, requiring some estimation of actuals in the reports. Financial reports of public corporations are provided to the Ministry of Public Enterprises within three months of the end of the fiscal year and the audited version is published within 6 months. Fiscal risks are generally well reported but only contingent liabilities are quantified. Public assets are generally well managed but would benefit from strengthening of the legislative framework and publication of information.

Public availability of fiscal information is limited. Although the budget documents are tabled in parliament, these are generally not uploaded to the MoF website until sometime after the budget has been approved, making access difficult. Parliament has adequate time to review the budget and its scrutiny, with the support of the PAC is generally comprehensive.

Public investment management is relatively strong. Major investment projects are donor funded, either through grants or loans and all such projects undergo economic, environmental, social, cost benefit assessment consistent with the guidelines of development partners; and are selected by the central government entity in line with government's priorities. Implementation of projects is adequately monitor and in line with development partners' standards. While information on total life-cycle costs for major investment projects is presented in the government's budget documentation, a year-by-year breakdown is missing.

A debt management system is in place (CS-DRMS) but some systems issues exist that have prevented complete recording of new debt instruments since 2018. There is currently no Debt Management Strategy in place – the most recent strategy dates back to December 2015 and is out of date – and there are no documented policies and procedures that guide borrowing and guaranteeing loans authorized by the PFM Act 2002.

Internal control systems are generally sound with clear segregation of duties and the Treasury has a rigorous process of assessing for compliance all expenditure vouchers prior to their release. However, commitment controls apply to less than half of expenditure by value (wages and Salaries, and grants and transfers, plus utilities are excluded) and are often recorded after the obligation is incurred, thus limiting the effectiveness of commitments in avoiding overspending or arrears. SunSystem FMIS is used to record transaction in the general ledger and to manage controls in budget execution, including segregation of duties. System access controls and user profiles restrict access and audit trails track changes.

While the Treasury is diligent in undertaking and reporting reconciliations for all accounts, its inability to recognize and classify many (mainly revenue) transactions in accounts leaves large unreconciled balanced in the most active accounts that take months to resolve. Annex 5 provides a summary of observations on internal control.

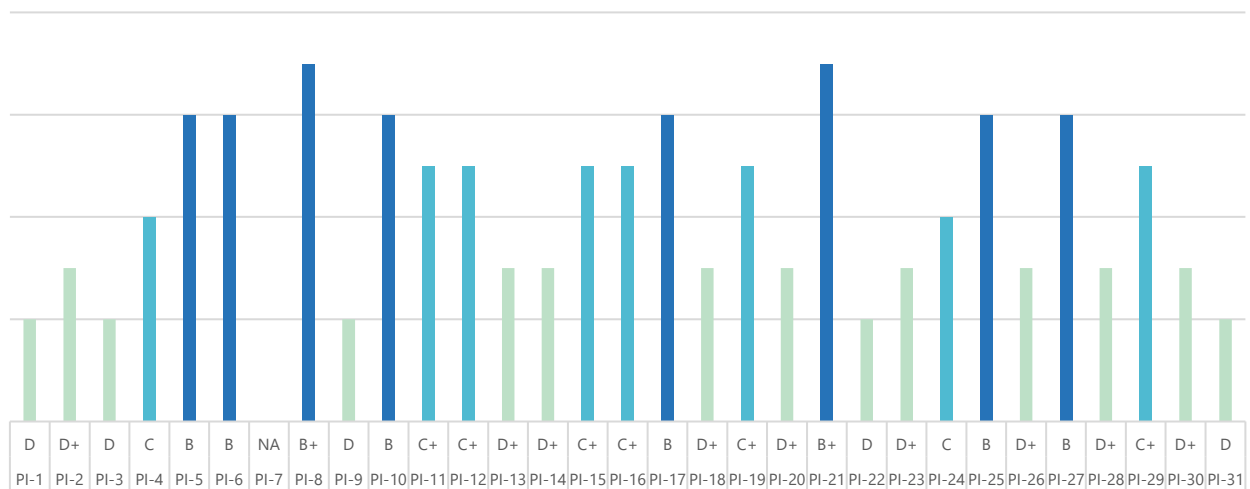
Revenue administration and accounting is well managed, and systems that support predictability of in-year resources are sound (notwithstanding the variances in expenditure outturns). Payroll management and payroll internal controls are generally sound, although there has been no reconciliation between the Public Service Commission's personnel system and the payroll system operated by the Treasury since January 2019. There is no direct link between these systems and the business processes associated with changes to personnel and payroll are not sufficiently

robust to ensure ongoing reconciliation. There has also been no audit of payroll, or a staff survey that would validate data in payroll in the last three years.

In last three completed fiscal years, the Legislative Assembly of Tonga has not finalized the scrutiny of annual financial reports. The Legislative Assembly does not conduct any hearings on audit reports which receive a qualified or adverse audit opinion or a disclaimer.

Performance indicator scores for indicators and dimensions applying the PEFA 2016 framework are presented in Figure 1 below. A summary table of the scores of all indicators and dimensions is presented at Annex 6.

Figure 2.1: Summary of PEFA scores by indicators – PEFA 2016 framework



Impact of PFM performance on the fiscal and budgetary outcomes

Aggregate fiscal discipline

There are comprehensive, internal processes for macro-fiscal planning, fiscal strategy formulation along with annual and medium-term budget formulation. As actual expenditures have largely tracked the shortfall in revenues, the large variances in aggregate revenue and expenditure budget outturn in 2017/18 and 2018/19 do not currently appear to have affected aggregate fiscal discipline, with the 2019/20 estimates and forward year continuing to project a positive fiscal balance. Nevertheless, poor budget reliability is traditionally one of the main drivers of weak fiscal discipline and should be addressed, particularly delays in project implementation.

While the debt to GDP ratio is on a downward trend, weakness in debt management, including the absence of a current medium-term debt strategy and lack of documented policies and procedures may result in management and operational decisions that do not align with broader fiscal objectives for managing medium and longer term debt and/or result in key risks not being identified or adequately managed.

Should a situation arise where the expenditure side of the budget is fully executed, but revenues underperform, it is not clear that the systems in place for managing budget execution are

sufficiently robust to avoid either a significant deterioration in the overall fiscal position and/or incurring of expenditure arrears. The effectiveness of cash management and associated commitment control are critical components in managing such situations.

Revenue administration appears sound, and compared to development partner contributions, domestic revenues are more reliable, although there are still compositional variances and significant revenue arrears.

Strategic allocation of resources

The main objective of PEFA and PFM reform is to support sustainable development and better and more effective service delivery outcomes that meet a citizens' needs and priorities.

Tonga's medium-term budget planning and annual budget formulation processes, along with adequate budget documentation, including budget strategy, budget statement and ministry corporate plans, are all designed to support more effective strategic allocation of resources in line with policy priorities. Timely in-year budget execution reports provide good information to government although significant challenges remain, as evidenced by significant deviations in budget outturns from the approved budget allocations, both for revenue and expenditure, particularly for development partner funding. Budget reallocations between ministries are limited (<1% for transfers in and out of the 'contingency fund' in 2018/19), but compositional variances in both expenditures and revenues are still significant.

Efficient use of resources for service delivery

Efficient service delivery is supported by good revenue administration and systems that support in-year resource allocation including good cash flow forecasting and non-restrictive commitment controls (notwithstanding the variances in expenditure outturns). Management of changes and internal control of payroll are generally good, although there is no integration or reconciliation of payroll and personnel records and there has been no audit of payroll for over three years. There are also gaps in reconciling bank accounts.

The Treasury is diligent in undertaking and reporting reconciliations for all accounts but its inability to recognize and classify many (mainly revenue) transactions in accounts leaves large unreconciled balances in the most active accounts that take months to resolve. Financial data integrity is sound and supported by the SunSystem FMIS which controls in budget execution.

Procurement monitoring is maintained for central government procurements; however, it does not cover procurement by ministries and when donor procurement systems are used for investment projects. There is limited transparency and competitive procurement methods are used for less than 30% of expenditure both of which can undermine value for money. External accountability for financial management is generally adequate with annual financial statements usually audited within 9 months of the end of the fiscal year although there is little scrutiny of these reports by parliament.

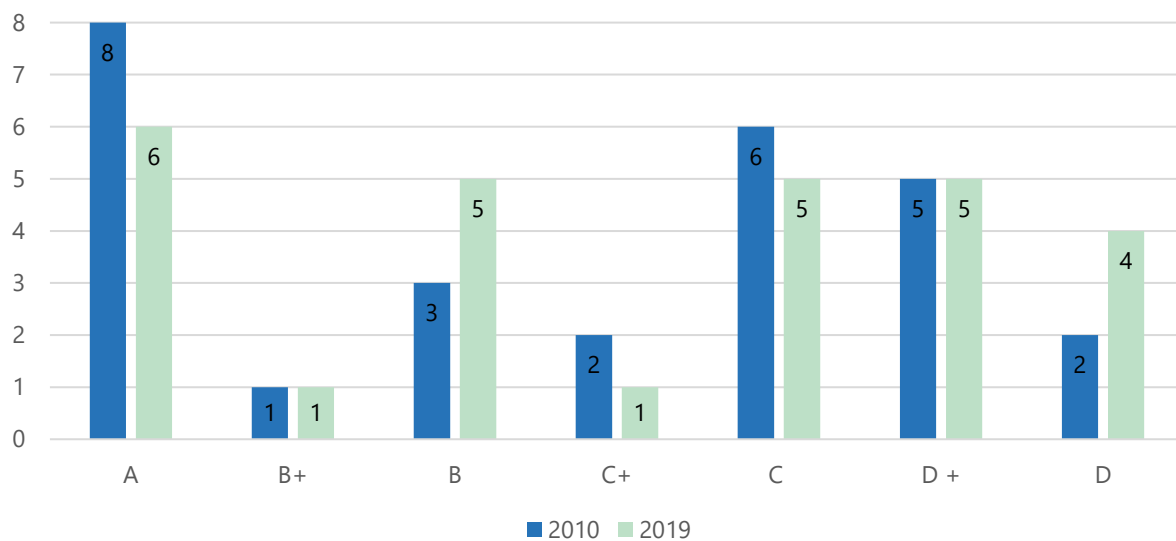
Performance change since previous assessment

It is not possible to make a direct comparison between the current assessment (which uses the PEFA 2016 framework) and the previous assessment undertaken in 2010 (which used the 2005 version of the framework). The report, therefore, includes an additional analysis that compares

performance at this time using the same version of the framework used in 2010. This assessment is presented at annex 6.

Figure 2 presents the comparison of the distribution of scores between the previous PEFA assessment in 2010 with the current PEFA assessment in 2019 using the 2005 framework. Overall, comparison of current performance with the performance assessed in 2010 shows that 7 indicators have improved, 10 declined, and 11 stayed the same.

Figure 2.2: Comparison of the distribution of indicator scores between the previous assessment in 2010 and the current assessment in 2019 using the 2005 framework



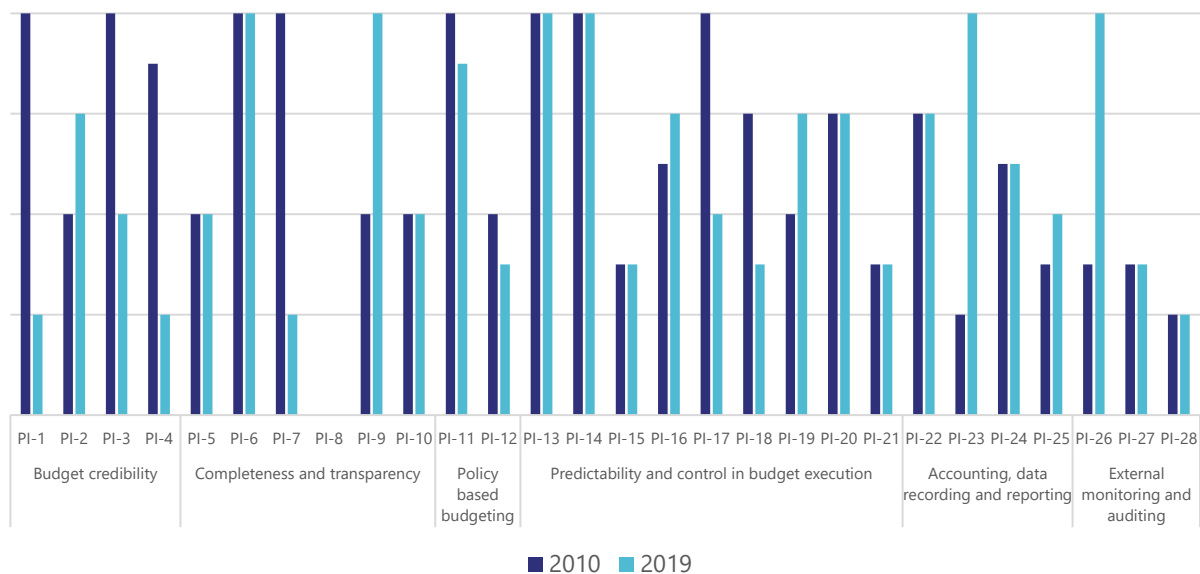
Monitoring of public corporations improved with the oversight by Ministry of Public Enterprises. Ministries, departments, and agencies (MDAs) have access to funds for implementation of budgets which is also reflected in resources available to service delivery areas. Improvements in financial reporting occurs through improved financial statements and work in external audit.

A deterioration was noted with PMUs receiving donor funds that are not included in the financial statements. Debt sustainability analysis is no longer performed.

Recent delays in reconciliation of payroll has also resulted in declining scores. Arrears reports are no longer prepared by MDAS and provided to Treasury.

Figure 3 highlights the changes by indicator. More detailed explanation of variations for indicators and dimensions is presented at Annex 6.

Figure 2.3: Comparison with the previous assessment in 2010 using the 2005 framework



Government PFM reform program

Supported by development partners, Tonga has been implementing a PFM Reform Road Map since the previous PEFA assessment in 2010. This is being led and managed by the Ministry of Finance.

While progress in reforms has been made, the benefits do not always link directly with improved scores. In some areas, an improvement is offset by a deterioration within the same subject area.

The upgrading of the FMIS and investments in hardware enabled improved connectivity and integration between line agencies and the MoF. The Revenue Management System was also updated to enable the use of functionalities such as analysis, filing, risk management, audit and investigations, and assessment. While these reforms improved several areas, manual processes, such as reconciliations of revenues and arrears reporting no longer occur.

The MoF is progressing towards an updated and internally consistent Chart of Accounts, which will meet international standards, that accurately and uniquely capture transactions and enable appropriate classification at the economic, administrative and functional level and ensure consistency across all stages of PFM such as budgeting, accounting and reporting, management and analysis. This should help to address the weakness identified in this assessment, including in relation to classifications and compliance with IPSAS in financial reporting.

The development of a new website has resulted an improvement in transparency but the lack of timeliness in uploading key fiscal documents has undermined its effectiveness.

Three-year rolling corporate plans were introduced with more medium-term policy and strategy content which is guided by the Tonga Strategic Development Framework (TSDf), these were integrated into the annual budget process together with the Strategic Development Goals and other frameworks. This has enabled improved understanding across all agencies on funding sources for various activities and provides a basis for preparation of the ministry corporate plans.

However, annual reports setting out progress against the corporate plans are not prepared in a timely fashion and not easily accessible.

The MoF capacity to develop medium term macro-economic-framework with proper macro-economic forecast and adequate analysis has been strengthened. Macro-economic forecasting, especially GDP and funding (domestic, aid, debt) now feeds into the budget. The capacity to do scenario analysis to determine the potential economic and fiscal implications of policy and budget proposal has also been developed. However, it would be useful more information on underlying assumptions and scenarios was included in the budget statement.

The Budget Statement is now easier to read and provides an improved analysis of economic and social conditions and forecasts, the budget strategy and the allocation of expenditure between the government and development partners. The ministry scores well on the range of information prepared but is let down by lack of timely public access which could be easily addressed through timelier upload to the MoF website.

Oversight of other entities has improved as a result of AGA's and Public Enterprises improving their financial reporting practices. Improved reporting from these entities enables the MPE to undertake comprehensive analysis of performance and risk – although this analysis is not consolidated or published.

The MRC has established a tax payers' function and established a streamlined system for effective minimization of late filing and late payments to improve payments rates by large and small businesses.

Improved processes around the Audit Office's annual audit planning has enabled an improved scheduling of Audit Reports being submitted to the Legislative Assembly, most Audit Reports (but not management letters) are now submitted within the mandatory/ specified timeframes. The agreed procedures for posting Approved Audit Reports to the website has enabled improved accessibility for the public.

Clear guidelines and rules for in-year budget amendments by agencies were developed, setting limits on extent and nature of amendments which could be applied, and these are followed consistently.

The procurement reform strategy (Action Plan) recommendations have begun to be implemented. This has seen improved procurement rules, policies and endorsement of compliance efforts which are consistent with good practice, for an appropriate Government procurement system.

Table 2.1: Summary of performance indicators

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

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

This section provides an assessment of each of the 31 indicators and 94 dimensions that make up the PEFA framework. Each dimension score is calibrated to reflect a level of PFM practice as set out in the table below.

SCORE	LEVEL OF PFM PRACTICE
A	High level of performance that meets good international practices.
B	Sound performance above the basic level.
C	Basic level of performance broadly consistent with good international practices.
D	Either less than the basic level of performance or insufficient information to score.

Based on the indicator scores and narrative, an integrated analysis of the performance of each of the seven pillars of PFM performance is presented. This analysis aims to assess how the performance of PFM systems in Tonga affect the government's ability to deliver the intended fiscal and budgetary outcomes, and to identify the main weaknesses of the PFM system in that respect. It also aims to identify the underlying causes of poor (or good performance) as well relevant progress of the government's ongoing PFM reform program.

PILLAR ONE: Budget Reliability

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

Overall performance

Budget reliability has been weak in the last two fiscal years. Aggregate expenditure outturn (PI-1)⁴ deviated significantly from the budgeted amounts. There were also significant compositional variations in expenditure (PI-2). The size of both aggregate and compositional variances of expenditure increased over the two most recent years and, particularly, in 2018/19⁵ where actual expenditure was only 72.4% of budget allocation, and variances in administrative and economic classification were 30.1% and 26.8% respectively.

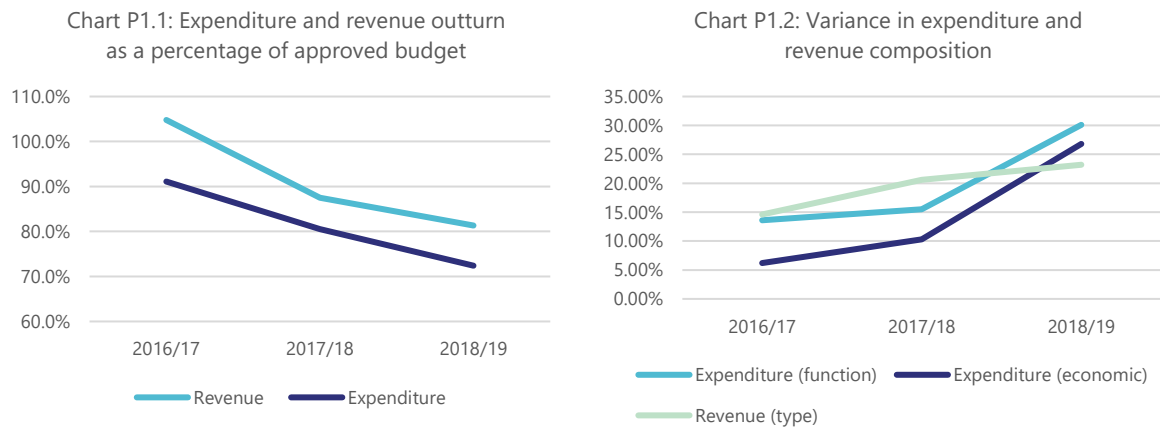
Actual revenues were significantly less than projected in 2018/19 and 2017/18, although exceeded projections in 2016/17. The compositional variance of revenues has also shown an increasing trend over the last three fiscal years.

No expenditures are recorded against a separate contingency fund. Funds, including a notional allocation for contingency fund to the MoF (\$1.5m in 2018/19) are transferred to the ministries

⁴ Budget estimates and outturns are prepared for recurrent expenditure (government and budget support provided by development partners) and for expenditure from the development fund (funded by development partners). The budget estimates also include in-kind support provided by development partners but these allocations are excluded from the calculations of PI-1 (Aggregate expenditure outturn) and PI-2 (Expenditure composition outturn).

⁵ Note that data for 2018/19 is from unaudited financial reports prepared by the Ministry of Finance.

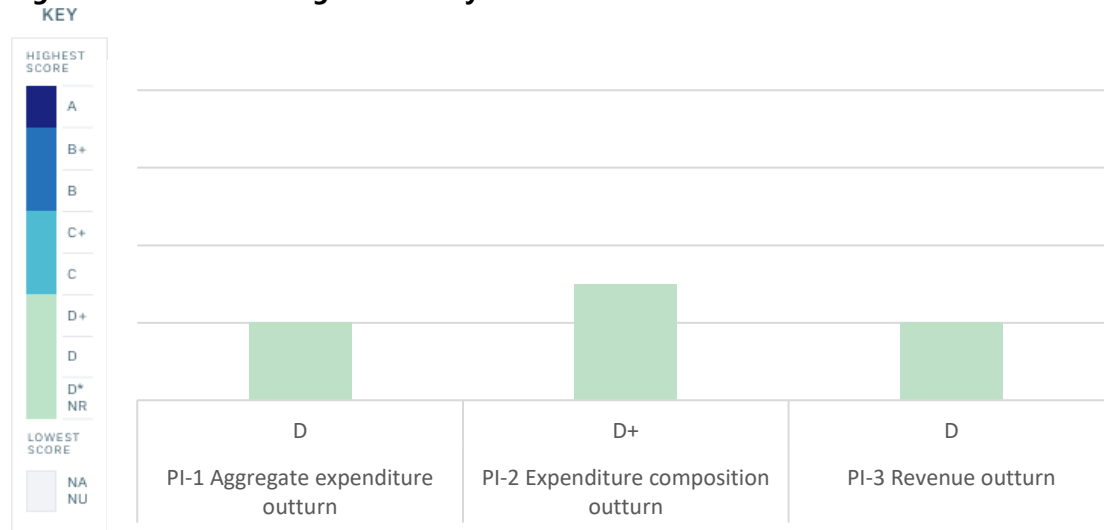
and expenditures then recorded against relevant administrative and economic codes with a net change of zero. The total amount transferred to ministries budget was \$1.7m but these were fully offset by corresponding reductions in estimates of other ministries. An analysis of the financial statements shows that, in some cases, ministries have underspent their budget by an amount that is greater than the reallocation, suggesting that it may not have been required in the first place. As noted in PI-18.4 and PI-21.4, the Public Financial Management Act limits increases in program allocations to no more than 10% of the program; while there are no specific limits on ministries, the contingency fund appropriation is limited to 5% of the general budget. Actual reallocations were well below that limit.



Data source: 2016/17 and 2017/18 audited Annual Financial Statements; 2018/19 unaudited budget execution report provided by MoF

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

Figure PILLAR ONE: Budget reliability



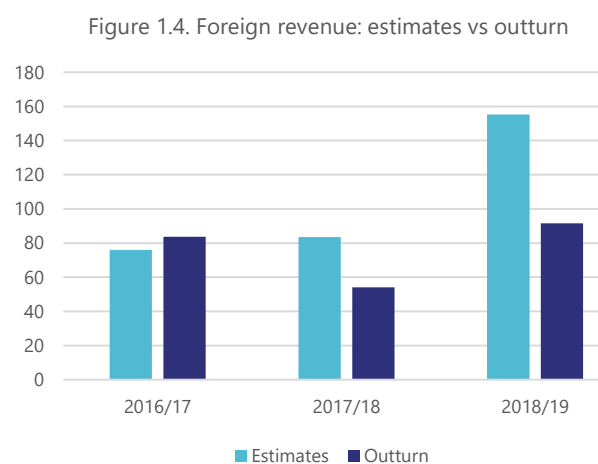
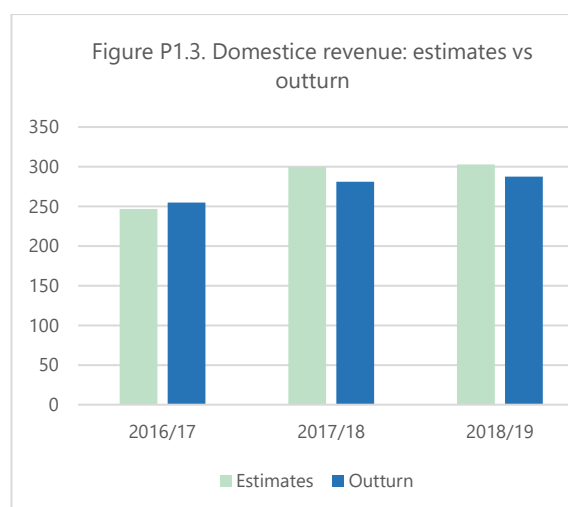
Possible underlying causes of performance

Predictability of development partners' contributions to revenue is a major factor impacting on budget reliability as can be seen from Chart P1.3 and P1.4 below. Particularly in the last two years, estimates of revenues for budget support and development expenditure to be provided by

development partners, has significantly exceeded actual revenues received from these sources. In 2018/19, for example, actual budget support payments were only 81% of the budget estimate, and development fund expenditure was only 50% of the amount included in the budget estimates. At the same time, development fund expenditure was only 35% of the amount budgeted and only 69% of the development funds received. Excluding development expenditure (as used by the previous PEFA framework used in Tonga) still results in D score for aggregate outturn but shows an improvement in expenditure composition by administrative classification (i.e., a B score).

Estimates of both budget support and development funds are prepared in consultation between MoF and development partners during budget preparation. However, two external factors had a significant impact on the normal operations of the budget cycle over the last two fiscal years, particularly on budget execution. The dissolution of Parliament in September 2017 shortly after the approval of the 2017/18 budget impacted significantly on government operations in the months following the dissolution. This was then compounded by the impact of Cyclone Gita in February 2018 which seriously affected the normal operations of government administration. The ongoing response and recovery diverted the efforts and resources of government away from the original budget intentions.

Nevertheless, it may be useful to undertake further analysis on the impact of these events to identify any lesson learned as well determine whether there are additional systemic issues related to budgeted projections of development partners' funding presented in the estimates that need to be addressed.



Data source: 2016/17 and 2018/19 Budget Estimates; 2016/17 and 2017/18 Annual Financial Statements (See <http://www.finance.gov.to/budget-estimate>); 2018/19 unaudited budget execution report (provided by MoF).

In terms of economic classification, actual expenditure on compensation was also below that budgeted (by 13.4%, 14.0% and 8.3%). Several ministries indicated the main reason for the under-execution was an inability to recruit qualified staff to vacant positions. Other areas of significant underspend compared to budget in 2018/19 were consumption of fixed capital (-60% in absolute terms, consistent with the outturn expenditure from the development fund) and grants and transfers (-36.5%).

Domestic revenue projections were more reliable than budgeted development partner contributions. Excluding development partner contributions, 2017/18 and 2018/19 revenue

outturns were 92.5% and 93.9% improving the score for PI-2 under the previous methodology to C (compared to 81.3% and 82.5% when development funds are included), and composition variance 11.2% and 10.8%. (Note: that calculations of PI-1, 2 and 3 are based on unaudited budget execution spreadsheets provided to the assessment team by the MoF.)

Recent and ongoing reform activity

The PFM Roadmap progress report proposed to review and develop a new Diplomatic Mission Financial Framework and Guidelines and ensure consistency with relevant established regulatory framework and improved cash management to avoid funding shortages and need for crisis management. Such guidelines may help to improve projections and management of development partners' funding. However, at the of the assessment, no meeting or cash flow committee guidelines exist.

Recent discussions with development partners around the Joint Policy Reform Matrix included an indication that the budget division are now utilizing more disaggregated project implementation plans to determine the likely annual flow of donor funded projects and only including these in the budget where there is a high degree of certainty that the specific project component will be delivered within the budget period. Consequently, the forward estimates for the 2019/20 budget is understood not to include projects where financing had not yet been formally confirmed. These improvements are expected to provide more realistic projections of future revenues and expenditures, supporting enhanced fiscal and debt management, and better-informed policy decision making.

PI-1 Aggregate expenditure outturn⁶

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-1: Aggregate expenditure outturn (M1)		D
PI 1.1 Aggregate expenditure outturn	Aggregate expenditure outturn has been significantly lower than the budget plan for each of the last three years: 72.4%, 80.5% and 91.1% in 2018/19, 2017/18 and 2016/17 respectively.	D

Evidence for score

Annex 7 presents the PEFA framework spreadsheets showing the original budgets approved by parliament compared with the actual outturns from the audited financial statements (for 2016/17 and 2017/18) and last (unaudited) budget execution report for 2018/19.

Table 1-1: Aggregate expenditure outturn

⁶ The calculations for PI-1, PI-2 and PI-3 include development partners' contributions to budget resources (ie general budget support and development funds) and expenditures of these funds. However, it excludes 'in-kind' resources paid for by development partners which is included in the budget estimates document but not the annual financial statements or unaudited budget execution reports provided to the assessment team.

Aggregate expenditure (\$m)	2016/17	2017/18	2018/19
Approved budget	327.9*	382.4	476.7
Outturn	298.6	308.0	344.9
Outturn as a percentage of budget	91.1%	80.5%	72.4%

Data source: Budget Estimates 2016/17, 2017/18 and 2018/19 (<http://www.finance.gov.to/budget-estimate>); Annual Financial Statements 2016/17 and 2017/18; Unaudited budget execution report (provided by MoF).

* Note: The original estimates for development fund expenditure totals \$42.4m in the 2016/17 Budget Estimates but stated as \$35.7m in the 2016/17 annual financial statements. The original estimate is used for this table and calculation.

PI-2. Expenditure composition outturn

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-2. Expenditure composition outturn (M1)		D+
PI 2.1 Expenditure composition outturn by function	The variance in expenditure composition by administrative classification was 30.1%, 16.2% and 14.1% in 2018/19, 2017/18 and 2016/17 respectively.	D
2.2 Expenditure composition outturn by economic type	The variance in expenditure composition by economic classification was 26.8% 10.3%, and 6.2% in 2018/19, 2017/18 and 2016/17 respectively.	C
2.3 Expenditure from contingency reserves	A contingency fund amount is identified as a separate allocation within the MoF budget. However, no expenditures are recorded against the contingency, rather funds are transferred to the ministries and expenditures then recorded against relevant administrative and economic codes.	A

Evidence for score

Annex 7 presents the PEFA framework spreadsheets showing the original budgets approved by parliament compared with the actual outturns from the audited financial reports (for 2016 and 2017) and unaudited budget execution report for 2018/19 provided by the Ministry of Finance. The data may need to be updated following finalization of the annual financial statements. The spreadsheets also show the composition variations by administrative and economic classification.

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

Variance	2016/17	2017/18	2018/19
Administrative classification	14.1%	16.2%	30.1%
Economic classification	6.2%	10.3%	26.1%

Data source: Budget Estimates 2016/17, 2017/18 and 2018/19 (<http://www.finance.gov.to/budget-estimate>); Annual Financial Statements 2016/17 and 2017/18; Unaudited budget execution report (provided by MoF).

PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator and dimension scores and analysis

Indicators/ Dimensions	Assessment of performance	2019 Score
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PI-3. Revenue outturn (M1)		D
3.1 Aggregate revenue outturn	Actual revenue was 81.3%, 87.5% and 104.8% of approved budget in 2018/19, 2017/18 and 2016/17 respectively.	D
3.2 Revenue composition outturn	The variance in revenue composition by category was 23.2%, 20.6%, 14.6% in 2018/19, 2017/18 and 2016/17 respectively.	D

Evidence for score

Annex 5 presents the PEFA framework spreadsheets showing the original budgets approved by parliament compared with the actual outturns from the audited financial reports (for 2016/17 and 2017/18) and unaudited budget execution report for 2018/19 provided by the MoF.

Table 3-1: Aggregate revenue outturn

Total revenue (\$m)	2016/17	2017/18	2018/19
Approved budget	323.0	383.0	465.9
Outturn	338.5	335.2	378.9
Variance (as a % of original budget)	104.8%	87.5%	81.3%
Composition Variance	14.6%	20.6%	23.2%

Data source: Budget Estimates 2016/17, 2017/18 and 2018/19 (<http://www.finance.gov.to/budget-estimate>); Annual Financial Statements 2016/17 and 2017/18; Unaudited budget execution report (provided by MoF).

PILLAR TWO: Transparency of Public Finances

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

Overview

The budget system is based on administrative and economic classifications. Prior to a recent reformulation of the economic classification within the chart of accounts, there were challenges in mapping coding from the chart to GFS at a detailed level. Following these enhancements to the chart of accounts, the budget proposal document includes tables showing the budget in GFS format at the three-digit level and a COFOG equivalent functional classification is now used in the budget.

The budget documentation submitted to the parliament is quite comprehensive and includes most of the key elements. Some of the missing elements include a complete presentation of macroeconomic assumptions, although these are outlined in the internal document, and explanation of budget implications of new policies although some of those are presented in the ministries' corporate plans but those are not submitted to the parliament for review. While the budget documentation is comprehensive, only a few documents are publicly available. The transparency of public finances is further undermined by the fact that other relevant documents are not made publicly available, such as, for example, procurement awards, guidelines to conduct economic analyses for public investment proposals, and audit reports.

While the budget documents include estimates of all projects and activities funded by development partners, including in-kind funding, only those funds that flow through the treasury are recorded in the accounts and included within the coverage of annual financial statements.

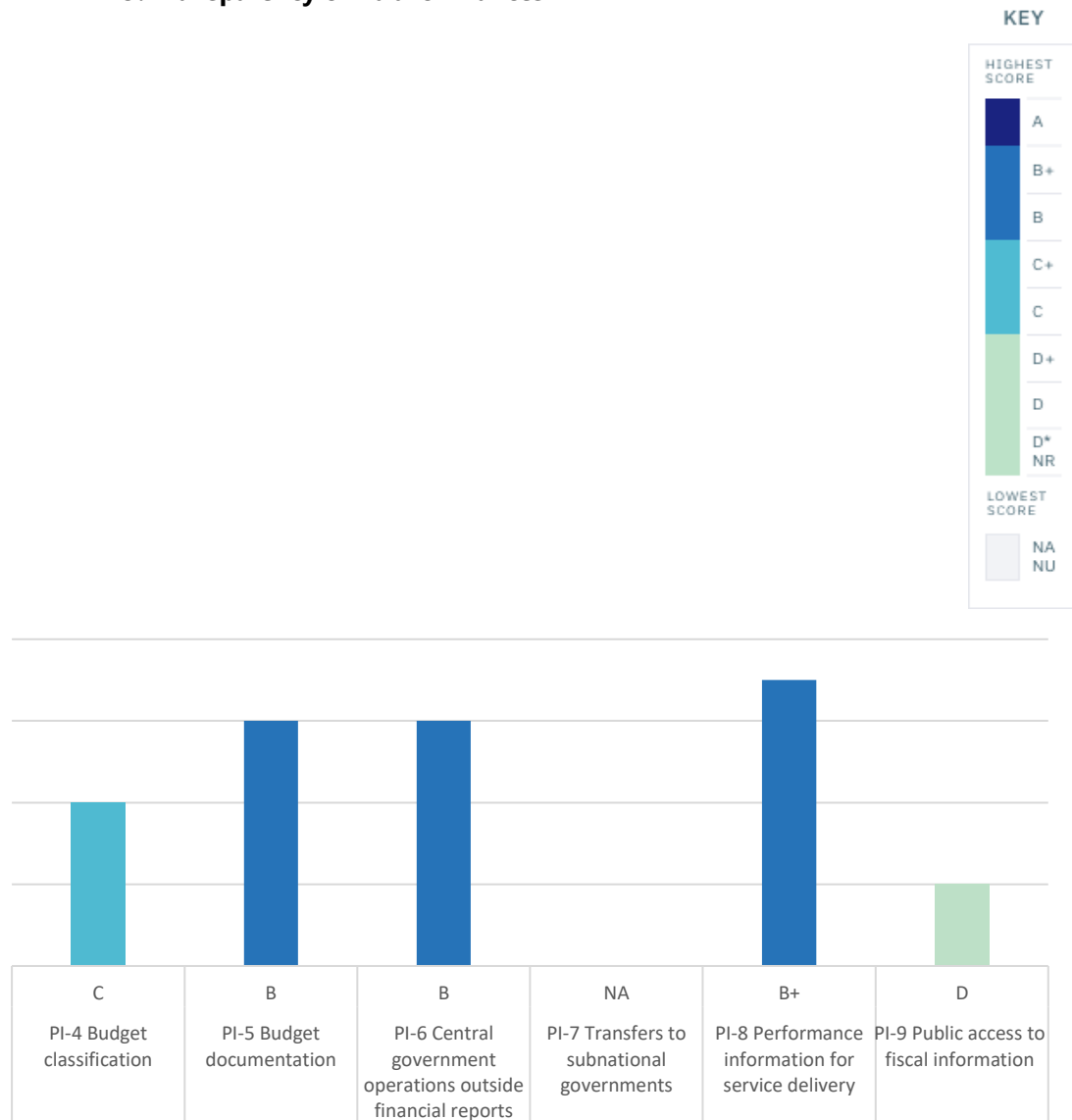
Ministries prepare as part of the annual budget, three-year corporate plans that identify key programs, related outcomes, and outputs, targets, and performance indicators. In many instances, however, outcomes and outputs are described quite vaguely and interchangeably, and performance indicators are often not specified in a way to facilitate capturing of information if planned outputs (e.g., number of students enrolled) and outcomes (e.g., rate of attendance, national minimum education standards) were actually achieved. In most instances there are no specific indicators for ministries' outcomes. Additionally, ministries prepare strategic plans (e.g., in case of Ministry of Health this is a five-year plan). Both corporate and strategic plans are anchored in the Government's national strategy 'Tonga Strategic Development Framework 2015—2025' (TSDF) which outlines seven key national outcomes and five related organizational outcomes. All ministries refer to those in their corporate plans. Since December 2018, corporate plans are coordinated and submitted to the National Planning Division (NPD) in the Prime Minister's Office and published on their website.

The Ministry of Finance regularly collects and records information on resources received by frontline service delivery units, such as schools and hospitals. Key service delivery ministries, such as Ministry of Education and Ministry of Health confirmed that resources to frontline units are reliable and in line with budgeted allocations at the beginning of the fiscal year. Performance evaluations of efficiency and effectiveness of service delivery are carried out for several key

service delivery ministries but in many cases, these are conducted by development partners. The Office of the Audit General has so far carried out one performance audit – Tonga’s readiness for SDGs implementation – and the report is currently under review by the Public Accounts Committee at the Legislative Assembly.

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

Figure PILLAR TWO: Transparency of Public Finances



Possible underlying causes of performance

There seems to be a lack of established procedures in place that would guide the process of determining which budget documents should be made publicly available, when, and by whom. Publication of budget documents listed in PI-9 would significantly improve fiscal transparency.

According to the Public Finance Act of 2002 the Ministry of Finance is only required to send the Budget Estimates to the Legislative Assembly for review and no other supporting documentation. While the Budget Strategy outlines the Government’s macroeconomic assumptions, and corporate plans of Ministries present some budget implications of new policy initiatives, these

documents are not shared with the Legislature but are discussed and approved at the Cabinet level.

Performance information in corporate plans could be simplified to capture the key service delivery outputs and outcomes planned (i.e., specific targets) and achieved (i.e., actual outputs produced and impacts achieved against the main performance objectives of ministries – e.g., outputs such as student enrollments; number of vaccinations etc.; and outcomes such as percentage of children attending school, meeting minimum national education standards; incidence of communicable childhood diseases, etc.). While ministries’ corporate plans present the desired outcomes, they do not provide information of the targets and what was achieved at the outcome level.

Adherence to the preparation and publication of annual reports is variable (e.g., Ministry of Health last produced a report in 2017) and previously did not align with the fiscal year; rather they were produced on a calendar year basis which makes it more difficult to match against budget allocations. However, starting in FY2017/18 where annual reports are prepared according to fiscal year and in line with the outputs table of the corporate plan.

Recent and ongoing reform activity

Following the previous PEFA assessment in 2010, the ‘Tonga’s Public Financial Management Reform Roadmap 2014/15—2018/19’ outlined two key priorities to strengthen the transparency of public finances: i) improved budget classification system; and ii) better public access to key budget documents. The PFM Roadmap recognized the need to ensure that all government fiscal transactions and captured and appropriately classified into economic, administrative and program or functional classification and that this should be done for budget presentation, execution, and reporting. Similarly, the Government committed to ensuring that Ministry of Finance would work closely with line ministries to ensure that relevant fiscal information is available to the public in a timely manner. However, the internal report on the progress of implementation of the PFM Roadmap from September 2018 does not refer to any specific actions or report against progress achieved in strengthening transparency of public finances and there seems to be little progress achieved on the two priorities identified above since the last PEFA assessment in 2010.

PI-4. Budget classification

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-4. Budget classification		C
4.1 Budget classification	The chart of accounts includes administrative and economic segments (as well as a project and a multi-use “code analysis” segment). There is no functional classification in the chart of accounts. Programs are embedded within the administrative segment. A mapping table enabled conversion of the economic classification to GFS (equivalent to GFS 2014 on a modified accrual basis) at 3-digit level. While budget execution reports do not include detailed economic classifications, budget execution is managed using economic classifications that are capable of producing GFS data.	C

	Producing functional classification requires mapping from the chart of accounts. A seven-segment functional grouping is used in the presentation of estimates within the budget, but this is not as comprehensive as COFOG and functional elements were not used in budget execution and reporting. There is no data in the IMF GFS database since 2016. Chart of accounts reforms which thus far have addressed economic classification issues and resulted in use of COFOG in some budget presentations.	
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Evidence for score

Table 4-1. Budget classification and chart of accounts

Element	Classification structure						COFOG Compliant (Y/N)
	Administrative (Y/N)	Economic: No. of digits and GFS compliance (Y/N)			Function (Y/N)	Subfunction/Program (S/P/N) ⁷	
		Revenue	Recurrent	Capital			
Chart of accounts	Y	Y 3	Y 3	Y 3	N	N	Yes, today but not prior to 2019-20 budget
Budget formulation	Y	Y 3	Y 3	Y 3	Y – historic	P	Y
Budget execution and reporting	Y	Y 2	Y 2	N	N	N	N

Data source: 2018-19 Budget Estimates, 2017-18 Financial Statements, Chart of Accounts, PFTAC TA Reports, IMF GFS database

PI-5. Budget documentation

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-5. Budget documentation		B
5.1 Budget documentation	Budget documentation fulfils nine elements, including four basic and five additional elements.	B

Evidence for score

Table 5-1 Budget documentation

Item	Included (Y/N)	Source of evidence and comments
Basic elements		
1	Y	Budget Statement 2019/20 ('Budget Statement 2019/20 "Our Country Our People"; Hon. Dr. Pohiva Tu'i'netoa, Minister of Finance'), available at Ministry of Finance website: http://www.finance.gov.to/budget-estimate (page 10)

⁷Detail provided at S – Subfunction; P – Program and N - No

2	Previous year's budget outturn, presented in the same format as the budget proposal.	Y	Budget Statement 2019/20, available at http://www.finance.gov.to/budget-estimate (page 48). This information is also presented in the Budget Estimates 2019/20 (but this document is not publicly available).
3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Y	Budget Statement 2019/20, available at http://www.finance.gov.to/budget-estimate (page 48). This information is also presented in the Budget Estimates 2019/20, but this document is not publicly available.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Y	Budget Statement 2019/20, available at http://www.finance.gov.to/budget-estimate and Budget Estimates for 2019/20 (the latter document is not yet uploaded to the MoF website and not therefore considered publicly available but the Ministry of Finance provided the document).
Additional elements			
5	Deficit financing, describing its anticipated composition.	Y	2019/20 fiscal balance is in surplus. Budget Statement 2019/20 at http://www.finance.gov.to/budget-estimate provides information on surplus composition (pages 31, 48—49).
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	N	The Budget Statement 2019/20 at http://www.finance.gov.to/budget-estimate includes projections of GDP growth (page 6) and interest payment (page 53) but estimates of inflation and the exchange rate are not included. Macroeconomic indicators are also presented in table 8.3.7 on page 68 but the table only provides an analysis of previous eight years and does not include estimates going forward. Macroeconomic assumptions and estimates are presented in the Budget Strategy (prebudget statement) but this document is only discussed and approved by the Cabinet and is not submitted to the legislature.
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Y	Details of debt stock are presented in the Budget Statement 2019/20 at http://www.finance.gov.to/budget-estimate (pages 45—47).
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Y	Financial assets are presented in the Budget Statement 2019/20 at http://www.finance.gov.to/budget-estimate (pages 55 and 74).
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	Y	The Budget Statement provides a summary information of fiscal risks, including contingent liabilities and obligations. It also includes an assessment of the following risks: high vulnerability to changes in the weather conditions and natural disaster, increase in financing needs and fiscal sustainability (due in part to weather/natural disaster), and possible acceleration in credit growth (see Budget Statement 2019/20 at http://www.finance.gov.to/budget-estimate (pages 11, 45—46, 55).

10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	N	Partially. The Budget Statement 2019/20 at http://www.finance.gov.to/budget-estimate (pages 15—16) includes a presentation of new policies structured around nine priority areas but costs are only presented for some policies. This was also confirmed by representatives of the budget department of the Ministry of Finance. The Ministry prepares a table with information on costs of new policies, but this information is not submitted to the legislature. Some corporate plans prepared annually by line ministries with a three-year horizon include a presentation of budget implications of new policies, but corporate plans are not submitted to the Legislative Assembly for review.
11	Documentation on the medium-term fiscal forecasts.	Y	Budget Statement 2019/20 at http://www.finance.gov.to/budget-estimate (pages 8—10 and 42—43).
12	Quantification of tax expenditures.	N	The Budget Statement 2019/20 does not include a presentation of tax expenditures, although they exist (e.g., tax concessions to support domestic air and sea transport industry).

PI-6. Central government operations outside financial reports

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-6. Central government operations outside financial reports (M2)		B
6.1 Expenditure outside financial reports	While there are no EBUs, there are extrabudgetary expenditures within some ministries. Specifically, there are three donor funded projects that have project management units (PMUs) that receive and spend funds outside of the Treasury system and their financials are not included within the government's annual financial statements. Their expenditure represents 1.8% of BCG expenditure.	B
6.1 Revenue outside financial reports	While there are no EBUs, there are extrabudgetary revenues within some ministries. Specifically, there are three donor funded projects have project management units (PMUs) that receive and spend funds outside of the Treasury system and their financials are not included within the government's annual financial statements. Their revenue represents 1.9% of BCG revenue.	B
6.3 Financial Reports of Extrabudgetary Units	The PMUs referred to above all produce annual financial statements that include operating statement, cash flow and full balance sheet. These are audited by the Auditor-General and all sent to the government, following audit, within 6 months of the end of the year.	B

Table 6-1: Identification of Extrabudgetary Operations

Existence of Extrabudgetary Operations	Under control of Government (IPSAS)	Budget	Within WOG Annual Financial Statement	Financial Reporting to Government	Any additional off-budget elements
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Budgetary Units	Yes	Yes	Yes	NA	No
Extrabudgetary Entities	NA	NA	NA	NA	NA
Development Partners and Donors:					
• Budget support	Yes	Yes	Yes	NA	No
• In-kind	No	Yes	No	Partial	No
• Project funds managed through host country systems	Yes	Yes	Yes	NA	No
• Project funds managed by project implementation units outside country systems	Yes	Yes	No	Yes	No

Note: The concept note for this PEFA identified retirement benefits funds and several statutory bodies as possible EBU's. The statutory bodies were found to be classified as non-financial public corporations according to reports by PFTAC GFS advisors and the retirement funds assessed to be entities outside of the GFS definition of Central Government in accordance with the PEFA Framework (page 4). As the coverage of social security funds for the purposes of PI-6 is not clear in the PEFA fieldguide, for completeness the assessment team has concluded that these funds do not form part of the central government but notes that the retirement benefit funds represent 5.3% of BCG receipts and 4.2% of total BCG expenditure and their inclusion in scoring would change the scores for PI-6.1 and 6.2.

Evidence for score

Table 6-2: Expenditure and revenue outside financial reports

Entity	Type of revenue outside government financial reports	Estimated amount of revenue reported outside government financial reports 2017-18	Type of expenditure reported outside government financial reports	Estimated amount of expenditure reported outside government financial reports 2017-18	Evidence and reporting
Extrabudgetary units					
1. Tonga Aviation Investment Project (TAIP)	World Bank IDA grants and loan and PRIF grant.	\$1,335,863	Expenditure of development partner grants and loans	\$1,038,039	2017-18 financial statements prepared by PMU and audited report by A-G
2. Tonga Cyclone Ian Reconstruction & Climate Resilience Sector Project (TCIRCRP)	World Bank IDA grants and donor financed trust fund	\$3,123,782	World Bank IDA grants and donor financed trust fund	\$2,686,220	2017-18 financial statements prepared by PMU and audited report by A-G
3. Transport Sector Consolidated Project (TSCP)	World Bank IDA and PRIF grant.	\$2,025,012	World Bank IDA and PRIF grant.	\$1,949,494	2017-18 financial statements prepared by PMU and audited report by A-G

Table 6-3: Financial reports of extrabudgetary operations of development funds

	Content of annual financial report (Y/N):

Name of extrabudgetary unit	Date annual report received by CG	Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	Expenditure as a percentage of total extrabudgetary unit expenditure (estimated)
1. Tonga Aviation Investment Project (TAIP)	20 December 2018	N	Y	NA	18%
2. Tonga Cyclone Ian Reconstruction & Climate Resilience Sector Project (TCIRCRP)	21 December 2018	N	Y	NA	47%
3. Transport Sector Consolidated Project (TSCP)	19 December 2018	N	Y	NA	34%

Data source: Annual reports of projects audited by the Auditor-General and sent to the Ministry of Finance.

PI-7. Transfers to subnational governments

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-7. Transfers to subnational governments		
7.1 System for allocating transfers	There is no separate subnational government but rather deconcentrated units of the central government.	NA
7.2. Timeliness of information on transfers	There is no separate subnational government but rather deconcentrated units of the central government.	NA

PI-8. Performance information for service delivery

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-8. Performance information for service delivery (M2)		B+

8.1. Performance plans for service delivery	Information is published on program objectives, outputs to be produced, and the outcomes planned for all ministries and this information is disaggregated by administrative level programs (although a separate program structure is not included in the chart of accounts). Ministries prepare as part of the annual budget, three-year corporate plans which are anchored in the Government’s national strategy ‘Tonga Strategic Development Framework 2015—2025’. Both the TSDF and corporate plans are used to determine overall annual budget priorities. Corporate plans need to present how their desired outcomes will contribute to the TSDF’s outcomes and which. They identify key programs, related outcomes, and outputs, targets, and performance indicators. In some instances, however, outcomes and outputs would benefit from additional details and performance indicators are often not specified in a way to facilitate capturing of information if desired objectives were actually achieved.	A
8.2. Performance achieved for service delivery	Published corporate plans include information on activities performed by all ministries and information on the quantity of outputs produced for the majority of ministries in last completed fiscal year but information on the outcomes achieved is missing. While ministries are required to produce quarterly and annual performance reports outlining what performance has or has not been achieved, the annual reports are not publicly available. Moreover, some ministries, e.g., Ministry of Health, have a backlog of a couple of years in preparing annual reports.	C
8.3. Resources received by service delivery units	The Ministry of Finance collects information on resources received by frontline service delivery units for key service delivery ministries (this includes the largest two ‘social’ ministries: Ministry of Education and Training and Ministry of Health). Information includes data on resources received by, for example, schools and hospitals, including sources of funds. The Ministry of Finance prepares monthly and annual reports on resources received. ⁸ However, a large proportion of the costs of the service delivery units are managed centrally by the relevant ministries (e.g., salaries, maintenance etc.). While the requirements of this dimension are met, and data can be accessed through the FMIS, it should be noted that the line ministries do not have immediate access to FMIS data themselves.	A
8.4. Performance evaluation for service delivery	Independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published for the majority of ministries responsible for service delivery in last three completed fiscal years. Evaluations were carried out by development partners that funded specific projects or programs. Office of the Auditor General carried out its first performance audit in 2018 which focused on Tonga’s readiness to implement Sustainable Development Goals (SDGs). The audit report has been tabled in the Legislature and is currently with the Legislature for review. However, this report has not focused on any of the service delivery programs specifically.	B

Evidence for score

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

Name of service delivery agency	Percentage of service delivery ministries	Program objectives specified (Y/N)	Key performance indicators (Y/N)	PI-8.1 Planned performance		PI-8.2 Actual performance		
				Planned outputs (Y/N)	Planned outcomes (Y/N)	Data on actual outputs produced (Y/N)	Data on actual outcomes achieved (Y/N)	Information on activities undertaken (if no outputs or

⁸ **Data source:** Ministry of Finance, Budget Department staff responsible for Ministry of Education and Training and for Ministry of Health. The assessment team was given access to databases that include information on resources received for these two ministries. Ministry of Education and Health representative confirmed that information on budget allocations for schools and hospitals are reliable.

								outcomes (Y/N)
Ministry of Education and Training	40.6%	Y	Y	Y	Y	Y	N	Y
Ministry of Health	33.7%	Y	Y	Y	Y	N	N	Y
Ministry of Internal Affairs	16.0%	Y	Y	Y	Y	Y	N	Y
Ministry of Police & Fire Services	9.7%	Y	Y	Y	Y	N	N	Y
Total	100%	100%	100%	100%	100%	56.6%	0%	100%

Data source: Corporate plans for Ministry of Education and Training, Ministry of Health, and Ministry of Internal Affairs (all three ministries are categorized as 'social ministries' in the Budget Estimates 2019/20), Ministry of Police and Fire Services. Corporate plans are available at: <http://pmo.gov.to/index.php/divisions-publication/>

Note: Besides the four ministries identified as 'social' by the government; the analysis additionally included the Ministry of Police and Fire Services.

Table 8-4: Information on program evaluation

Ministry	Percentage of service delivery ministries	Program or service evaluated	Date of evaluation	Type of evaluation	Report author	Efficiency assessed (Y/N)	Effectiveness assessed (Y/N)
Ministry of Education	40.6%	Tonga Skills for Inclusive Economic Growth Program	May 2018	Performance evaluation (mid-term review of the program)	Independent consultants commissioned by the Australian Government Department of Foreign Affairs and Trade (DFAT)	Y	Y
		Economic Support Program	December 2017	Performance evaluation (end of project evaluation)	Independent Evaluation Group of the Asian Development Bank	Y	Y
Ministry of Health	33.7%	Tonga Health Systems Support Program	April 25, 2019	Performance evaluation (mid-term review of the program)	The Specialist Health Service (SHS), which is an initiative funded by DFAT	Y	Y
		Economic Support Program	December 2017	Performance evaluation (end of project evaluation)	Independent Evaluation Group of the Asian Development Bank	Y	Y
Total	74.3%	74.3%	74.3%	74.3%	74.3%	74.3%	74.3%

Data source: Australian Government Department of Foreign Affairs and Trade (DFAT) website (the report on Tonga Skills for Inclusive Economic Growth Program is available at <https://dfat.gov.au/about-us/publications/Documents/tonga-skills-for-inclusive-economic-growth-mid-term-review.pdf>; the Tonga Health System Support Program is available at: <https://dfat.gov.au/about-us/publications/Documents/tonga-health-systems-support-program-phase-2-evaluation-report.pdf>); Asian Development Bank website (Economic Support Program, implemented by the Ministry of Finance, Ministry of Public Enterprises, Ministry of Labor, Commerce and Industry, Ministry of Education and Ministry of Health is available at <https://www.adb.org/sites/default/files/evaluation-document/388336/files/in456-17.pdf>).

PI-9. Public access to fiscal information

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-9. Public access to fiscal information		D
9.1 Public access to fiscal information	Budget documentation fulfils only one basic element.	D

Evidence for score

Table 9-1 Budget documentation

Item	Criteria met (Y/N)	Explanation	Source of evidence
Basic elements			
1	N	The Budget Statement 2019/20 is available at the Ministry of Finance website, but the Budget Estimates 2019/20 are not.	Ministry of Finance website: http://www.finance.gov.to/budget-estimate
2	Y	The 2019/2020 Appropriation Act 2019 was published at the Attorney General's Office website on June 29, 2019. The budget law was passed by the Legislative Assembly on June 27, 2019 which means that the document was made publicly available within two weeks of passage of the law.	Attorney General's Office website: https://ago.gov.to/cms/
3	N	The in-year budget execution reports are prepared but not routinely published on the Ministry of Finance website. The 'Monthly Economic Report' for May 2019 that includes a table on the budget implementation using GFS, but data is only presented at the aggregate level, was published in July 2019. The only other report available is for November 2018, which was published in January 2019.	Ministry of Finance website: http://www.finance.gov.to/

4	Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	N	The latest annual budget execution report publicly available is for fiscal year 2016.	Ministry of Finance website: http://www.finance.gov.to/
5	Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.	N	'The Government of Tonga Financial Statements for the year ended 30 June 2018' was issued on February 22, 2019 but is not publicly available at Ministry of Finance or Tonga Office of the Auditor General website.	Ministry of Finance website: http://www.finance.gov.to/ Tonga Office of the Auditor General website: https://www.audit.gov.to/
Additional elements				
6	Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	N	The prebudget statement (Budget Strategy 2019/20 'Our Country Our People') was approved by the Cabinet but is not publicly available.	Staff of the budget department of the Ministry of Finance.
7	Other external audit reports. All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.	N	Other external audits reports are not publicly available.	Tonga Office of the Auditor General website: https://www.audit.gov.to/
8	Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	N	The Government of Tonga does not prepare a summary of the budget proposal.	Staff of the budget department of the Ministry of Finance.
9	Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	N	Macroeconomic forecasts are not publicly available (the Budget Statement 2019/20 includes some information on	Ministry of Finance website: http://www.finance.gov.to/budget-estimate Staff of the budget department of the Ministry of Finance.

			macroeconomic forecasts; it includes projections of GDP growth and interest payments but estimates of inflation and the exchange rate are not included). They are presented in the Budget Strategy 2019/20 (prebudget statement) but this document is not publicly available.	
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PILLAR THREE: Management of Assets and Liabilities

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

Overall performance

The Ministry of Public Enterprise maintains strong oversight of the public enterprises, ensuring that each entity meets its obligations to provide financial reports for audit on a timely basis and then undertaking extensive analysis of the performance of each entity which elaborates on the extent of risk associated with ownership, regulation and funding of such entities. As these performance reports are not publicised, the broader public sector, and community at large, do not benefit from direct access to this analysis. While there is good information published on the value of equity holdings, there is no clear guidelines on how sale of equity in public entities might be progressed should asset sales be pursued.

In relation to public investment projects, the government benefits from the work of development partners who undertaking meaningful economic analysis to support their decisions to fund each project. As such analysis is driven by partners, rather than the GoT, the existence of such analysis for the large externally funded projects is not indicative of a broader framework of project evaluation which informs decisions regarding internally-funded public investment. The inclusion of the lifecycle costs to the budget of large projects into the budget is a current area of weakness - where national guidelines for assessment of public investment may assist.

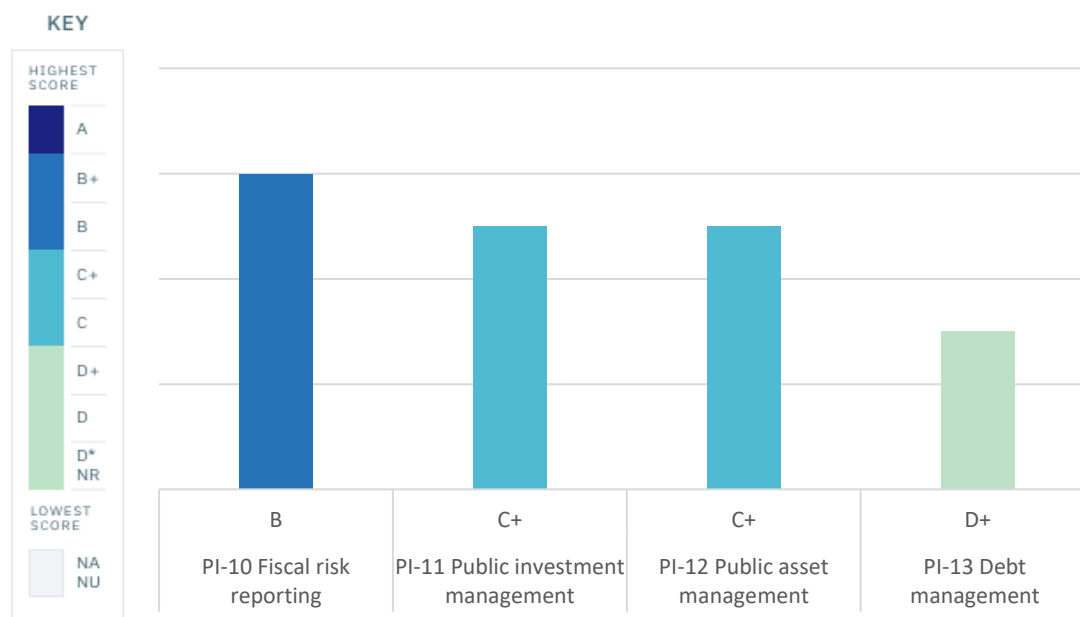
To the extent that public investment results in the acquisition of new assets, there are procedures in place for recording assets in an asset register. While these registers are not up-to-date, the audit reports point to some issues of completeness. The maintenance of asset registers provides the opportunity for better asset management practice, including assets disposals – for which there are clear procedures in place. Transparency of asset management would be improved if land, long term leases over land, and natural resources were included within the asset registers.

The Government maintains reliable records of public debt, achieved in part through engagement with lenders and despite current technical issues with the CSDRMS database. The quality of these records could be better assured through more regular systematic reconciliation with lenders – particularly given these systems issues.

While the management of public debt clearly resides with the Minister of Finance, the management of risk associated with borrowing and issuing of guarantees would benefit from a clearer set of policies and guidelines and the updating of the medium-term debt strategy (which expired in 2018).

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

Figure PILLAR THREE: Management of Assets and Liabilities



Possible underlying causes of performance

The government has previously experienced a shortage of capacity and experience in the fields of debt and asset management.

Some of the weaknesses in scoring relate to the government not consolidating and publishing its data and analysis regarding asset values, risks and performance.

Recent and ongoing reform activity

Implementation of the reform on fiscal risk are mostly shown as completed in the PFM Roadmap, however, completion of all the activities planned and additional reforms would be beneficial. The roadmap activities shown as completed includes monitoring autonomous government agencies (AGAs) and public enterprises (PE) financial reporting, updates on financial condition (and three forward years), preparation of a statement of fiscal risks, and preparation of quarterly financial statements supported by timely submission of audited financial statements. The final reform, preparation of a 6-month report, consolidating financial updates for all AGA/PE, including narrative of problems and assessment risks is not yet implemented but is noted as a work in progress but remains important given the issues and underlying causes outlined above.

Reforms for public investment monitoring were integrated within the budget reforms and included estimates on recurrent costs and repair/replacement costs. This was to be supported by improved reporting and recording of capital assets. These reforms have been partially implemented and work continues in these areas.

Public asset management is now underway. An initial policy and framework have been approved and, as outlined above, asset registers are now in place with partial coverage. Future enhancement in could improve outcomes, including via improved templates, reporting requirements, and manuals as well as possible integrated of asset management within the financial management information system.

The World Bank is supporting the GoT in updating its Medium Term Debt Strategy (MTDS), to be completed in FY2020, and plan support for the preparation and implementation of a policy and procedures related to government guarantees in FY2021. Both the MTDS and policy framework

will guide debt decisions and assist to maintain integrity of debt ratios for long term sustainability.

PI-10: Fiscal risk reporting

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-10: Fiscal risk reporting (M2)		B
10.1. Monitoring of public corporations	Non-financial public corporations include both incorporated entities as well as statutory bodies that operate in a commercial market ⁹ . The draft financial statements of public corporations are provided to the Ministry of Public Enterprises within three months and the audited version is published within 6 months. No consolidated report is prepared or published by the Ministry.	B
10.2. Monitoring of subnational governments	NA	NA
10.3. Contingent liabilities and other fiscal risks	The Budget Statement discusses fiscal risks and contingent liabilities but only the contingent liabilities are quantified. Risks associated with public corporations and retirement funds receive little attention in budget documents and financial reports.	B

Evidence for score

Table 10-1: Monitoring of public corporations

Five largest public corporations	Financial turnover (\$m)	Percentage of five largest public corporations	Date of publication of 2017/18 audited financial statement	Date 2018/19 financial report submitted to govt.	Consolidated Report (Y/N) Source
1. Tonga Power Ltd	\$54.7 million	44%	07 Dec 2018	30 Sep 2018	NO Annual Reports and data provided by Ministry of Public Enterprises
2. Tonga Water Board	\$8.4 million	7%	20 Dec 2018	30 Sep 2018	
3. Tonga Communications Corporation	\$36.3 million	29%	12 Dec 2018	27 Sep 2018	
4. Ports Authority Tonga	\$12.3 million	10%	19 Dec 2018	27 Sep 2018	
5. Tonga Airports	\$12.5 million	10%	10 Dec 2018	30 Sep 2018	

Data source: Annual Reports for each PE provided by Ministry of Public Enterprises

Table 10-3: Contingent liabilities and fiscal risk

Coverage	Data quantified (Y/N)			Included in fiscal report (Y/N)	Date published	Consolidated report (Y/N)
	Loan guarantees (CG)	State insurance scheme	PPPs			
Budgetary Units	Y	NA	NA	Y		N
Extrabudgetary Units	NA	NA	NA	N		
Public Corporations	NA	NA	NA	NA	2017/18	

⁹ The assessment team drew upon technical assistance reports of the PFTAC GFS advisor in segmenting entities.

Data source: Budget Statement 2019-20. GoT 2017-18 Financial Statements

PI-11 Public investment management

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-11 Public investment management (M2)		C+
11.1 Economic analysis of investment proposals	Economic analyses were conducted for all major investment projects in the last completed fiscal year (2018/19) but these were not in line with national guidelines. The results of economic analyses findings are available for all five major investment projects. Major investment projects are funded by development partners and the economic analyses, while conducted in cooperation with local project management units (PMU), were done using development partners' guidelines. The national guidelines for project proposals, in a form of a 'Project Proposal Application', however, exist but are not publicly available and were not used for the five major investment projects. They are typically used for investment proposals below the threshold of 1 million P\$.	C
11.2 Investment project selection	Prior to their inclusion in the budget, all five major investment projects were prioritized by the Cabinet Development Coordination Committee (CDCC), using the standard criteria for project selection as outlined in the National Infrastructure Investment Plan 2013—2023 (NIIP). NIIP is a publicly available document (https://tonga-data.sprep.org/dataset/national-infrastructure-investment-plan-2013-2023); and all five projects that were selected are listed in NIIP as priority areas.	A
11.3 Investment project costing	Information on total life-cycle costs for all five major investment projects is presented in the Budget Statement 2018/19. However, both the Budget Statement and the Budget Estimates for 2018/19 do not include information on the annual costs and costs of subsequent two years for individual projects, although this information is prepared by the Project Management Units (PMU) and communicated to the Ministry of Finance.	D
11.4 Investment project monitoring	The total costs and physical progress of all five major investment projects are monitored by individual PMUs whose staff is hired by the government and funded by development partners. Standard procedures and rules for project implementation are in place for all major projects. Progress implementation reports are not, however, publicly available for all the projects; they are available for the majority of major investment projects. Publicly available reports have not highlighted any issues with implementation.	B

Evidence for score

Table 11-1 and 11-2: Economic analysis and project selection of five largest major investment projects approved in last completed fiscal year (2018/19)

Five largest major investment projects (>1% of BCG expenditure)	Total investment cost of project P\$	As a % of top 5 major projects approved	Data for PI-11.1 Economic analyses				Data for PI-11.2 Project selection	
			Completed (Y/N)?	Consistent with national guidelines (Y/N)	Published (Y/N)	Reviewing entity	Prioritized by central entity (Y/N)	Consistent with standard selection criteria

Tonga Climate Resilient Transport Project	65,000,000	24%	Y	N	Y	CDCC	Y	Y
Outer Island Renewable Energy Project	64,000,000	24%	Y	N	Y	CDCC	Y	Y
Nationwide Early Warning System and Strengthening Disaster Communications	58,000,000	21%	Y	N	Y	CDCC	Y	Y
Climate Resilience Sector Project	44,600,000	16%	Y	N	Y	CDCC	Y	Y
Installation of Wind Power Generation System	40,000,000	15%	Y	N	Y	CDCC	Y	Y
Total/Coverage	271,600,000	100%	100%	0%	100%	100%	100%	100%

Data source: Project proposals documentation (available at: <https://www.worldbank.org/en/news/loans-credits/2018/11/30/tonga-climate-resilient-transport-project>; <https://www.adb.org/projects/43452-022/main>; https://libopac.jica.go.jp/images/report/12309142_01.pdf, <https://www.adb.org/projects/46351-002/main>; and <https://libopac.jica.go.jp/images/report/12287959.pdf>); 'Project Proposal Application' form (not publicly available), and National Infrastructure Investment Plan 2013—2023, available at <https://tonga-data.sprep.org/dataset/national-infrastructure-investment-plan-2013-2023>; meetings with Ministry of Finance, Ministry of Infrastructure, and development partners.

Note: Major investment project is any project where the total investment cost is greater than 1% of total annual BCG expenditure.

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

Name of capital project	Data for PI-11.3 Investment project costing			Data for PI-11.4 Investment project monitoring				
	Life cycle cost in budget documents (Y/N)	Capital cost breakdown in budget documents (Annual/Three-year)	Recurrent costs included in budget documents (Annual/Three-year)	Monitoring of total cost (Y/N)	Physical progress monitoring (Y/N)	Standard rules and procedures exist (Y/N)	High level of compliance with procedures (Y/N)	Information on total cost and physical progress published annually (Y/N)
Tonga Climate Resilient Transport Project (WB)	Y	N	N	Y	Y	Y	Y	Y
Outer Island Renewable Energy Project (ADB)	Y	N	N	Y	Y	Y	Y	Y
Nationwide Early Warning System and Strengthening Disaster Communications (JICA)	Y	N	N	Y	Y	Y	Y	N
Climate Resilience Sector Project (ADB)	Y	N	N	Y	Y	Y	Y	Y
Installation of Wind Power Generation System (JICA)	Y	N	N	Y	Y	Y	Y	N
Coverage	100%	0%	0%	100%	100%	100%	100%	64%

Data source: Project proposals documentation, Budget Statement 2018/19, Budget Estimates 2018/19.

PI-12. Public asset management

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-12. Public asset management		C+
12.1. Financial asset monitoring	The government maintains records of its holdings of major financial assets. While it monitors the performance of its equity holdings in publicly owned enterprises (its largest financial asset) it does not publish the results.	C
12.2. Nonfinancial asset monitoring	Ministries maintain registers of fixed assets which include information on cost, usage and useful life. The Ministry of Lands maintains cadastral records but not a register of land owned or leased by government. A register of natural resources is not maintained.	C
12.3. Transparency of asset disposal	Rules and procedures exist for the disposal of non-financial assets. While proceeds of sales are recorded, these are often recorded against the MoF (who disposes of most assets), rather than the entity that acquired the asset. There is no legislative framework or procedures for the sale of equity in public enterprises, which represent most of the financial assets of the GoT.	B

Evidence for score

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

Asset Type	Holdings of financial assets maintained (Y/N)	Acquisition cost recorded (Y/N)	Fair value recognized (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually. (Y/N)	Source of information
Equity	Y	Y	Y	Y	N	Annual Financial Statements, Ministry of Public Enterprise reports
Term Dep.	Y	Y	N	Y	N	
Leases	N	N	N	NA	N	
Receivables	Y	Y	N	Y	Y	
Loans to PEs	Y	Y	N	Y	N	

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

Register of fixed assets (Y/N)	Information on usage and age (Y/N)	Register of land assets (Y/N)	Register of subsoil assets (if applicable) (Y/N/NA)	Information on performance published annually. (Y/N)
Y	Y	Cadastral record but no asset register	N	N

Data source: Asset Registers; Meeting with Ministry of Lands Survey & Natural Resources

Table 12-3: Transparency of asset disposal

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

Data source: Treasury Instructions, PFM Act 2002, meeting with Ministry of Health, Meeting with Ministry of Education, Meeting with Ministry of Customs and Revenue.

PI-13. Debt management

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-13. Debt management		D+
13.1. Recording and reporting of debt and guarantees	A debt management system is in place (CS-DRMS). While there are some systems issues that impact on the quality of data in the system (advised to represent less than 10% of data), there are supplementary records maintained and, taken together, these records are complete, accurate and updated on an ongoing basis (more often than quarterly). The records are reconciled at least quarterly. Debt statistics are compiled at least quarterly and provided to key development partners. Development partners advise that debt data and statistics are reliable. There are no guarantees to recorded in CS-DRMS.	B
13.2. Approval of debt and guarantees	The PFM Act provides specific authority and guidance on borrowing, guaranteeing debt and on recording of such transactions by the Minister of Finance (only). There are no documented policies and procedures that guide borrowing and guaranteeing loans.	D
13.3. Debt management strategy	A Debt Management Strategy was completed and approved in December 2015 and is now out of date. The strategy included risk analysis of key variable but not targets.	D

Evidence for score: Sample data from CS-DRMS, discussion with donors, quarterly report to World Bank.

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

Domestic and foreign debt records maintained (Y/N)	Frequency of update of records (M/Q/A)	Records are complete and accurate (Y/N)	Frequency of reconciliation M=Monthly Q=Quarterly A=Annually N=Not done (Add whether All; Most: Some; Few)	Statistical reports (covering debt service, stock and operations prepared) M/Q/A/N	Additional information from reconciliation reported (if no statistical report) y/n	Data source
Y	M	N	M-M	Not in recent years	Yes	CS-DRMS Report, CMU Report to

						World Bank.
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Table 13-2: Approval of debt and guarantees

Primary legislation exists (Y/N; Name of Act)	Documented policies and guidance (Y/N, Name of regulation/policy)		Debt management responsibility (Y/N; Name and location of unit)		Annual borrowing approved by government or legislature (Y/N, specify last date of approval)	Data source
	Guidance to single debt management entity	Guidance to several entities	Authorization of debt granted to single responsible entity	Transactions reported to and monitored only by single responsible entity		
PFM Act	N	N	Cabinet / Minister of Finance	Y	Yes <\$15M Cabinet >15M Parliament	PFM Act 2002 s.26

Table 13-3: Debt management strategy

Debt management strategy has been prepared (Y/N)	Date of most recent update	Time horizon (No. of years)	Targets included in debt strategy				Annual report on debt strategy submitted to legislature (Y/N, Date)	Data source
			Interest rates	Refinancing	Foreign currency risk	Evolution of risk indicators only		
Y	2015	3	N	N	Y	Y	Y 2014/15	MTDS 12/2015

PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting

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

Overall performance

The responsibility for developing forecasts of macro-economic variables falls between MoF who prepare forecasts of GDP and inflation, and the RBT who prepare forecasts of exchange rates and interest rates. The Macro-economic committee consisting of the RBT Governor, the Secretary of Finance and the Statistician reviews forecasts bi-annually (Late December early January and July) and adjustments may be made after discussions.

During the period assessed the government prepared its budget in the challenging context of Cyclone Gita, a Category 5 cyclone which struck Tonga in February 2018, severely disrupting the ongoing administration of government and changing the economic outlook for the country. Nevertheless, the fiscal strategy and budget preparation are foundationally sound, with the government including its own resources which are programmed through the "Recurrent Budget" and development partner resources through the "development fund".

The fiscal strategy presented in the 2018/19 budget outlined fiscal consolidation as the principle tool for macro-economic stability. Four fiscal anchors continued to be utilized as they were in previous years, including: (i) domestic revenue collections to GDP; (ii) minimizing borrowings; (iii) external debt to GDP; and (iv) staffing costs to domestic revenue and total revenue were outlined for the budget and forward years. Whilst a separate report on the outcomes is not prepared, outcomes are included in the budget statement, around 18 months after the end of the year. The most recent published report was for 2017/18 was included in the 2019/20 budget. The 2018/19 outcome is expected to be provided in the 2019/20 Budget Statement.

The January macroeconomic forecasts are used to inform the budget process and assist MoF to inform Cabinet on the available resourcing envelope for the upcoming budget and subsequent forward years. For the 2019/20 budget process Cabinet approved aggregate and agency ceilings on 15 February and circulated to all agencies via a budget circular on 18 February. However, agencies were given only three weeks to prepare the submissions for consideration by Finance (i.e., by 9 March).

Linkages between the budget and the three-year corporate plans presented by Ministries is weak. Out of the major spending ministries only the MoH had a costed corporate plan outlining the costs of meeting the service delivery targets of the government over a period of three years, as opposed to just repeating the budget appropriation provided in the previous year.

A system of rolling forward estimates is not strictly maintained. It is difficult to clearly ascertain if increased resourcing for an agency in the budget year (when compared to the forward estimate of the previous budget year) is the result of a implementing a new policy initiative which is partially or fully funded or simply additional resourcing to cope with current service delivery or operational demands.

Fiscal forecasts provided in the budget statements were in a consistent GFS level three basis for three completed fiscal years (2018/19, 2017/18 and 2016/17). The estimates of expenditure are

also presented by administrative classification (disaggregated at the administrative level by 'programs'), and economic type in the budget estimates.

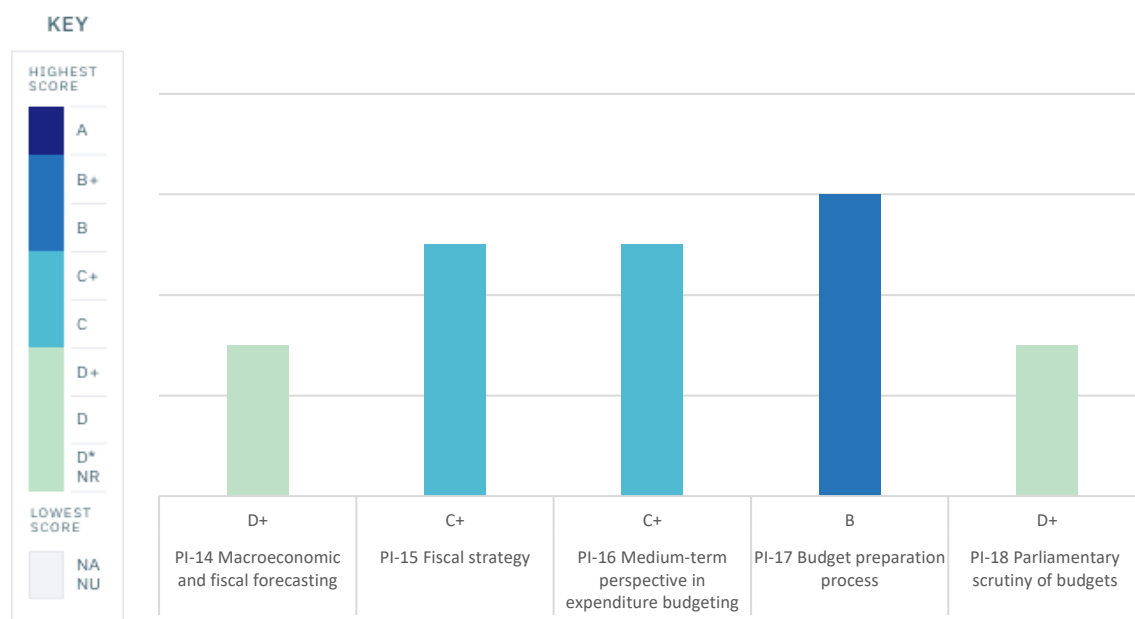
The legislature is provided adequate time to consider the budget. The 2016/17, 2017/18 and 2018/19 budgets were all presented to the Legislature well before the commencement of the new financial year. On receipt of the budget by parliament, it is referred to the PAC. The PAC spends around a month from mid-April to mid-May discussing the budget including with representatives of the MoF and line ministries as required. The budget is then debated by parliament. On all occasions for the last three fiscal years, the budgets were passed shortly prior to the commencement of the new budget year.

The Legislative Assembly's review of the budget covers fiscal policies, medium-term fiscal forecasts, as well as details of expenditure and revenue for the coming year. Medium-term priorities are not scrutinized. There are no standardized procedures within the Parliament, the Standing Orders do not include procedures for budget scrutiny and no other documents outline at type of review procedures.

In last three fiscal years, the Legislative Assembly of Tonga always approved the annual budget before the start of the year.

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

Figure PILLAR FOUR: Policy Based Fiscal Strategy and Budgeting



Possible underlying causes

The ability to independently test the robustness of macroeconomic forecasts is undermined by the lack of information on underlying assumptions presented in the budget documentation. Alternate macro-fiscal forecasts are not prepared as a matter of course, for example a reduced level of GDP or alternate exchange rate assumptions. Alternate economic models have been prepared to examine the impact of actual events on GDP, for example, the withdrawal of hosting the Pacific Games and natural disasters such as Cyclone Gita.

PI-1 and PI-2, reveals the significant variations between projected revenues and expenditures at the time of the budget and the actual outturns. No explanation is provided for the main differences between the fiscal forecasts for the current budget and the forecasts made in the previous year's budget, nor between budget projections and actual outturns. As noted above, ministries have only a limited time to prepare their detailed estimates after receipt of the budget circular and advice of their expenditure ceilings.

With regard to budget preparation, the budget circular should provide more time for ministries to prepare their detailed estimates.

Recent and ongoing reform activity

The reforms in providing corporate plans and improving performance data has been underway. Improvements in multi-year perspective in fiscal planning and budgeting has provided improved planning processes but is not linked between budget years.

PI-14. Macroeconomic and fiscal forecasting

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-14. Macroeconomic and fiscal forecasting (M2)		D+
14.1. Macroeconomic forecasts	Macro-economic forecasts are prepared by both MoF and RBT. However only GDP and inflation forecasts and their underlying assumptions for the budget year only were included in the 2016/17 and 2017/18 budget documents. In the 2018/19 budget these were provided for the budget and two following years. No information is available for any of the years on assumptions for exchange rate or interest rates.	D
14.2. Fiscal forecasts	Fiscal forecasts of revenue, expenditure and the budget balance were consistently provided for the three completed fiscal years (2018/19, 2017/18 and 2016/17) in the budget documentation which was presented to Parliament and published. However, there was no explanation of the main differences from forecasts made in the previous years.	B
14.3. Macro-fiscal sensitivity analysis	Alternate scenarios to baseline budget forecasts based on alternative macroeconomic assumptions are not prepared. In previous years, some alternate scenarios based on actual events with a significant the impact on GDP were prepared, e.g. the decision to not host the 2019 Pacific Games and Cyclone Gita.	D

Evidence for score

Table 14-1. Macroeconomic and fiscal forecasting

Indicator	Budget document year	Years covered by forecasts			Underlying assumptions provided (Y/N)	Frequency of update 1= once a year 2=more than once a year N=Not updated	Submitted to legislature 1=budget year only 3= budget year plus two following fiscal years	Alternative fiscal scenarios prepared (Y/N)	Alternative scenarios published (specify relevant document)
		Budget	Forward year 1	Forward year 2					

							N= Not published		
Key macroeconomic indicators									
GDP growth	2018/19	Y	Y	Y	Y	N	3	N	N
	2017/18	Y	Y	Y	Y	N	3	N	N
	2016/17	Y	Y	Y	Y	N	3	N	N
Inflation	2018/19	Y	Y	Y	Y	N	3	N	N
	2017/18	Y	Y	Y	N (17/18 only)	N	3	N	N
	2016/17	Y	Y	Y	N (16/17 only)	N	3	N	N
Interest rates	2018/19	N	N	N	N	N	N	N	N
	2017/18	N	N	N	N	N	N	N	N
	2016/17	N	N	N	N	N	N	N	N
Exchange rate	2018/19	N	N	N	N	N	N	N	N
	2017/18	N	N	N	N	N	N	N	N
	2016/17	N	N	N	N	N	N	N	N
Fiscal forecasts									
Aggregate expenditure	2018/19	Y	Y	Y	Y	1 (18/19)	3	N	N
	2017/18	Y	Y	Y	Y	N	3	N	N
	2016/17	Y	Y	Y	Y	N	3	N	N
Fiscal balance	2018/19	Y	Y	Y	Y	1 (18/19)	3	N	N
	2017/18	Y	Y	Y	Y	N	3	N	N
	2016/17	Y	Y	Y	Y	N	3	N	N
Aggregate revenue	2018/19	Y	Y	Y	Y	1 (18/19)	3	N	N
	2017/18	Y	Y	Y	Y	N	3	N	N
	2016/17	Y	Y	Y	Y	N	3	N	N
Revenue by type	2018/19	Y	Y	Y	Y	1 (18/19)	3	N	N
	2017/18	Y	Y	Y	Y	N	3	N	N
	2016/17	Y	Y	Y	Y	N	3	N	N

Data source: Budget Statements 2018/19, 2017/18 and 2016/17.

PI-15. Fiscal strategy

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-15. Fiscal strategy (M2)		C+
15.1. Fiscal impact of policy proposals	The government does not prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the year.	D
15.2. Fiscal strategy adoption	Government's fiscal strategy for 2018/19 is outlined in the 'Budget Strategy and Funding Envelope 2018/19—2020/21 approved by Cabinet and includes information on numerical and qualitative objectives as well as quantitative targets for the budget year and the following two fiscal years based on four key 'fiscal anchors': i) raise domestic revenue collections to pre-global financial crisis levels (at least 22% of GDP); ii) minimize external borrowing, and only borrow externally on highly concessional terms; iii) maintain nominal external debt below 50 percent of GDP; and iv) maintain staff cost at no more than 53 percent of domestic revenue. Qualitative fiscal policy objectives are consistent with the fiscal anchors i.e. reduction of the wage bill, strengthening revenue collection and reducing debt. The Budget Strategy paper is not presented to the legislature, the fiscal targets are also presented in the 2018/19 Budget Statement which is submitted, as part of the budget documentation to the parliament.	A

15.3. Reporting on fiscal outcomes	The Budget Strategy 2019/20 approved by the Cabinet was not sent to the Legislative Assembly for review and scrutiny. It includes a report on progress made against the fiscal strategy for the last completed fiscal year at the time the budget was being prepared (2017/18). The report explains reasons for deviations from the set objectives and targets (e.g. differences between the estimates and actual results in development projects were attributed to the high turnover of staff and lengthy processes to recruit new staff, and lower levels of corporate tax receipts were attributed to the Tropical Cyclone Gita). Actions planned to address deviations are presented in some cases.	C
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Evidence for score

Table 15-1 Fiscal impact of policy proposals

Estimates of fiscal impact of ALL proposed changes prepared			Data source
Budget year	Two following fiscal years	Submitted to legislature	
2018/19	2019/20	N	2018/19 Budget Statement
2017/18	2018/19	N	2017/18 Budget Statement
2016/17	2017/18	N	2016/17 Budget Statement

Table 15-2 Fiscal strategy adoption

Fiscal prepared (Y/N)	Submitted to legislature (Y/N, Date)	Published (Y/N, Date)	Internal use only (Y/N)	Includes quantitative information		Includes qualitative objectives (Y/N)	
				Time based goals and targets	Or objectives only		
					Budget		Forward Years
Y	Y 30 April 2018	N	Y	Y	NA	NA	Y

Data source: 2018/19 Budget Strategy Paper 2018/19 Budget Statement

Table 15-3 Reporting on fiscal outcomes

Progress report completed (Y/N)	Last fiscal year covered	Submitted to legislature (Y/N, Date)	Published with budget (Y/N, Date)	Includes explanation of deviation from target (Y/N)	Includes actions planned to address deviations
Y	2017/18	Y	Y	Y	N

Data source: 2018/19 Budget Strategy Paper 2018/19 Budget Statement

PI-16. Medium-term perspective in expenditure budgeting

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
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PI-16. Medium-term perspective in expenditure budgeting (M2)		C+
16.1. Medium-term expenditure estimates	The 2019/20 Budget Estimates provides estimates of expenditure by administrative and economic type for the budget and two following fiscal years.	B
16.2. Medium-term expenditure ceilings	The ceilings were approved by Cabinet on 15 February (CD 177) and were sent to Ministries in the following budget circular which was released to Departments on 18 February.	A
16.3. Alignment of strategic plans and medium-term budgets	Of the largest ministries only MoH and MEIDMECC had a currently costed plan (representing 37% of the five largest ministries.)	C
16.4. Consistency of budgets with previous year's estimates	There is no reconciliation of the budget and forward year estimates from one year to the next.	D

Evidence for score

Table 16-1: Medium-term expenditure estimates

Classification	Budget year (Y/N)	Two following fiscal years (Y/N)	Data source
Administrative	Y	Y	2019/20 Budget Statement 2019/20 Budget Estimates
Economic	Y	Y	
Program/Function	Y	Y	

Table 16-2: Medium term expenditure ceilings

Level	Budget year	Two following fiscal years	Date of advice	Data source
Aggregate ceiling	2019/20	2020/21 2021/22	15 Feb 19	Cabinet Decision 177
Ministry Ceiling	2019/20	2020/21 2021/22	15 Feb 19	

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

Ministry	Budget Allocation \$m	Medium term strategic plan prepared	MTSP Costed	Expenditure proposals consistent with MTSP (Most, majority, some, none)	Data source
1. Finance	123.8	Corporate Plan	N	None	MOF Corporate Plan 2019-2021
2. Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	85.3	Corporate Plan	Y	None	MEIDECC Corporate Plan 2019-2021
3. Education	69.6	Corporate Plan	N	Most	MET Corporate Plan 2019-2021
4. Health	57.7	Corporate Plan	Y	None	MOH Corporate Plan 2019-2021
5. Infrastructure	51.9	Corporate Plan	N	None	MOI Corporate Plan 2019-2021
Total/Coverage	388.8		14.8%	Few (<25%)	

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

Ministry	Explanation of change to previous year's estimates prepared included in budget documents	Reconciled with medium term budget estimates	Reconciled with first year of new budget estimates	Source of evidence
1. Finance	N	N	N	NA
2. Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change	N	N	N	NA
3. Education	N	N	N	NA
4. Health	N	N	N	NA
5. Infrastructure	N	N	N	NA
Coverage	None	None	None	None

PI-17. Budget preparation process

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

Indicator and dimension scores and analysis

Indicators/ Dimensions	Assessment of performance	2019 Score
PI-17. Budget preparation process (M2)		B+
17.1 Budget calendar	The Budget Calendar was issued on 7 December 2018 seeking corporate plans to be submitted to the Office of the Prime Minister by 20 December 2018. Electronic templates were then provided on 19 February 2019. Submissions were due back at the Ministry of Finance by 8 March 2019 (3 weeks) Some ministries complied with the deadline.	C
17.2 Guidance on budget preparation	An initial circular was issued on 7 December 2018 outlined the initial calendar for the budget process. The second circular issued on 18 February 2019 contained details on budget envelopes (ceilings) for each ministry as approved by Cabinet (CD 177) as well as the templates for the preparation of detailed budget estimates. The circular was followed up by individual visits to Ministries.	A
17.3 Budget submission to the legislature	2018/19 Budget was submitted on 30 April 2018 2017/18 Budget was submitted on 28 April 2017 2016/17 budget was submitted on 26 April 2016	A

Evidence for score

Table 17-1: Budget calendar and budget circular

Budget calendar exists (Y/N)	Date of budget circular	Deadline for submission of estimates	Coverage	% of ministries complying with deadline	Date Cabinet approved ceilings	Budget estimates are reviewed and approved by Cabinet after completion	Data source
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						(if ceilings not issued) (Y/N)	
Y	7 Dec 2018 (with calendar) 18 Feb 2019 (inc Templates)	8 Mar 2019	BCG	63%	15 Feb 2019	Y	Budget Circular 15/23/120

Table 17-3: Budget submission to legislature

Budget year	Date of submission of budget proposal	Data source
2018/19	30 April 2018	Letter from Minister to Speaker for all years.
2017/18	28 April 2017	
2016/17	26 April 2016	

PI-18. Legislative scrutiny of budgets

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-18. Legislative scrutiny of budgets (M1)		D+
18.1. Scope of budget scrutiny	The Legislative Assembly's review of the budget covers fiscal policies, medium-term fiscal forecasts, as well as details of expenditure and revenue for the coming year. Medium-term priorities are not scrutinized. The budget documentation (the Budget Statement and Budget Estimates) is sent to the Legislative Assembly by Ministry of Finance in April. The review lasts for two months. The proposal is first reviewed by the Public Accounts Committee that typically takes a month and then prepares a briefing note which is shared with Members of Parliament. The Legislative Assembly then has around a month to review the budget proposal. Discussions in the Assembly are broadcast on the national radio and citizens have an option of calling in to the radio station to address their comments and questions directly to Members of Parliament.	B
18.2. Legislative procedures for budget scrutiny	The Standing Orders of the Legislative Assembly of Tonga from October 2014 do not include procedures for budget scrutiny and there are no other documents that outline the review procedures. The support staff of the PAC is, however, currently working on drafting procedures for budget scrutiny with assistance from external partners.	D
18.3. Timing of budget approval	In last three fiscal years, the Legislative Assembly of Tonga always approved the annual budget before the start of the year.	A
18.4. Rules for budget adjustments by the executive	Clear rules exist for in-year adjustments by the executive and are outlined in the Public Finance Management Act of 2002. The rules set strict limits on the extent and nature of amendments and are adhered to in <i>all</i> instances.	A

Evidence for score

Table 18-1. Scope of budget scrutiny

Legislature reviews budget (Y/N)	Coverage (specify)				
	Fiscal policies	Medium-term fiscal forecasts	Medium term priorities	Aggregate expenditure and revenue	Details of expenditure and revenue
Y	Y	Y	N	Y	Y

Data source: Budget Statement 2019/20, Budget Estimates 2019/20, representatives of Public Accounts Committee.

Table 18-2: Legislative procedures for budget scrutiny

Legislative procedures exist	Approved in advance of budget hearings	Procedures are adhered to	Procedures include organizational arrangements
N	NA	NA	NA

Data source: Standing Orders (available at Legislative Assembly of Tonga website at <https://www.parliament.gov.to/>), representatives of Public Accounts Committee and their support staff.

Table 18-3: Timing of budget approval

Budget for fiscal year	Date of budget approval
2019/20	June 27, 2019
2018/19	June 20, 2018
2017/18	June 29, 2017
2016/17	June 29, 2016

Data source: Attorney General's Office of Tonga website at <https://ago.gov.to/cms/>

Table 18.4: Rules for budget adjustments

Clear rules exist (Y/N)	Rule include strict limits (extent and value)	Actual amount of reallocations in accordance with rules (% of BCG budget)	Extent of adherence to rules (All, most, some)
Y	The Public Finance Management Act of 2002 specifies that the Government can use the Contingency Fund for any in-year adjustments between ministries, but they cannot exceed five percent of the total approved budget. The Act requires that any adjustments are clearly specified in annual financial statements, together with an explanation of the reasons for revisions.	Actual amount of reallocations between ministries in 2018/19 amounted to 0.5% of the BCG budget.	The rules for reallocations between ministries were adhered to in all instances. In line with the Public Finance Act, reallocations are specified, together with explanations, in the annual financial statements.

Data source: Public Finance Management Act of Tonga of 2002 and Annual Financial Statements 2017/2018 ('The Government of Tonga Financial Statements for the year ended 30 June 2018').

PILLAR FIVE: Predictability and Control in Budget Execution

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

Overall performance

Budgeted domestic revenues are collected as anticipated in the budget. The Ministry of Revenue and Customs, which collects the major tax types, operates under a comprehensive and clear legislative regime where taxpayers' rights and obligations are well defined. The MRC goes to some effort to ensure that taxpayers are aware of these rights and obligations and provides a system of redress. The MRC has a risk-based compliance program that seeks to ensure collections, but the associated audit plan is not fully executed, and arrears have built up over time.

While the internal controls over revenue collection are well defined and business processes result in funds being transferred to the Treasury accounts on a timely basis, weaknesses in reconciliation undermine the quality what is otherwise comprehensive revenue data collection and accounting.

In terms of budget execution, the entire budget is released at the start of the year, which provides spending agencies with a high degree of certainty that they can commit and spend funds as required according to their plans. The cash flow plans of agencies are consolidated by the MoF, who use the information to track budget execution and cash flows. Over the last three years there has been no instances of cash shortfall and thus no need for management of the rate of execution of the budget, nor any need to consolidate account balances on a regular basis. As such, there have been no need for significant adjustment in budget allocations during the year. Similarly, there is no evidence of expenditure arrears due to cash shortages – noting however that delays in payments do exist occasionally due to the time it takes to administer expenditure voucher – yet there is no data available on arrears to fully test this assumption.

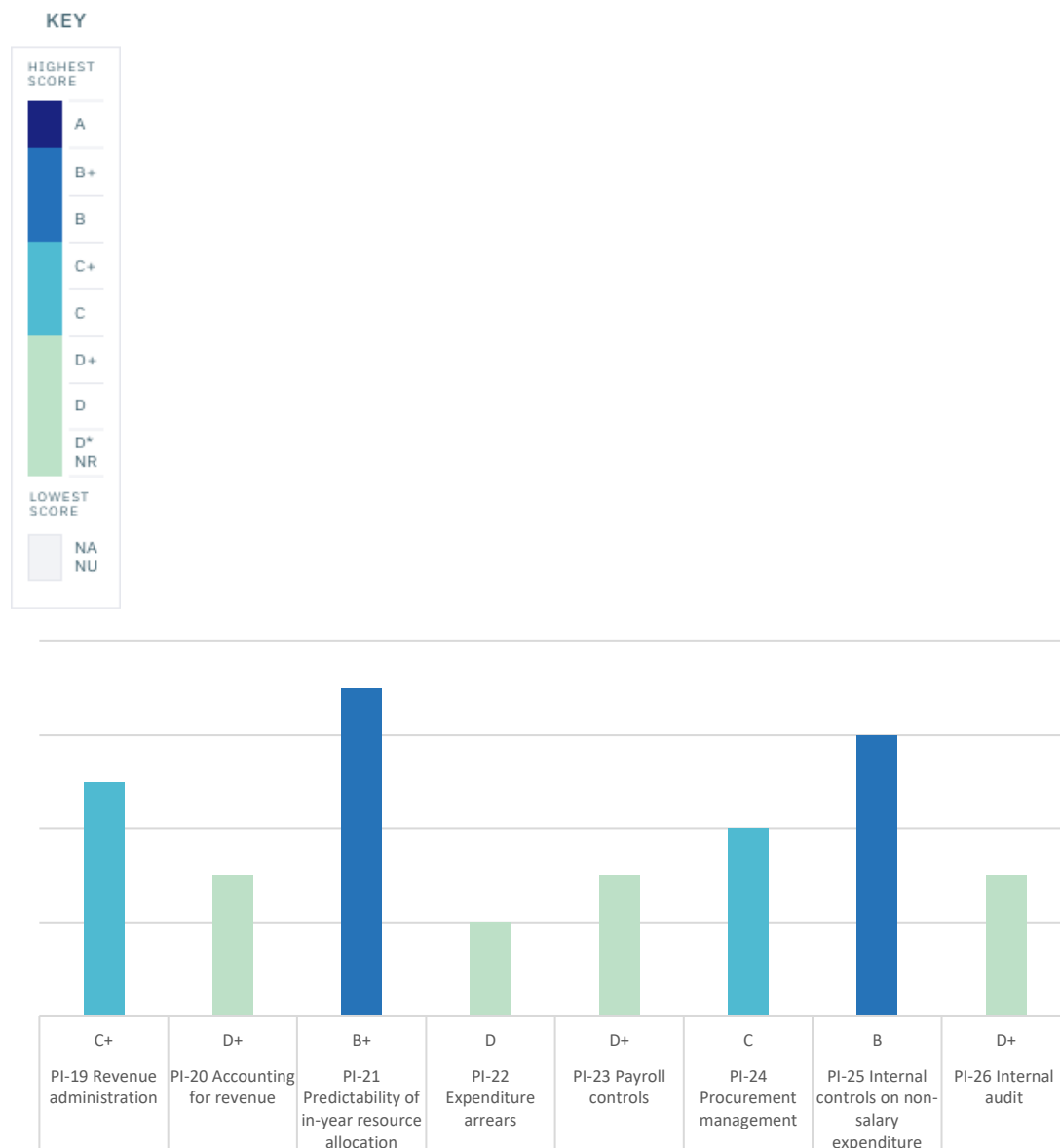
Controls over budget execution are robust but rely heavily on manual system of internal control to supplement systems in use. The internal controls over the payroll include paper-based forms and email traffic which notify the PSC and Treasury of changes in employee circumstances that warrant changes in personnel records and/or the payroll. These are then recorded in the respective personnel system and the payroll system – a system that includes access controls and audit trails. The PSC is required to approve changes to employment arrangements, which means that most changes to personnel record and the payroll flow via the PSC. However, the data in the two systems are not reconciled, so any breakdown in the manual transfer of data that occurs could result in a mismatch between the two system and does result in the need for some retroactive adjustments to the payroll – although these are not significant. There has been no audit or staffing survey to verify the validity of the data in personnel/payroll system.

Similarly, the internal controls over other aspects of budget execution also include a mix of traditional paper-based controls and the use of technology. Non-salary expenditures are initiated within spending agencies on paper-based forms, where various signatories authorise and certify their intention to procure, the purchase order and the request make payment via expense voucher. Some of the roles and responsibilities of various office holders appear to be well understood in practice but are not well defined in the legal framework. Only the purchase order (commitment) and approved expense voucher (expense) are recorded in the SunSystem FMIS. There is some evidence that commitments are often recorded after the purchase order has been

issued but always prior to the EV. Treasury performs ex-ante control on all payments, applying a checklist to ensure that the paper-based controls are in order, demonstrating compliance with various requirements (including procurement) before the release of funds. Treasury will not release any payment unless all of these checks are passed, except under written authority from the Minister or CEO.

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

Figure PILLAR FIVE: Predictability and Control in Budget Execution



Possible underlying causes

The government currently underspends on almost all key segments of its budget. In terms of budget execution, this underspending covers the fact that not all domestic revenues are collected (as evidenced by the build-up of revenue arrears being monitored by the Ministry of Revenue and Customs.) and that there are weaknesses in the capacity to limit expenditure during budget execution within incurring arrears.

The underspending and resulting surplus of cash that resides in the treasury system enables a liberal approach to budget execution where there is little capacity to limit the timing of expenditures in a meaningful way – other than through arrears – should a cash shortage arise. The recording of commitments is not required to control the pace of spending under the current situation and thus weaknesses in the current commitment controls are not exposed.

Similarly, the surplus cash in the system reduces the pressure on the MoF to have complete and accurate forecasts of future bank balances and fully reconciled budget execution data. The surplus cash, and absence of a mechanism for projecting bank balances that would support investment of surplus balances, reduces the need for treasury to be highly active in consolidating account balances.

The application of very robust ex-ante control over the release of payment by the treasury reduces pressure on the application of clear internal control by ministries, including ensuring clarity with policies and procedures over the roles and responsibilities that underpin segregation of duties.

Recent and ongoing reform activity

The PFM Roadmap had a number of activities relating to improving effectiveness of tax administration. Several of the reforms in revenue administration, as found in the roadmap, have been completed. This has been supported by technical assistance from PFTAC. Other reforms are underway and will be fully implemented in the future, including:

1. Improving revenue management system (completed),
2. Upgrade revenue management system (completed),
3. Improving communication strategy on revenue (completed),
4. Improving human resource capacity at MoRC (on-going);
5. Transition MoRC to functional structure (completed),
6. Completion of corporate income tax instalment system for large taxpayers (completed),
7. Establishment of a taxpayer services function (completed),
8. Improve the process for approving, monitoring and reporting exemptions (was on-going in 2018 but schedule to be completed by end of fiscal year),
9. Improve analysis of large filing/late payment to identify interventions and improve payments (completed),
10. Establish electronic filing for large business returns (completed),
11. Introduce risk management module,
12. Maintain data matching until risk management module implemented,
13. Introduce computerized risk modelling,
14. Develop compliance program for analytical assessments
15. Devise system to analyse arrears and identify likelihood of non-payment (on-going),
16. Institute procedures for combining tax and customs audits when benefit identified, and
17. Use tin data to check information on customs entries (completed).

Cash management reform plans included 1) the establishment of a cash management committee, 2) updated cash management guidelines 3) improving cash management for diplomatic missions, and 4) improving cash management to avoid funding crisis. Recent World Bank activity is now beginning to improve cash management and additional reforms are likely in upcoming months.

While the Roadmap supported the implementation of a Procurement Reform Strategy, the activity is noted as on-going. Improvements have been occurring but, in general, additional reforms will be needed to improve procurement practices throughout government.

While several internal audit reforms were noted in the Roadmap, progress has been slow. Internal audit was previously performed by the Auditor General and a lack of structure of the audit activities under Supreme Audit Institutions (INTOSAI) vs those in the Institute of Internal Audit (IIA) framework is slowing progress.

The current government has indicated a desire to both enhance the use of technology in government and to decentralise administration. This represents an opportunity for the Treasury to enhance accounting, reporting and internal controls by rolling out access to the FMIS, while simultaneously strengthening the rules around financial control and building capacity in line ministries. Having an internal audit function that is seen as a partner to managers in supporting the development of sound internal controls in ministries is an essential enabler. Achieving robust decentralised control and reporting will have the dual benefits of improving transparency and accountability within line ministries while also enhancing access to financial management information and analysis within those entities. By freeing up the resources currently devoted to ex-ante control, Treasury could devote its resources to ensuring that reconciliations are complete, improving the functioning of Treasury banking and payments, enhancing the quality of cash management and improving the financial statements having regard to IPSAS.

P-19. Rights and obligations for revenue measures

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-19. Revenue administration (M2)		C+
19.1. Rights and obligations for revenue measures	The Ministry of Revenue and Customs, which collects 79% of revenues, has an extensive program of raising awareness of taxpayers' rights and obligations delivered by its client service department. The Ministry's website, publications, media advertising and outreach activities, including the yearly "tax week" event, focuses on providing taxpayer information, and raising awareness. Redress process and procedures are included on line as well as in tax assessment letters.	A
19.2. Revenue risk management	The Ministry of Revenue and Customs, which collects most (79%) of CG revenues, has a basic risk management process in place. A compliance risk management committee is in place and some compliance risk assessment has been undertaken, where industry, concentration of revenue volume and taxpayer size are risk factors taken into account. This informed the compliance program, which includes an audit plan which specifically covers large tax payers. Customs uses the profiling in the Customs Management System for customs risk reviews. There is no evidence of a risk-based approach to compliance by other revenue collecting agencies.	B

19.3. Revenue audit and investigation	The execution of the audit plan is tracked within the compliance program. In 2018-19 90% of audits of tax returns were completed but only 50% (5 of 10) complex audits of taxpayers were completed.	C
19.4. Revenue arrears monitoring	Total arrears of the revenues collected by the Ministry of Revenue and Customs, which represent 45% of their total collections. The value of arrears that are older than 12 months represents 82% of total arrears.	D

Evidence for score

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

Entity	Information available to taxpayers' rights and obligations				Risk management	
	Revenue obligations (Y/N)	Redress (Y/N)	Source of information (Specify)	Is up-to-date (Y/N)	Approach	Coverage
Ministry of Revenue and Customs (income tax, trade tax, taxes on G & S, excise tax)	Y – information provided on website	Y	Website, Tax notices, tax week awareness program, media	Y	Compliance risk assessment based on risk factors: size, concentration, historical trends, industry.	All revenue covered by MoRC

*Last fiscal year (2018/19)

Donor source: Revenue.gov.to, sample tax notice, Ministry of Revenue and Customs "Compliance Program 2018/19 document

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

Entity	Revenues*		Audit and fraud investigations undertaken (Y/N)	In accordance with compliance improvement plan (Y/N)	Compliance improvement plan documented (Y/N)	Stock of arrears	
	\$	% of all revenue				\$P	% of annual collection
Ministry of Revenue and Customs	\$231m	79%	Y	Y but not 100% complete	Y	\$104m	45%

Data source: Ministry of Finance, Ministry of Revenue and Customs "Compliance Program 2018/19" document

Table 19-3: Size of revenue collecting agencies

Entity	Receipts	%
Ministry of Revenue and Customs	231	79%
Ministry of Finance	28	10%
Other Ministries	28	10%
EBUs	6.5	2%
Total	293.5	

Data source: Ministry of Finance

Table 19-4: Execution of Compliance/Audit Plan

	Plan	Actual	%
Audits of tax returns	1044	935	89.6%
Complex audits	10	5	50.0%

Data source: Compliance Program 2018/19 document

PI-20. Accounting for revenue

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-20. Accounting for revenue (M1)		D+
20.1. Information on revenue collections	Ministry of Revenue and Customs (MRC) is the main collector of revenues. Revenues collected are to be identified by revenue type and amount. Ministry of Finance also receives revenue data daily from other ministries. The information is provided in the Revenue Deposit Details report by revenue type.	A
20.2. Transfer of revenue collections	As of November 2019, revenue collected by the Ministry of Revenue and Customs is deposited daily by the revenue officers into a MRC revenue clearing account managed by the Treasury at the MoF. Revenue is also deposited daily into Ministry of Finance designated accounts by all other revenue collecting ministries. Data on those donor revenues managed within PMUs is provided in annual reports and represent less than 10% of revenues collected (see PI-6).	A
20.3. Revenue accounts reconciliation	For all revenue collecting entities in budgetary government, the revenue officer provides the daily deposit slip, cash book, and revenue receipt voucher to the bank for review and to be stamped. These revenue documents are then brought to Treasury. Staff at the Treasury reviews the documents and verifies accuracy. After approval by Treasury, the revenue officer collects copies of the documents for their records. Monthly revenue summaries are sent out to all entities within 5 days of month end by Treasury. Ministries are required to reconcile the report and clean up any issues in the SunSystem. Any variances are to be explained to Treasury. Ministry of Revenue and Customs reviews are extensive and not completed timely. Other ministries vary on whether differences are reported or reconciled. Reports for June 30, 2019 are still being reconciled more than four months after the end of the fiscal year. Revenue and Customs are not reporting arrears to Treasury.	D

Evidence for score

Table 20.1 – Accounting for revenue

Entity	Revenue and % of Total CG Revenue	Data collected by Ministry of Finance -			Revenue collections deposited:		Reconciliation	
		At least monthly (Y/N) - entered into SunSystem FMIS	Revenue type (Y/N)	Consolidated report (Y/N) – prepared by SunSystem FMIS	Frequency	To Treasury of MoF Account	Frequency	Within
Revenue collected by budgetary units								
Ministry of Revenue and Customs	\$231m	Y - Data provided daily	Y	Y	Daily	Y	Daily and Monthly	Delays
Ministry of Finance (div/int, prop,	\$28m	Y	Y	Y	On receipt	Y	Daily	Daily

etc.) less budget support								
Revenues collected by other Budgetary Units	\$28m	Y - Data provided daily	Y	Y	Daily	Y	Daily and Monthly	Limited reporting
Sub-total	287¹⁰m (100%)							
Revenues collected by Extrabudgetary Units¹¹ – Not applicable								

Data Source: Public Financial Management Act of 2002 Part IV; Treasury Instructions Part V; Discussions with Ministry of Revenue and Customs, Ministry of Lands and Natural Resources, Ministry of Finance; Monthly revenue report template, Cash book November 2019, Account Deposit book November 2019, Daily revenue deposit detail report by type November 2019

PI-21. Predictability of in-year resource allocation

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-21. Predictability of in-year resource allocation (M2)		B+
21.1. Consolidation of cash balances	Treasury operates operating accounts in each of four commercial banks, plus an operating account in the RBT as well as separate bank accounts for trust accounts and for certain donor-funded projects. In addition, schools operate their own accounts to receive and independently manage grants received. A weekly cash management report is prepared by the Treasury that includes all general cash and investment balances. The report does not include trust funds ¹² and bank accounts held by schools (minimal). This is provided to the Minister on Fridays and reported together with the operating surplus/deficient for the year to date. No treasury single account is maintained. Account balances are shifted between bank accounts on an ad-hoc as-needs basis to ensure that each operating account remains liquid.	D
21.2. Cash forecasting and monitoring	Treasury instructions paragraph 70 requires all ministries to prepare and submit annual cash flow forecasts to the Budget office and Treasury as well as weekly updates. The weekly update reports are required to be provided to Treasury includes a weekly forecast of daily amounts for the next four weeks for revenues and expenditures. The cash flow forecast is updated based on monthly actuals, revenues and expenditures anticipated.	A

¹⁰ \$323 million total revenue 2018/19 less 35 million in budget support paid directly to Treasury at Ministry of Finance equals \$288 million.

¹¹ The concept note for this PEFA identified retirement benefits funds and several statutory bodies as possible EBU's. The statutory bodies were found to be classified as non-financial public corporations according to reports by PFTAC GFS advisors and the retirement funds assessed to be entities outside of the GFS definition of Central Government in accordance with the PEFA Framework (page 4).

¹² \$24 million at 6/30/18.

21.3. Information on commitment ceilings	Budget allocations are provided through annual appropriations and ministries can commit expenditures throughout the year, if funding has been appropriated in the approved budget category.	A
21.4. Significance of in-year budget adjustments	PFM Act of 2002 section 12 and Treasury instructions chapter 15 allow in year adjustments. Transfers of appropriation between ministries are only possible via the contingency fund (where funds are transferred out of the contingency fund and then replenished by way of sequestering underspends in another ministry). Such budget adjustments between Ministries were sent to Cabinet for approval eight times in 2018/19. They did not result in a reduction in total appropriations. In practice, the transfer of appropriations via the contingency fund was \$1.7 million - less than 1% of expenditure and thus not significant.	A

Evidence for score

Table 21-1: Consolidation of bank and cash balances

Extent of consolidation (All, Most, < Most)	Frequency of consolidation (D, W, M)	Data source
Balances reside in number accounts as there is no TSA.	Ad-hoc	Cash Flow Briefing November 8, 2019

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

Cash flow forecast (Y/N)	Frequency of update (M/Q/A)	Update based on cash inflows (Y/N)	Frequency of release of commitment ceilings (M/Q/A)	Budget adjustments		
				Frequency	% of BCG expenditure	Transparent
Y	M	Y	Annual	9	1%	Yes – in financial statements

Data source: Public Financial Management Act of 2002; 2018 financial statements; Cash Flow Briefing Report November 8, 2019; Discussions with Ministry of Finance, Ministry of Revenue and Customs, Ministry of Health, Ministry of Education, Ministry of Public Enterprises, Unaudited 2018/19 financial statements provided by MoF

PI-22. Expenditure arrears

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-22. Expenditure arrears (M1)		D
22.1. Stock of expenditure arrears	There is no available data on expenditure arrears with which to assess the value of arrears. Our review of a sample of payment vouchers, and discussion with ministries, indicates that arrears can and do occur.	D*
22.2. Expenditure arrears monitoring	Treasury systems do not capture accounts payable when goods and invoice are received and, as such, data on the value and age profile of arrears is not captured or reported.	D

Evidence for score

Table 22-1. Stock and monitoring of expenditure arrears

Stock of arrears	Arrears monitoring	Data source
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Year	As % of expenditure	Stock age and composition	Frequency of reports (M/Q/A)	
2018/19	NA	NA	None	Sample of PVs
2017/18	NA	NA	None	No data available
2016/17	NA	NA	None	No data available

PI-23. Payroll controls

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-23. Payroll controls (M1)		D+
23.1. Integration of payroll and personnel records	Reconciliation of the Public Service Commission's Central Human Resource Information System (CHRIS) personnel database system and the payroll system operated by the Treasury have not occurred since January 2019 (> 6 months). There is no direct link between these systems and the business processes associated with changes to personnel and payroll are not sufficiently robust to ensure alignment between the two systems.	D
23.2. Management of payroll changes	Retroactive adjustments are required to the payroll due to delays in processing of changes to the status of personnel. These retroactive adjustments are identifiable in payroll data provided by Treasury and represent less than 3% of the payroll.	A
23.3. Internal control of payroll	The Treasury payroll system has password access controls, limited user access (i.e., certain users can only access specific ministries), authorizations (with segregation of duties), as well as an audit trail. Errors and omissions in the payroll occur due to the manual processes that supply data (e.g., delays in notifying changes), rather than due to lack of integrity of internal controls.	A
23.4. Payroll audit	No audit of payroll, or a staff survey that would validate data in payroll and CHRIS, has taken place within the last three years.	D

Data sources: Internal Audit Division report 18/19-5 Review of Corporate Service Division, 5th February 2019, Payroll reports provided by Treasury, Audit of 2018-19 Financial Statements.

Evidence for score

Table 23-1. Payroll controls

Function	Y/N	By whom	Frequency (if applicable)
Hiring and Promotion checked against approved staff list	Y	PSC	As required
Reconciliation of payroll and personnel database	Y	PSC & Treasury	> 6 months
Documentation maintained for payroll changes	Y	Treasury	All changes
Payroll checked and reviewed for variances from last payroll	Y	Respective Ministry	Fortnightly
Updates to personnel records and payroll.	Y	PSC & Treasury	As required
Updates includes validation with approved staff list.	Y	PSC	As required
Audit trail of internal controls	Y	Systems and forms	All transactions

Payroll audits in last three years. Define coverage.	N	None	None
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Data sources: Meetings with Treasury and PSC, Treasury Instruction 2010, Payroll reports provided by Treasury.

PI-24. Procurement

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-24. Procurement (M2)		C
24.1. Procurement monitoring	All procurement activities funded by the government of Tonga >10,000 TOP are recorded on a database that includes details of contracts procured, value of procurement, and who has been awarded contract. It does not include amounts less than 10,000 TOP procured by ministries ¹³ and investment procurement where development partner systems are used. Estimates of amounts covered by database are less than 50%.	D
24.2. Procurement methods	For the government procurement, less than 30% is awarded through competitive methods. This is a KPI and shown on the MoF procurement website.	D
24.3. Public access to procurement information	The legal and regulatory framework for procurement is on the MoF procurement website. In addition, bidding opportunities and publishes and annual procurement statistics for government paid procurements >10000 TOP. Donor publication is included on their websites. Three of the six procurement elements are completed.	C
24.4. Procurement complaints management	Procurement complaints processes are included in the regulations and the Contracting Entity Procurement Manual, both available on the website. The application of the procurement complaints management process meets all criteria specified in the PEFA framework.	A

Evidence for score

The 2015 Public Procurement Regulations are made by the Ministry of Finance as provided within section 44 of the Public Financial Management Act of 2002. The regulations provide for oversight of the procurement processes through the Procurement Division within the Ministry of Finance. This division has a policy department and a central procurement unit. The central procurement unit is responsible performing procurement monitoring, including compliance reviews of contracts awarded and bids. The policy section is responsible for performing an assessment of complaints.

Table 24-1 Procurement

Database of records maintained A=All; M=Most; Ma=Majority	Percentage of procurement awards through	Public access to procurement information (Y/N)				
		Legal/regulatory framework	Procurement plans	Bidding opportunities	Data on complaints	Statistics

¹³ Excluding procurement performed by donors and monitored through donor system, government procurements apply to purchases for maintenance & operations, goods and services and assets. These were \$125 million expenditures in those categories in 2018/19. Procurement database includes \$57 million or 46%.

	competitive methods (%)					
Government funded procurement > 10,000	Less than 30%	Yes – on MOF website 2015 Public Procurement Regulations	No - Prepared and provided to MOF but not published	Yes – by Ministry for government funded; by donor for donor funded procurement	No	Yes – for central government procurements

Data source: Ministry of Finance <http://www.finance.gov.to/procurement>; 2018-19 procurement database Ministry of Finance Procurement Unit Treasury Instructions.

Table 24-2 Procurement complaints mechanism

Characteristics of procurements complaints body (Y/N):					
Not involved in procurement	Fees charged for lodging complaint	Clearly defined and publicly available complaints process	Has authority to suspend procurement process	Decisions made within timeframe specified in rules/regulations	Issues are binding
Y - Independent expert	N – Procurement Manual Chapter 11 and PPR 2015. Ruling by independent expert may require party to bear costs.	Y – Procurement Manual and PPR 2015 on website	Y - Manual and PPR 2015 on website	Y – Within 10 days	Y – PPR 2015 Paragraph 77.2

Data source: Procurement Manual for Contracting Entity Public Procurement Regulations 2015 <http://www.finance.gov.to/procurement>; 2018-19 procurement database Ministry of Finance Procurement Unit; Discussion with Ministry of Finance procurement unit, Ministry of Revenue and Customs, Ministry of Health Corporate Services, Ministry of Lands and Minerals, Ministry of Education, Ministry of Public Enterprises, and DFAT Procurement Advisor; Procurement Manual for Contracting Entity; Public Procurement Regulations 2015; Treasury Instructions Part IV Expenditure

PI-25. Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for nonsalary expenditures.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-25. Internal controls on nonsalary expenditure (M2)		B
25.1. Segregation of duties	PFM Act 2002, PFM Public Funds Regulation, Treasury Instructions, and circulars issued by the Treasury prescribe some roles and responsibilities which ensure the segregation of duties. For expenditures, these are overseen and enforced by the ex-ante controls of the Treasury prior to the approval of expenditure vouchers (EVs). For some key functions in the control framework, precise roles and responsibilities are not defined. Some control mechanisms in the SunSystem (for example secondary approval of EVs) are not configured.	C
25.2. Effectiveness of expenditure commitment controls	Commitment controls apply to less than half of expenditure by value (wages and Salaries, and grants and transfers, plus utilities are excluded). Commitments are required to be recorded when purchase order requests (requisition) is recorded but there is evidence that this happens later in the purchasing – after the obligation is incurred and thus limiting the effectiveness of commitments in avoiding overspending or arrears.	C
25.3. Compliance with payment rules and procedures	The Treasury has a rigorous process of assessing for compliance all expenditure vouchers prior to their release. Checklists exist that outline the internal controls to be evidenced by the Treasury prior to payment.	A

	EVs are rejected by the Treasury and sent back to the respective ministry for correction prior to further checking. Treasury maintains a register of rejected EVs. Treasury ex-ante controls also apply over payroll (PI-23).	
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Evidence for score

Table 25-1: Segregation of duties and commitment controls

Segregation of duties		Commitment controls		
Prescribed throughout the process (Y/N)	Responsibilities C= Clearly laid down M= Clearly laid down for most key steps N= More precise definition needed	In place (Y/N)	Limited to cash availability A= All expenditure M= Most expenditure P= Partial coverage	Limited to approved budget allocations A= All expenditure M= Most expenditure P= Partial coverage
Yes	M	Mixed	NA	Partial (~50%)

Data source: PFM Act 2002, PFM Public Funds Regulation 2002, Treasury Instructions, and Treasury Circular 15/23 re: Treasury Checklist

PI-26. Internal audit

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-26. Internal audit (M1)		D+
26.1. Coverage of internal audit	Internal audit for government is centralized in Ministry of Finance. All of government budgeted expenditures are included but no specific coverage of revenues. Limited audit work for Ministry of Revenue and Customs is done by audit team but the scope of audit is not comprehensive. Internal audit plan did not detail coverage by revenues and expenditures. Whole of government internal audit activities for 2019/20 audit plan includes payroll and asset management. No auditors exist in extrabudgetary units. Internal audit positions exist for Ministry of Health, Ministry of Education and Ministry of Revenue and Customs but no audit activities are being performed at this time.	D
26.2. Nature of audits and standards applied	Audit activities focus on financial compliance. Staff of the Ministry of Finance internal audit unit belong to the New Zealand Institute of Internal auditors (IIA), however, there was limited indication of compliance with IIA framework. No quality assurance process for adherence to professional standards through compliance with IIA standards exists except for planning, which includes risk assessment. Audit activities also include extensive work on ad hoc requests and cash counts.	C
26.3. Implementation of internal audits and reporting	Annual audit plans exist. The 2018/19 plan included nine audit activities identified 3900 work hours plus another 3464 work hours for ad hoc audits. A table of audit activity in work plan, report, and consistency with plan is provided below. Reports consistent with the audit plan were prepared for three of nine planned audits. Reports are prepared and distributed to audit clients, MoF CEO, and SAI.	D
26.4. Response to internal audits	Management responses are included in most of the audit reports, but the responses are not adequate to determine whether appropriate action will be taken to implement recommendations.	C

Evidence for score

Table 26.1: Coverage, nature and standards of internal audit¹⁴:

Internal Audit units	Internal Audit Coverage 2019/20 (26.1) and Implemented 2018/19 (26.3)	Internal audit report prepared (Y/N)	Nature of Audits:	Quality assurance/ standards/ high risk focus (Y/N)	Management Response (Complete response, implementation, and review by auditors)
Expenditure					
Ministry of Finance (centralized internal audit)	Annual audit plan reviewed for 2019/20. (26.1) Plans appear to cover all expenditures but no specific terminology citing coverage. No revenues noted within plan, but audit activities include some revenue relating to cash controls. <hr/> Yes – for 2018, audits included in workplan were completed with reports issued. Ad hoc audit reports also provided.	Yes. All Audit reports for 2018/19, 2017/18, and 2016/17 provided for review.	Financial compliance; limited audits of internal controls. No evaluation on whether controls are sufficient and suitable to meet policy and operational objectives.	No quality assurance through evaluation with IIA standards or review processes by independent reviewers. Risk assessment included. Of note in Tonga: cash is an area of low risk in many places. In Tonga, use of cash by outer islands has increased risk and requires additional oversight. Audit committee and Oversight committee chaired by Minister of Finance and AC includes management. Oversight committee includes other ministers in Cabinet.	Management provides responses and these are in the audit reports. Responses not adequate to determine whether plans include changes to activities. Auditors review in subsequent audit or during annual review processes. No reports on follow-up in 2018/19.

Data source: 2019/2020 audit plan, 2018/19 audit plan, audit reports 2018/19, 2017/18, 2016/17.

Table 26-2: Audits planned

2018/2019 Audit Plan – Audits Planned	Reports issued related to subject area	Comprehensive report prepared consistent with audit plan (Y/N)
Procurement	Ad hoc audit on bidding procedure (Ad hoc below)	No
Assets Management	Included within island audits – 3 reports	No

¹⁴ In countries where multiple internal audit units exist, a sample of the 5 largest or entities covering greatest percentage of budgeted expenditures and revenues is applicable. Tonga manages internal audit of all agencies through the internal audit unit in Ministry of Finance.

Cash Management	Four reports issued on cash counts, partial activity	No
IT Services	None	No
Debt Servicing	None	No
Payroll Management	Included within Corporate Services audit	No
Sub-Treasury Eua	Report provided	Yes
Sub-Treasury Haapai	Report provided	Yes
Sub-Treasury Vavau	Report Provided	Yes
Special Request (ad hoc activities)	Audit of bidding procedure	No
Other – not in workplan	Ministry of Finance Submissions	No

Data source: 2019/2020 audit plan, 2018/19 audit plan, audit reports 2018/19, 2017/18, 2016/17.

PILLAR SIX: Accounting and Reporting

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

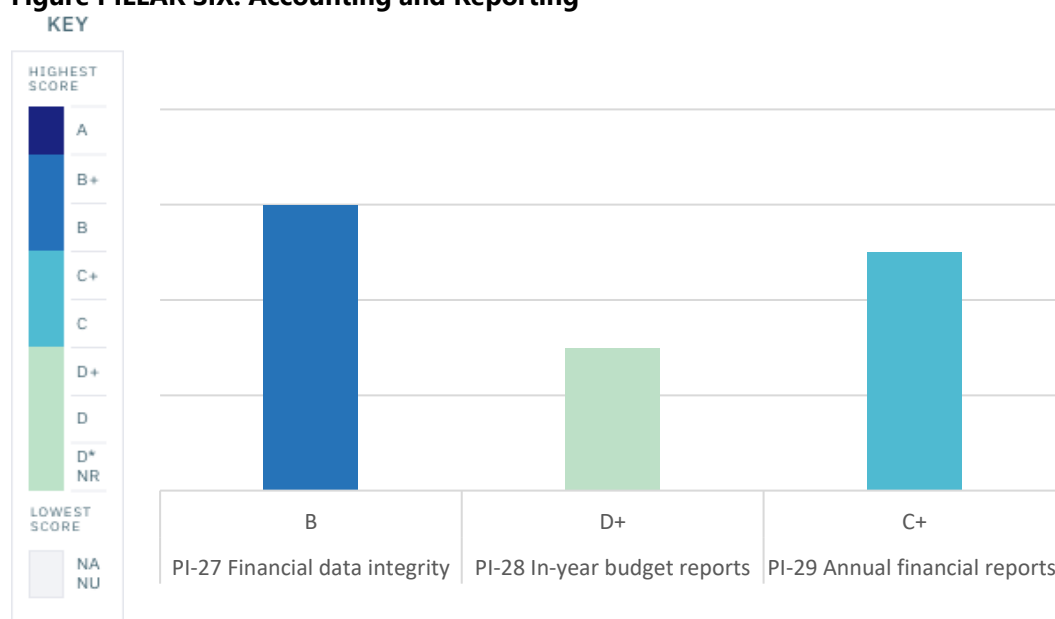
Overall performance

The use of a single general ledger in a central treasury system within the GoT, with a centralised bank account structure, is consistent with a model of good practice that creates the prospect of almost real time accounting and reporting. The ability of the Treasury to provide senior management with a weekly report that shows bank balances and account balances, as well as aggregates of revenue and reporting, is evidence of this capability. Similarly, the ability to produce annual financial statements within six months shows the benefits of centralised general ledger.

Nonetheless, there are weaknesses in the extent and coverage of in-year reports and the partial transition from cash to accruals creates challenges in complying with international accounting standards.

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

Figure PILLAR SIX: Accounting and Reporting



Possible underlying causes

The move away from the use of suspense accounts, and limited use of advances, simplifies accounting but places pressure on the users of the system to fully reconcile and record transactions on a timely basis. Also, there are weaknesses in the business processes and technologies that support the centralised accounting and banking system. As an example, the business processes and systems that enable direct debit of revenue transactions do not consistently ensure that the data required for accounting for such revenues flows together with the electronic bank transfer. Similarly, the use of cheques and limitations in the payments system requires the keeping of accounts in multiple banks and this complicates accounting and

reconciliation. The inability to perform an automated electronic form of account reconciliation adds to the burden on the Treasury.

Thus, while Treasury seeks to reconcile accounts diligently on a weekly basis, chasing these unidentified items across multiple accounts, multiple banks and various payment mechanisms takes considerable time. This then creates a situation whereby the Treasury reports show material differences between the ledger and respective account balances and requires estimations to be included in the YTD revenue and expenditure actuals (to match the bank). Addressing these issues and resulting anomalies is a key challenge in completing the annual financial statements.

The introduction of accrual elements into the accounts and financial reporting has enhanced the usefulness of financial statement by increasing the amount of information available to readers. However, the requirements for gathering such information in the accounts has created an additional layer of complexity in the accounting and reporting processes. Business processes, internal controls and systems, including the structure of the chart of accounts, have not completely evolved in a manner that supports the transition to accruals and creates a situation whereby the GoT is compliant with neither cash-basis nor accrual IPSAS.

Recent and ongoing reform activity

Technical assistance regarding *chart of accounts*¹⁵ and *accounting and financial reporting* by PFTAC outline desirable elements of further reform. In all aspects of this reform agenda, it will be critical to ensure that basic elements of accounting, including timeliness and accuracy of recording and reconciliation of accounts, are maintained while pursuing advances such as accrual accounting.

Given the challenges faced by the treasury in transitioning from cash to accruals reporting, it is timely for the Treasury to review its accounting reform roadmap, where it seeks to align its reporting capabilities with its accounting policies. In the first instance, it may be appropriate to present purely cash based financial statements in line with IPSAS cash, with modified-accrual statements and tables presented as supplementary information as an annex to the accounts. The accrual elements in these supplementary statements could be enhanced as systems and capacity for accrual accounting develop. The adoption of changes to the chart of accounts and classification, would need to evolve in line with this strategy. Reaching common understanding with auditors would be essential under such an approach, and technical assistance would likely be beneficial in elaborating such plans.

PI-27. Financial data integrity

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-27. Financial data integrity (M2)		B

¹⁵ Kingdom of Tonga: "Chart of Accounts Reform, Phase 1", PFTAC expert Mark Silins, February 2017

27.1. Bank account reconciliation	The Treasury is diligent in undertaking and reporting reconciliations for all accounts but its inability to recognize and classify many (mainly revenue) transactions in accounts leaves large unreconciled balances in the most active accounts that take months to resolve. The issue is noted by the Auditor-General in audit reports.	D
27.2. Suspense accounts	The only suspense account used is for temporarily recording certain expenses in advance of the underlying transaction – as a mechanism to ensure availability of funds. These are reconciled in the same way as other accounts – within two weeks of each month. These are cleared by year end, with an immaterial residual balance (shown in accounts).	A
27.3. Advance accounts	The main use of advance accounts is for funds advanced to missions abroad and to deconcentrated units in remote locations. These are reconciled, recorded and replenished on a monthly basis, within two weeks – mostly without delay. Advances not typically used for travel.	B
27.4. Financial data integrity processes	SunSystem FMIS is used to record transaction in the general ledger and to manage controls in budget execution, including segregation of duties. System access controls and user profiles restrict access and audit trails track changes. The Treasury accounts teams are responsible for the integrity of accounts and the Financial Framework Division oversees systems controls, with broad oversight of controls by the Internal Audit unit.	B

Evidence for score

Table 27-1 Bank account reconciliation

All active accounts (Y/N)	Frequency (W/M/Q)	Within (1/4/8 weeks)	Aggregate and detailed level (Y/N)
N	M	2	N

Data source: Reconciliation reports produced by Treasury. Auditor-General's management letter.

Table 27-2 Suspense and advance accounts

Suspense accounts reconciliation			Advance accounts reconciliation		
Frequency (M/Q/A)	Within 1/2 months; N = > 2	Timeliness of clearance Y= no later than end of fiscal year (unless justified)/N	Frequency (M/Q/A)	Within: 1/2 months; N = > 2	Accounts cleared timely A= All w/o delay M= Most w/o delay F= Frequent with delay N= <F
M	1	Y	M	1 (10 days)	M

Data source: SunSystem reports, GoT Financial Statements, advance reconciliation reports.

Table 27-3 Financial data integrity

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

Data source: SunSystem reports, GoT Financial Statements.

PI-28. In-year budget reports

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-28. In-year budget reports (M1)		D+
28.1. Coverage and comparability of reports	In-year budget reports are highly aggregated, showing only economic classification.	D
28.2. Timing of in-year budget reports	In-year reports are produced weekly for management purposes - within several days of the end the week.	A
28.3. Accuracy of in-year budget reports	Due to reconciliation issues, there is a mismatch between reconciled figures in the FMIS and the bank accounts, requiring some estimation of actuals in the reports.	C

Evidence for score

Table 28-1 In-year budget reports

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

Data source: Weekly Treasury Report

PI-29. Annual financial reports

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-29. Annual financial reports (M1)		C+
29.1. Completeness of annual financial reports	Financial Statements are prepared annually and are consistent with the approved budget. The financial statements include a financial balance sheet which provides information on revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations but excludes non-financial assets. Notes to the accounts include information on guarantees as well as some long-term obligations.	B
29.2. Submission of reports for external audit	Financial reports are submitted for audit within 6 months of the end of the financial year for the last three completed fiscal years.	A

29.3. Accounting standards	The financial statements are stated to be prepared in accordance with IPSAS cash basis and with the requirements of the PFM Act – which requires additional disclosures. There are deviations from IPSAS (regarding accrual elements, consolidation and coverage) that are not explained but the policies are applied consistently over time.	C
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Evidence for score

Table 29-1 Annual financial reports

Completeness					Date of submission for external audit	
Prepared annually (Y/N)	Comparable with approved budget (Y/N)	Information F=Full P=Partial B=Basic	Cash flow statement (Y/N)	Balance Sheet C=Cash only FO=Financials only F=Full	Date of submission	Within: (3/6/9 months)
Y	Y	P	Y	F	20 Dec 18	6

Data source: 2017/18 Financial Statements

Table 29-2 Accounting standards

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

Data source: 2017/18 Financial Statements

PILLAR SEVEN: External Scrutiny and Audit

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

Overall performance

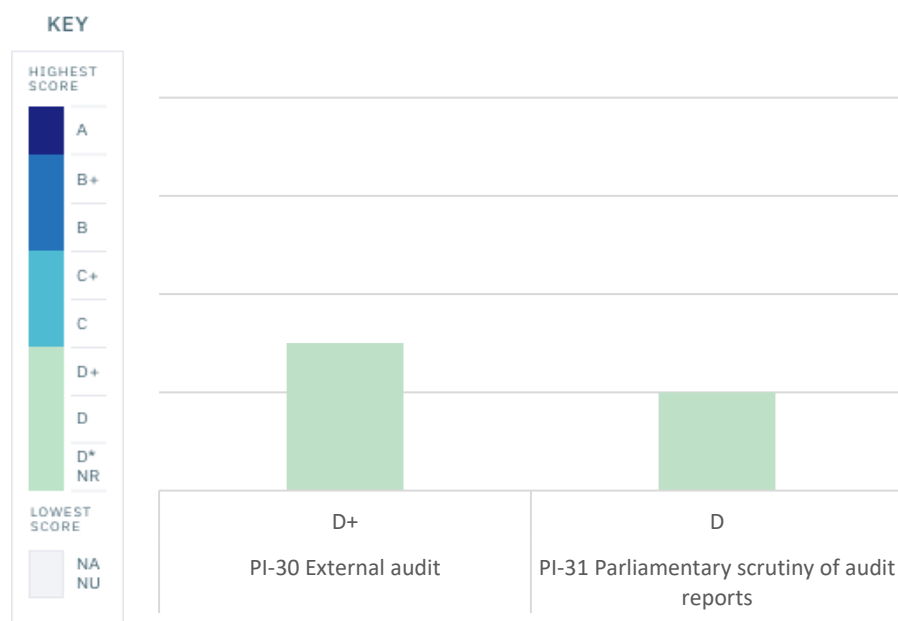
Currently, external scrutiny is performed primarily through the Auditor General. The Legislative Assembly through the PAC (of which the Auditor General is a member) has a follow up role. This role has not been actively pursued in recent years.

The Auditor General is independent of Government, being appointed by the Speaker and only being able to be dismissed by a two thirds majority. The Auditor General outlines that Audits are conducted in accordance with ISSAI standards and these are undertaken in a timely manner and almost meet the three-month requirement of submission to the legislature after receipt (which is usually during a time of the year when traditionally many people are on holiday).

Compliance audits are undertaken of agencies with recommendations being made and the opportunity for agencies to respond. A coherent approach is taken to following up recommendations from previous years and these are documented in the compliance report provided annually to Parliament.

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

Figure PILLAR SEVEN: External Scrutiny and Audit



Possible underlying causes

Implementation of reforms continue at the Audit Office, providing future opportunities for improved scores. A lack of parliamentary scrutiny may be due to lack of adequate training and resources.

Recent and ongoing reform activity

The Public Audit Act 2007 was amended to significantly increase the independence of the Auditor General, particularly in terms of appointment being the sole prerogative of the Speaker of the Legislative Assembly. More recently INTOSAI and PASAI have commenced a three-stage program to support the Tongan Audit Office to be compliant with ISSAI compliant audit practices.

PI-30. External audit

This indicator examines the characteristics of external audit.

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-30. External audit (M1)		D+
30.1. Audit coverage and standards	The Act requires audits be completed to a standard consistent with generally accepted auditing standards, which for the purposes of the Act are determined by the international community and particularly those promulgated by the International Organisation of Supreme Audit Institutions. The most recently available statements (2017/18) state that they are audited to international standards, but these are not specified and could not be confirmed.	D
30.2. Submission of audit reports to the legislature	The Audit reports were provided to the legislature in a timely manner. Normally the reports are usually received in mid-December shortly before the Christmas and summer break and then provided to the legislature in March. The timing of three months has only been missed by a few days.	B
30.3. External audit follow-up	The Auditor General prepared performance and compliance audits for These include recommendations made from previous audit findings and are listed by year. They point out the status of each recommendation, progress and the response by the agency, if one has been provided. 2016/17 ¹⁶ 2017/18 was still with the Speaker at the time of assessment, but a copy was provided to peruse. ¹⁷	C
30.4. Supreme Audit Institution (SAI) independence	The Auditor General is appointed by the Speaker of Parliament after an open recruitment process. The Act requires the AG to be a qualified accountant and limits the term to two by five years. The AG can only be dismissed by a two thirds majority of Parliament. The Act requires the Legislative Assembly to appropriate sufficient moneys, to enable the effective and efficient administration of the Act. However, reports can only be publicized once the legislative assembly has finalized its processes which can lead to delays in publication.	B

Evidence for score

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

¹⁶ [https://www.audit.gov.to/index.php?option=com_content&view=article&id=65:financial-and-compliance-report-2016-17&catid=2:uncategorised&Itemid=289#CHAPTER2:GOVERNMENTFINANCIALSTATEMENTS\(PUBLICACCOUNTS\)2016%E2%80%9317](https://www.audit.gov.to/index.php?option=com_content&view=article&id=65:financial-and-compliance-report-2016-17&catid=2:uncategorised&Itemid=289#CHAPTER2:GOVERNMENTFINANCIALSTATEMENTS(PUBLICACCOUNTS)2016%E2%80%9317)

¹⁷ 2018/19 financial statements are scheduled to be provided to Auditor General in December 2019.

Fiscal Year	Date submitted to external audit	Date submitted to legislature	Standards applied:	Issues highlighted:	Data source
2018/19	20 Dec 2018 PA 2017/18	22 Feb 2019	ISSAI/ National (consistent)/ National (other)	M = Material/ Systemic/ Control OR S = Significant	2017/18 Financial Statements
2017/18	15 Dec 2017 PA 2016/17	15 Mar 2018	ISSAI	Qualified	2016/17 Financial Statements
2016/17	9 Dec 2016 PA 2015/16	17 Mar 2017	ISSA	Qualified	2015/16 Financial Statements

Table 30-4: SAI Independence – requirements

Independence criteria	Extent to which criteria met and materiality (where relevant)
Appointment and removal of head of SAI	The Auditor General is appointed after due process of recruitment by the Speaker with the consent of the Legislative Assembly. Tenure is limited to two five- year terms.
Planning audit engagements	The Tongan office has autonomy in planning out its audit engagements.
Arrangements for publicizing reports	Audit reports can only be published once they have been through the legislative assembly process.
Approval of budget	Not legislated separately subject to same process as other agencies.
Execution of budget	Subject to same rules as other agencies.
Legal basis for independence	Established in the legislation.
Unrestricted/timely access to records	The Act provides the AG with unrestricted and timely access to records necessary for the performance of his duties.

Data source: Public Audit (Amendment) Act 2012 (http://www.paclii.org/to/legis/num_act/paa2012208); Public Audit Act 2007 (<https://www.audit.gov.to/Acts/PublicAuditAct2007.pdf>); and 2016/17 to 2018/19 Corporate Plan (<https://www.audit.gov.to/Reports/CorporatePlan/CP1617-1819.pdf>)

PI-31. Legislative scrutiny of audit reports

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

Indicator and dimension scores and analysis

INDICATORS/ DIMENSIONS	ASSESSMENT OF PERFORMANCE	2019 SCORE
PI-31. Legislative scrutiny of audit reports (M2)		D
31.1. Timing of audit report scrutiny	In last three completed fiscal years, the Legislative Assembly of Tonga has not finalized the scrutiny of annual financial reports. The Public Accounts Committee is currently in the process of reviewing the 2015/2016 audited annual financial statements.	D
31.2. Hearings on audit findings	In last three completed fiscal years, the Legislative Assembly has not conducted any hearings on audit reports which received a qualified or adverse audit opinion or a disclaimer. The Assembly is not mandated to conduct the hearings.	D
31.3. Recommendations on audit by the legislature	As there has been no scrutiny of audit reports by the Legislative Assembly in last three fiscal years, the Assembly has also not issued any recommendations.	D

31.4. Transparency of legislative scrutiny of audit reports	There is currently no scrutiny of audits reports by the Legislative Assembly, hence transparency of the process cannot be determined.	D
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Evidence for score

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

Audited annual financial statements for fiscal year	Date of receipt of audited financial reports	Date of finalization of legislative scrutiny
2017/18	February 22, 2019	Not yet completed
2016/17	March 15, 2018	Not yet completed
2015/16	March 17, 2017	Not yet completed

Data source: Attorney General's Office of Tonga website at <https://ago.gov.to/cms/>, meeting with the Public Accounts Committee.

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

Audited annual financial statements for fiscal year	Hearings on audits reports that received a qualified or adverse opinion or disclaimer (Y/N)	Hearings conducted – entities with qualified audit A = All M = Most F = Few N=None	Legislature issues recommendations (Y/N)	Recommendations followed-up S= Follow-up systematically F= Follow-up
2018/19	N	NA	N	NA
2017/18	N	NA	N	NA
2016/17	N	NA	N	NA

Data source: Meetings with the Public Accounts Committee, Ministry of Finance, Ministry of Health, Ministry of Education, Office of the Auditor General.

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

Audited annual financial statements for fiscal year	Committee reports			Public hearings conducted A= All except limited circumstances F= Yes, with a few exceptions
	Published (Y/N – Method)	Provided to the full chamber of legislature (Y/N)	Debated in the full chamber of legislature (Y/N)	
2018/19	NA	NA	NA	NA
2017/18	NA	NA	NA	NA
2016/17	NA	NA	NA	NA

Data source: Meetings with the Public Accounts Committee, Ministry of Finance, Ministry of Health, Ministry of Education, Office of the Auditor General.

Annex 1: Assessment management and quality assurance arrangements

Oversight Team		
Name	Position/Organization	Role
Balwyn Fa' otusia	Chief Executive Office, MoF	Chair
Ana Fakaola 'I Fanga Lemani	Deputy Auditor General	Member
Luseane 'Aho	Deputy CEO, Ministry of Finance	Member
Kisione Taufaa	Deputy CEO, Ministry of Infrastructure	Member
Manu 'Akau'ola	Deputy CEO, Ministry of Education	Member
Natalia Latu	Liaison Officer, World Bank	Member
Assessment Team		
Name	Position/Organization	Role
Celeste Kubasta	PFM Advisor, PFTAC	PFTAC Team Leader
Richard Neves	PFM Advisor, PFTAC	Expert
Kris Kauffmann	PFTAC PFM Expert	Expert
Martin Bowen	PEFA Secretariat	PEFA Team Leader
Urška Zrinski	PEFA Secretariat	Expert
Kelera Kolivuso Ravono ¹⁸	Ministry of Economy Fiji	Attachment
Quality Assurance		
Reviewers:		
Ministry of Finance		
PEFA Secretariat		
International Monetary Fund, Fiscal Affairs Division		
Andrew Blackman, World Bank		
Matthew Fehre, Department of Finance and Trade (DFAT)		
Concept Note		
Date submitted for review:	October 26, 2019	
Date of final CN:	November 5, 2019	
PEFA Report		
Date submitted for review:	November 22, 2019	
Date submitted for follow-up:	January 6, 2020	
Date of final draft:	January 13, 2020	
Proposed date of publication:	To be determined	

¹⁸ Kelera Ravono is an attachment from Fiji, who recently had a PEFA conducted in-country. She will assist on the Tonga PEFA, including GRB. The Ministry of Economy Fiji has agreed to a GRB PEFA soon and she will be the government lead for the activity.

Annex 2: Public sector agencies covered by the assessment

Table 2: Structure of the public sector (list)			
Budgetary units (All)	Extrabudgetary units (five largest) *	Public corporations (five largest)	Social Security Funds (part of public sector)
Palace Office		Tonga Power Limited	National Retirement Benefit Fund
Legislative Assembly		Tonga Communications Corporation	Retirement Fund Board
Tonga Office of the Auditor General		Tonga Airports Limited	
Office of the Ombudsman		Tonga Cable Limited	
Ministry of Foreign Affairs		Ports Authority Tonga	
His Majesty's Armed Forces			
Prime Minister's Office			
Ministry of Finance			
Ministry of Revenue & Customs			
Ministry of Public Enterprises			
Ministry of Trade and Economic Development			
Ministry of Justice and Prison			
Attorney General's Office			
Ministry of Police & Fire Services			
Ministry of Health			
Ministry of Education and Training			
Ministry of Internal Affairs			
Ministry of Agriculture, Food & Forests			
Ministry of Infrastructure			
Ministry of Lands, Survey & Natural Resources			
Public Service Commission			
Statistics Department			
Ministry of Meteorology, Energy, Information, Disaster Management, Environment,			

Communications and Climate Change			
Ministry of Fisheries			
Ministry of Tourism			
<p><i>* The concept note for this PEFA identified retirement benefits funds and several statutory bodies as possible EBU's. The statutory bodies were found to be classified as non-financial public corporations according to reports by PFTAC GFS advisors and the retirement funds assessed to be entities outside of the GFS definition of Central Government in accordance with the PEFA Framework (page 4).</i></p>			

Annex 3: Evidence for scoring indicators

Indicators (PEFA 2016 framework)	Evidence
1. Aggregate expenditure out-turn	Budget Estimates 2016/17, 2017/18 and 2018/19 Annual Financial Statements;2016/17 and 2017/18 Unaudited budget execution report 2018/19 (provided by MoF).
2. Expenditure composition out-turn	Budget Estimates 2016/17, 2017/18 and 2018/19 Annual Financial Statements;2016/17 and 2017/18 Unaudited budget execution report 2018/19 (provided by MoF).
3. Revenue out-turn	Budget Estimates 2016/17, 2017/18 and 2018/19 Annual Financial Statements;2016/17 and 2017/18 Unaudited budget execution report 2018/19 (provided by MoF).
4. Budget classification	Budget Estimates 2018/19 Annual Financial Statements2017/18; Chart of Accounts, PFTAC TA Reports, IMF GFS database
5. Budget documentation	Budget Estimates 2019/20 Budget Statement 2019/20 ('Budget Statement 2019/20 "Our Country Our People"') Budget Strategy 2019/20 'Our Country Our People' Financial Statements for the year ended 30 June 2019 Meeting with Ministry of Finance Meeting with Office of the Auditor General Meeting with the Public Accounts Committee
6. Central government operations outside financial reports	Transport Sector Consolidated Project Annual Audit Report 2017/18 by letter from the Auditor-General dated 19 December 2018 Tonga Aviation Investment Project Annual Audit Report 2017/18 by letter from the Auditor-General dated 20 December 2018 Tonga Cyclone Ian and Climate Resilience Project Sector Annual Audit Report 2017/18 by letter from the Auditor-General dated 21 December 2018 Meeting with Ministry of Finance Meeting with CFO of the Retirement Fund Board
7. Transfers to sub-national governments	
8. Performance information for service delivery	Asian Development Bank performance evaluation reports on programs in Tonga Australian Government Department of Foreign Affairs and Trade performance evaluations reports on programs in Tonga Meeting with Ministry of Education Meeting with Ministry of Finance Meeting with Ministry of Health Meeting with Ministry of Internal Affairs Meeting with National Planning Division, Office of the Prime Minister Meeting with Office of the Auditor General Ministry of Education and Training Corporate Plan and Budget 2019/20—2020/21 Ministry of Health Corporate Plan and Budget 2019/20—2020/21 Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communications and Climate Change Corporate Plan and Budget 2019/20—2020/21 [All corporate plans are published on the website of the Office of the Prime Minister: http://pmo.gov.to/index.php/divisions-publication/] Tonga Fire and Emergency Services Corporate Plan and Budget 2019/20—2020/21 Tonga Police Corporate Plan and Budget 2019/20—2020/21 World Bank performance evaluation reports on programs in Tonga

9. Public access to fiscal information	2019/20 Appropriation Act Budget Estimates 2019/20 Budget Statement 2019/20 ('Budget Statement 2019/20 "Our Country Our People"') Budget Strategy 2019/20 'Our Country Our People' Financial Statements for the year ended 30 June 2019 Meeting with Ministry of Finance Meeting with Office of the Auditor General Meeting with the Public Accounts Committee
10. Fiscal risk reporting	Meeting with Ministry of Finance Meeting with Ministry of Public Enterprises Annual Reports 2018/19 of 5 largest Public Enterprises MPE Analysis Report for each of the 5 largest Public Enterprises for the period ending 30 June 2019 MPE "traffic light" report for 1 public enterprise Annual Financial Statements 2017/18 of the GoT Budget Statement 2018/19
11. Public investment management	Budget Estimates 2018/19 Budget Statement 2018/19 Meeting with development partners (Asian Development Bank, JICA, World Bank) Meeting with Ministry of Finance Meeting with Ministry of Infrastructure Meeting with National Planning Division, Office of the Prime Minister National Infrastructure Investment Plan 2013—2023 Project documentation of five largest projects in relevant donor databases, including the Asian Development Bank (https://www.adb.org/projects/country/ton?page=1), JICA (https://libopac.jica.go.jp/search/index.do?method=init), and World Bank (https://projects.worldbank.org/en/projects-operations/projects-list?countrycode_exact=TO)
12. Public asset management	Asset registries of all ministries (provided by Ministry of Finance) for 30 June 2018 and partial for 30 June 2019. Meeting with Ministry of Finance Meeting with Ministry of Lands Meeting with Ministry of Infrastructure Meeting with Ministry of Education Meeting with Ministry of Health Meeting with Ministry of Revenue and Customs Annual Financial Statements 2017/18 (of the GoT) Budget Statement 2018/19 Treasury Circular 02/2010/11
13. Debt management	Sample loan report from CS-DRMS PSD Template statistical report to World Bank Schedule of Debt 30 June 2019 Meeting with development partners (Asian Development Bank, JICA, World Bank) Meeting with Ministry of Finance Medium Term Debt Strategy 2015/16 to 2017/18 dated December 2015
14. Macroeconomic and fiscal forecasting	Meeting with Ministry of Finance Budget Statement 2016/17, 2017/18, 2018/19
15. Fiscal strategy	Budget Strategy 2018/19 Budget Strategy 2019/20 Meeting with Ministry of Finance
16. Medium term perspective in expenditure budgeting	Meeting with Ministry of Finance Budget Statement 2019/20 Budget Estimates 2019/20 Cabinet Decisions 177 MEIDECC Corporate Plan 2019-2021 MOF Corporate Plan 2019 - 2021

	<p>MOH Corporate Plan 2019 - 2021 MOI Corporate Plan 2019-2021 MET Corporate Plan 2019/21</p>
17. Budget preparation process	<p>Budget Calendar 2018/19 Budget Circular 15/23/120 Cabinet Decision 177 Letters from Minister to Parliament Meetings with Ministry of Finance</p>
18. Legislative scrutiny of budgets	<p>Annual Financial Statements 2017/2018 Meeting with Ministry of Finance Meeting with the Office of the Auditor General Meeting with the Public Accounts Committee Public Finance Management Act of 2002 Standing Orders</p>
19. Revenue administration	<p>Meeting with Ministry of Revenue and Customs MRC Compliance Program 2018/19 Revenue Services Administration Act Revenue Services Administration Regulation Tax arrears data tables Compliance Strategy for Heilala Tax System</p>
20. Accounting for revenue	<p>Meeting with Ministry of Finance Meeting with Ministry of Revenue and Customs Public Financial Management Act of 2002 Part IV Treasury Instructions Part V Ministry of Lands and Natural Resources, Monthly revenue report template, Cash book November 2019 Account Deposit book November 2019 Daily revenue deposit detail report by type November 2019</p>
21. Predictability of in-year resource allocation	<p>Public Financial Management Act of 200; 2018 financial statements Cash Flow Briefing Report November 8, 2019 Meeting with Ministry of Finance Meeting with Ministry of Revenue and Customs Meeting with Ministry of Health Meeting with Ministry of Education Meeting with Ministry of Public Enterprise, Unaudited 2018/19 financial statements provided by Ministry of Finance</p>
22. Expenditure arrears	<p>Meeting with Ministry of Finance Meeting with Ministry of Lands Meeting with Ministry of Infrastructure Meeting with Ministry of Education Meeting with Ministry of Health Sample of 20 Expense Vouchers and associated document from June 2019</p>
23. Payroll controls	<p>Meeting with Ministry of Finance Meeting with Public Service Commission Meeting with Auditor General Internal Audit report Ministry of Finance Central Administration Data from payroll system Meeting with Ministry of Education Meeting with Ministry of Health Sample of 20 Expense Vouchers and associated document from June 2019</p>
24. Procurement management	<p>Ministry of Finance http://www.finance.gov.to/procurement/; 2018-19 procurement database Ministry of Finance Procurement Unit Treasury Instructions. Procurement Manual for Contracting Entity</p>

	<p>Public Procurement Regulations 2015 http://www.finance.gov.to/procurement 2018-19 procurement database Ministry of Finance Procurement Unit; Discussion with Ministry of Finance procurement unit, Ministry of Revenue and Customs, Ministry of Health Corporate Services, Ministry of Lands and Minerals, Ministry of Education, Ministry of Public Enterprises, and DFAT Procurement Advisor; Treasury Instructions Part IV Expenditure</p>
25. Internal controls on non-salary expenditure	<p>Public Finance Management Act of 2002 Treasury Instructions 2010 Public Finance Management Public Funds Regulation 2002 Treasury Circular 15/23 re: Treasury Checklist Treasury Circular 2010 Meeting with Ministry of Finance Meeting with Ministry of Infrastructure Meeting with Ministry of Education Sample of 20 Expense Vouchers and associated document from June 2019</p>
26. Internal audit	<p>Ministry of Finance Internal Audit Unit 2019/2020 audit plan, 2018/2019 audit plan, Audit reports 2018/19, 2017/18, 2016/17.</p>
27. Financial data integrity	<p>Public Finance Management Act of 2002 Treasury Instructions 2010 Public Finance Management Public Funds Regulation 2002 Demonstration of SunSystem functionality provided by MoF Account reconciliation reports Treasury Circular 15/23 re: Treasury Checklist Treasury Circular 2010 Meeting with Ministry of Finance Meeting with Ministry of Infrastructure Meeting with Ministry of Education Sample of 20 Expense Vouchers and associated document from June 2019</p>
28. In-year budget reports	<p>Meeting with Ministry of Finance Weekly report on bank balances and budget execution provided by Treasury Monthly economic report for May 2019 (dated July 2019) http://www.finance.gov.to/monthly-economic-report</p>
29. Annual financial reports	<p>Public Finance Management Act of 2002 Annual Financial Statements 2017/18 (of the GoT) Independent report of the Auditor-General of the Annual Financial Statements 2017/18 22nd February 2019 Management letters audit of the Annual Financial Statements 2017/18</p>
30. External audit	<p>Meeting with Auditor General https://www.audit.gov.to/index.php?option=com_content&view=article&id=65:financial-and-compliance-report-2016-17&catid=2:uncategorised&Itemid=289#CHAPTER2:GOVERNMENTFINANCIALSTATEMENTS(PUBLICACCOUNTS)2016%E2%80%9317 Public Audit Act 2007 Public Audit Act Amendment 2017 https://Audit.gov.to Corporate Plan 2016/17, 2017/18, 2018/19</p>
31. Legislative scrutiny of audit reports	<p>Meeting with Ministry of Finance Meeting with the Office of the Auditor General Meeting with the Public Accounts Committee Public Finance Management Act of 2002 Standing Orders</p>

Annex 4: Sources of data – persons interviewed

Name	Position	Institution
'Ana Tapueluelu	Hansard Officer	Legislative Assembly
'Ana Fakaola 'I Fanga Lemani	Deputy CEO	Ministry of Finance
Kakala Lutui	Secretary/Advisory	Legislative Assembly, Public Accounts Committee
Kisione Taufa	Finance Manager	Ministry of Infrastructure
Kololaine Moeaki	Chief Education Officer	Ministry of Education and Training
Lord Tu'ivakanō	Nobles Representatives	Legislative Assembly
Lord Tuivaleano	Nobles Representative – Tongatapu 1	
Lotomo'ua Tu'ungafasi	Deputy Auditor General	Office of the Auditor General
Mau Leha	Deputy Secretary	Prime Minister's Office, National Planning Division
Polotu Paunga	Head	Ministry of Internal Affairs, Women and Gender Equality Division
Ringo Fa'oliu	CEO	Ministry of Infrastructure
Sefita Tangi		Office of the Auditor General
Sēmisi Kioa Lafu Sika	Chairman	Legislative Assembly, Public Accounts Committee
Siaosi Atiola	Intern	Legislative Assembly, Public Accounts Committee
Taichi Sakano	Senior Advisor	Japan International Cooperation Agency
Natalia Latu	Liaison Officer, Tonga	The World Bank
Tafu Moeaki	Head of Office, Tonga	Asian Development Bank
Ana Fifita	PRO	Ministry of Revenue and Customs
Letisia Moli	Acting Deputy CEO	Ministry of Revenue and Customs
Leslei Palavi	Tax Audit	Ministry of Revenue and Customs
Kilifi Heimuli	SADCEO	Ministry of Revenue and Customs
Taniela Sila	SADCEO	Ministry of Revenue and Customs
Piena Faupula	SADCEO	Ministry of Revenue and Customs
Sesilia Tangulu	PRO	Ministry of Revenue and Customs
Sifi Palelei	Senior Systems Analyst	Ministry of Revenue and Customs
Teisa Cokanasiga	SADCEO	Ministry of Revenue and Customs
Michael Cokanasiga	SADCEO Deputy	Ministry of Revenue and Customs
Viliami Folaumahina	PRO	Ministry of Revenue and Customs
Palatasa Havea	Acting SADCEO	Ministry of Revenue and Customs
Telesia Ma'asi	SADCEO	Ministry of Revenue and Customs
Kei Ioane	O/S CSO	Ministry of Public Enterprises
Fala Hola Waidis	O/S Monitor Compliance	Ministry of Public Enterprises
Rosamond Bing	CEO	Ministry of Lands
Viliami Tupou	Acting Deputy CEO IT	Ministry of Finance
Semisi 'Enele Vaea	Accounting Systems Administrator	Ministry of Finance
Lia Maka	CEO	Ministry of Public Service Commission
Pisila Matafahi Otumuku	Deputy CEO Finance Procurement Unit	Ministry of Finance
Maika Haupeakui	Deputy CEO Internal Audit	Ministry of Finance
Makeleta Siliva	Deputy CEO Treasury	Ministry of Finance Treasury
Nanise Lolohea Tu'ineau	Accounting Officer	Ministry of Finance
Tu'itamala Vaka	Accounting Officer	Ministry of Finance Treasury
Maama Fotofili	Deputy CEO Operations	Ministry of Revenue and Customs
Gladys Nicolle Uikeiofi Fukufuka	Deputy CEO	Ministry of Finance

Lepolo Taufatofua	Accounting Officer	Ministry of Finance
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Annex 5: Observations on internal control

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	<p>While the Public Financial Management Act of 2002 does not mention internal controls, the Treasury instructions (TI) states <i>"Internal Control" means processes and procedures established by the MOFNP to ensure proper management of the budgeting process, expenditure controls and revenue management; these are precondition to the achievement of the objectives stated in the PFMA 2002 under the following categories:</i></p> <ul style="list-style-type: none"> · <i>Effectiveness and efficiency of operation;</i> · <i>Reliability of financial reporting and transactions;</i> · <i>Compliance with applicable laws and regulations.</i> <p>Further, within the TI Section XII are requirements that <i>each MDA shall have in place a cost-effective system of internal controls. Included within that requirements are the need for each MDA to develop, implement and document their public financial management, including the system of internal controls.</i></p> <p>The Public Service Law of 2002 Part IV includes the code of ethics and is supported by Public Service regulations.</p>
1.2 Commitment to competence	The government is highly committed to competence and support training, especially in the implementation of reforms.
1.3 The 'tone at the top' (i.e. management's philosophy and operating style)	There is a positive approach to implementing internal controls as evidenced by the organisational structure supporting the MoF Internal Audit Unit and the Office of the Auditor General. This is supported by the improvements in responses to audit recommendations and reforms underway in Internal Audit and OAG.
1.4 Organizational structure	The roles of the various parties involved in the financial management control system are established in the various aspects of public financial management. This is continually being expanded by reforms in the MOF Internal Audit Unit and the Office of the Auditor General. The Ministry of Finance and line ministries are involved in financial controls in the execution of their budget.
1.5 Human resource policies and practices	The Road Map for reforms and other documents highlight the importance of professionals receiving adequate training, especially in various responsibilities of public financial management.
2. Risk assessment	
2.1 Risk identification	<p>Several PIs are related to the extent to which risks are identified, notably:</p> <p>Economic Analysis of Investment Proposals is rated 'C' in 11.1 Economic analyses are not conducted in accordance with national guidelines but instead use donor analysis processes.</p> <p>Debt Management Strategy is rated 'D' in 13.3 – At the time of the assessment, the Debt Management Strategy was outdated and being developed to reflect current activities, policies, and practices.</p> <p>Macrofiscal sensitivity analysis is rated 'D' in 14.3 – The government prepares alternative scenarios of fiscal forecasts but on an ad hoc basis.</p> <p>Revenue Risk Management is rated 'B' in 19.2 – The MoRC collect revenues and are implementing a risk approach for assessing and prioritizing compliance risks for all categories of revenue.</p> <p>Cash Flow Forecasting and Monitoring is rated 'A' in 21.2 - A cash flow forecast is prepared annually for the fiscal year and updated monthly.</p>
2.2 Risk assessment (significance and likelihood)	See risk identification (2.1 above)
2.3 Risk evaluation	MoF Internal audit unit has begun using a risk assessment in its annual planning process but the process has not been extended into the reporting. Reports are distributed to the Permanent Secretary of the audited ministry and the Auditor

	General. The implementation of the audit plan is limited. (Implementation of internal audits and reporting – 26.3 rated ‘D’) . The nature of the internal audits carried out by is mainly financial compliance. (Nature of internal audits and standards applied – 26.2 rated ‘C’) .
2.4 Risk appetite assessment	The development of identification and assessment of risk appears to indicate a positive risk appetite which will grow as the Internal Audit Unit develops.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	Standard public sector HR policies are in place throughout the areas of control.
3. Control activities	
3.1 Authorization and approval procedures	<p>Financial data integrity processes are rated ‘B’ in 27.4. SunSystem FMIS is used to record transaction in the general ledger and to manage controls in budget execution, including segregation of duties. System access controls and user profiles restrict access and audit trails track changes. The Treasury accounts teams are responsible for the integrity of accounts and the Financial Framework Division oversees systems controls, with broad oversight of controls by the Internal Audit unit. Access and changes to records is restricted and recorded, and results in audit trail.</p> <p>Recording and reporting of debt and guarantees are rated ‘C’ in 13.1. Debt management system is in place (CS-DRMS) but some systems issues exist that have prevented complete and accurate recording of new debt instruments since 2018. While information in the system is reconciled with lenders, there are no guarantees recorded in CS-DRMS.</p> <p>Approval of debt and guarantees are rated ‘D’ in 13.2. The PFM Act provides specific authority and guidance on borrowing, guaranteeing debt and on recording of such transactions by the Minister of Finance (only). There are no documented policies and procedures that guide borrowing and guaranteeing loans. Effectiveness of expenditure commitment controls is rated ‘C’ in 25.2. Commitment controls apply to less than half of expenditure by value (wages and Salaries, and grants and transfers, plus utilities are excluded). Commitments are required to be recorded when purchase order requests (requisition) is recorded but there is evidence that this happens later in the purchasing – after the obligation is incurred and thus limiting the effectiveness of commitments in avoiding overspending or arrears.</p> <p>Integration of payroll and personal records is rated ‘D’ in 23.1. Reconciliation of the Public Service Commission’s Central Human Resource Information System (CHRIS) personnel database system and the payroll system operated by the Treasury have not occurred since January 2019 (> 6 months). There is no direct link between these systems.</p> <p>Management of payroll changes is rated ‘A’ in 23.2. Retroactive adjustments are required to the payroll due to delays in processing of changes to the status of personnel. These retroactive adjustments are identifiable in payroll data and represent less than 3% of the payroll.</p> <p>Compliance with payroll payment rules and procedures is rated ‘A’ in 23.3. The Treasury payroll system has password access controls, limits user access (certain users can only access specific ministries), authorisations (with segregation of duties), as well as an audit trail. Errors and omissions in the payroll occur due to the manual processes that supply data (delays in notifying changes), rather than due to lack of integrity of internal controls</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is rated ‘C’ in 25.1. PFM Act 2002, PFM Public Funds Regulation, Treasury Instructions, and circulars issued by the Treasury prescribe some roles and responsibilities which ensure the segregation of duties. For some key functions in the control framework, precise roles and responsibilities are not defined. Some control mechanisms in the SunSystem (for example secondary approval of EVs) are not configured.

3.3 Controls over the access to resources and records	<p>Compliance with payment rules and procedures is rated 'A' in 25.3. The Treasury has a rigorous process of assessing for compliance all expenditure vouchers prior to their release. Checklists exist that outline the internal controls to be evidenced by the Treasury prior to payment.</p> <p>Financial data integrity processes are rated 'B' in 27.4. SunSystem FMIS is used to record transaction in the general ledger and to manage controls in budget execution, including segregation of duties. System access controls and user profiles restrict access and audit trails track changes. The Treasury accounts teams are responsible for the integrity of accounts and the Financial Framework Division oversees systems controls, with broad oversight of controls by the Internal Audit unit.</p>
3.4 Verifications	<p>Accuracy of in-year budget reports which is rated 'C' in 28.3. Due to reconciliation issues, there is a mismatch between reconciled figures in the FMIS and the bank accounts, requiring some estimation of actuals in the reports. In-year reports are produced weekly for management purposes - within several days of the end the week.</p>
3.5 Reconciliations	<p>Banks account reconciliations are rated 'D' in 27.1. The Treasury is diligent in undertaking and reporting reconciliations for all accounts but its inability to recognize and classify many (mainly revenue) transactions in accounts leaves large unreconciled balanced in the most active accounts that take months to resolve. The issue is noted by the Auditor-General in audit reports.</p> <p>Suspense account reconciliations are rated 'A' in 27.2. The only suspense account used is for temporarily recording certain expenses in advance of the underlying transaction – as a mechanism to ensure availability of funds. These are cleared by year end, with an immaterial residual balance.</p>
3.6 Reviews of operating performance	<p>Performance targets are being set in annual plans. There is a detailed and well specified annual audit plan of tax payers. Evidence supplied by the MoRC shows that the annual audit plan is implemented. Annual audit plans are produced for the Internal Audit Unit of MoF. Data on competitive tendering are maintained electronically and contain information on what has been procured, value of contracts awarded and who has been contracted</p>
3.7 Reviews of operations, processes and activities	<p>Business processes, operations, and activities are included within the scope of internal and external audit.</p>
3.8 Supervision (assigning, reviewing, and approving, guidance and training)	<p>The audit trail in place through SunSystem indicates an oversight focus. Personnel development through mentoring, and training is in place.</p>
<p>4. Information and communication</p>	<p>There is good use of the internet throughout government although this has been hampered by the ability to use government websites. Procurement information is available on-line although additional information would facilitate transparency. MoRC uses the print media and internet well and also has strong taxpayer education activities. Public access to fiscal information is weak and scores D in PI-9.</p>
<p>5. Monitoring</p>	
5.1 Ongoing monitoring	<p>The Assessment highlighted a number of areas related to ongoing monitoring activities:</p> <p>Resources received by service delivery units is rated 'A' in 8.3. The Ministry of Finance collects information on resources received by frontline service delivery units for key service delivery ministries and prepares monthly and annual reports on resources received. However, a large proportion of the costs of the service delivery units are managed centrally by the relevant ministries (e.g., salaries, maintenance etc.).</p> <p>Monitoring of public corporations is rated 'B' in 10.1. The draft financial statements of public corporations are provided to the Ministry of Public Enterprises within three months and the audited version is published within 6 months. No consolidated report is prepared or published by the Ministry.</p> <p>Contingent liabilities and other fiscal risks is rated 'B' in 10.3. The Budget Statement discusses fiscal risks and contingent liabilities but only the contingent</p>

	<p>liabilities are quantified. Risks associated with public corporations and retirement funds receive little attention in budget documents and financial reports.</p> <p>Investment project monitoring is rated 'B' in 11.4. The total costs and physical progress of five major investment projects are monitored by individual PMUs whose staff is hired by the government and funded by development partners. Publicly available reports have not highlighted any issues with implementation.</p> <p>Quality of central government financial asset monitoring is rated 'C' in 12.1. The government maintains records of its holdings of major financial assets. While it monitors the performance of its equity holdings in publicly owned enterprises (its largest financial asset) it does not publish the results.</p> <p>Quality of central government non-financial asset monitoring is rated 'C' in 12.2. Ministries maintain registers of fixed assets which include information on cost, usage and useful life. The Ministry of Lands maintains cadastral records but not a register of land owned or leased by government. A register of natural resources is not maintained.</p> <p>Revenue arrears monitoring is rated 'D' in 19.4. Total arrears of the revenues collected by the Ministry of Revenue and Customs, which represent 45% of their total collections. The value of arrears that are older than 12 months represents 82% of total arrears.</p> <p>Expenditure arrears monitoring is rated 'D' in 22.2. There is no monitoring of arrears.</p> <p>Procurement monitoring is rated 'D' in 24.1. All procurement activities funded by the government of Tonga >10,000 TOP are recorded on the procurement database, but it does not include amounts less than 10,000 TOP procured by ministries and investment procurement where donor systems are used. Estimates of amounts covered by database are less than 50%.</p> <p>Implementation of internal audits and reporting is rated 'D' in 26.3. Annual audit plans exist. Reports consistent with the audit plan were prepared for six of nine planned audits Reports are prepared and distributed to audit clients, MoF CEO, and SAI.</p>
5.2 Evaluations	<p>Performance evaluation for service delivery is rated " in 8.4. Investment project selection is rated 'A' in 11.2.</p>
5.3 Management responses	<p>Response to internal audits is rated 'C' in 26.4. Management responses are included in some of the internal audit reports, but the responses are not adequate to determine whether appropriate action will be taken to implement recommendations. No database of recommendations exists.</p> <p>External audit follow-up is rated 'C' in 30.3. The Auditor General reports include recommendations made from previous audit findings which are listed by year. They point out the status of each recommendation, progress and the response by the agency, if one has been provided.</p>

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

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
A. PFM-OUT-TURNS: CREDIBILITY OF THE BUDGET				
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	D	-	Actual expenditure deviated from budgeted expenditure by more than 15% of budgeted expenditure. All three years showed significant underspend compared to the approved budget (16.2%, 18.4% and 8.0% in 2018/19, 2017/18 and 2016/17 respectively) i.e. deviated by more than 15% in at least two of the last three years. There has been a significant deterioration in this indicator since the 2010 assessment. The calculation for this indicator includes general budget support for budgeted recurrent expenditure provided by development partners but excludes budgeted development fund project expenditure funded by development partners.
PI-2 Composition of expenditure out-turn compared to original approved budget	C	B	+	Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in only one of the last three years (0.4, 0.4% and 6.7% in 2018/19, 2017/18 and 2016/17 respectively). Score of B is an improvement compared to 2010. The calculation for this indicator excludes development partner funding.
PI-3 Aggregate revenue out-turn compared to original approved budget	A	C	-	Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in none of the last three years. 92.5%, 93.9% and 103.2% in 2018/19, 2017/18 and 2016/17 respectively. This indicator shows a deterioration since the previous assessment in 2010.
PI-4 Stock and monitoring of expenditure payment arrears	B+	D		
Stock of expenditure payment arrears and a recent change in the stock.	A	D	-	At time of previous PEFA, MoF had arrears reports, from data provided by Ministries. This showed arrears of around 1%. Such data is not available today.
Availability of data for monitoring the stock of expenditure payment arrears.	B	D*	-	At time of previous PEFA, MoF had arrears reports, from data provided by Ministries. This is no longer the case, and stock of arrears is not reported or available in SunSystem.
B. COMPREHENSIVENESS AND TRANSPARENCY				
PI-5 Classification of the budget	C	C	↔	There is no change. Previous field guide provided an approach to the classification of development expenditure that is not appropriate in 2016 framework.
PI-6 Comprehensiveness of information included in budget documentation	A	A	↔	Seven out of nine elements are included in the budget documentation submitted to the legislature. The budget documentation did not include macroeconomic assumptions and explanation of budget implications of new policy initiatives. The score remains the same as in

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
				2010 when seven elements were included as well; but the budget documentation in the previous assessment did not include financial assets and explanation of budget implications.
PI-7 Extent of unreported government operations.	A	C+	-	
Level of unreported government operations	A	B	↔	No change. Excluding some donor projects (which are outside scope of PI-7 in 2005 framework), there are very few (<1%) extrabudgetary operations.
Income/expenditure information on donor-funded projects	A	D	-	There are some donor funds, including loans, that are under the control of government (PMUs) but not covered in financial report.
PI-8 Transparency of inter-governmental fiscal relations.	NA	NA	NA	
Transparency and objectivity in the horizontal allocation amongst Sub national Governments	NA	NA	NA	
Timeliness and reliable information to SN Governments on their allocations	NA	NA	NA	
Extent of consolidation of fiscal data for general government according to sectoral categories	NA	NA	NA	
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	C	A	+	
Extent of central government monitoring of autonomous entities and public enterprises	C	A	+	The timing and timeliness of reporting by AGAs and PEs has improved.
Extent of central government monitoring of SN government's fiscal position	NA	NA	NA	
PI-10 Public access to key fiscal information	C	C	↔	The government makes available 1 out of 6 elements. Information on resources available to primary service units is not publicly available but can be available upon request as confirmed by the Ministry of Finance staff. The score remains the same as in 2010 when one element was made publicly available as well; but in the previous assessment year-end financial statements were publicly available which is not the case in the 2019 assessment.
C. BUDGET CYCLE				
C (i) Policy-Based Budgeting				

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
PI-11 Orderliness and participation in the annual budget process	A	B+		
Existence of, and adherence to, a fixed budget calendar	B	C	-	The Budget circular previously used to provide more than 4 weeks to complete submissions following the issuance of the circular and approved ceilings. Now this is below 4 weeks.
Guidance on the preparation of budget submissions	A	A	↔	Budget circular issued to MDAs, reflects ceilings approved by Cabinet prior to the circular's distribution to MDAs.
Timely budget approval by the legislature	A	A	↔	Budget approved two months prior to the start of the fiscal year.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	D+		
Multiyear fiscal forecasts and functional allocations	C	C	↔	Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.
Scope and frequency of debt sustainability analysis	A	D	-	Debt sustainability analysis not undertaken within the last three years.
Existence of costed sector strategies	D	C	+	Previously no sector strategies were costed. During this assessment it was noted that the Ministry of Health had costed their sector strategy.
Linkages between investment budgets and forward expenditure estimates	D	D	-	Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.
C (II) PREDICTABILITY AND CONTROL IN BUDGET EXECUTION				
PI-13 Transparency of taxpayer obligations and liabilities	A	A	↔	
Clarity and comprehensiveness of tax liabilities	A	A	↔	No change. Tax laws and administrative mechanisms are clear regarding tax obligations.
Taxpayer access to information on tax liabilities and administrative procedures	A	A	↔	Taxpayers have access to information on their rights and obligations. Ministry of Revenue and Customs has a highly active outreach program.
Existence and functioning of a tax appeal mechanism.	B	B	↔	A tax appeal mechanism is in place but access to independent tribunal has been limited. In 2018-19 MRC had one case from 2017 – that went all the way to Court of Appeal. There have been 5 cases go to the Tribunal since 2010.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	A	A	-	Once individuals or entities become liable to pay tax, they must register for a TIN. MRC has recently undertaken a campaign to promote registration.

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
Controls in the taxpayer registration system	B	B	↔	With the most recent amendment to the RSAA a new penalty regime has been implemented. These penalties are intended to avoid disincentives and reduce the need to apply waivers – as were required under previous penalties.
Effectiveness of penalties for non-compliance with registration and declaration obligations	A	A	↔	Tax audits and fraud investigations are managed a basic plan but clear risk assessment criteria not evident for all tax types.
Planning and monitoring of tax audit and fraud investigation programs	A	A	-	No change. Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes
PI-15 Effectiveness in collection of tax payments	D+	D+	↔	
Collection ratio for gross tax arrears	D	D	↔	No change. The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). \$7.2 collected in 2018/19 of ~\$145 at start of year (includes bad debts etc) = <5% (MRC considered that about 5/145 was collectable).
Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	↔	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. No change from previous PEFA.
Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	A	D	-	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury previously took place at least monthly within one month of end of month. Since the Treasury Instructions no longer require Ministries to prepare reconciliations and report to Treasury, reconciliations are delayed or do not occur.
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	A	+	Improvements have occurred for MDAs capacity to plan and commit in accordance with budgeted appropriation. In year budget adjustments are not material.
Extent to which cash flows are forecasted and monitored	A	A	-	Cash flow forecast is established at the start of the year and updated monthly based on actual cash inflow and outflows but it does not include re-estimation based on anticipated actual revenues and expenditures. There has been no change.
Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	A	+	MDAs are able to plan and commit expenditure at least six months in advance in accordance with budgeted appropriations. This is an improvement on 2010 which reflects availability of cash to meet government appropriations throughout the year.
Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	C	A	+	In year budget adjustments are not significant. The transparency is provided through the information in the annual financial statements.
PI-17 Recording and management of cash balances, debt and guarantees	A	B	-	The change in score is based on the consolidation of governments cash balances which previously occurred daily.

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
Quality of debt data recording and reporting.	A	B	-	Quality of debt data has deteriorated, in part due to current debt systems issues.
Extent of consolidation of the government's cash balances.	A	D	-	While account balances are compiled and reported weekly, the bank account balances are not currently consolidated in a regular systemic way. They were not consolidated on a system basis in 2010. Thus the prior score of "A" would not have been applied by this assessment team based on its understanding of the situation.
Systems for contracting loans and issuance of guarantees.	B	B	↔	No change.
PI-18 Effectiveness of payroll controls	B	D+	-	
Degree of integration and reconciliation between personnel records and payroll data.	B	D	-	Payroll and personnel (CHRIS) have not been reconciled since Dec 2018 (> 6 months).
Timeliness of changes to personnel records and the payroll.	B	A	+	The value of required changes to payroll – which predominantly occur due to delays in reporting changes – equate to less than 3% of the payroll.
Internal controls of changes to personnel records and the payroll.	A	A	↔	No change. Authority and internal control for changes to payroll are clear and changes to payroll result in both a system audit trail and paper trail.
Existence of payroll audits to identify control weaknesses and/or ghost workers.	B	D	-	No payroll audit has been undertaken within the last 3 years.
PI-19 Competition, value for money and controls in procurement	C	B	+	
Evidence on the use of open competition for awards of contracts that exceed the nationally established monetary threshold or small contracts (percentage of the number of contract awards that are above the threshold).	B	C	↔	The procurement database shows less than 30% of contracts that exceed monetary threshold for small purchases are conducted using open competition, but the data may not be accurate.
Extent of justification for use of less competitive procurement methods.	C	A	+	Justification for use of less competitive methods is clearly identified in chapter 6 and 9 of the Regulations and the Procurement manual. For contracts in the procurement database, the methodology is provided but other less competitive methods when used are justified in accordance with regulatory requirements. The current regulations and procurement manual were not in use during the previous PEFA.
Existence and operation of a procurement complaints mechanism.	D	C	+	2015 Public Procurement Regulations and contracting manual provide a strong framework for complaints processes. A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
				for timely resolution of complaints in a transparent manner. There is no evidence on why the score has deteriorated since 2010.
PI-20 Effectiveness of internal controls for non-salary expenditure	B+	C+	-	
Effectiveness of expenditure commitment controls	A	C	-	Commitments are recorded, but review of compliance for recording commitments shows they are often recorded after obligations are incurred. As such, under the current approach, commitment control cannot be effective in constraining spending in a situation of projected cash shortage.
Comprehensiveness, relevance and understanding of other internal control rules/procedures.	A	A	↔	No change - Other internal control rules and procedures are relevant and incorporate a comprehensive and generally cost-effective set of controls, which are widely understood.
Degree of compliance with rules for processing and recording transactions	B	A	+	Internal controls are robust, in large part due to the checks in place within the Treasury, which ensures compliance before release of funds. It is rare that funds are released without all controls being confirmed and each such release requires approval of CEO or Minister.
PI-21 Effectiveness of internal audit	D+	D+		
Coverage and quality of the internal audit function.	D	D	↔	The function is operational for expenditures at Ministry of Finance but little or no internal audit focused on systems monitoring. It does not meet recognized professional standards.
Frequency and distribution of reports	C	C	↔	Reports are issued regularly for audit entities and distributed to the audited entity, the ministry of finance and the SAI. There is no fixed schedule.
Extent of management response to internal audit findings.	D	C	+	A fair degree of action taken by many managements. Timeliness of action is unknown due to a lack of recommendation database and regular follow-up on all recommendations.
C (III) ACCOUNTING, RECORDING AND REPORTING				
PI-22 Timeliness and regularity of accounts reconciliation	B	B	↔	
Regularity of bank reconciliation	A	C	-	While reconciliations are performed on a regular basis, the Treasury currently struggles with significant unidentified transactions in accounts.
Regularity and clearance of suspense accounts and advances	C	A	+	The use of suspense accounts is understood to have reduced. Advance accounts are reconciled and closed on a regular basis – at least quarterly.
PI-23 Availability of information on resources received by service delivery units	D	A	+	The Ministry of Finance collects information on resources received by frontline service delivery units for key service delivery ministries (this includes the largest two 'social' ministries: Ministry of Education and Training and Ministry of Health). Information includes data on resources received by, for example, schools and

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
				hospitals, including sources of funds. The Ministry of Finance prepares monthly and annual reports on resources received. The previous assessment report from 2010 notes that no information is collected on resources received but this is not the case in 2019.
PI-24 Quality and timeliness of in-year budget reports	C+	C+	↔	
Scope of reports in terms of coverage and compatibility with budget estimates.	C	C	↔	No change, reports are at an aggregated level, and comparable to budget, but do not include expenditure commitments.
Timeliness of the issue of reports	A	A	↔	No change. Reports are issued on a timely basis.
Quality of information	A	C	-	Current issues with unidentified transactions and challenges with reconciliation create concerns regarding quality that did not exist for prior report.
PI-25 Quality and timeliness of annual financial statements	D+	C	↔	
Completeness of the financial statements	C	B	+	Completeness of financial statements has improved.
Timeliness of submissions of the financial statements	D	A	+	Annual reports are now produced on a timely basis – within 6 months of the EOY for the last 3 years.
Accounting standards used	C	C	↔	While IPSAS has been adopted, the incorporation of accrual elements and how these apply in relation to standards – while consistent over recent years - is not well articulated.
C (IV) EXTERNAL SCRUTINY AND AUDIT				
PI-26 Scope, nature and follow-up of external audit	D+	C+	+	
Scope/nature of audit performed (including adherence to auditing standards)	C	A	+	Previously Central government entities representing at least 50% of total expenditures were audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. Now all entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.
Timeliness of submission of audit reports to the Legislature	D	A	+	Audit reports are now submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. Previously these were taking more than 12 months.
Evidence of follow up on audit recommendations	C	C	↔	Compliance reports outline information on progress with past recommendations. Agencies are provided the opportunity to respond, however response may be delayed.

Indicator/Dimension	2010	2019	Change	Description of requirements met and progress between 2010 and 2019 using 2005 PEFA methodology
PI-27 Legislative scrutiny of the annual budget law	D+	D+	↔	
Scope of the legislature scrutiny	C	B	+	The Legislative Assembly's review of the budget covers fiscal policies, medium-term fiscal forecasts, as well as details of expenditure and revenue for the coming year. Medium-term priorities are not scrutinized. Compared to 2010, the review now also covers fiscal policies and medium-term fiscal forecasts; while the PEFA 2010 assessment noted that the review only covers details of expenditure and revenue.
Extent to which the legislature's procedures are well established and respected.	D	D	↔	There are no procedures in place to guide the Legislature's review of the budget proposal. No change in performance since the previous assessment.
Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	B	A		The Legislature has two months to review the budget proposals when all stages are considered.
Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	A	+	Clear rules exist for in-year adjustments by the executive and are outline in the Public Finance Management Act of 2002. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances.
PI-28 Legislative scrutiny of external audit reports	D	D	↔	
Timeliness of examination of audit reports by the legislature	D	D	↔	In last three completed fiscal years the Legislative Assembly did not scrutinize the audit reports. The PAC is currently reviewing the 2015/2016 audited annual financial statements. No change in performance.
Extent of hearing on key findings undertaken by the legislature	D	D	↔	No in-depth hearings are conducted by the Legislative Assembly. No change in performance.
Issuance of recommended actions by the legislature and implementation by the executive	D	D	↔	No recommendations on audit reports are issued by the Legislative Assembly. No change in performance.

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

PEFA 2016 METHODOLOGY

Calculation Sheet for Dimensions PI-1.1, PI-2.1 and PI-2.3: PEFA 2016 Framework						
Step 1: Enter the three fiscal years used for assessment in table 1.						
Step 2: Enter the administrative OR functional head for up to 20 heads.						
The 21st line will be the sum of figures for all remaining heads (if any).						
Step 3: Enter budget and actual expenditure data for each of the three years in tables 2, 3, and 4 respectively.						
Step 5: Read the results for each of the three years for each indicator in table 5.						
Step 6: Refer to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score for each indicator.						
Table 1 - Fiscal years for assessment						
Year 1 =	2018/19					
Year 2 =	2017/18					
Year 3 =	2016/17					
Table 2						
Data for year = 2018/19						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry of Finance and National Planning	150.382	74.220	108.3	-34.1	34.1	31.5%
Ministry of Education and Training	60.98	50.670	43.9	6.7	6.7	15.3%
Ministry of Health	46.051	46.537	33.2	13.4	13.4	40.3%
Ministry of Infrastructure	44.429	16.395	32.0	-15.6	15.6	48.8%
Ministry of Disaster Management, Environment and Climate	22.353	23.227	16.1	7.1	7.1	44.2%
Ministry of Police and Fire Services	15.301	13.570	11.0	2.5	2.5	23.1%
Internal Affairs	13.735	11.514	9.9	1.6	1.6	16.4%
Ministry of Justice and Prisons	13.07	11.042	9.4	1.6	1.6	17.3%
Ministry of Agriculture, Food and Forests	11.874	10.028	8.6	1.5	1.5	17.2%
Ministry of Foreign Affairs	10.562	10.198	7.6	2.6	2.6	34.0%
Legislative Assembly	10.18	10.972	7.3	3.6	3.6	49.6%
Ministry of Revenue and Customs	10.068	9.192	7.3	1.9	1.9	26.7%
Armed Forces	9.814	9.744	7.1	2.7	2.7	37.8%
Ministry of Fisheries	8.029	4.903	5.8	-0.9	0.9	15.2%
Ministry of Commerce, Consumer, Trade, Inr	7.768	5.492	5.6	-0.1	0.1	1.9%
Ministry of Lands and Resources	5.418	4.453	3.9	0.5	0.5	14.1%
Ministry of Tourism	4.959	4.678	3.6	1.1	1.1	30.9%
Palace Office	4.795	4.017	3.5	0.6	0.6	16.3%
Prime Ministers Office	3.695	3.559	2.7	0.9	0.9	33.7%
Statistics Department	3.437	3.235				
21 (= sum of rest)	10.789	9.279	7.8	1.5	1.5	19.4%
allocated expenditure	467.689	336.925	334.4	-0.8	100.7	
interests	8.075	6.019				
contingency	1	0				
total expenditure	476.764	344.944				
aggregate outturn (PI-1)						72.4%
composition (PI-2) variance						30.1%
contingency share of budget						0.0%
Table 3						
Data for year = 2017/18						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry of Finance and National Planning	82.298	53.501	74.2	-20.7	20.7	27.9%
Ministry of Education and Training	57.364	47.864	46.1	1.8	1.8	3.8%
Ministry of Health	42.556	43.792	34.2	9.6	9.6	28.0%
Ministry of Disaster Management, Environment and Climate	23.45	16.645	18.9	-2.2	2.2	11.7%
Ministry of Infrastructure	20.482	17.409	16.5	0.9	0.9	5.7%
Ministry of Police and Fire Services	15.259	13.667	12.3	1.4	1.4	11.4%
Internal Affairs	12.379	10.034	10.0	0.1	0.1	0.8%
Ministry of Revenue and Customs	12.349	9.569	9.5	0.4	0.4	3.6%
Ministry of Foreign Affairs	10.892	10.196	8.8	1.4	1.4	16.5%
Ministry of Justice and Prisons	10.734	10.02	8.6	1.4	1.4	16.1%
Armed Forces	9.633	9.439	7.7	1.7	1.7	21.9%
Ministry of Agriculture, Food and Forests	8.258	7.473	6.6	0.8	0.8	12.6%
Legislative Assembly	7.902	8.293	6.4	1.9	1.9	30.6%
Ministry of Commerce, Consumer, Trade	7.287	5.405	5.9	-0.5	0.5	7.7%
Ministry of Tourism	5.214	4.692	4.2	0.5	0.5	11.9%
Ministry of Fisheries	5.21	4.342	4.2	0.2	0.2	3.7%
Ministry of Lands and Resources	5.136	4.292	4.1	0.2	0.2	4.0%
Palace Office	4.895	3.863	3.9	-0.1	0.1	1.8%
Prime Ministers Office	3.958	3.09	3.2	-0.1	0.1	2.9%
Statistics Department	3.336	2.346	2.7	-0.3	0.3	12.5%
21 (= sum of rest)	14.285	13.903	11.5	2.3	2.3	20.2%
allocated expenditure	372.874	299.735	299.7	0.0	48.4	
interests	8.075	8.299				
contingency	1.5	0				
total expenditure	382.449	308.034				
aggregate outturn (PI-1)						80.5%
composition (PI-2) variance						16.2%
contingency share of budget						0.0%
Table 4						
Data for year = 2016/17						
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Ministry of Finance and National Planning	77.224	59.817	70.4	-10.9	10.9	15.4%
Ministry of Education and Training	52.927	47.636	48.2	-0.6	0.6	1.2%
Ministry of Health	37.686	41.324	34.3	7.0	7.0	20.3%
Ministry of Police, Prisons and Fire Services	18.886	18.777	17.2	1.6	1.6	9.1%
Ministry of Infrastructure	15.83	13.811	14.4	-0.6	0.6	4.3%
Ministry of Disaster Management, Environment and Climate	13.519	17.073	12.3	4.8	4.8	38.6%
Ministry of Revenue and Customs	11.5	6.778	10.5	-3.7	3.7	35.3%
Ministry of Internal Affairs	11.032	9.257	10.1	-0.8	0.8	7.9%
Ministry of Foreign Affairs	10.4	9.803	9.5	0.3	0.3	3.4%
Armed Forces	8.83	9.071	8.0	1.0	1.0	12.7%
Ministry of Agriculture, Food and Forests	7.392	7.649	6.7	0.9	0.9	13.5%
Ministry of Lands and Resources	7.02	4.047	6.4	-2.4	2.4	36.7%
Legislative Assembly	6.841	6.976	6.2	0.7	0.7	11.9%
Ministry of Justice	6.44	5.717	5.9	-0.2	0.2	2.6%
Palace Office	4.868	3.648	4.4	-0.8	0.8	17.8%
Ministry of Commerce, Tourism & Labour	4.526	4.093	4.1	0.0	0.0	0.8%
Ministry of Fisheries	3.511	3.226	3.2	0.0	0.0	0.8%
Statistics Department	3.118	2.882	2.8	0.0	0.0	1.4%
Attorney General's Office	2.95	2.159	2.7	-0.5	0.5	19.7%
Prime Ministers Office	2.265	2.286	2.1	0.2	0.2	10.8%
21 (= sum of rest)	12.074	14.828	11.0	3.8	3.8	34.8%
allocated expenditure	318.839	290.6	290.6	0.0	40.8	
interests	7.546	8.269				
contingency	1.5					
total expenditure	327.885	298.827				
aggregate outturn (PI-1)						91.1%
composition (PI-2) variance						14.1%
contingency share of budget						0.0%
Table 5 - Results Matrix						
	Year	for PI-1.1	for PI-2.1	for PI-2.3		
	2018/19	total exp. Outturn	composition variance	contingency share		
	2017/18	80.5%	16.2%	0.0%		
	2016/17	91.1%	14.1%			

Calculation Sheet for Revenue outturn (Oct 2018)

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

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

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

Table 1 - Fiscal years for assessment

Year 1 =	2018/19
Year 2 =	2017/18
Year 3 =	2016/17

Table 2

Data for year = 2018/19						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	25.105	36.546	20.4	16.1	16.1	79.0%
Taxes on payroll and workforce	20.248	18.676	16.5	2.2	2.2	13.4%
Taxes on property			0.0	0.0	0.0	#DIV/0!
Taxes on goods and services	158.516	149.486	128.9	20.6	20.6	16.0%
Taxes on international trade and transactions	27.377	24.335	22.3	2.1	2.1	9.3%
Other taxes			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Grants from foreign governments	44.49	35.984	36.2	-0.2	0.2	0.6%
Grants from international organizations	110.784	55.474	90.1	-34.6	34.6	38.4%
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	21.854	8.758	17.8	-9.0	9.0	50.7%
Sales of goods and services	37.066	33.111	30.1	3.0	3.0	9.8%
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0.0	0.0	0.0	#DIV/0!
Sum of rest	20.49	16.566	16.7	-0.1	0.1	0.6%
Total revenue	465.93	378.936	378.9	0.0	87.9	
overall variance						81.3%
composition variance						23.2%

Table 3

Data for year = 2017/18						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	18.015	30.287	15.8	14.5	14.5	92.1%
Taxes on payroll and workforce	20.05	18.556	17.5	1.0	1.0	5.8%
Taxes on property			0.0	0.0	0.0	#DIV/0!
Taxes on goods and services	164.621	156.389	144.1	12.3	12.3	8.6%
Taxes on international trade and transactions	26.318	22.427	23.0	-0.6	0.6	2.6%
Other taxes			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Grants from foreign governments	45.566	15.227	39.9	-24.7	24.7	61.8%
Grants from international organizations	37.892	38.78	33.2	5.6	5.6	16.9%
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	20.354	10.975	17.8	-6.8	6.8	38.4%
Sales of goods and services	31.536	25.164	27.6	-2.4	2.4	8.8%
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
insurance and standardized guarantee			0.0	0.0	0.0	#DIV/0!
Sum of rest	18.659	17.389	16.3	1.1	1.1	6.5%
Total revenue	383.011	335.194	335.2	0.0	69.1	
overall variance						87.5%
composition variance						20.6%

Table 4

Data for year = 2016/17						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	16.18	25.842	17.0	8.9	8.9	52.4%
Taxes on payroll and workforce	18.022	20.265	18.9	1.4	1.4	7.3%
Taxes on property			0.0	0.0	0.0	#DIV/0!
Taxes on goods and services	124.164	140.635	130.1	10.5	10.5	8.1%
Taxes on international trade and transactions	22.218	19.883	23.3	-3.4	3.4	14.6%
Other taxes			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Grants from foreign governments	33.65	37.851	35.3	2.6	2.6	7.3%
Grants from international organizations	42.426	45.851	44.5	1.4	1.4	3.1%
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	20.85	11.381	21.8	-10.5	10.5	47.9%
Sales of goods and services	28.858	21.777	30.2	-8.5	8.5	28.0%
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
insurance and standardized guarantee			0.0	0.0	0.0	#DIV/0!
Sum of rest	16.629	14.975	17.4	-2.5	2.5	14.1%
Total revenue	322.997	338.46	338.5	0.0	49.6	
overall variance						104.8%
composition variance						14.6%

Table 5 - Results Matrix

year	total revenue deviation	composition variance
2018/19	81.3%	23.2%
2017/18	87.5%	20.6%
2016/17	104.8%	14.6%

PEFA 2005 METHODOLOGY

Calculation Sheet for PFM Performance Indicators PI-1 and PI-2 (2005 methodology)

Step 1: Enter the three fiscal years used for assessment in table 1.
 Step 2: Enter **budget** and **actual** expenditure data for each of the three years in tables 2, 3, and 4 respectively.
 Step 3: Read the results for each of the three years for each indicator in table 5.
 Step 4: Go to the scoring tables for indicators PI-1 and PI-2 respectively in the Performance Measurement Framework in order to decide the score (A, B, C or D)

Table 1 - Fiscal years for assessment

Year 1 =	2018/19
Year 2 =	2017/18
Year 3 =	2016/17

The budget in the example has only 15 budget heads, so the remaining six lines are cleared.

Table 2

Data for year = 2018/19					
functional head	budget	actual	difference	absolute	percent
Ministry of Finance and National	105.617	72.364	-33.253	33.253	31.5%
Ministry of Education and Training	57.71	50.528	-7.182	7.182	12.4%
Ministry of Health	42.832	42.777	-0.055	0.055	0.1%
Ministry of Infrastructure	22.829	14.230	-8.599	8.599	37.7%
Ministry of Meteorology, Disaster Management, Environment and Climate	8.267	7.674	-0.593	0.593	7.2%
Internal Affairs	9.327	8.675	-0.652	0.652	7.0%
Ministry of Police and Fire Services	12.401	12.132	-0.269	0.269	2.2%
Statistics Department	3.437	2.980	-0.457	0.457	13.3%
Ministry of Lands and Resources	4.879	4.034	-0.845	0.845	17.3%
Ministry of Justice and Prisons	11.247	10.586	-0.661	0.661	5.9%
Armed Forces	9.814	9.744	-0.070	0.070	0.7%
Legislative Assembly	10.18	10.971	0.791	0.791	7.8%
Ministry of Revenue and Customs	10.068	9.192	-0.876	0.876	8.7%
Ministry of Foreign Affairs	10.562	10.198	-0.364	0.364	3.4%
Ministry of Agriculture, Food and Forestry	10.794	9.920	-0.874	0.874	8.1%
Ministry of Commerce, Consumer Protection and Fisheries	7.708	5.482	-2.226	2.226	28.9%
Ministry of Tourism	4.26	3.835	-0.425	0.425	10.0%
Palace Office	4.959	4.674	-0.285	0.285	5.7%
Prime Ministers Office	4.795	4.017	-0.778	0.778	16.2%
21 (= sum of rest)	3.695	3.506	-0.189	0.189	5.1%
total expenditure	10.599	9.100	-1.499	1.499	14.1%
composition variance	365.98	306.617	-59.363	59.363	16.2%
	365.98	306.617		60.944	16.7%

Table 3

Data for year = 2017/18					
functional head	budget	actual	difference	absolute	percent
Ministry of Finance and National	101.335	61.563	-39.772	39.772	39.2%
Ministry of Education and Training	52.614	47.182	-5.432	5.432	10.3%
Ministry of Health	38.943	39.421	0.478	0.478	1.2%
Ministry of Disaster Management, Environment and Climate	7.339	6.719	-0.62	0.62	8.4%
Ministry of Infrastructure	20.182	17.266	-2.916	2.916	14.4%
Ministry of Police and Fire Services	12.359	11.639	-0.72	0.72	5.8%
Internal Affairs	9.972	7.635	-2.337	2.337	23.4%
Ministry of Revenue and Customs	12.349	9.569	-2.78	2.78	22.5%
Ministry of Foreign Affairs	10.892	10.155	-0.737	0.737	6.8%
Ministry of Justice and Prisons	10.084	9.346	-0.738	0.738	7.3%
Armed Forces	9.63	9.439	-0.191	0.191	2.0%
Ministry of Agriculture, Food and Forestry	8.178	7.316	-0.862	0.862	10.5%
Legislative Assembly	7.902	8.14	0.238	0.238	3.0%
Ministry of Commerce, Consumer Protection and Fisheries	7.287	5.392	-1.895	1.895	26.0%
Ministry of Tourism	4.959	4.517	-0.442	0.442	8.9%
Ministry of Lands and Resources	3.667	3.617	-0.05	0.05	1.4%
Palace Office	4.686	3.957	-0.729	0.729	15.6%
Prime Ministers Office	4.895	3.863	-1.032	1.032	21.1%
Statistics Department	3.898	3.09	-0.808	0.808	20.7%
21 (= sum of rest)	3.336	2.205	-1.131	1.131	33.9%
total expenditure deviation	10.05	9.266	-0.784	0.784	7.8%
composition variance	344.557	281.297	-63.26	63.26	18.4%
	344.557	281.297		64.692	18.8%

Table 4

Data for year = 2016/17					
functional head	budget	actual	difference	absolute	percent
Ministry of Finance and National	80.925	67.34	-13.585	13.585	16.8%
Ministry of Education and Training	45.877	45.173	-0.704	0.704	1.5%
Ministry of Health	32.596	35.818	3.222	3.222	9.9%
Ministry of Police, Prisons and Fire Services	15.256	18.357	3.101	3.101	20.3%
Ministry of Infrastructure	15.223	11.811	-3.412	3.412	22.4%
Ministry of Disaster Management, Environment and Climate	6.332	6.156	-0.176	0.176	2.8%
Ministry of Revenue and Customs	11.5	6.778	-4.722	4.722	41.1%
Ministry of Internal Affairs	7.949	7.664	-0.285	0.285	3.6%
Ministry of Foreign Affairs	10.4	9.763	-0.637	0.637	6.1%
Armed Forces	8.83	9.071	0.241	0.241	2.7%
Ministry of Agriculture, Food and Forestry	7.337	7.457	0.12	0.12	1.6%
Ministry of Lands and Resources	4.27	4.031	-0.239	0.239	5.6%
Legislative Assembly	6.841	6.976	0.135	0.135	2.0%
Ministry of Justice	5.77	5.062	-0.708	0.708	12.3%
Palace Office	4.368	3.648	-0.72	0.72	16.5%
Ministry of Commerce, Tourism and Fisheries	4.526	4.075	-0.451	0.451	10.0%
Ministry of Fisheries	2.808	2.844	0.036	0.036	1.3%
Statistics Department	3.118	2.877	-0.241	0.241	7.7%
Attorney General's Office	2.8	1.984	-0.816	0.816	29.1%
Prime Ministers Office	2.205	2.286	0.081	0.081	3.7%
21 (= sum of rest)	6.529	14.828	8.299	8.299	127.1%
total expenditure deviation	285.46	262.736	-22.724	22.724	8.0%
composition variance	285.46	262.736		41.931	14.7%

Table 5 - Results Matrix

year	for PI-1		for PI-2	
	total exp. deviation	total exp. variance	variance in excess of total deviation	
2018/19	16.2%	16.7%	0.4%	
2017/18	18.4%	18.8%	0.4%	
2016/17	8.0%	14.7%	6.7%	

Calculation Sheet for PI-3. Revenue outturn (2005 methodology)						
Step 1: Enter the three fiscal years used for assessment in table 1.						
Step 2: Enter budget and actual revenue data for each of the three years in tables 2, 3, and 4 respectively.						
Step 3: Read the results for each of the three years for each dimension in table 5.						
Table 1 - Fiscal years for assessment						
Year 1 =	2018/19					
Year 2 =	2017/18					
Year 3 =	2016/17					
Table 2						
Data for year = 2018/19						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	25.105	36.546	23.2	13.3	13.3	57.3%
Taxes on payroll and workforce	20.248	18.676	18.7	-0.1	0.1	0.3%
Taxes on property			0.0	0.0	0.0	#DIV/0!
Taxes on goods and services	158.516	149.486	146.7	2.8	2.8	1.9%
Taxes on international trade and transactions	27.377	24.335	25.3	-1.0	1.0	3.9%
Other taxes			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	21.854	8.758	20.2	-11.5	11.5	56.7%
Sales of goods and services	37.066	33.111	34.3	-1.2	1.2	3.5%
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes			0.0	0.0	0.0	#DIV/0!
Sum of rest	20.49	16.566	19.0	-2.4	2.4	12.6%
Total revenue	310.656	287.478	287.5	0.0	32.2	
overall variance						92.5%
composition variance						11.2%
Table 3						
Data for year = 2017/18						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	18.015	30.287	16.9	13.4	13.4	79.1%
Taxes on payroll and workforce	20.05	18.556	18.8	-0.3	0.3	1.4%
Taxes on property			0.0	0.0	0.0	#DIV/0!
Taxes on goods and services	164.621	156.389	154.5	1.9	1.9	1.2%
Taxes on international trade and transactions	26.318	22.427	24.7	-2.3	2.3	9.2%
Other taxes			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	20.354	10.976	19.1	-8.1	8.1	42.6%
Sales of goods and services	31.536	25.164	29.6	-4.4	4.4	15.0%
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
insurance and standardized guarantee			0.0	0.0	0.0	#DIV/0!
Sum of rest	18.659	17.389	17.5	-0.1	0.1	0.7%
Total revenue	299.553	281.188	281.2	0.0	30.5	
overall variance						93.9%
composition variance						10.8%
Table 4						
Data for year = 2016/17						
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	16.18	25.842	16.7	9.1	9.1	54.8%
Taxes on payroll and workforce	18.022	20.265	18.6	1.7	1.7	9.0%
Taxes on property			0.0	0.0	0.0	#DIV/0!
Taxes on goods and services	124.164	140.635	128.1	12.5	12.5	9.8%
Taxes on international trade and transactions	22.218	19.883	22.9	-3.0	3.0	13.3%
Other taxes			0.0	0.0	0.0	#DIV/0!
Social contributions						
Social security contributions			0.0	0.0	0.0	#DIV/0!
Other social contributions			0.0	0.0	0.0	#DIV/0!
Grants						
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	20.85	11.381	21.5	-10.1	10.1	47.1%
Sales of goods and services	28.858	21.777	29.8	-8.0	8.0	26.9%
Fines, penalties and forfeits			0.0	0.0	0.0	#DIV/0!
Transfers not elsewhere classified			0.0	0.0	0.0	#DIV/0!
insurance and standardized guarantee			0.0	0.0	0.0	#DIV/0!
Sum of rest	16.629	14.975	17.2	-2.2	2.2	12.7%
Total revenue	246.921	254.758	254.8	0.0	46.7	
overall variance						103.2%
composition variance						18.3%
Table 5 - Results Matrix						
year	total revenue deviation		composition variance			
2018/19	92.5%		11.2%			
2017/18	93.9%		10.8%			
2016/17	103.2%		18.3%			

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