



PUBLIC EXPENDITURE FINANCIAL ACCOUNTABILITY (PEFA)

SELF-ASSESSMENT

REPORT

Ministry of Finance

GOVERNMENT OF NAURU (GON)

November 2016

CURRENCY EQUIVALENCE

(as at 18th August 2016)

Currency Used: - Australian Dollars (\$)

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AOP	Annual Operating Plans
AO	Audit Office
AusAID	Australian Agency for International Development
BoN	Bank of Nauru
COFOG	Classification of Functions of Government
DFAT	Department of Foreign Affairs and Trade
DoF	Department of Finance
FI	Financial Instructions
FIMS	Financial Management Information Systems
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoN	Government of Nauru
MDA's	Ministries, Departments and Agencies
NRO	Nauru Revenue Office
NSDS	National Sustainable Development Strategy
NPRT	Nauru Phosphate Royalties Trust
NRC	Nauru Rehabilitation Corporation
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
RON	Republic of Nauru
RPC	Refugee Processing Center
SOE	State-owned enterprise
UNDP	United Nations Development Program

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Acknowledgment

This report was prepared by the Government of Nauru (GoN) Public Expenditure and Financial Accountability (PEFA) coordinating team. Through the Department of Finance commitment and willingness towards improving public financial management (PFM) system and processes for Nauru, the team succeeded in bringing various key stakeholders within the Government to actively participate in the self-assessment process.

The Government of Nauru (GoN) PEFA team wishes to unreservedly express its gratitude and heartfelt thanks to the assistance provided by the Pacific Financial Technical Assistance Centre (PFTAC) and Department of Foreign Affairs and Trade (DFAT) consultants for their unwavering support and guidance throughout the whole PEFA exercise. The PFTAC team comprised of Mr. Richard Neves, Mr. Savenaca Narube and Mrs. Chita Marzan. DFAT was represented by Mr. Richard Bontjer and Mr. Rob Hayes.

Further accolades and appreciation are extended to all Government officials particularly Health, Education, Audit, Parliament and Chief Secretary Office for availing their time to actively participate during the PEFA. The GoN PEFA team certainly acknowledge your unrivaled support, professionalism and invaluable contribution accorded to the discussion. A list of all the participants is listed as an attachment to this report.

Special recognition is further accorded to members of the GoN PEFA coordinating team for their commitment shown during the duration of PEFA exercise. The oversight role in the entire PEFA process and the wisdom and guidance throughout the whole exercise has enable GoN produce a quality self-assessment report.

Last but not the least, the team wishes to thank the Government of Nauru (GoN) for the support towards the PEFA exercise, particularly the use of Government facilities.

Executive Summary

This Public Expenditure and Financial Accountability (PEFA) assessment has been prepared as a joint exercise by the Government of Nauru (GoN) and development partners, namely (PFTAC and DFAT). The main purpose of this exercise is to provide a baseline measurement of existing PFM disciplines in Nauru using the Public Expenditure and Financial Accountability (PEFA) framework. The PEFA program provides an international framework for assessing and reporting on the strengths and weaknesses of public financial management using quantitative indicators to measure performance. The assessment team consulted various key stakeholders within Government and gathered evidence over a two weeks' period. The GoN PEFA coordinating team was provided guidance by the consultants on the evidence required to support the assessment during a presentation at the very first day. At the completion of the mission, the finding was also presented to the various key stakeholders

The initial PEFA assessment for Nauru was undertaken in 2010 and this new assessment is intended to track the progress and performance of public financial management (PFM) disciplines since the initial PEFA. This assessment is further intended to measure the impact of various reforms that GoN has implemented to enhance its overall PFM discipline. In addition, the assessment is also intended at greatly assisting Government in its decision-making process.

The aim of this report is to provide an objective view of Nauru's PFM baseline systems and processes using the PEFA framework. The assessment does not include any measured output or score of different institutions or individuals. Rather, the report is more on assessing the existing PFM systems that Government of Nauru has currently in place against a given international benchmark in the key goals of fiscal discipline, allocation of resources and efficient service delivery. Indeed, it is by no means desirable to achieve the highest score in every indicator, rather, it is more about identifying existing gaps and loopholes which Government could improve on for better PFM disciplines in the future. As per other international frameworks, PEFA as its own limitations and to a larger degree relies very much on the judgement made by the PEFA team and the comprehensiveness of information's or data made available for citation. The supporting analysis for this assessment in terms of coverage is predominantly based on GoN's performance in the last three completed fiscal years commencing from 01 June 2013 to 30 June 2016.

Government of Nauru PFM is based on existing legislations and regulatory frameworks which sets out the government annual budget in terms of revenues, expenditures, accountability and transparency. The Treasury Public Finance (Management and Control) Act 1997 underpins responsibilities and accountability for public finances. This is the only piece of legislative surrounding public finances and in the absence of a proper Financial Instructions (FI), the roles and responsibilities of Accounting Officer and other delegated officer within Government is somehow unclear and fragmented. This has a direct impact on the GoN ability to institutionalized reforms to achieve desirable fiscal and budgetary outcomes in terms of aggregate fiscal discipline, strategic resource allocation and efficient service delivery.

While the initial Nauru PEFA report highlighted that Nauru has an underdeveloped PFM system, this assessment unearthed that there have been significant improvements made in some of the PFM indicators since the initial assessment. With the re-opening of the Refugee Processing Center (RPC), there has been an influx of cash and this has led to Government achieving surplus budget in the last few years' budget. Further effective control measures have also been initiated to reduce overall Government debt down to a more manageable level. Government would not have not been able to achieve all this without the ongoing support of its development partners. The donor support has enable Government initiated various reforms to improve its PFM discipline.

Table 1 summarizes the ratings against each of the PEFA performance indicators. PEFA identifies seven (7) pillars of performance in an open and orderly PFM system that are essential to achieving fiscal discipline, strategic resource allocation and efficient service delivery. PEFA has 31 performance indicators and based on the final ratings, one-third of existing GoN PFM system is operating at an average or above average mark. The remaining two-thirds of the performance indicators are below average. Nevertheless, the overall ratings demonstrated that in general, there has been an improvement in the GoN PFM discipline particularly in the areas of accounting Government receipts and expenditures through the Financial Management Information System (FMIS), budget preparation, administration and accounting of government revenues and financial reporting. A summary of each of the indicator with the scoring methodology and rationale for the assessment is appended as Annex 1.

Key issues relating to the ratings in each of the seven pillars are as follow:

(i) Budget reliability

In aggregate, the expenditure and revenue outturns for the last three fiscal (2013 – 2016) years have largely matched initial approved budgets. With the FMIS in fully operational mode, the system is equipped to exert aggregate fiscal discipline over total revenues and expenditures. The use of contingency budget by government over the past three years is very minimal in proportion to approved budget estimates. However, major in year increases in revenue estimates has somehow led to growing variances in outturns results.

(ii) Transparency of public finances

The national budget is neither classified into an international recognized framework nor differentiate capital and operational expenditures. Budget documentations only provides two basic elements in terms of a forecast of the fiscal deficit and current year's budget. The fiscal information's underpinning government budget is not comprehensive and unclear about overall government fiscal operations. In the absence of comprehensive fiscal discipline, the performance for service delivery level and public access to fiscal information are severely impacted.

(iii) Management of assets and liabilities

Overall, the ratings for assets and liabilities management is below the required average level. In the absence of a central monitoring unit for Government State Owned Enterprises (SOE's), financial reports for the SOE's are neither available nor recorded by Government as part of whole of Government account, thus places high fiduciary risks.

Although government has made tremendous effort in paying off some of its long outstanding debt particularly with the domestic debt, the inconsistent and the incompleteness of information on debt undermines the effort made thus far. The legislatures supporting borrowing and guarantees is unclear on which authority within Government has the power to sign off on any new borrowing. Furthermore, there are no asset and debt management strategies in place.

(iv) Policy-based fiscal strategy and budgeting

The GoN has made good progress in the areas of budget preparation and budget scrutiny. The budget preparation has improved markedly since the 2010 PEFA in terms of the budget calendar and guidance on preparing annual budget. The introduction of medium term expenditure ceilings for department budget provides a good basic starting point for department's submission and establish an open and competitive discussion for sensible increases in annual budgets. However, the absence of macroeconomic fiscal forecasting and fiscal strategies certainly undermines the strategic alignment of annual budgets to overarching goals of Government as stipulated in the existing National Sustainable Development Strategy (NSDS).

(v) Predictability and control in budget execution

In aggregate, the GoN has made significant improvements in the areas of revenue administration, accounting for revenues, predictability of in-year resources, payroll controls and internal controls on non-salary items. The collection of employment tax liabilities, duties and other major sources of government revenues is very transparent and effective as the Nauru Revenue Office (NRO) is the only collecting agency on behalf of Government. Despite the introduction of employment tax in the FY14-15, the overall management of government revenues has improved dramatically from prior years, reflecting effective administrative reforms undertaken by Government.

The department of Finance maintain consolidated cash balances and maintain department's cash flow base on initial approved budget with actual inflows and outflows on weekly basis. The cash flows are directly loaded into the FMIS to control department spending. However, the increased number of supplementary budgets approved significantly impacted the in-year budget adjustments. Variations of initial approved budget were initiated through supplementary appropriations Acts.

The Government payroll has just been installed and it is now running on the Government FMIS. Both payroll and non-salary expenditure controls are above satisfactorily and all records are currently maintained by the system. However, there is no direct link between personal data to the payroll system on FMIS. It is anticipated that the Phase 2 of the Government payroll module project will incorporate online linking of personal data directly to the payroll system.

However, despite the government procurement policy provides a basic framework for procuring goods and services, the awarding of contracts on non-competitive basis undermines the whole process. Moreover, procurement decisions are not publicly available.

(vi) Accounting and reporting

Marked improvements has also being noticed in the broad discipline of accounting and reporting. The effective utilization of the FMIS has improved the level of financial data integrity and the processes surrounding accessing the data. The timely clearing of suspense accounts signifies effective internal processes. The level of budget reports that government generate on weekly basis is very effective as it provide department with a snapshot of their budget at any given point in time. The reports includes approved budget estimates, cash flow budget, commitments, transfers and running balances. The submission of the FY2013/14 annual financial statement was an achievement on its own as the last government statements submitted for auditing was for the FY1995/1996.

(vii) External scrutiny and audit

In the absence of government financial statements, the Audit office has not undertaken any government auditing since FY1995/1996 and therefore, there has not been any audit scrutiny by the legislative assembly. The financial statements for FY13/14 is currently being audited and a report will be table to the Assembly for further scrutiny.

Summary of PFM Performance Indicators

Pillars	PFM Indicators	Scoring Methodology	Dimension Rating				Overall Rating
			i	ii	iii	iv	
I. Budget Reliability	1. Aggregate expenditure outturn	Single	-	-	-	-	B
	2. Expenditure composition outturn	M1 (WL)	C	A	A	-	B+
	3. Revenue outturn	M2 (AV)	C	D	-	-	D+
II. Transparency of Public Finances	4. Budget Classification	Single	-	-	-	-	D
	5. Budget Documentation	Single	-	-	-	-	D
	6. Central Government operations outside financial reports	M2 (AV)	A	A	A	-	A
	7. Transfers to subnational governments	M2 (AV)	A	A	-	-	N/A
	8. Performance information for service delivery	M2 (AV)	D	D	D	D	D
III. Management of assets and liabilities	9. Public access to fiscal information	Single	D	-	-	-	D
	10. Fiscal risk policy	M2 (AV)	D	A	D	-	D
	11. Public investment management	M2 (AV)	C	D	D	C	D+
	12. Public asset management	M2 (AV)	D	D	D	-	D
IV. Policy-based fiscal strategy and budgeting	13. Debt management	M2 (AV)	D	D	D	-	D
	14. Macroeconomic and fiscal forecasting	M2 (AV)	D	D	D	-	D
	15. Fiscal strategy	M2 (AV)	D	D	D	-	D
	16. Medium term perspective in expenditure budgeting	M2 (AV)	D	A	D	D	D+
	17. Budget preparation process	M2 (AV)	A	A	D	-	B
V. Predictability and control in budget execution	18. Legislative scrutiny of budgets	M1 (WL)	D	C	A	B	D+
	19. Revenue administration	M2 (AV)	B	A	D	A	B
	20. Accounting for revenue	M1 (WL)	A	A	A	-	A
	21. Predictability of in-year resource allocation	M2 (AV)	B	C	B	D	C+
	22. Expenditure arrears	M1 (WL)	D	C	-	-	D+
	23. Payroll controls	M1 (WL)	B	A	B	C	C+

Pillars	PFM Indicators	Scoring Methodology	Dimension Rating				Overall Rating
			i	ii	iii	iv	
VI. Accounting and reporting	24. Procurement management	M2 (AV)	B	D	D	D	D+
	25. Internal controls on non-salary expenditure	M2 (AV)	B	B N/	B N/	- N/	B
	26. Internal audit	M1 (WL)	D	A	A	A	D
	27. Financial data integrity	M2 (AV)	D	A	D	B	C+
	28. In-year budget reports	M1 (WL)	A	A	A	-	A
VII. External scrutiny and audit	29. Annual financial reports	M1 (WL)	D	B N/	D N/	-	D+
	30. External audit	M1(WL)	D	U	U	D	D
	31. Legislative scrutiny of audit reports	M2 (AV)	D	D	D	D	D

1. Introduction

1.1 Rationale and Purpose

The objective of undertaking a PEFA self-assessment during August 2016 was that it provided a good opportunity to review Public Financial Management in Nauru since the previous independent assessment in September 2010¹.

During the ensuing period Nauru has undergone significant economic challenges. The most significant of these was the final closing of the first Refugee Processing Centre (RPC) in late 2010. Followed by a period of economic decline between late 2010 and the opening of the second RPC on the island in September 2012. In the period since the last assessment the budget has grown from \$29.1² million (2010-11) to \$130.6³ million in 2016-17, an annualized growth of nearly 70% over the period. The most significant growth has occurred since the opening of the second RPC which has grown Government revenue by \$85 million since the 2012-13 budget estimates.

Following from the first PEFA assessment a PFM Action Plan (AP) was prepared and produced in April 2011⁴. Some of the recommendations in the AP have been implemented and are reflected in the improvements in some of the indicators. This second self-assessment will allow the current team within the Department of Finance to take stock of the progress made and begin to formulate a revised PFM reform program.

1.2 Assessment management and quality assurance

The assessment was initiated by the Secretary of Finance and requested assistance provided by the Pacific Financial Technical Assistance Center (PFTAC). It was carried out in conjunction with an Australian DFAT Assessment of National Systems (ANS) to reduce the information providing requirement on the Department of Finance, required by two separate assessments.

The team within the Nauru Department of Finance was comprised of: -

- Mr. George Plant (Chairperson), Deputy Secretary (Treasury)
- Mr. Henry Cocker, Deputy Secretary (Planning and Aid Division)
- Mr. Taufia Patolo, Chief Accountant (Treasury)
- Mr. Christopher Leisam, Management Account (Treasury)
- Mr. Wayman Harris, Senior Payment Officer, (Treasury)
- Mr. Coburg Gadabu, Assistant Budget & Debt Officer (Treasury)
- Mrs. Anadella, Development Economist (Planning and Aid Division)

The draft concept note for the joint PEFA self-assessment and ANS⁵ was provided to the Secretary of Finance on the 8th of June. The local self-assessment team were assisted by a team provided by PFTAC

¹ Nauru Public Financial Management Performance Report, PDP Australia Pty Ltd, December 2010, ADB

² Budget Speech 2010-11, Republic of Nauru, 1st November 2010

³ Budget Paper 1, 2016-17 Budget and Estimates of Revenue and Expenditure, Republic of Nauru, 9th June 2016

⁴ Public Financial Management Action Plan, John W. Leonardo, Department of Finance Republic of Nauru, April 2011

⁵ Nauru: draft concept note for the proposed joint Public Expenditure and Financial Accountability (PEFA) assessment and Assessment of National Systems (ANS), June 6th 2016, PFTAC

(Ms. Chita Marzan) and consultants (Mr. Savenaca Narube and Mr. Richard Neeves). The ANS was conducted by a DFAT team led by Mr. Richard Bontjer and assisted by Mr. Rob Hayes.

The assessment was conducted through initial sessions spanning five days (Aug 17-22) in which each of the performance indicators was discussed and examined in the Nauruan context. As part of each session any specific issues associated with the ANS requirements were raised. Concurrently with these sessions the Nauruan team was conducting the self-assessment scores for each of the dimensions comprising the PEFA indicator along with compiling the supporting documentation.

Discussion of the Self-assessment rating was reviewed during a second series of sessions (Aug 23-26). During these sessions, rigorous review of the evidence and assessed scores was undertaken with the consultants.

The Nauruan team undertook to write the Self-assessment report in the approved PEFA format and provide the draft report to PFTAC.

1.3 Assessment methodology

This assessment covered the general Government units of Nauru as there is only one tier of government in the country. It did not cover State Owned Enterprises (SoE) except to the requirements of indicator 10.1 relating to fiscal risks.

Performance was assessed as at August 2016 and related to the 2016-17 fiscal year and budget preparation processes for all requirements relating to *“at time of assessment”* considerations. For assessments based on the *“last completed fiscal year”* the preliminary results for the 2015-16 fiscal year were used. Where assessments were based on *“last three completed fiscal years”* the fiscal years 2013-14; 2014-15 & 2015-16 were assessed.

The relevant budget documents for each year were used for sources of budget information. This included supporting documentation such as the Budget Strategy Paper and Budget Circulars. Actual revenue and expenditure information was sourced as preliminary (unaudited) expenditure and revenue figures for each of the fiscal years directly from the Government’s FMIS⁶. Interviews were held with the External Audit Office, the Government’s interim Procurement Administrator⁷ and individual departmental entities as required. A full list of the people met is provided in Annex 3 of this report.

As discussed earlier the assessment was undertaken as part of an ANS by Australian DFAT. The expectation is that the ANS will draw upon many of the PEFA self-assessment findings in the preparation of its report.

⁶ The FMIS is technologyone financials

⁷ Pacifix

2. Country Background situation

2.1 Country economic situation

The population of Nauru was estimated to be 11,660 persons in August 2013⁸. GDP per capita was estimated to be slightly more than AUD\$10,000 (at constant prices) in 2013-14⁹. Based on the 2012/13 Household Income and Expenditure Survey it was estimated that 24% of the population lived below the Basic-Needs poverty line. This represented a household income of less than \$484.54 per week.

Economic growth in Nauru was estimated to be 4.2% in fiscal year 2013 and 2.8% in fiscal year 2014 (preliminary figures). The projection of GDP growth undertaken for fy 2015 was estimated at 12.9%¹⁰ with most of this growth attributable to large increases in Government spending¹¹. The annual inflation rate for the December 2015 quarter was 8.6%¹²pa. and is significantly higher than Australia, from which historically most goods are imported.

In the past the mining and export of phosphate rock has been the mainstay of the economy. It is now the smallest contributor to the economy and continues to decline. From fy 2011 to fy 2015 there has been a spike in building the re-opened RPC as represented in the manufacturing sector GDP contributions. Trade is now the major economic sector and is driven by the provision of services to the RPC.

Government revenue is highly dependent on direct payments associated with the RPC and indirect payments in the form of income taxes on expatriate workers and increased customs duties. Direct payments and income tax represents \$52.4 mil (40%) of current revenue estimates. In addition to RPC impacts fishing revenues from auctioning fishing days has grown to be the second highest source of revenue to the Government and is estimate to contribute \$33.8 mil (25.8%) of 2016-17 budgeted revenues.

Donor support to Nauru has remained reasonably constant however the mechanism by which the aid is delivered has been changing. In 2016-17 it is expected that \$17.1 mil will be delivered through Government Partner Systems and the GoN Treasury with a further \$36.3 mil delivered as aid in-kind through donor systems¹³. The trend is reduced funds being delivered through the GoN Treasury system.

2.2 Fiscal and budgetary trends

As can be seen from

Table 1 the GoN has run fiscal surpluses over the last three years. The magnitude of the surplus has varied considerably due to the reduction in grant assistance in 2014-15. It is however thought that

⁸ Table C.1. *Nauru Hardship and Poverty Report -Analysis of the 2012/13 Household Income and Expenditure Survey*, Moustafa A., UNDP, Undated

⁹ Ibid, Figure 1.b

¹⁰ Table 1, GDP at Constant Prices, 2016-17 Budget Paper 2,

¹¹ 2016-17 Budget Paper 2, p 6.

¹² Chart 2, 2016-17 Budget Paper 2, p.19 Source Statistics

¹³ Development Fund Annual Projections 2016-17, Planning and Aid Division

this figure is probably in error in the budget estimate. The primary surplus has been reducing over the last three years as expenditures have grown whilst revenue has remained relatively flat.

Table 1 Aggregate fiscal data 2013-14 to 2015-16

	2013-14		2014-15		2015-16	
	Current prices	%GDP	Current prices	%GDP	Current prices	%GDP
Total revenue	141,502,255	99.6%	125,018,951	78.3%	153,596,947	NA ¹⁴
-Own Revenue	102,532,549	72.2%	112,434,573	70.4%	113,808,048	
-Grants ¹⁵	38,969,706	27.4%	12,584,378	7.9%	27,622,869	
Total expenditure	87,399,552	61.5%	104,448,277	65.4%	113,032,088	
-Noninterest expenditure	87,399,552	61.5%	104,448,277	65.4%	113,032,088	
-Interest expenditure	0	0.0%	0	0.0%	0	
Aggregate surplus (incl grants)	54,102,703	38.1%	20,570,674	12.9%	28,398,829	
Primary surplus	15,132,997	10.7%	7,986,296	5.0%	775,960	
Net financing	54,102,703	38.1%	20,570,674	12.9%	28,398,829	
-external	38,969,706	27.4%	12,584,378	7.9%	27,622,869	
-domestic	15,132,997	10.7%	7,986,296	5.0%	775,960	

Trends in the allocation of resources are shown in Table 2. The amount of the budget allocated for the provision of Public Services has decreased over the period. The reduction in allocation for Economic Affairs since 2013-14 reflects the Government moving away from the buying of fuel supplies for the island. Their budget allocation associated with public order and safety has doubled over the period and there has been recent significant increased budget allocation for Health.

Table 2 Budget allocation by function 2013-14 to 2015-16 by % of budget allocation

Classification function¹⁶	2013-14	2014-15	2015-16
General public services	47.0%	41.1%	40.6%
Public order and safety	5.4%	7.6%	10.8%
Economic Affairs	26.8%	24.4%	19.9%
Environmental protection	3.9%	6.3%	3.3%
Health	7.4%	7.8%	13.1%
Recreation, culture and religion	0.8%	0.6%	0.8%
Education	5.5%	6.2%	6.6%
Social protection	3.3%	6.0%	4.9%
	100.0%	100.0%	100.0%

¹⁴ There are no GDP estimates available for the 2015-16 fiscal year.

¹⁵ Note that Grant assistance figures are not actuals but are based on the respective fiscal year's total donor assistance estimate.

¹⁶ Classification is by COFOG to division level

The Government does not classify the budget expenditure by economic classification. The best approximation to economic classification is allocation by budget account sub-group. Table 3 shows the allocation of revised budget on this basis over the last three years.

Table 3 Budget allocation 2013-14 to 2015-16 by Natural Account sub-group

Sub group	Description	2013-14	2014-15	2015-16
105	Salary - Local	11.7%	15.3%	17.0%
106	Staff Costs - Expatriate	6.3%	8.2%	14.1%
110	Staff Training	0.6%	0.6%	0.9%
120	Business Travel	3.2%	3.4%	4.4%
135	Printing & Stationary	0.3%	0.6%	0.4%
140	Office & House Rentals	1.8%	2.7%	1.1%
141	Land Lease	3.2%	5.7%	2.6%
145	Plant & Equipment (Incl R&M)	2.5%	4.0%	6.4%
146	Special Projects	5.5%	8.6%	10.4%
147	Warehouse Procurement	0.9%	0.0%	0.1%
150	Fuel	21.1%	19.4%	1.8%
155	Electricity Expenses	1.1%	1.3%	1.5%
156	Telephone/Internet	0.7%	0.7%	0.4%
157	Membership fees	0.5%	0.5%	0.8%
160	Social Welfare	2.3%	2.5%	2.3%
161	Scholarships	0.7%	0.8%	0.8%
165	Overseas Medical Expenses	3.7%	4.4%	5.8%
170	Public Debts	22.6%	5.1%	4.2%
171	Subsidies & Donations	0.2%	5.0%	7.4%
175	Miscellaneous Expenses	11.2%	11.4%	17.5%
		100%	100.0%	100.0%

The table shows the dramatic reduction in fuel purchases following from the privatization of fuel supply in 2014-15. There has been a similar reduction in the amount of the budget required to pay domestic debt. Over the last three years there has been an increasing proportion of the budget required to pay local and expatriate salaries, plant and equipment purchases (mostly new vehicles) and allocated to special projects. Overseas medical expense allocation has almost doubled. The large growth in budget allocation for subsidies and donations reflect the provision of a direct subsidy to NUC for fuel for power generation following the privatization of fuel supply. The final major area of budget allocation is in special projects. This provision includes several new Government initiatives such as the *Nauru Community Housing Scheme*, *Mooring replacement* and the *Nauru Education Assistance Trust (NEAT)* scheme.

2.3 Legal and regulatory arrangements for PFM

PART VI of the Constitution establishes the Treasury Fund and the requirement for annual appropriation to withdraw moneys from the Fund. It also provides for the establishment of the Director of Audit.

The legislation covering PFM is summarized below: -

Public Finance (Control and Management) Act 1997

This is the principal Act governing the Annual Appropriation dealing with public money's, Procurement requirements, write-off sale and disposal of assets, Trust moneys etc. The *Public Finance (Control and Management) Regulations 2013* are the only regulations issued under the Act and relate specifically to procurement requirements.

Development Fund Act 2011

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

Treasury Fund Protection Act 2004

This legislation provides penalties for the withdrawal of monies from the Treasury Fund without Parliamentary approval, penalties associated with Cabinet giving directions contrary to the Constitution and against public officers who provide advice to Cabinet or other persons to subvert the Constitution. It also requires Cabinet to seek Parliamentary approval before mortgaging or providing guarantees.

Audit Act 1973

This Act establishes the Audit Office and its duties. It specifies the requirement for the Minister to provide the public accounts to the office within three months of the end of the financial year or as specified by Parliament. The Act also requires an annual report of the Audit Office which includes his examination of the Public Accounts to be provided to the Minister within five months of the end of the financial year. The Minister is required to lay the report on the table of Parliament within two weeks of receiving the report from the Director of Audit.

Public Accounts Committee Act 1992

This legislation establishes a committee of five members of Parliament to examine the accounts and receipts and expenditure of the Republic under section 10 of the *Audit Act 1973*. The committee is to report back to Parliament on any aspect of the public accounts.

International Monetary Fund and World Bank Group Institutions Act 2016

This act provides for Nauru's membership to the International Monetary Fund and the World Bank Group institutions and appoints the Ministry of Finance as the fiscal agency under the Act.

There is no specific legislation or regulations currently covering institutional support for internal control systems.

2.4 Institutional arrangements for PFM

Table 4 Structure of the public sector

Year 2016-17	Public Sector			
	Government subsector		Public Corporation Sector	
	Budgetary Unit	Extra budgetary Unit	Nonfinancial public corporations ¹⁷	Financial public corporations ¹⁸

¹⁷ Nauru Administration Corporation? (NAC); Nauru Phosphate Royalty Trust (NPRT); Nauru Trust Fund (NTF)

¹⁸ Nauru Rehabilitation Corporation (NRC); Egigu Holdings Corporation (EHC); Nauru Utilities Corporation

Central	21 departments under 43 budget heads	None	NTF NAC NPRT	Ronphos NRC EHC Nauru Airlines NUC
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This PEFA self-assessment covered only the Government subsector as defined in Table 4. The extent that Public Corporations were assessed was only in respect of potential Central Government liabilities.

Table 1 provides details of aggregate revenue and expenditure for the Government.

2.5 Other Important features of PFM and its operating environment

PFM in Nauru is centralized in the Ministry of Finance. All payments are made through Treasury and recorded on the Governments Financial Management Information System (FMIS) all cash payments are made centrally at the Nauru Revenue Office (NRO).

There are no stipulated internal control mechanisms and external oversight is through the Audit Office and Parliamentary Accounts Committee. There are no legal provisions or institutional structures for public participation in budget management and citizen's interests are solely represented through the Parliamentary process.

3. Assessment of the PFM Performance

1. Aggregate expenditure outturn

The Government of Nauru has succeeded in maintaining aggregate expenditure level below approved budgets. As per table below, aggregate expenditure outturns have been less than the approved budgets in each of the past three completed years. The 2016 assessment reveal an overall score of B for this indicator signifying major improvements that GoN has undertaken since the last PEFA to improve its expenditure outturns against initial approved budgets.

Table 5 Aggregate Expenditure vs Original Approved Budget

	Aggregate Expenditure	Original Approved Budget	Overall Variance (computed using formula)
FY13-14	86,923,480	99,470,610	87.0%
FY14-15	104,245,886	115,208,281	90.4%
FY15-16	113,032,088	117,510,051	95.8%

About the previous PEFA, this indicator was unable to obtain a score as the data for the FY08-09 and FY09-10 were not available. This finding in conjunction with the above demonstrates that GoN has managed to sustain aggregate primary expenditures as per initial planned in original budget over the medium term. The full utilization of the Government FMIS has enabled GoN to retrieve accurate budget and expenditure data to meet requirements of this indicator.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	Last three completed Fiscal Years (13/14, 14/15, 15/16)	Single Dimension	B
Indicator Dimension		Score	Justification
1.1 Aggregate expenditure outturn		B	13/14 = 87 % 14/15 = 90.4 % 15/16 = 95.8 % Aggregate expenditure outturn was between 90 – 110% of the approved aggregate budgeted expenditure for the years 14-15 and 15-16.

2. Expenditure composition outturn

Dimension 2.1 measures the difference between the original approved budget and end of year aggregate expenditure composition by functional classification. Variance in expenditure composition is calculated by taking the weighted average deviation between actual and originally approved budget. Again to be compatible with PI-1, principal loans, interest payments and development partner expenditures are excluded in the calculation. The score for this dimension is a “C” as two of the last three completed fiscal years data had a variance in expenditure composition of less than 15%.

Table 6 Aggregate Expenditure Composition by function

	Expenditure by function
FY13-14	12.8%
FY14-15	10.2%
FY15-16	20.1%

Dimension 2.2 measures the difference between the original approved budget and end of year aggregate expenditure composition by economic classification. Due to the Government budget classification and existing chart of account not in conformity with second level of GFS classification, this dimension was very difficult to assess and therefore scoring an “NA”.

Given the importance of reporting expenditures by economic type, DoF is intent to institutionalize a GFS classification for Government in the medium term. The work to put in place a proper GFS system for Government will commence soon and it is expected to be completed prior the next PEFA assessment.

With respect to dimension 2.3, GoN has a contingency vote budgeted under Finance to cater for unforeseen events which occur during the financial year. The use of this contingency vote is legislated under the *Public Finance Act* whereby it allows Government to utilize contingency budget line item to fund emergencies and to reimburse original approved amount by way of a supplementary appropriation.

Table 7 Contingency share of budget

	Contingency vote share of budget
FY13-14	0.5%
FY14-15	0.2%
FY15-16	0.0%

The largest variance in the use of contingency vote took place in the FY13-14 with a 0.5% utilization. This was mainly attributed to government contributions to some of the neighboring countries affected by cyclones. For the past three years, GoN has managed to maintain the contingency budget in proportion to the total approved budget less than 5%, and thus scored an “A” for this dimension. With the legislation underpinning the use of the GoN contingency vote, the high calibration for the use of the contingency vote in the year ahead is not anticipated.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	<i>Last three completed Fiscal Years (13/14, 14/15, 15/16)</i>	<i>(MI WL)</i>	<i>B+</i>
Indicator Dimension		Score	Justification
2.1 Expenditure composition outturn by function		C	13/14 = 12.8 % 14/15 = 10.2 % 15/16 = 20.1 %

2.2 Expenditure Composition outturn by Economic Type	NA	The Ministry is unable to classify information easily by economic type.
2.3 Expenditure from Contingency Reserve	A	0.2 %

3. Revenue outturn

Accurate forecasting of government revenue is crucial to maintain aggregate fiscal discipline and ensuring that services are delivered as initially planned. If there is insufficient revenue to finance government priorities, government will be forced to run budget deficits and increase public debt.

The projections and realizations of GoN revenues are presented in Table 8. The re-opening of the Refugee Processing Centre (RPC) in late 2012 and the increased in fishing licenses have attributed to a dramatic increase in government revenues over the coverage period. In addition, GoN introduced an employment tax for non-residents working in Nauru in 2014-15 and it has a major upside on the total revenue collections. Table 8 illustrates the variance between actual budgeted revenues for the years 13-14 and 14-15, and hence a score of "C" for dimension 3.1. This is an improvement from the previous PEFA assessment and one which GoN intends to further improve it with the introduction of a MTEF budgeting framework.

Table 8 Revenue comparison

	Approved Budget	Revised Budget	Actual	Variance
FY13-14	99,577,067	99,577,067	102,532,549	103%
FY14-15	99,374,961	115,304,477	112,434,573	113%
FY15-16	98,911,345	112,160,120	125,974,078	127%

With respect to dimension 3.2, although Government has not been able to utilize GFS, attempts were made to align existing revenue heads to GFS classification for obtaining a score for this dimension. Overall, the variance in revenue composition for GoN has been increasing dramatically in the last two years compared to the FY13-14 fiscal data. Major in-year increases in original revenue budget estimates have resulted in growing differences in outturn results over the last three years.

Table 9 Revenue composition outturn

	Variance
FY13-14	4%
FY14-15	70%
FY15-16	77%

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	Last three completed Fiscal Years (13/14, 14/15, 15/16)	(M2 AV)	D+

Score	Justification
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Indicator Dimension		
3.1 Aggregate revenue outturn	C	13/14 = 103% 14/15 = 113% 15/16 = 127%
3.2 Revenue composition outturn	D	13/14 = 4% 14/15 = 70% 15/16 = 77%

4. Budget classification

The GoN budget is not classified into an international recognised budget classification framework. The existing GoN budget is classified administratively by heads and departments, and it embeds current and capital items together. There is no clear distinction in capital and operational expenditure and treatment of some revenues (such as phosphate royalties) are unclear. In this respect, this indicator scored a “D”.

DoF intends to amend the structure of the GoN budget into a more recognised international budget framework whereby operational and capital budget items are clearly defined and categorized separately. More work is required on the overall structure of the budget and its classification to bring it in line with GFS classification and other recognized reporting formats.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	Last completed Financial Year (2015/16)	N/A	D
Indicator Dimension	Score	Justification	
4.1 Budget classification	D	<p>The Budget is not classified into an internationally recognized classification framework.</p> <p>The Budget is classified by Head of Expenditure which embeds in current and capital. It is unclear how revenues from phosphate royalties are recorded.</p>	

5. Budget documentation

The PEFA team noted that the GoN budget for FY16/17 contains only two of the four basic elements of budget documentation. These include a forecast analysis of the 2016/17 fiscal deficit and the current year’s budget in the same format as budget proposal. There are no documentations on previous year’s budget outturn and aggregated budget data for both revenue and expenditures. None of the eight additional elements were included. Overall this indicator scored a “D”.

Finance is committed to incorporating some of the basic budget documentations elements in the fiscal year, FY17/18 budget.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	Last Budget Submitted Year (2016/17)	N/A	D
Indicator Dimension		Score	Justification
5.1 Budget documentation		D	The 2016/17 Budget document provides two basic elements: <ul style="list-style-type: none"> • a forecast of the 2016/17 fiscal deficit; and • the current year's budget in the same format as the budget proposal.

6. Central government operations outside financial reports

With respect to this indicator, there are three statutory bodies in Nauru. These include the Nauru Fisheries Authority, Port and Maritime Authority and the more recent established body of Electoral Commission. Although they are set up as statutory bodies, their revenues and expenditures are included in the government annual budget and form part of the WoG financial reports. Apart from these authorities, there are no extra budgetary units. On the above findings, dimensions 6.1 – 6.3 all scored an “A”.

Coverage	Time Period	Methodology of overall score	Overall score 2016
CG	Last Completed Fiscal year: 2015/16	M2 (AV)	A
Indicator Dimension		Score	Justification
6.1 Expenditure outside financial reports		A	There are three statutory bodies. Their expenditures are included in the budget and the financial reports.
6.2 Revenue outside financial reports		A	There are three statutory bodies. Their expenditures are included in the budget and the financial reports.
6.3 Financial reports of extrabudgetary units		A	There are no extra budgetary units. All statutory bodies are included in the budget and financial reports

7. Transfers to subnational governments

There are no subnational government in Nauru and therefore this indicator is not applicable to the context of Nauru. A score of “N/A”.

Coverage	Time Period	Methodology of overall score	Overall score 2016
CG	Last completed Fiscal Year : 2015/16	M2 (AV)	NA
Indicator Dimension		Score	Justification

7.1 System for allocating transfers	NA	There are no subnational governments in Nauru.
7.2 Timeliness of information on transfers	NA	

8. Performance information for service delivery

The Government annual budget paper 2 and the development fund projections paper contains basic activity information on performance plans for delivering services. However, the level of details in these documents are inadequate and below the required minimum. This dimension scored a “D”.

Similarly, for performance achieved for service delivery, the information on service delivery outputs are inconsistent, ineffective and incomplete. Apart from Health and Education departments publishing the information on service delivery outputs for donor funded projects, there are no other information's available. In this regard, this dimension also scored a “D”.

With relation to dimensions 8.3 and 8.4, there are no information's on the level of resources received by service delivery units. Other than budget allocations indicating their annual shares of the budget, departments do not have accurate records on the level of resources. In the absence of this, the performance evaluation of the various service delivery is simply not exist. On these, both dimensions scored “D”. Overall, this indicator requires a lot of work to ensure that performance information on service delivery is readily available.

Coverage	Time Period	Methodology of overall score	Overall score 2016
CG	8.1 Next fiscal year (2016/17) 8.2 Last Fiscal Year (2015/16) 8.3 and 8.4 Last three completed years (14/15 and 15/16)	M2 (AV)	D
Indicator Dimension		Score	Justification
8.1 Performance plans for service delivery		D	Basic activity information is provided in the Budget Paper 2 and Development Fund projections; however, this is below the required majority level.
8.2 Performance achieved for service delivery		D	Information on service delivery outputs is published for some areas, particularly health and education in line with donor expectations.
8.3 Resources received by service delivery units		D	
8.4 Performance evaluation for service delivery		D	

9. Public access to fiscal information

The enacted budget document is published on the Nauru law website and gazetted once it has been approved by Parliament. This is the only document that is made available for the public

information. Therefore, one of the five basic elements are met and none of the four additional elements. On this basis, this indicator scored a “D”.

DoF in conjunction with the ICT departments is considering putting more fiscal information’s or reports online so that the public can easily access to the information’s for better transparency purposes.

Coverage	Time Period	Methodology of overall score	Overall score 2016
<i>BCG</i>	<i>Last Completed Fiscal Year (15/16)</i>	<i>Single dimension</i>	<i>D</i>
Indicator Dimension		Score	Justification
9.1 Public access to fiscal information		D	Only one basic element is met, the enacted budget is published after passage by Parliament.

10. Fiscal risk policy

Fiscal risks can arise from adverse macroeconomic situations, financial positions of sub-national government or public corporations and contingent liabilities from central government. This indicator measures the extent to which fiscal risks to central government are being reported. There are three dimensions for this indicator and uses the average method (M2) for the aggregating the score. The period for assessing this indicator is the last completed fiscal year which is the FY15-16.

Nauru has seven major SOE’s. There are some autonomous government agencies which have set up to operate as an authority on its own with its budget requirements form part of the government annual budget. The SOE’s in Nauru are operating under their own separate legislation with some requiring to submit reports to Government on their finances.

Except for Fisheries and Maritime (Port Authority), all SOE’s are mandatory require to submit audited financial statements annually to the Parliament. Although these SOE’s present annual budget to Government outlining their annual operating none of these organizations have submitted any audited financial statements for the FY15-16, and hence a score of “C” for this dimension.

At present, there is no designated unit within Finance monitoring SOE performances and assessing fiscal risks associated with their operations. In the absence of such body, public corporations are not forthcoming with submission of audited financial reports and therefore posing high financial risks to Government. Each of the existing SOE reports directly to their relevant Ministers which makes it very difficult to consolidate all SOE’s data, let alone accessing the reports.

Government is intending to seek assistance in governance and monitoring of all public corporations so that their financial reports gets submitted, scrutinized and report for Government consideration.

With respect to dimension 10.2, there is no subnational government for Nauru and therefore this indicator is not applicable.

At the time of the PEFA assessment, GoN has no consolidated report on the contingent liabilities except the on-going court cases with Firebird. Furthermore, the level of contingent liabilities for GoN which might have been incurred from various guarantees including those from SOE's are unknown. This places a high level of fiduciary risks on Government as it has no firm understanding and knowledge on the likely level of its contingent liabilities.

The submission of annual financial statements after decades with no accounts will ensure that complete list of Government contingent liabilities is developed, maintained and updated on timely basis.

Coverage	Time Period	Methodology of overall score	Overall score 2016
<i>CG With Subnational and controlled public entities</i>	<i>Last completed fiscal year (2015/16)</i>	<i>M2 (AV)</i>	<i>D</i>
Indicator Dimension		Score	Justification
10.1 Monitoring of public corporations		D	Financial reports are not available for the SOEs. Each of the six SOEs report to their relevant Ministers. There is no central unit within government that coordinates all SOEs. Financial information are therefore not available.
10.2 Monitoring of subnational governments		NA	There is no subnational government
10.3 Contingent liabilities and other fiscal risks		D	There is no consolidated report on contingent liabilities except for ongoing court cases. Contingent liabilities on guarantees are not known

11. Public investment management

As far as PEFA team is aware, most government projects as defined by the PEFA framework are undertaken by, or in conjunction with development partners such as the Asian Development Bank (ADB) and Australia. In the case of the new hospital, a full economic analysis for the project was carried out by Australia. The same applies to ADB undertaking a full economic analysis for the Nauru Port project currently in the pipeline. The two separate projects full analysis are available on the ADB website for viewing. However, regarding Government own funded projects, the economic analysis aspect of any project is neither practice nor any available documentations on any analysis conducted available for citation. With these, a scored of "C" was awarded for dimension 11.1.

Department of Finance is seeking to improve this aspect by incorporating elements of economic analysis tools in annual operating plans (AOP's) for departments when preparing annual submissions. This will enable Government assess not only the likely costs associated with such proposal but more importantly the likely economic benefits to be derive from propose project.

Rigorous open and transparent processes for selecting and appraising projects should be included in annual submissions. This should strengthen the efficiency and productivity of public investments. Standard guidelines and procedures need to be adopted so that all projects get to be assessed using a set of common guidelines.

In relation to dimension 11.2, despite GoN (through its Planning and Development Division) producing annual development fund documentation as required under the *Development Fund Act*, there is no agreed standard selection guidelines or criteria used to guide Government in selecting projects. The document that is currently producing by PAD is descriptive of development partners funded projects. With this, a score of “D” was allocated to this dimension.

DoF is working towards developing a standard guideline for selecting projects to assist Government and to establish a development committee to appraise and prioritize all new projects. The newly develop set of guidelines will assist the committee in selecting the.

In dimension 11.3 where comprehensive and forward looking project budget plans for both capital and recurrent costs are needed, the information disclosed during this assessment confirm that the budget documentation does not incorporate forward estimates, hence scoring a “D”. However, some ongoing new recurrent costs for capital project related costs have been included in this year’s budget.

The difficulty in assessing project costs is limited by the current budget format for where capital and recurrent costs are not separately identified. This makes it difficult to assess investment project related costs.

Ensuring value for money and risks are monitored, two of the existing government projects with development partners have established project monitoring unit (PMU) with clear mandates to monitor progress of each project. The committees are well represented by various key stakeholders within government including those from development partners. This dimension scored a “C”.

Coverage	Time Period	Methodology of overall score	Overall score 2016
CG	Last completed fiscal year (15/16)	M2 (AV)	D+
Dimension	Score	Justification	
11.1 Economic analysis of investment proposals	C	Most public investments (as defined by the framework) are undertaken by, or in conjunction with development partners such as the ADB and/or Australia who conduct analysis. Two recent projects by the ADB included the Port redevelopment and an upgrade of electricity supply (which was with the SOE). Both analyses are available for viewing on the ADB website.	
11.2 Investment project selection	D	The Planning and Development Division with the DoF produce the	

		annual Development Fund document. However, this is a description of total donor fund projects both current and capital in their nature. There are no standard selection criteria used to guide project.
11.3 Investment project costing	D	The budget documents do not produce forward estimates. However, some ongoing new current costs for capital costs are included in the forward estimates.
11.4 Investment project monitoring	C	Of the three major projects being undertaken two have monitoring arrangements

12. Public asset management

Government maintain cash, receivables and Trust Fund information and balances. The lack of information regarding government equities in existing state owned enterprises (SOE's) undermines the government's ability to have comprehensive records of its financial assets. As far as this assessment is aware, there is no legislative requirement for financial asset governance other than the *Public Finance Act*. Moreover, government has no robust framework to manage and monitor its financial assets in a more transparent and open manner. Dimension 12.1 scored a "D".

Regarding dimension 12.2, information's on government non-financial assets are also not available. An asset valuation exercise was carried out for government departments in 2014 with the provision of each department asset registers, these however could not be verified during this assessment. For this reason, this dimension scored a "D".

Despite section 19 of the *Public Finance Act* detailing procedures for disposing government public assets, the procedures are not followed. Government has no policy in place for disposing assets and in the absence of such policy, Government has disposed of assets in a precedent manner that is not supported by legislation, and hence a scored of "D" also for dimension 12.3.

It is intended that with the introduction of a proper financial instructions, the procedures and guidelines for disposing all government assets will be strengthened and followed. This should work in conjunction with the establishment of the asset management module within the existing FMIS to record and maintain all government assets from the time of acquisitions, inter department movement's right to the disposal stage. The incorporation of these information on FMIS will serve as the basis for developing a complete asset database and reporting capability on government non-financial assets including disposal.

Coverage	Time Period	Methodology of overall score	Overall score 2016
12.1 CG 12.2 BCG 12.3 CG (Financial)	Last completed financial year (2015/16)	M2 (AV)	D

<i>Assets), BCG (NFA)</i>			
Dimension	Score	Justification	
12.1 Financial asset monitoring	D	Apart from cash, receivables and Trust Fund, information on Government holdings of equities in SOEs are not available	
12.2 Nonfinancial asset monitoring	D	Information on nonfinancial assets are not available	
12.3 Transparency of asset disposal	D	No policy on disposal of assets are in place	

13. Debt management

At the time of this assessment, reports on government debt and guarantees level are inconsistent, incomplete and have not been updated. Although there are spreadsheets on the total level of government debts, the accuracy of the data on the spreadsheets appears to be an issue given that there has not been a reconciliation report undertaken to verify accuracy of debt level. With this, a score of “D” was allocated for dimension 13.1.

In terms of the required legislations, there does not appear to be any legislative or regulatory requirement that specify a single entity ability to borrow, issue new debt and guarantees on behalf of Government. With the debt history of Nauru, Government is not borrowing and the way SOE's currently borrow are unknown by MoF as the approval is only done by the responsible Minister. There is no establish formal process in place to guide SOE's borrowings. This also scored a “D”.

The debt management unit within Finance keeps excel templates on government debts level both domestic and offshore debts. However, there is no debt management strategy to guide Government in repaying off its major debts. Much of this was to do with the manner in which decisions are made with regards to paying off debts. Government through Cabinet basically decide what to pay regardless of the nature of the debt or risk. This undermines the effort to instigate a debt management strategy by way of developing repayment schedules over time. Dimension 13.3 also scored a “D”.

Coverage	Time Period	Methodology of overall score	Overall score 2016
<i>CG</i>	<i>13.1 At time of Assessment 13.2 Last completed Financial Year 13.3 At time of Assessment referring to last three fiscal years (13/14, 14/15 and 15/16)</i>	<i>M2 (AV)</i>	<i>D</i>
Indicator Dimension	Score	Justification	
13.1 Recording and reporting of debt and guarantees	D	Debt reports are not consistent, complete and updated. No	

		reconciliation takes place. Information on guarantees is not available.
13.2 Approval of debt and guarantees	D	Legislation does not specify a single entity that can borrow, issue new debt and issue guarantees on behalf of government. Government is not borrowing. Borrowing by SOEs need to be approved by their respective Ministers. However, there is no approval process in place.
13.3 Debt management strategy	D	There is no debt management strategy in place.

14. Macroeconomic and fiscal forecasting

There is no central bank in Nauru and limited macroeconomic understanding within the Government. Macroeconomic issues are considered within Treasury often based on limited information from the Statistics sections of the Ministry of Finance and external sources. There is no legislative or policy requirement to prepare macroeconomic or fiscal forecasts.

In the preparation of the 2016-17 budget the Budget Strategy paper provided for the first-time macroeconomic forecasts based on stated assumptions for GDP growth and inflation estimates available to Treasury. These estimates were provided for the budget year and the two following years. In relation to the “D” score for dimension 14.1 this was necessary as the time of assessment was for the last three fiscal years.

Similarly, in relation to dimension 14.2 Treasury prepared forecasts of revenue expenditure and budget balance for the 2016-17 and two following budget years and the information was contained in the Budget Strategy paper. Again, due to the time period of assessment a “D” score was recorded.

Macro fiscal sensitivity analysis of the assumptions contained in the Budget Strategy paper is currently not undertaken. The Government is using the ADB Fiscal Management Model and can use this tool to assess fiscal scenarios. It is currently used to model impacts such as the closing of the RPC. In this basis dimension 14.3 was also scored “D”.

The Government is looking for assistance to improve the capacity for preparing forecasts of key macroeconomic indicators locally. These will be used in the preparation of budget forecasts instead of externally prepared forecasts.

The Treasury will seek that the forecasts and underlying assumptions associated with the budget included in the budget documentation. It is unlikely that the ability to review these estimates by an entity other than MoF will be possible in Nauru in the medium term.

The Treasury will use the Fiscal Management Model prepared for Nauru to undertake sensitivity analysis based on key macroeconomic assumptions. It will seek this analysis in the budget documentation.

Coverage	Time Period	Methodology of overall score	Overall score 2016
14.1 Whole Economy 14.2 and 14.3 CG	Last three completed years	M2 (AV)	D
Indicator Dimension	Score	Justification	
14.1 Macroeconomic forecasts	D	The Government utilises ADB growth figures in the development of the budget along with forecasts for inflation.	
14.2 Fiscal forecasts	D	Forecasts were produced for the 2016-17 budget but not for the two previous years.	
14.3 Macro-fiscal sensitivity analysis	D	The Government does not undertake macro fiscal sensitivity analysis on the basis of changes to macroeconomic parameters such as growth. It does look at impacts of other exogenous shocks, for example, the reduction in regional processing activities in Nauru.	

15. Fiscal strategy

The capacity to develop and implement clear fiscal strategy in Nauru is effected by the political system not being based on any party-type platform with an inherit fiscal stance. Fiscal strategy development is reliant upon the MoF and its ability to obtain political support for any strategy developed.

Currently few if any policy proposals by Government are provided to Treasury or MoF prior to Cabinet approval. For this reason, dimension 15.1 was scored “D”. In the 2016-17 Budget strategy paper, qualitative fiscal targets were included in major expenditure areas. Since the time period for dimension 15.2 was the previous completed fiscal year (2015-16) the dimension was scored “D”. Since no fiscal targets had been set in 2015-16 the 2016-17 budget documentation did not contain any assessment against the previous year’s fiscal targets. For this reason, dimension 15.3 was also scored “D”.

The overall rating for this indicator was therefore “D”. To improve in this area MoF will seek the requirement that all policy and policy changes being considered by Government must be reviewed and their fiscal impact reported upon. It will seek this requirement included in the proposed Financial Instructions. Treasury will amend the Budget Strategy Paper to include targets associated with the fiscal balance over the medium term and seek Cabinet approval of these. If fiscal targets are adopted the Treasury will report on the achievement against the approved targets and provide this information to the Minister.

Coverage	Time Period	Methodology of overall score	Overall score 2016
CG	15.1 Last three completed fiscal years (13/14, 14/15 and 15/16)	M2(AV)	D

	15.2 and 15.3 Last completed fiscal year (15/1)		
Indicator Dimension		Score	Justification
15.1 Fiscal impact of policy proposals		D	Few if any policy proposals by Government are provided to the MoF for fiscal impact assessment.
15.2 Fiscal strategy adoption		D	Qualitative fiscal targets were contained in the 2016-17 Budget Strategy paper for the first time.
15.3 Reporting on fiscal outcomes		D	No has been no reporting on fiscal outcomes.

16. Medium-term perspective in expenditure budgeting

The Treasury section of the MoF is responsible for budget preparation. It is prepared under the requirements of Part 2 of the *Public Finance Act*. There is no requirement for the budget to have a medium-term perspective and the appropriation is for a single year.

With respect to dimension 16.1 the budget provides estimates of expenditure for a single budget year. In relation to dimension 16.2 in the 2016-17 Budget Strategy Paper Treasury provided ministry-level expenditure ceilings for the budget year and two following years. These were approved by Government and issued in the first budget circular to ministries. For this reason, the dimension was scored an "A".

Strategic plans are only prepared by ministries in which technical assistance is available to do this. Currently this is only in Health and Education. These are not used in budget allocation and there is poor alignment between strategic plans and budget in these ministries. For this reason, dimension 16.3 was scored "D".

Dimension 16.4 was also scored "D" as there is no medium-term to the budget for which changes to expenditure estimates can be compared with. Overall the score for this indicator was "D+".

It is not thought that significant changes to the budget to include medium-term expenditure estimates at either administrative or economic levels of classification will occur soon. The current provision of forecast expenditure ceilings at departmental (administrative) level may be included in the budget document. Currently this information is published only in the Budget Circular.

Considerable further work will be required by the PAD to try and improve the development of strategic plans by departments and have these reflected in budget allocations.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	16.4 Remainder: Last budget submitted to the legislature (16/17)	M2(AV)	D+
Indicator Dimension		Score	Justification

16.1 Medium-term expenditure estimates	D	The annual budget currently only provides estimates of expenditure for the current budget year.
16.2 Medium-term expenditure ceilings	A	The government approved the budget ceilings for the budget year and two following years provided by Treasury in the budget strategy paper and these were reflected in the first budget circular.
16.3 Alignment of strategic plans and medium term budgets	D	Health and Education prepare strategic plans but these represent less than 50 per cent of the budget.
16.4 Consistency of budgets with previous year's estimates	D	Don't produce forward estimates so variations can't be produced.

17. Budget Preparation Process

As described in the previous indicator the Treasury section of MoF is responsible for the budget preparation process. The *Public Finance Act* requires a budget to be presented by department for both revenue and expenditure. There is no legislative requirement regarding the timing of budget preparation. The Constitution requires the budget to be passed before the commencement of the financial year.

With respect to dimension 17.1 the 2016-17 budget circular was released on the 4th of February 2016 and required departments to provide detailed budget estimates by the 29th of March (7.5 weeks). On this basis, the dimension was scored "A".

Regarding dimension 17.2 the 2016-17 budget circular was comprehensive and provided details of full operating budget expenditure ceilings at departmental level. These ceilings were approved by Cabinet prior to the release of the circular. This dimension was also scored "A".

The submission of the budget to the Legislature has in general over the last three years been either the day before or on the same day that Parliament sits and passes the Bill. Normally prior to the budget being presented the Minister has undergone extensive discussion with his colleagues on the budget contents. This is believed to reduce the time required for the legislature to consider the Bill.

Overall the Budget Preparation indicator was scored "B".

Treasury has discussed the possibility of moving the budget calendar forward to enable a completed budget to be ready earlier for legislative scrutiny. A political decision will be required on this issue.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	17.1 and 17.2 Last budget submitted to the legislature. 17.3 Last three completed fiscal years	M2(AV)	B
Indicator Dimension		Score	Justification

17.1 Budget calendar	A	The 2016-17 budget circular provided a clear calendar that gave departments six weeks to compile detailed estimates.
17.2 Guidance on budget preparation	A	The budget circular covered total budget expenditure and contained cabinet approved departmental ceilings.
17.3 Budget submission to the legislature	D	The budget is generally submitted to the Legislature a day before being passed.

18. Legislative scrutiny of budgets

The Parliamentary scrutiny of the budget is not determined by legislation and the process is managed by the Clerk to Parliament and the Cabinet. Standing Order 189 allows the introduction of an Appropriation or Supply Bill to the house without notice. Standing Order 77 dealing with time limits, has been amended in relation to the Main Appropriation Bill for the year. The time limits for the debate are on Revenue policies 30 minutes to any other member, 10 minutes to the Minister in charge to each debate, with the same time limits to apply to expenditure policies. For the Bill, as a whole the time limit is 30 minutes for each member.

For the first dimension (18.1) covering the scope of budget scrutiny the 2016-17 budget debate did not cover details of revenue and expenditure and was scored “D”. As already discussed there are few legislative procedures in place for budget scrutiny. The Standing orders associated with the Appropriation Bill are adhered to. On this basis dimension 18.2 was scored “C”. In relation to dimension 18.3 the budget has been passed by Parliament prior to the beginning of the fiscal year in each of the last three years. This dimension was therefore scored “A”.

With respect to rules for budget adjustment by the executive these are legislated under section 6 covering Supplementary Appropriation sub-section 8(4) covering Inter-Sub-Head-transfers (ISHT) of the Act. There are no limits to the extent of reallocations and the rules are followed in most cases. On this basis, the dimension was scored a “B”.

Overall this indicator was assessed as a “D+”.

The limited scope of the legislative scrutiny of the budget is beyond the MoF control and is subject to the individual Parliament. MoF will endeavour to provide greater information in the budget documents in the future to facilitate more informed debate.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	18.3 Last three completed fiscal years (13/14, 14/15 and 15/16) Remainder: Last completed Fiscal Year	M1 (WL)	D+
Indicator Dimension		Score	Justification
18.1 Scope of budget scrutiny		D	The legislatures review of the budget did not cover details of expenditure and revenue.

18.2 Legislative procedures for budget scrutiny	C	There are few legislative procedures to review budget proposals, those in place are adhered to.
18.3 Timing of budget approval	A	The legislature has approved a budget before the start of the last three fiscal years.
18.4 Rules for budget adjustment by the Executive	B	Legislative rules for in year adjustments are adhered to in most instances but there are no limits to the adjustments

19. Revenue administration

Supported by the Tax Act 2014, the Nauru Revenue Office (NRO) is responsible for collecting tax liabilities from tax payers. Every single taxpayer is provided with copies of Tax Acts, presentations and brochures on their tax obligations and responsibilities, and therefore scoring a “B” on this dimension. The concept of taxation is very new in Nauru and currently, the only tax apart from custom duties government is imposing is employment withholding tax for non-residents working in Nauru.

With the existing employment withholding tax, the three key risk areas are the registration, lodgment and payment. There has been a comprehensive registration program established by NRO and has contacted every business on the island. With regards to payment of tax liabilities, all payments are entered into the government FMIS system upon receiving bank statements. These are closely monitored and match with lodgment details being kept in separate spreadsheets. On this basis, dimension 19.2 obtained a score of “A”.

The fact that the FY2015/16 was the first year of the employment service tax for Nauru, there was nothing to be investigated or audited. Other government major revenues particularly those from the RPC operations, custom duties and fishing licenses were also up to date, and thus have nothing to be audited. With this, a score of “D” was allotted to this dimension.

As alluded to in relation to the employment service tax, all taxation reminders are closely monitored with the issuance of timely reminders within seven days prompting for payment. There are no other revenue arrears in other key revenue collecting agencies as payments were made on timely basis. On this, dimension 19.4 obtained a score of “A”, and hence an overall score of “B” for P1-19.3

The introduction of a proper revenue management system (RMS) by the NRO will enhance the overall monitoring of administration of government revenues. NRO is contemplating having this system set up within the course of this FY16-17. Furthermore, NRO will ensure that a comprehensive compliance program is developed, which will involve a risk assessment of all internal and external risks. This will then be followed by the development of compliance strategies to address any deficiencies identified. Strategies will be implemented to mitigate risk, with monitoring and any required corrective action.

	Methodology of overall score	Overall score 2016
19. Revenue administration		

Indicator Dimension	Score	Justification
19.1 Rights and obligations for revenue measures	B	Taxpayers are provided with PP presentation, copies of tax Acts, brochures and advised in writing at time of issue of assessment.
19.2 Revenue risk management	A	Comprehensive registration program undertaken, lodgement and payment closely monitored with reminders issued when payment is 7 days overdue.
19.3 Revenue audit and investigation	B	Comprehensive compliance program currently being developed. Risk assessment (internal & external) to be undertaken with strategies developed to address gaps.
19.4 Revenue arrears monitoring	A	Taxation arrears closely monitored with reminders issued when payment is 7 days overdue.

20. Accounting for revenue

The *Public Finance Act* underpins the legal regulatory framework for collecting government revenues. At the time of assessment, all government revenues regardless of type, nature and heads are collected, recorded and consolidated by the NRO. The daily cash receipts are entered directly into the FMIS and all incoming credits through the bank are also inputted to the relevant revenue account on daily basis. On this basis, dimension 20.1 was given a score of “A” as existing procedures are effective and efficient.

With respect to dimension 20.2 and as previously explained above, the NRO is responsible for collecting, recording and consolidating government revenues. With this set up, there is revenue transfer procedures in between different government agencies and therefore dimension 20.2 also obtained an “A” score.

Similarly, with dimension 20.3, a score of “A” was given primarily due to the GoN structure with regards revenue collecting agencies. NRO is the only agency responsible for collecting, recording and consolidating government revenues, and therefore the revenue accounts are reconciled and updated as soon as NRO receives and receipts cash.

Overall, this indicator scored an “A” and GoN intend to maintain and further enhances its revenue existing revenue collecting procedures.

Coverage	Time Period	Methodology of overall score	Overall score 2016
		M1 (WL)	A
Indicator Dimension	Score	Justification	
20.1 Information on revenue collections	A	All revenue regardless of type is collected by the National Revenue Office and input into the FMIS daily.	

20.2 Transfer of revenue collections	A	All revenue regardless of type is collected by the National Revenue Office and input into the FMIS daily.
20.3 Revenue accounts reconciliation	A	Single agency collecting government revenues, thus revenue accounts updated and reconciled on daily basis.

21. Predictability of in-year resource allocation

The GoN of Nauru has several accounts to manage its daily operations with the Treasury Operating account as the main account for GoN payments. In addition, there are also several development partner's bank accounts being set up to facilitate their funding. The accounts have been held at Bendigo Bank Agency in Nauru after the closure of all government accounts with Westpac (Australia) in April 2016. There are no term deposit accounts as all were set up as every day operating accounts. All GoN accounts are directly controlled by Treasury except for overseas mission's imprest accounts.

There are also two of cash accounts held by NRO for cash payments and receipts on island. Now, these accounts are reconciled on daily basis by NRO. Treasury is mandated to consolidate all government cash balances and this is currently done through a combination of spreadsheets and the FMIS on weekly basis. The total value of bank balances that are consolidated weekly constitute more than 90% of total GoN cash at any given point in time. A monthly report including those of overseas mission's accounts are also produced by Treasury. On this, dimension 21.1 scored a "B".

Cash flow forecast is prepared at the commencement of the financial year. Throughout the course of the financial year, forecasts are updated regularly to consider the actuals inflows and outflows from previous week. The utilization of FMIS to upload departments forecast proved to be a difficult assignment as departments have difficulty in providing regular monthly update of their projections. Due to departments finding it difficult to re-phase forecasts in the last financial year, projections were not updated and thereby preventing a rolling monthly forecast. A score of "C" was given to dimension 21.2.

With respect to dimension 21.3, a score of "B" was given as budgetary units can plan, forecast and commit expenditure for at least six months in advance. Such commitment is primarily based in accordance with the approved budget appropriations and cash flow projections. It was found during the assessment that there have been cases when payments are being delayed to accommodate sudden or unforeseen expenditures. However, the extent of this was insignificant and that delays did not exceed a month period.

For the previous fiscal year, 15/16, there were nine (9) significant adjustments in department's budget initiated by the department of Finance. The nine supplementary budgets approved in FY15/16 reflects a high level of in-year budget adjustments. There are cases when approved adjustments were published without providing the details for department's information. The number of supplementary approved indicates changes in some of the Government policies within the course of the financial year which resulted in funding's being re-allocated to meet some of the new priority areas. In addition, there are cases where initial budgeted amount was inadequate, hence the need to further supplement to cater for rest of financial year requirements. On this basis, this dimension 21.4 scored a "D".

Finance intent is to minimize the number of supplementary budget presented to Parliament within any financial year by being able to forecast more accurately so that initial provision accommodates full year requirements. Moving towards a comprehensive MTEF with sound budget policies is the catalyst towards providing accurate budget estimates and hence less supplementary budgets.

Coverage	Time Period	Methodology of overall score	Indicator overall score 2016
BCG	21.1 Time of Assessment Remainder: Last Completed Fiscal Year (2015/16)	M2 (AV)	C+
Dimension		Score	Justification
21.1 Consolidation of cash balances		B	<p>At the time of assessment, all BCG bank accounts are directly controlled by the Treasury except for those managed by the overseas missions. The consolidated cash balance of these</p> <p>Treasury-controlled accounts are calculated thru a combination of spreadsheets and the FMIS on a weekly basis, and a monthly report is produced for all the cash balances.</p> <p>The total value of the bank balances that are consolidated on a weekly basis constitutes more than 90% of total cash. There is also minimal cash on hand in a few imprest funds.</p>
21.2 Cash forecasting and monitoring		C	<p>A cash flow forecast is prepared at the beginning of the fiscal year and forecasts are updated with actual inflows and outflows experienced in the previous week. However, departments have difficulty in providing a regular/monthly update of their projected cash requirements. Hence, in the last fiscal year, projections were not updated regularly, thereby preventing a rolling monthly forecast.</p>
21.3 Information on commitment ceilings		B	<p>Budgetary units can plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash flow forecasts. There have been some incidences of delayed payments to</p>

		accommodate sudden or unforeseen expenditures, but the extent of this was not significant, and delays did not exceed a month.
21.4 Significance of in-year budget adjustments	D	In FY2015/16, there were 9 significant adjustments in the budget of departments were initiated by DoF. These approved adjustments were published, but advance information was not provided to departments.

22. Expenditure Arrears

With respect to dimension 22.1, a score of “D” was given as the stock of expenditure arrears for the FY14/15 and FY15/16 were not available for assessment. With regards to FY13/14, the total stock of expenditure arrears was 21%, indicating that 21% of that year total expenditures were directly related to settlement of expenditure arrears.

At the time of assessment, it was ascertained that the data on stock, age and composition of expenditure arrears are available from the FMIS under the AP module. However, quarterly reports are not generated and arrears which are not on the system are currently neither recorded nor monitored. With this, a score of “C” was given for dimension 22.2.

The completion of financial statements for FY14/15 and FY15/16 will improve the rating on dimension 22.1 and it will determine the exact stock of expenditure arrears. This will enable Finance to upload accurate figures into the FMIS so that it can generate accurate and timely monthly or quarterly reports.

DoF intend to record all expenditure arrears on the AP module so that Government can keep track of its arrears. The fully utilization of the AP module will ensure that accurate and complete data on expenditure arrears are made known to Government and other interested stakeholders always.

Coverage	Time Period	Methodology of overall score	Overall score 2016
BCG	22.1 Last three completed Fiscal years (13/14, 14/15 & 15/16) 22.2 At time of assessment	M1 (WL)	D+
Indicator Dimension		Score	Justification
22.1 Stock of expenditure arrears		D	30 June 2014 (18.2m/86.9m) = 21% 30 June 2015 30 June 2016
22.2 Expenditure arrears monitoring		C	Data on the stock, age, and composition of expenditure arrears are available from the FMIS, but as to whether they are generated at least quarterly, is not clear. Currently, there is no system of monitoring of un-

		booked or off-system arrears. Department of Education and Health representatives confirmed that they have outstanding obligations from past transactions that are still being verified.
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23. Payroll controls

The Government payroll system is administered by the Chief Secretary department. All employee's details are currently maintained by this department on excel spreadsheets and in files. Until recently these were not linked to the payroll module introduced on the Government FMIS. Fortnightly payroll variations are processed directly through the payroll module which link to departments annual budget provisions. With respect to the current processes, a score of "B" was allocated for dimension 23.1.

The inception of phase two of the government payroll and human resource project will ensure that all personnel records are directly linked with the payroll module. Chief Secretary in conjunction with Finance staff have already commenced with the work on integrating personnel data directly to the payroll module and is aiming to complete this before the end of the second quarter of this financial year. Once this is completed, then it will improve the score of this dimension in future assessments.

With respect to dimension 23.2, personnel changes are updated on fortnightly basis by the payroll team and reflected in salary amounts being paid out. This assessment noted that there are few retroactive adjustments and those made were to do with the delayed of information on personnel movements. Therefore, a score of "A" was given for this dimension.

Dimension 23.3 received a score of "B" as specific officials from the payroll team are designated to have access on defined areas and make necessary changes in the payroll module. The introduction of the payroll module on FMIS has enabled the payroll team to adjust salaries directly through the FMIS. This has resulted in changes being recorded and stored in FMIS through an audit trail. All the changes are supported by documentations which are provided to Treasury for verification before executing the funds to employee's bank account. However, internal control of paper-based personnel records is not strong as there are no audit trail and files can be easily misplaced.

There was a government payroll audit conducted in 2014. Unfortunately, it only covered nine (9) departments out of the fifteen government departments. Similarly, government has only reviewed the payroll structure and the basis for determining the pay and other personnel emoluments without any proper audit on these procedures. On this basis, a score of "C" was allocated for dimension 23.4.

Coverage	Time Period	Methodology of overall score	Overall score 2016
CG	23.4 Last three completed Fiscal years (13/14, 14/15 & 15/16) Remainder: At time of assessment	M1 (WL)	C+

Indicator Dimension	Score	Justification
23.1 Integration of payroll and personnel records	B	The Chief Secretary Dept administers the payroll system. Complete personnel records are maintained by this dept, but not directly linked with the payroll module. Personnel changes are done by the dept directly through the payroll module. Payroll module is part of the FMIS. It is linked with the budget control.
23.2 Management of payroll changes	A	Personnel changes are updated by the Payroll Team fortnightly, and few retroactive adjustments occurred due to delay of information on personnel movements.
23.3 Internal control of payroll	B	Specific officials/personnel from the Chief Sec Dept are designated to have access on defined areas and make changes in the Payroll module. Results of the changes are reflected in an audit trail. Each change is supported by documents which are submitted to the Treasury for verification. However, internal control of the paper-based personnel records is not strong because there is no audit trail.
23.4 Payroll audit	C	One payroll audit was done by the Audit Office in 2014 covering 9 out of 15 departments. Likewise, only the payroll structure and the basis for determining the pay or other personal emoluments, has been reviewed.

24. Procurement

The Government FMIS has a complete list of all the information pertaining all contracts including data on what has been procured, value of each procurement and those who have been awarded. The appointment of a procurement administrator¹⁹, *Pacifix*, by government enables government to have all the information available for all procurements done directly by the procurement administrator and line Ministries. Under the relevant provisions of *Public Finance Act*, regulations and guidelines, procurements below the value of three thousand dollars (A\$3000) could be done directly by the department without going through a procurement administrator.

¹⁹ A procurement Agent can only be appointed by International Competitive Tender, *Pacifix* has been appointed as an interim Administrator until the tender process is completed.

The supporting documents are with Treasury who monitor and execute the commitment control and payment functions. In respect of bidding documents, these are with the procurement administrator. The new procurement process that kick started in the FY15/16 has enable Government to have an accurate and complete set of data on all its procurements. On this basis, dimension 24.1 scored a “B”.

Despite the new procurement process, several contracts were issued by government for security services and the community housing scheme were allocated on a non-competitive basis through land ownership and other methods. A score of “D” was given for dimension 24.2.

The legal framework that is published for the public information is the *Public Finance Act*, the *Public Finance (Control and Management) Regulations 2013*. This is available through the government website for all Nauru legislations. The *Procurement Manual* is available on the DoF website. Information such as government procurement plans, bidding opportunities, contract awards, annual procurement statistics and data on resolution of procurement complains are currently not published. Dimension 24.3 was scored a “D”.

Finance intends to make available all these documents for the public information by including a section of government procurement in its future quarterly budget reports.

Presently, government has no procurement complaint system or mechanism in place, thus scoring a “D” for dimension 24.4. However, Finance in close collaboration with *Pacifix* will ensure that a proper mechanism for procurement complaints is developed and implement in the third quarter of this current financial year, FY15/16.

Coverage	Time Period	Methodology of overall score	Indicator overall score 2016
CG	Last completed Fiscal Year (2015/16)	M2 (AV)	D+
Indicator Dimension		Score	Justification
24.1 Procurement monitoring		B	The FMIS has a complete information on all contracts including data on what has been procured, value of procurement, and who has been awarded. This information includes all procurements done by the Procurement agent and line ministries (below \$3,000). The supporting documents are with Treasury who executes the commitment control and payment. Bidding documents are with the Procurement administrator (<i>Pacifix</i>). DOF has vouched for the completeness and accuracy of the data. This procedure was observed all throughout the last fiscal year covering all types of procurement.
24.2 Procurement methods		D	Several contracts were issued for security services and the community

		housing scheme which have been allocated on a non-competitive basis, through land ownership.
24.3 Public access to procurement information	D	The legal framework and draft procurement manual is published. (1) legal and regulatory framework for procurement – Yes (GoN website) (2) government procurement plans - No (3) bidding opportunities - No (4) contract awards (purpose, contractor and value) - No (5) data on resolution of procurement complaints - No (6) annual procurement statistics- No
24.4 Procurement complaints management	D	There is no complaints system/mechanism put in place.

25. Controls on Non-Salary Expenditure

In the absence of a government Financial Instructions, there is no clear delineation of duties and responsibilities on non-salary expenditure items. However, the assessment team noted that in practice, the segregation of duties within a department is based on job descriptions. In addition, the current FMIS workflow process provides sound internal controls on non-salary items by creating different layers of approvals within the system. Each user is issued with access details at different level of approvals and there is no way a payment can be process outside of the rules governing the flow of government payments. Dimension 25.1 was given a score of “B”.

In respect of expenditure commitment controls, the centralized FMIS that is control by Finance provide a strong commitment control tool for Government non-salary expenditure. However, there have been cases where medical services payments were processed without having to go through the standard procedure due to its urgency. On this basis, a score of “B” was again given for dimension 25.2.

Government departments do comply with payment rules and procedures. However, there were payments made without following the procedures due to its nature. However, these exceptions are processed in the same legal manner and are fully authorized and justified. Again, dimension 25.3 scored a “B”.

Coverage	Time Period	Methodology of overall score	Overall score 2016
CG	At time of Assessment	M2 (AV)	B
Indicator	Score	Justification	
25.1 Segregation of duties	B	There is no clear delineation of duties and responsibilities on non-salary	

		<p>expenditure processes due to lack of financial regulations or manuals.</p> <p>In practice, the segregation of duties within a department is internally based on job descriptions, the FMIS also provides workflow controls on non-salary items.</p>
25.2 Effectiveness of expenditure commitment controls	B	The centralized commitment control system by DOF facilitated by the FMIS enables a strong commitment control. However, there have been cases of payment instructions which were accommodated without having undergone the standard procedure. Some were due to urgency such as medical services.
25.3 Compliance with payment rules and procedures	B	There were payments made that did not undergo required prior processes.

26. Internal audit

At the time of assessment, there is no internal audit function for Government, and therefore no standards and procedures. A score of “D” for dimension 26.1. In the absence of an internal audit function for government, dimensions 26.2-26.4 were not applicable, thus the “N/A” scored.

Government is to consider institutionalizing an internal audit function within Finance to perform internal audit functions for Government.

Coverage	Time Period	Methodology of overall score	Indicator overall score 2016
CG	26.1 and 26.2: At time of Assessment 26.3 Last Completed Fiscal Year Dimension 26.4: Last 3 fiscal years	M1 (WL)	D
Dimension	Score	Justification	
26.1 Coverage of internal audit	D	At the time of assessment, there is no internal audit function in the GoN.	
26.2 Nature of audits and standards applied	NA		
26.3 Implementation of internal audits and reporting	NA		
26.4 Response to internal audits	NA		

27. Financial data integrity

Of all government bank accounts, only two donor accounts are being reconciled on monthly basis. These accounts represent at least half of Treasury total cash balances. With the recent upgrade and improvements in the FMIS, bank reconciliation is now performing directly on the FMIS. A score of “D” was given for dimension 27.1.

There are no suspense accounts for Government as all were allocated to correct natural accounts or projects upon confirmation. In the FY15/16, a suspense account was created for a donor funded project as funds were received without knowing what the funds for. However, upon receiving confirmation of the project within the same month, the funds were reallocated to the correct project code and thus the suspense account created was reconciled and closed off. Dimension 27.2 scored an “A”.

The two imprest accounts for Government are for the Procurement Administrator and for official travel business in the form of accountable allowances. The imprest account for procurement is reconciled on monthly basis. However, there are issues with timely acquittal of travel accountable allowances. A “D” score for dimension 27.3.

Treasury control all access to FMIS data and records. The users are restricted to applicable modules only and all transactions results on FMIS are attach with audit trail. This signifies high level of data integrity. However, in the absence of an internal audit, it comprises the scoring and thus a score of “B” was given for dimension 27.4.

Coverage	Time Period	Methodology of overall score	Indicator overall score 2016
BCG	27.4: At time of Assessment Remainder: At time of assessment covering the preceding year.	M2 (AV)	C+

Dimension	Score	Justification
27.1 Bank account reconciliation	D	Only 2 donor fund accounts of the 13 Treasury-controlled accounts are being reconciled monthly. These two accounts represent around 50% of the total cash balances. The reconciliation is done through the reconciliation module of the FMIS.
27.2 Suspense accounts	A	In FY 2015/16, a donor funded project money was paid but not identification was made. The amount was put into a suspense account until it was cleared within the month
27.3 Advance accounts	D	Most of the advance accounts are imprests for the procurement administrator, and the rest are travel advances. The imprest fund with the PA is normally reconciled monthly, but lately has not been reconciled due to

		busy schedule. There is a problem with the timely acquittal of travel advances.
27.4 Financial data integrity processes	B	Access to FMIS data and records is restricted and results in an audit trail. However, an A rating is not achieved as there is no internal audit nor a group verifying the data integrity.

28. In Year Budget Reports

In respect of coverage and comparability reports, the weekly reports that FMIS generate for departmental use is comparable with the initial budget coverage and classification. The weekly report captures all the information on items included in the original budget estimates. On this basis, dimension 28.1 scored an “A”.

As mentioned above, the budget weekly report is currently being generated directly out of the system. In addition, a quarterly report for the Minister is also produced. Again, dimension 28.2 scored an “A”.

The weekly report includes all information on both commitments and payment stage. The report further also shows the original budget, inter-sub head transfer or virements, supplementary appropriation as well as budget balances. There have been a few errors in the report previously but were not material enough and have been corrected immediately. Again, a score of “A” for dimension 28.3.

Coverage	Time Period	Methodology of overall score	Overall score 2016
<i>BCG</i>	<i>Last Financial Year (2015/16)</i>	<i>M1 (WL)</i>	<i>A</i>
Indicator	Score	Justification	
28.1 Coverage and comparability of reports	A	The weekly budget execution report by department is comparable with the coverage and classification in the original budget, and information includes all items in the budget estimates.	
28.2 Timing of in-year budget reports	A	Through the FMIS, the DOF produced weekly budget execution report for all the BCG units and a more aggregated report for the Minister on a quarterly basis.	
28.3 Accuracy of in-year budget reports	A	The report includes information on both commitments and payment stage, and shows the original budget, virements, supplementary, and revised budget, as well as budget balances. There have been few errors	

		but not material and have been corrected immediately.
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29. Annual financial statements

Since the FY1995/1996, Government has not been able to provide and submit any annual financial statements. The FY13/14 annual financial statements were the first set of statements and have not been audited. The set of statements contains statement of profit and loss, balance sheet items and contingent liabilities. The FY14/15 is still in progress at the time of assessment and it is anticipated that Treasury will submit report later this year to Audit. On this basis, dimension 29.1 scored a “D”.

The most recent set of statements for FY13/14 was submitted at end of October 2014 which is within four to six months following the completion of the financial year, and thus a score of “B” for dimension 29.2.

In respect of the last three completed fiscal data, there were no clear and consistent standards adopted. The FY2012/13 account was never prepared for audit submission. As mentioned above, the FY14/15 is not yet finalized and will be submitted to Audit later this year. About the FY13/14 account, the notes indicated some of the accounting policies that were applied in the absence of such standards. A score of “D” was assigned for dimension 29.3.

Coverage	Time Period	Methodology of overall score	Indicator overall score 2016
BCG	29.1 Last completed Fiscal year 2015/16 29.2 Last annual financial report submitted for audit 2013/14 29.3 Last three years' financial report (13/14, 14/15 and 15/16)	M1 (WL)	D+
Dimension	Score	Justification	
29.1 Completeness of annual financial reports	D	The FY2014-15 financial statements have not been submitted yet. This indicator requires financial statements in the last completed fiscal year. The latest available report is for the period FY2013-14. It contains revenues, expenses, financial and non-financial assets, liabilities, including contingent liabilities.	
29.2 Submission of reports for external audit	B	The most recent statements submitted refer to FY2013-14 which was submitted for audit in end October 2014 - four months after the fiscal year.	
29.3 Accounting standards	D	There were no clear and consistent accounting standards adopted in the	

		last 3 years. Likewise, there were no financial reports produced during FY2012-13, and FY2014-15. However, in the FY2013-14 statements, the Notes indicated some of the accounting policies that were applied in the absence of such standards.
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30. External audit

The first set of financial statements for government after decades without any financial statements is currently being audited and it is expected to be completed by end of 2016. With that, there are no audit coverage and standards being used, and thus a score of “D” for dimension 30.1. Capacity is the greatest challenge.

On the basis that there has not been any audit report submitted to Parliament, dimensions 30.2 and 30.3 were given with N/U scored as both cannot be rated.

Although the Nauru audit office enjoys its own operational independence in the use of its statutory budget, there seems to be some element of confusion and contradict in the appointment and removal of the Auditor General. Under the relevant legal framework, the appointment of the Auditor General is done by the Chief Secretary. However, the AG can only be removed by Parliament. With this, dimension 30.4 scored a “D”.

Coverage	Time Period	Methodology of overall score	Indicator overall score 2016
CG	30.4 Time of assessment Remainder last three completed years (13/14, 15/16 and 16/17)	M1 (WL)	D
Dimension		Score	Justification
30.1 Audit coverage and standards		D	The financial accounts have not been audited for many years. The account for 2013/14 is currently being audited and expected to be completed by the end of 2016. Capacity is the greatest challenge.
30.2 Submission of audit reports to the legislature		N/U	Since there has been no audit report submitted to the legislature for the central government this indicator cannot be rated.
30.3 External audit follow-up		N/U	Since there have been no audit reports submitted to the legislature, this indicator cannot be rated
30.4 Supreme Audit Institution independence		D	The SAI enjoys operational independence in the use of its budget. The budget of the SAI is statutory in nature. The AG can only be removed by Parliament. However, the

		appointment of the AG is done by the Chief Secretary.
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31. Legislative scrutiny of audit reports

With respect to legislative scrutiny of audit reports, there has been no audit reports submitted to Parliament for scrutiny. The fact that the last annual account submitted was for the FY1995/1996, the Audit office has not been able to submit any report to parliament. On this, dimensions 31.1 – 31.4 all scored a “D”.

In consultation with DoF, Audit is aiming to submit the FY13-14 account to parliament in this financial year and then subsequent audit reports for FY14-15 and 15-16 will soon be follow thereafter once audit is completed.

Coverage	Time Period	Methodology of overall score	Indicator overall score 2016
CG	<i>Last three completed years (13/14, 15/16 and 16/17)</i>	M2 (AV)	D
Dimension		Score	Justification
31.1 Timing of audit report scrutiny		D	
31.2 Hearings on audit findings		D	
31.3 Recommendations on audit by the Legislature		D	
31.4 Transparency of legislative scrutiny of audit reports		D	

4. Conclusions of the Analysis of PFM systems

Integrated assessment of PFM performance

Budget reliability

Overall, the level of aggregate expenditure outturn for GoN has largely matched the approved budget with outturns ranging between 90-110% of initial approved budgets. In respect of expenditure composition outturns, the national budget is classified by administration and the use of contingency budget has been relatively small.

In respect of the revenue outturn, the performance is currently below the minimum required level. Despite the revenue outturn for the last three years is operating between 92-116% of approved budget, its composition is not in compliance with international GFS standards.

Transparency of public finances

With respect to transparency of public finances, the report unearthed that this area is problematic and require more work for further improvements. The existing national budget documentations are not publicly available and that fiscal information's underpinning government budget is not comprehensive. Furthermore, the PEFA also discovered that the existing national budget format is not in line with any of the international recognized budgeting framework.

Overall, the unavailability and transparency of some of the key required budget documentations has impacted significantly on the performance level for service delivery and restraining public from accessing the much-needed information.

Management of assets and liabilities

In general, the management of assets and liabilities is well below the minimum required level. Due to the absence of central monitoring unit for all Government SOE's, the assessment team noted that SOE's financial reports are not available and not recorded by central government in its annual account. On this basis, there is a very high level of fiduciary risks currently associated with SOE's operations.

The report also found that public investment management strategy in terms of economic analysis, project selection, costing and monitoring are all operated well below the average required level. Despite Government effort to pay off some of its long outstanding debts particularly the domestic debts, the level of information on government debt is either incomplete or inconsistent, thus placing government under tremendous pressure with regards its true and accurate debt position. There are no assets and debt management strategies in place for the GoN.

Furthermore, the legislatures supporting borrowing and guarantees is unclear on which authority within Government has the power to sign off on any new borrowing.

Policy-based fiscal strategy and budgeting

Overall, the Government has made some good progress in the areas of budget preparation and scrutiny. In relation to the previous PEFA assessment, the budget preparation process has improved dramatically in terms of the budget calendar and guidance on formulating the national budget.

The introduction of the medium-term expenditure ceilings for department budget provides a good basic starting point for department's submission and establish an open and competitive discussion for sensible increases in annual budgets. However, the absence of clear sector policies undermines the strategic alignment of annual budgets to overarching goals of Government as stipulated in the existing National Sustainable Development Strategy (NSDS).

Predictability and control in budget execution

In aggregate, the GoN has made significant improvements in the areas of revenue administration, accounting for revenues, predictability of in-year resources, payroll controls and internal controls on non-salary items.

As a centralized collecting agency, the NRO is responsible for the collection of employment tax liabilities, duties and other major sources of government revenues. The process for revenue collection is very transparent and despite the recent introduction of new taxes (employment tax), the overall accounting administration for government revenues has improved markedly, thus indicating the effectiveness of administrative reforms undertaken by Government since the last PEFA assessment.

The report also found that Treasury maintain consolidated cash balances and department cash flow on weekly basis. The cash flows are based on approved budget taking into consideration actual inflows and outflows throughout the fiscal year. Department's cash flows are loaded onto the FMIS.

The level of in-year budget adjustments through supplementary budget is a major concern as it undermines the accuracy and reliability of the overall government budget process. These in-year budget adjustments are done through supplementary appropriation.

In respect of payroll controls, the recent introduction of a payroll module on the Government FMIS has improved the overall management and processing of government payrolls. The system has just been installed and the assessment team noted that both payroll and non-salary internal controls are above satisfactorily. All records are maintained by the system and generate audit trail reports. The linking of personal data directly to the payroll system is now being considered under phase two of the project.

This assessment further noted that a lot of work is still require on the area of procurements. Even though the monitoring the existing government procurement is above satisfactorily, other key areas of procurement such as procurement methods, public access to procurement information, procurement complains mechanisms are either not existent or below average level.

Currently, the GoN has no internal audit function and it is with great hope that an internal audit body be established to undertake roles and responsibilities of internal audit and to work closely with Finance department. Until such body is institutionalized, several dimensions under this indicator is not applicable.

Accounting and reporting

There has been a noticeable improvement in accounting and reporting. Due to the effective use of FMIS, the level of financial data integrity has improved dramatically with bank accounts slowly being reconciled on the system. The whole process surrounding financial data integrity is very effective and has reflected in the Finance ability to offset advance and suspense accounts on timely basis.

In general, budget reports have improved significantly to a state where the FMIS generate weekly budget report for government line agencies. The weekly report provides a snapshot of their budget spending and collections at any given point in time. The reports include approved budget estimates, cash flow budget, commitments, transfers and running balances. The weekly reports are timely, comprehensive, accurate and useful for key decision makers at line agencies.

Since the submission of government financial statements for FY1995/1996, government has not been able to submit any other financial accounts to Audit. In October 2014, the FY2013/14 annual accounts were submitted and it is now with Audit. Treasury is now working on completing the FY2014/15 and 15/16 accounts for submission and this is a major improvement from the last PEFA assessment.

External scrutiny and audit

The submission of FY2013/14 accounts to Audit office is the first submission after many years without any statements. Audit office is currently auditing the account and the coverage and standards utilized in this audit will be reveal once the report is being submitted to Parliament.

The audit final report will be submitted to the Parliament for further debate and scrutiny. The Nauru Public Accounts Committee will conduct further scrutiny tasks to clearly hear the audit findings and recommendations once the house has been debated on the Audit report.

Effectiveness of the internal control framework

The GoN internal control framework effectiveness is based around the key objectives of (i) operations are executed in orderly manner, ethical, economical, efficient and effective manner, (ii) accountability, obligations are fulfilled, (iii) applicable laws and regulations are complied and (iv) resources are safeguard against loss, misuse and damage. In line with international standards, the assessment will be structure around the following internal control components.

Control environment

In aggregate, the staff's professional integrity and ethical values towards some of the PFM disciplines require further improvement. Based on the findings, it was evident that the overall commitment to competence as well as attitude towards some of the key reforms aimed at enhancing GoN control environment is well below the required level. The findings further noted that despite line agencies having established organizational structure, the level of human policies and practices governing these structures seems to be inconsistent and highly fragmented. Overall, the level of control within the government environment is operating below the average required level.

Risk assessment

With respect to this component, the findings clearly revealed that the level of risk assessment, risk identification and risk evaluation undertaken by government is either not existent or ineffective. Per the assessment, most of the risks assessment works that have been carried out was when development partners are involved. Otherwise, most government projects proceeded without any proper and thorough risk assessment evaluations. On this basis, government is required to improve on this aspect to further improve its effectiveness.

Control activities

In controlling government activities, the assessment found that current government business processes with regards authorization and approval procedures, in-depth verifications and vetting, reconciliations, supervision and guidance, accessing resources and segregation of duties are very effective and efficient. Finance reviews these processes on timely basis to ensure that changes are regularly updated. Embedding the government business processes into the government FMIS enables effective and efficient control mechanism on the government FMIS.

Information and communication

It was evident from the findings that a lot of key information's on PFM disciplines are not clearly not communicated or made available to the public. This has greatly impacted the level of information and communication effectiveness for government, and therefore the need for more work around the area of information sharing and effective communication.

Monitoring

It was evident from the assessment that the level of monitoring and evaluations are operating below average and are not effective. Obviously, the need for better efficiencies, effective monitoring and evaluation strategies are indeed very much require to ensure that government financial resources are fully maximized for maximum optimal benefits.

PFM strengths and weaknesses

Aggregate fiscal discipline

The Government of Nauru public financial management is supported by several pieces of financial legislation. If the economic conditions continue to be favorable and that government running budget surpluses for several years ahead, the level of aggregate fiscal discipline will be maintained. However, it is vital that GoN broaden its revenue based to cushion the likely effects on the national budget should the RPC operations wind up at some point in the future. Without broadening its revenue based, GoN will not be able to match its expenditure levels with likely revenues.

Payment, accounting and reporting systems are functioning satisfactorily. Internal audit is required to be established and operationalized to provide assurance that the soon to be produced Financial Instructions are followed.

Strategic allocation of resources

The recent implementation of the government payroll ensures that resources spent on the government employees are being effectively managed and used to identify savings in this area. The introduction of MTEF budget framework will further ensure that not only the current year budget is taken into consideration, the government is also recognizing the importance of out-year's performance for future social and economic policy developments. If the RPC operations and fishing license revenues continue to increase, careful medium-term planning will be needed to ensure that resources are directed towards major improvements to the public infrastructure and investment in the form of increasing annual contribution towards the Nauru Trust Fund.

The present arrangements for the provision of department's operational budget based on past years' spending's pre-empt a particularly large proportion of available resources, and therefore restrict the development of effective and efficient fiscal strategic budget policies. Ideally, the introduction of the MTEF will represent a general improvement in the allocation of resources and at the same time allows annual budget to be formulated more on broad fiscal and strategic budget policies rather than on departmental requests.

Efficient service delivery

Consolidation of responsibility and establishment of a centralized SOE monitoring unit will be a good starting point and a step forward in achieving effective and efficient service delivery. In this way, Finance will be able to keep track of SOE performance and provide advice to Government on likely fiduciary risks associated with SOE operations. Developing and formalizing government manuals such as Financial Instructions, Budget and Procurement manuals represent a considerable improvement in the efficiency of service delivery. This will enable department and other key stakeholders to operate on the same page, thus gaining service delivery efficiency. Enhancing the Audit Office also contribute to improving the efficiency of service delivery.

On the other hand, the failure to establish formal asset and debt management strategies represents a waste of resources through duplication of functions and missed opportunity to improve overall effectiveness of services delivered. With a proper mechanism for better information sharing between government agencies, the level of service delivered could be further improved.

Performance changes since a previous assessment

In aggregate, the main four areas with marked improvements since the 2010 PEFA assessment are the government FMIS, budget process and preparation, administration and accounting of government revenues and accounting reporting disciplines.

The fully utilization of the Government FMIS has greatly assisted GoN in effectively managing both its revenue and expenditure records. As reflected in the scoring, the level of aggregate expenditure and revenue outturns have been largely matched with budgets, and properly reflected in the system. Without a fully functioning FMIS, GoN would not be able to confidently report its aggregate annual expenditure and revenues. NRO as the centralized revenue collecting agency is also fully maximizing the system to record receipts, be it cash receipt or direct credits coming through bank statements.

Another major change since the previous PEFA is the budget preparation, thus reflecting on a much-improved budget credibility and reliability. As reflected in the scores, this is an area where improvements have been very noticeable. The overall budget process in terms of the timetable and assistance offered by Finance to line agencies have improved remarkably over the last two years. This has greatly impacted the credibility and reliability of the government budget despite the number of in-year budget adjustments through supplementary appropriations Acts.

The effective utilization of the FMIS has enabled Government fully administered the overall accounting of government revenues. The recent introduction of new taxes has been implemented with ease by NRO due to a more stable and reliable FMIS system.

The other main aspect that has noticeable improvements from the previous PEFA is the accounting and reporting discipline. Financial reports are now being generated out of the FMIS for various stakeholder's use. The submission of annual financial statements for Audit is an achievement on its own and government should ensure that annual financial statements are produce and submit to audit on a timelier basis.

However, despite the above noticeable improvements, there remains issues in other PFM areas most particularly with respect to the areas of asset and debt management, policy based fiscal strategy and SOE's monitoring. Because of this report, Government is intending to develop a more robust and comprehensive PFM roadmap targeting these areas for future improvements. The Roadmap will ensure that potential reforms are undertaken with a clear view to improve the performances of these broad PFM disciplines.

5. Government Reform Process

The GoN has demonstrated a greater commitment to improving several PFM systems since the last PEFA assessment in 2010 through putting in place or updating a range of legislative and policy frameworks to guide and assist government. These frameworks have been intended to strengthen the legislative framework and improve oversight of the use of public sector resources.

Since the last PEFA, the government effort to adopt a more prudent fiscal management by ensuring that annual budget should either be a surplus or balanced budget, improving basic services, paying off long outstanding debts both domestic and foreign debts and reducing value of subsidies provided to public enterprises.

In budgeting and overall planning, the GoN has enhanced the focus of its planning efforts to be in line with the NSDS long term strategies, developing good relationship and relevance with line agencies corporate plans. There have been substantial changes and new legislation passed on taxation policy with respect to the introduction of employment tax and business tax as well as customs administration new tariff rates. These has markedly improved the government domestic revenue base and solid progress has been evident since.

The overall government budget process has improved significantly with internal controls being institutionalized within the FMIS to assist department with their budget submission. The introduction of a MTEF framework provides a foundation for departments forward planning and it is expected that further work is require around this aspect along with others such as adoption of GFS classification to provide further benefits for the GoN.

The continue assistance of Nauru development partners most notably Australia has played a significant role in sustaining the Governments prudent fiscal strategy. The GoN continues its focus on rolling out various modules on the FMIS with the support of Australia to facilitate more efficient and effective FMIS. There has been a gradual rollout of the various modules (AP, AR, Bank Rec, Asset Management, Payroll and HR) of the FMIS. This has greatly facilitated significant improvements in financial controls, the quality of in-year financial reporting, preparation of annual budgets and end of year financial statements.

Similarly, the support of its development partners has enabled Nauru establish a long-term investment fund known as Nauru Trust Fund. The fund will provide financial support to the Government and people of Nauru in the future years.

In procurement, the inclusion of procurement in the *Public Finance Act* and regulations has enabled Government provide clear policies and direction on procurement with the intent of improving purchase practices to aid greater efficiencies and attain better value for money. The engagement of international procurement agents/administrators has greatly assisted Government with its procurement thus far. However, more work is required around the areas of tendering, awarding contracts and complaints mechanisms.

The completion of annual financial statement for FY2013/14 and submission to the Audit office was the first after more than decade without annual accounts. This will provide a much higher and better level of financial disclosure that all Nauru citizens have been eagerly waiting for since the last audited account for FY1995/1996.

In consideration of the various reforms that Government has successfully undertaken since the last PEFA to achieve a more fiscally stable position for government, there is still a considerable amount of work that needs to be completed around the broad discipline of PFM. Areas of SOE's and asset and debt management remain as key challenges and could be future development priorities.

6. Institutional Considerations

The implementation of recent improvements in the PFM system provides evidence of the GoN commitment to the reforms. Adequate leadership capacities and political will are necessary to sustain, benefit and build on the reforms that have commenced. Support for and leadership of reforms is probably strongest in the Department of Finance and it will require to continue to encourage and lead all other agencies including SOE's through budget processes and financial accountability.

Going forward, GoN Finance department will need to spearhead PFM strategies designed to assist achievement of macroeconomic goals demonstrating government commitment towards prudent fiscal strategy. The introduction of a MTEF planning and budgeting tool will reap the potential benefits of effective multiyear planning. Inevitably, Finance will need to be champion and focal point to lead PFM reforms forward within the Government. The developing of effective Financial Instructions will be a good starting point in moving in the right direction.

In addition, the provision of annual financial statements to Audit office will enhanced the level of financial disclosure to the public of Nauru. With the enhanced, independence and scope of the Audit office has as per legislative, it provides an opportunity for it to more deeply consider performance and systematic issues of financial accountability. The ability of Audit office to report directly to the Parliament ensures that findings can be publicly debated thereby improving public finance accountability.

Since the last PEFA, the Governments PFM improvements have been achieved with the significant support from its development partners. Going forward, GoN intend to work closely with all its development partners to ensure that more PFM reforms are undertaken for the betterment of the country. Department of Finance will continue to lead the various reforms and implementation of PFM related reform measures by working collaboratively with all other line agencies and state owned enterprises.

The reviewing of the country NSDS later this year will enable Government hold donor coordination meetings early next year to discuss some of this year's PEFA self-assessment and chart a way forward for further implementation of PFM reforms to improve overall financial management in Nauru.

Last but not the least, institutionalizing PFM capacity remains a major challenge for the Department of Finance and GoN in general. The current expatriates employed in the Department of Finance are providing considerable on-the-job training for the staffs but additional initiatives are indeed required. Retaining skillful local financial management staffs and recruiting new graduates with Finance qualifications would be an important initiative for government to ensure that potential PFM reforms are effectively pursued and undertaken for the benefit of government and public at large.