

**PUBLIC FINANCE
MANAGEMENT REFORM
PLAN**

**ANNUAL PROGRESS
REPORT: NOVEMBER 2009 –
DECEMBER 2010**

Prepared for the PFM Reform
Annual Review Meeting:
13th December 2010

PFM Progress Report: November 2009 – December 2010

EXECUTIVE SUMMARY

The main achievements of the PFM Reform Programme to date are as follows:

- i. The 2009/10 Public Accounts were submitted to The Chief Audit Office in October 2010, within the legally required timeframe and systems are now in place for at least weekly up to date reconciliation of the main Government accounts.
- ii. The Ministry has prepared a Medium-Term Debt Management Strategy, including a detailed analysis of the current domestic and external debt, and a Development Cooperation Aid Policy: “Partners in Development”, both of which have been presented to Cabinet for approval.
- iii. The performance of Finance One, Government’s integrated financial management system, has been significantly improved through development of customised reports for users, training for accurate entry of data and strengthening of systems administration.
- iv. The budget successfully piloted a new performance monitoring framework in 2009/10, which focuses on achievement of outcomes and links to sector wide plans and the SDS. This will be introduced for all Ministries in the upcoming budget.
- v. The Ministry is working to improve the integration of development partner funding in the budget to facilitate a more accurate presentation of expenditure plans by implementing agency including all sources of financing.
- vi. The Economic Planning Department is maintaining the SERF macro-economic model to facilitate fiscal forecasts for forward estimates.
- vii. MoF is working with relevant Government agencies and other stakeholders to develop medium term sector plans for Agriculture, Trade (including commerce & manufacturing), Transport infrastructure, IT & Communications, and Energy and remains on target to have 13 out of 14 sector plans in place by mid- 2012.
- viii. Internal audit staff have been trained to undertake systems audits and have implemented the first analytical audit of the payroll system to identify risks and weaknesses of current processes.
- ix. Work has started on updating the Treasury Instructions and strengthening the enforcement of accountability procedures. This should be completed in mid-2011.
- x. The Ministry for Revenue (MfR) has recently seconded a tax administration expert to lead the restructuring and strengthening of the Inland Revenue Service with funding from PSIF
- xi. The Chief Audit Office has benefited from a comprehensive institutional strengthening programme over the past two years

The Ministry of Finance collaborated with SBS, CAO, MFR and CBS to undertake a comprehensive monitoring of the Government’s PFM systems in February/March this year using the WB’s PEFA methodology. The EU provided an external consultant to facilitate the process. This work was used to review and update the PFM Reform Plan following a consultation process with implementing Divisions in MoF. The PEFA Report and updated PFM Reform Plan have been presented to Cabinet for approval this month. This is expected to lead to the formation of a higher-level committee to coordinate the PFM reform process and consultations on the development of a Finance Sector Plan.

ACRONYMS

ACEO	Assistant Chief Executive Officer
ADB	Asian Development Bank
CAO	Chief Audit Office
CBS	Central Bank of Samoa
CDC	Cabinet Development Committee
CEO	Chief Executive Officer
DCEO	Deputy Chief Executive Officer
DeMPA	Debt Management Performance Assessment
EPPD	Economic Policy and Planning Division
FMIS	Financial Management Integrated System (Finance One)
GFS	Government Finance Statistics
IA	Implementing Agency
IAID	Internal Audit and Investigations Division
ICT	Information, Communications and Technology
ISP	Institutional Strengthening Programme
IT	Information Technology
LTU	Large Taxpayer Unit
MfR	Ministry for Revenue
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NZIRS	New Zealand Inland Revenue Service
PEFA	Public Expenditure and Financial Accountability (Assessment Indicators)
PFM	Public Finance Management
PFMA	Public Finance Management Act
PFTAC	Public Finance Technical Assistance Centre, Fiji (IMF)
PRIF	Pacific Regional Infrastructure Facility
PSC	Public Service Commission
PSIF	Public Sector Improvement Facility
SAT	Samoan Tala
SBS	Samoa Bureau of Statistics
SDS	Strategy for Development of Samoa
SERF	Samoa Economic and Revenue Forecast (Model)
SOE	State Owned Enterprise
SOEMD	State Owned Enterprise Monitoring Division
TA	Technical Assistance

1. Matrix of actions with progress

See attached Annex 2

2. Progress: Implementation of the PFM Reform Plan in the Ministry of Finance

2.1 Regulatory Framework

Work commenced on updating the Treasury Instructions in September 2010 with support from a consultant provided by PFTAC. The current Treasury Instructions are dated 1977 and the update is required to take into account changes introduced from the PFM Act 2001, the introduction of the Finance One system, and the new Procurement Manual amongst others. MoF formed a technical committee to support the redrafting process and to check and verify the content of the revised instructions. A first draft of the revised Treasury Instructions has been prepared and the document is currently under review. The consultant is due to return to Samoa for a follow-up visit in February 2011 in order to finalise the draft, following which it will need to be formally approved and disseminated within the Ministry and to all stakeholders.

One of the main challenges for MoF is to develop mechanisms to ensure that the new Treasury Instructions are living documents used by staff on a day to day basis and updated whenever changes are agreed. This may best be achieved by using the document as a tool for induction training and for reminding staff regarding their responsibilities. Divisions may be made responsible for managing various sections of the instructions and for taking action when changes are introduced.

2.2 Economic Policy and Planning

The Macroeconomic unit under EPPD is responsible for maintaining the Samoa Economic and Revenue Forecasting model (SERF). This was developed with support from ADB consultants in 2009. It provides Government with a strong macro-economic analysis and forecasting tool, which facilitates the national planning, budget preparation and monitoring activities of MoF. The model is reviewed and updated twice in the financial year: firstly, around November – December to take account of any new policies and to input the actual figures from the previous financial year. A second update is arranged in April – May in preparation for the next financial year to obtain accurate forecasts for the upcoming budget. These updates are arranged in collaboration with the Bureau of Statistics, the Ministry for Revenue and the Central Bank to ensure the accuracy of data entered. There are concerns with regard to the sustainability of the model with the regular turnover of personnel in MoF and there is a need to ensure that capacity to manipulate and update the model is developed more widely within MoF, CBS and SBS together with institutional mechanisms to facilitate exchange of views on economic forecasts.

There has been no change in the number of sector plans developed over the past year. To date six sector plans have been finalized and are under implementation, with a further 8 Sector plans still to be finalized (see table below). However, there has been progress in preparing new sector plans, which is a time-consuming process as it requires extensive consultations to ensure full ownership. The first draft of Agriculture Sector Plan is currently under consultation and a final draft due to be submitted by the consultants (KVA) before the end of

2010. It has been agreed that the Diagnostic Trade Integrated Study dated October 2010 will provide the basis for the development of a Trade, Commerce and Manufacturing Sector Plan. The Community Development Plan has been drafted and is pending formal endorsement. The PRIF study on the infrastructure investment strategy will be used as the basis to develop a Transport Sector Plan. The national ICT strategy which expired in 2009 is currently being reviewed and updated to form the basis for an IT and Communications sector plan. A concept note has been submitted to Cabinet proposing the development of a Finance Sector plan building on the work of the PFM Reform Plan. Once approved a high level committee will be established to oversee the drafting of a Finance Sector Plan building on the PFM reform strategy, with other components expected to include the role of national statistics in supporting national planning and monitoring, financial sector regulation and maintaining macro-economic stability.

The table below summarises progress in the development of sector plans.

Sectors		Government Ministries and Agencies Responsible	Sector Issues Paper Progress	Sector Progress to Date	Timeframe for Completion
SOCIAL SECTORS:					
1	Health	Ministry of Health (lead), NHS, National Kidney Foundation, MoF, etc.	None	Implementation of Sector Plan July 2008 - June 2018	completed
2	Education	Ministry of Education, Sports & Culture(lead), Samoa Qualifications Authority, National University of Samoa, etc.	None	Implementation of Sector Plan July 2006 - June 2015	completed
3	Public Administration	Public Service Commission (lead), Ministry of the Prime Minister and Cabinet, Ministry of Finance, Audit Office, Attorney General's Office, etc.	Completed	Implementation of Sector Plan 2007 - 2011	completed
4	Law and Justice	Office of the Attorney General (lead) Ministry of Justice and Courts Administration, Ministry of Police, Prisons, Samoa Fire Services, Ministry of Women Community and Social Development	None	Implementation of sector plan (2008-2015)	completed

5	Community Development	Ministry of Women, Community and Social Development (lead), Public Service Commission, Ministry of Health, Ministry of Education, Sports and Culture, etc.	None	Draft Sector Plan currently under review	31-Dec-11
ECONOMIC SECTORS					
6	Tourism	Samoan Tourism Authority (lead), Samoa Statistics Bureau, MCIL, SHA, etc.	Completed	Sector plan under implementation (2009-2013)	completed
7	Finance	Ministry of Finance(lead) Central Bank of Samoa, Ministry for Revenue Bureau of Statistics, Controller, Chief Audit Office, etc.	PFM reform plan in place and concept paper prepared	Proposal for development of Finance Sector Plan building on PFM Reform Plan submitted to Cabinet	31-Dec-11
8	Agriculture	Ministry of Agriculture (lead), MNRE, MoF, MESC	Completed	Sector Plan currently in finalisation stage to be completed by end of Dec 2010	31 Dec-10
9	Trade, (including Commerce and Manufacturing)	Ministry of Commerce, Industry and Labour (lead), Ministry of Finance, Ministry of Foreign Affairs and Trade and Ministry of Agriculture	Completed but needs updating	Inception stage started 6-14 Dec 2011. Diagnostic Trade Integrated Study will facilitate the development of the Trade Sector Plan	June 2011 (best guess)
INFRASTRUCTURE SECTORS					
10	Transport and Infrastructure	Ministry of Works, Transport and Infrastructure (lead), LTA, SPA, MNRE, MoF	Drafted Sector Issues Paper	The Infrastructure Strategic Plan is being finalized after consultation on 7 Dec	30-Jun-11
11	Water and Sanitation	Ministry of Natural Resources and Environment (lead agency), SWA, MoH, MWTI, MWCS, IWSA, EPC, etc.	Issues Paper completed	Sector plan under implementation (2008-2012). Review and update planned in 2011	Completed
12	Communications and IT	Ministry of Communications and Information Technology (lead), Office of the Regulator, etc.	Drafted Sector Issues Paper	National ICT plan 2005-2009 under review. A new sector plan is to be developed under the Telecommunications Project	30-Jun-11

13	Energy	MoF(lead), Electric Power Corporation, Electricity regulator, MNRE, SROS etc. LTA, NGO, MWCSD, MWTI	An energy policy has been developed	The Energy Sector Plan will be developed in the first quarter of 2011	30-Jun-11
CROSS CUTTING SECTORS					
14	Environment/Climate change	Ministry of Natural Resources and Environment (lead), MoF, MWCSD, MoA, MESC	New proposed sector	None. TA support required	30-Jun-13

In October EPPD initiated a Sector Coordinators' meeting with the assistance of the Aid and Budget Divisions. The aim of the meeting was to provide a forum for communication with both existing and developing sector planners as well as an opportunity for exchange of experience between sectors. At the first meeting MoF made presentations on the performance framework and the development of sector MTEFs. Case studies were presented on developing the water sector's institutional framework and the health sector's performance monitoring system. The meeting had very positive feedback and support from the coordinators and it has been agreed to hold a regular forum for all sector coordinators as well as other ministries in the process of developing sector plans. This forum is expected to play a very important role in coordinating communication with sector coordinators and will also contribute significantly in the development of the next Strategy for the Development of Samoa (SDS). Planning for the new SDS will commence in 2011 following a review of the current SDS in the first quarter of 2011.

2.3 Aid Coordination and Debt Management

The Aid Coordination and Debt Management Division has developed two new policy documents, which have been presented to Cabinet for approval, and are expected to be endorsed before the end of the year. The Development Cooperation Policy, "Partners in Development: Promoting Aid Effectiveness", provides Government with a clear set of guidelines for management and coordination of support from development partners. The policy emphasizes the importance of Government ownership and leadership of the planning and implementation of aid programmes in a sector context. There is also a stated preference for the transition to budget support funding together with a commitment to strengthen Government systems. The document is closely aligned with the Paris Declaration on Aid Effectiveness and commits to a process of six monthly meetings with development partners to monitor implementation of the policy. The draft policy was circulated to development partners for consultation and will be widely disseminated after endorsement. A Medium-Term Debt Management Strategy has also been submitted to Cabinet for approval. The objective of this strategy is to strengthen Government systems and capacity for monitoring and management of domestic and external debt. It proposes the establishment of a Debt Management Unit within the Aid Coordination Division to monitor all Government debt, and advise on debt sustainability. The policy will also introduce annual borrowing plans as part of the budget process and will strengthen risk analysis and loan approval processes. The document includes a comprehensive assessment of Government's current debt and commits to limiting total outstanding debt to below 50% of GDP in the medium term.

The Aid Division has introduced new formats for the collection of information and forecasts of development partner aid to Samoa. The formats were developed through consultation with Budget and Planning and provide a comprehensive set of data on aid programmes. The formats were sent out to development partners in the first quarter of 2010. Based on the responses and Aid Division information systems a comprehensive report on aid projects by sector and by implementing agency was prepared and submitted for the budget process. A second update of the formats has been requested from donors in the final quarter of the year and will inform the budget process for 2011/12.

Following analysis of options it has been agreed to use the project module of Finance One to record data on development partner funding and projects. This will take time to arrange as it requires reconfiguration of the Finance One project module fields to align with data storage requirements as well as the development of specific reports on aid flows by donor, sector and implementing agency. Ultimately the responsibility for managing the project module will transfer to the Aid Coordination Division. Expert assistance is required to make the adjustments to Finance One, after which the new processes will be introduced on a pilot basis prior to full introduction. These changes will be initiated in 2011.

Samoa is participating as a case study country in a global evaluation of the impact of the Paris Declaration on aid effectiveness. A draft report has been prepared following extensive consultation with stakeholders. This report highlights the progress that Samoa has made with its partners in strengthening aid effectiveness whilst also identifying areas for improvement.

2.4 Budget

The 2010/11 budget included the pilot introduction of a new performance framework, which aims to shift the focus towards achieving higher-level outcomes and monitoring key performance indicators with better linkages to sector plans and the SDS. The new templates for selected pilot Ministries are included as an annex in the current Budget Estimates. The Budget Division, with support from an external consultant, undertook a review of the pilot in October. The quality of the higher-level outcomes and performance indicators and the extent of clear linkages with the SDS and sector strategies were analysed. The findings were then discussed and formed the basis for a dialogue with line-Ministries and the adjustment of templates for more clarity and explanation. During discussions with line Ministries the MoF team including staff from the Planning, Budget and Aid Divisions checked whether data was available to monitor the progress of proposed performance indicators. The consultant, Tony Higgins, facilitated this work during his visit in October. Whilst the quality of application of the performance framework varied across Ministries, the majority were able to define their priority outcomes and performance indicators. In general, insufficient time had been given to checking and following up on the content during and following submissions of budget templates due to constrained deadlines. As a result there were some gaps. More time will need to be given to this process in setting the timelines in the budget cycle. In addition, few Ministries were able to provide data on their performance indicators. It was agreed to proceed with the full roll out of the performance framework for all Ministries in the next budget and sessions were held with each Ministry to explain the changes. More difficulties are expected in this process as many of them do not have sector plans to refer to. A Cabinet submission has been prepared to explain the performance framework and obtain their endorsement for the change. The main constraint in the pilot process has been the loss of three key staff in the Budget Division over the past 6 months.

The efforts to fully integrate development partners funding into the 2010/11 budget process were less successful with most Ministries failing to provide information on donor projects that was requested. Whilst information on development partner funding forecasts was available to inform the budget process there was insufficient time to follow up with Ministries on this issue. This is important as proper analysis of the budget during the preparation process requires information on all sources of funds. It has been agreed to increase efforts to integrate DP funding in budget estimates in the upcoming budget (2011/12).

In mid-August personnel from Budget and Planning including the new ACEO for the Budget Division participated in a Study Tour to Australia to develop a better understanding of budget reform options and the linkages between budget and planning systems. They visited the Victoria State Treasury in Melbourne and the ACT State Treasury in Canberra as well as the national Commonwealth Treasury. The visit helped to develop a much better understanding of budget reform options and the benefits of moving away from detailed budget controls towards a more performance/results based budgeting system. However, one of the main lessons is that budget reform needs to be incremental and must be directly linked to other reform action, such as strengthened external and internal audit, to be successful.

During October a PFTAC consultant provided technical support for two weeks as a follow up relating to previous assistance, which introduced the MTEF budget process in 2007/8. This support was mobilized due to concerns over the impact of losing a number of key staff, who had been trained for the introduction of the MTEF. The support provided over a two week period also followed up on recommendations from the PSIF MTEF expert and the study tour to shift the budget focus to a more strategic analysis of new initiatives and to reduce time spent on monitoring the detailed estimates of ongoing recurrent costs, which are carried over from year to year. In order to achieve this, the process of updating forward estimate has been simplified and formats developed for a focus on the costing of new policies and initiatives, allowing a more strategic analysis.

A Revenue Policy Expert under PSIF funding is currently assisting the Division to strengthen the capacity of the Revenue Unit to analyse options for increasing revenue, to forecast future revenue flows and monitoring revenue performance. This work is being managed in close coordination with the Ministry for Revenue.

2.5 Procurement

Whilst a new procurement manual and procurement guidelines for services, goods and works have been introduced, there have been delays in introducing the standard tender templates, that were prepared by a World Bank financed TA in 2009. Templates for service tenders have been introduced on a pilot basis. However, other templates for procurement of goods and works require further adaptation for the Samoan context. One of the main constraints has been the lack of dedicated personnel to strengthen procurement systems and capacity as this role is currently managed by the DCEO Operations, who acts as Secretary to the Tenders Board, and the Budget Division in addition to their normal workload. It has now been proposed to establish a dedicated procurement unit within MoF to support the work of the Tenders Board, provide training and support to Line Ministries and strengthen procurement systems, standards and transparency.

2.6 Public Accounts

The 2010 Public Accounts was submitted to the Audit office by the 31 October 2010, within the legislative timeframe of 4 months from the end of the financial year. This was a major achievement for the Accounts Division despite dealing with the backlog of audit queries and adjustments and carrying out reconciliations to correct financial data and records. In addition, the public accounts were submitted to audit along with quality work paper files, envisaging a dramatic decrease in audit queries for 2010.

Whilst the ultimate goal was to remove the backlog of Accounts, improvements have been made in other areas that run parallel with this process:

- Major operational bank accounts are now reconciled on a daily basis with all other GOS bank reconciliations up to date and reconciled regularly
- Overseas mission accounting processes have been reviewed with regard to their bank account operations and financial returns
- Finance ONE data has been “tidied” up with suspense accounts cleared out, control accounts agreeing to the subsidiary ledger and the data matching the data as reported in the public accounts.
- To ensure the public accounts remain up to date and the quality of data is maintained, strict monitoring of the general ledger has been implemented with ongoing monitoring of suspense accounts, disbursing accounts and sub-ledgers against independent records.
- The Project Ledger has been fully reconciled and agreed to the Aid and Loan Division records
- A review of the Accounts Division structure and Section work plans has been carried out to incorporate the introduction of section manuals and peer training for back up staff. Supporting this was additional training for management and staff.

These achievements have only been made through MoF management’s approval of the use of overtime and part-timers as well as intensive support from long-term Technical Assistance in all of the above areas over the past 20 months.

The Accounts Division has also undertaken a review of the Finance One System to assess whether the software is performing according to Governments requirements. The Technical expert came up with a number of recommendations, which we are now implementing. One of the recommendations was setting up a System Support Unit in the Ministry of Finance structure that will be full time in looking after the system, working with both IT and the Accounts Division in providing system training to all users and maintaining training manuals as well as resolving issues related to the FMIS.

New reports have been created for users, which have made the system much more user friendly. MoF is currently undergoing an upgrade of the Finance One System to provide the additional functionality of a cash generator for cash reporting as well as major changes to the payroll module. The human resource functions are yet to be implemented by the Public Service Commission and this will be done once the upgrade is finalised. We have recently implemented the foreign exchange module to enable reconciliation of all bank accounts within the FMIS.

Current Focus

All line Ministries play a major role in the entry of financial data into the FMIS, and so are considered very important, since they are part of the process of ensuring data quality. These stakeholders will be the focus of support for the next 6 months. Areas of concentration will

be documenting processes, drafting procedures and training manuals and training programmes for all Ministries. This will help to ensure that quality of data is maintained and kept up to date. Permanent induction and refresher training will help to ensure sustainability of these processes.

Now that the financial data is up to date, issues have been highlighted, not only with the quality of the financial data within the FMIS, but also with the layout of the public accounts. We are intending to carry out a scoping of the data to identify problem areas that will enable us to move forward to continually improve the quality of the financial data.

Progress going forward

In line with the PFM Reform plan, the recent PEFA review and our achievements to date we have identified the following areas that the Ministry of Finance would like to address in the next Phase:

- The plan to move to the adoption of IPSAS (International Public Sector Accounting Standards)
- Review of the chart of accounts to move to GFS Reporting,
- Including all revenue and expenditure in the FMIS (donor funded projects, cash and in-kind) to improve the quality of GOS financial data.
- Publishing of the financial reporting (quarterly and annually) and full compliance with PFMA 2001, capturing all other bank accounts that are not currently in the system,
- Establishing a GOS asset register within the FMIS and incorporating assets in the Public Accounts,
- Training program & venue established for line Ministries and in-house staff of the MOF.

2.7 Internal Audit

As part of the Public Financial Management Reform Plan, the ADB provided support through Technical Assistance (TA) to the Internal Audit and Investigation Division (IAID) to strengthen its internal audit function in particular on systems monitoring and risk analysis. As a result, the following was conducted:

- i. *Training program:* A training program was conducted by the TA for IAID staff and Internal Audit (IA) staff from Line Ministries (LM) to develop human resource capacity by introducing modern principles for internal audit and internal controls to assist in performing internal audits. The training was delivered over 5 days in March 2010 with practical application to the Government of Samoa environment.
- ii. *Pilot systems audit of payroll:* Payroll was identified during the training as a high risk area within the Ministry of Finance (MOF) and across line-Ministries. A pilot audit of the Government Payroll System was conducted from April to July 2010 and covered 3 Ministries –MOF, Ministry of Agriculture & Fisheries (MAF) and the Ministry of Education, Sports & Culture (MESC). The audit was performed in MOF and in the Ministry of Education Sports and Culture (MESC) by four IAID staff members with the assistance of MESC's Internal Auditor.

With the assistance of the TA, IAID staff members were involved in the planning phase of the audit which was also a demonstration and application of skills acquired from the training. The fieldwork for the audit was undertaken by the internal audit staff after the departure of

the TA, who returned to provide on-the-job assistance in reviewing findings from the fieldwork and developing the final report and recommendations. It would have been helpful if the TA could have been present to assist with various issues encountered during this first systems audit. IAID staff prepared all supporting working papers and drafted the report, which was reviewed by the TA. The draft report was discussed with MOF CEO and management in November 2010. The final report will be completed and submitted to the CEO pending written responses by respective ACEOs on the draft report.

The TA has prepared an Internal Audit Assignment Practice Guide consisting of planning, fieldwork and reporting templates which will assist with future systems audits.

iii. *Medium Term Plan*: It was recommended by the TA as a result of his assessment of the current situation with IAID to:

- a. Create a Strategic Plan for IAID to clarify the role of Internal within the MOF and across Government (Line Ministries) since the role of IAID is not clearly defined in the legislation. There are currently 7 Ministries with their own Internal Audit Officers with no mechanism for coordination or support across Ministries. As a result internal audit officers are mainly used for spot checks and investigations. The plan should include long term goals IAID is expected to achieve in the medium term, which will address key phases of the audit process including planning, resource allocation, performing and reporting audit assignments.
- b. IAID should be restructured accordingly to the strategic plan. Resource development is also considered to facilitate capacity building in the medium term.

Positions long approved by PSC but not filled have now been budgeted for with some of these positions already being occupied.

2.8 SOE Monitoring

Funds from PSIF have been used to recruit an SOE organization performance assessment expert. The intention of this support is to develop a methodology for SOE organizational self-assessments, which can be facilitated by SOEMD together with the respective SOE management team with the aim of identifying areas for improvement and better performance. In this pilot phase it has been agreed to include the Samoa Water Authority and the Samoa Sports Facilities Authority. This approach aims to build on the experience from PEFA since SOEs are not covered under the PEFA indicators and to assist SOE managers to identify issues and areas for improved service delivery. The consultant completed an inception visit in November and agreement has been reached on the methodology, which will focus on performance monitoring and critical success factors through a process of review and consultation with stakeholders. Once developed SOEMD hopes to use this tool to assess the performance of SOEs on a selected basis to provide both the SOE and Ministry of Finance with an idea of how well they have performed in terms of the SDS, sector plans, the corporate plans of each SOEs as well as internal systems. However, the primary objective is for the assessments is to be used by SOEs to strengthen their financial and service delivery performance.

An Independent Selection Committee has been established for appointment of Directors to SOE Boards with the aim of strengthening governance and transparency. The Ministry of Finance, the new Committee and Office of the Attorney General are working on a Bill to change the composition of each SOE board so that it complies with the Public Bodies Act 2001 in relation to provisions for appointing and selecting of directors. The Committee is also working on developing a policy guideline for selection of directors on each board, as well as looking at options for Board Secretaries.

The privatisation process for sale of 75% of Government's shareholding in SamoaTel is at its final stage. The due diligence process is now in progress until the end of December 2010. The financial bids are scheduled to be publicly opened in January 2010. The transaction is expected to be completed in early 2010. The remaining 25% of Government's shareholding will be transferred to the Unit Trust of Samoa.

The Unit Trust of Samoa is an initiative of the Government of Samoa, whose goal is to provide "an investment vehicle for an ordinary Samoan out in the village, a small farmer or fisherman" as well as local businesses. The Trust is an opportunity for small investors to access a range of investments while at the same time spreading risk and leaving the management of their savings in the hands of experts. It is also a part of the Government's policy of partially privatizing some state owned enterprises (SOE's) and promoting wider participation by residents in the future development of Samoa. The sale of units commences in September 2010 and has not really taken-off as anticipated. However it is expected that sales will pick up once the shares of SamoaTel are transferred into the Unit Trust. The Unit Trust is managed by an SOE called "Unit Trust of Samoa (Management) Ltd. A capital injection of \$500,000 was injected into this SOE to set it up and assist with its operations. It is expected that an additional \$500,000 will be injected into the SOE to assist with operational costs because the revenue expected to be collected from the entry fee is not enough for operating the Unit Trust over the next 6 months.

3. Ministry for Revenue

Following a review of the design work undertaken by AusAID for an institutional strengthening programme of MfR, a revised proposal for a phase 1 capacity building programme targeting inland revenue services was developed and submitted to PSIF. PSIF have approved an amount of 3.6m SAT for the initial two year programme. The programme includes one long-term expert, intermittent short-term experts, study tours, training and upgrading of IT equipment and software.

On the basis of previous experience in recruitment of tax experts, it was determined that it would be difficult to recruit a tax administration experts through open competition due to the limited availability of suitably qualified/experienced experts in the tax field and also the high fee rates. The Ministry for Revenue (MfR) therefore discussed with the PSIF Facility Management Unit the possibility of recruiting or seconding the experts required directly from the New Zealand Inland Revenue Service (NZIRS) or the Australia Tax Office, in particular for the Team Leader/Tax Administration Expert. With the agreement of PSIF MfR entered discussions with NZAID regarding the possibility of seconding personnel from its revenue administration organization. As a result of these discussions, NZAID assisted with facilitation of direct discussions between MfR and the NZIRS. The decision to enter into direct negotiations with the NZIRS was made on the following basis:

- a. The tax laws in Samoa are based on early tax law from NZ therefore the basis for taxation would be familiar.
- b. An engagement with NZ Inland Revenue would foster an ongoing strategic relationship that would benefit MfR Samoa over the long term.

The Ministry for Revenue in Samoa made a formal request for the provision of a Tax Administration expert to be seconded from NZIRS in June 2010. The request included a Terms of Reference for the position as well as background information to the reform programme. Following agreement on the nature of the services, the institutional arrangements and the contractual set up, NZIRS drew up a list of skills that would be required for the assignment. This information was then advertised through the internal network of NZIRS. Interviews of the shortlisted candidates were conducted in August by a panel including the CEO MfR. As a result of this process, Shona Williams from NZ Inland Revenue has been seconded to work as the Tax Administration expert and project coordinator. Shona started around four weeks ago and brings with her extensive experience across a broad range of NZ Inland Revenue positions. Shona has been seconded to the Ministry for Revenue for a two-year period.

This ISP should not stand-alone from the mainstream corporate planning and management system. Therefore the approach is to fully embed the ISP within that system. The first ISP priority will be to strengthen the corporate planning and management system itself. By doing this, the objectives of the ISP will become indistinguishable from corporate objectives and will be owned and monitored by MfR corporate management as a whole.

To commence the merging of the ISP with the corporate planning process, the Ministry for Revenue Management team participated in two workshops facilitated by the tax administration expert. The purpose of these workshops was to create a draft shared future vision of the Ministry for Revenue. When finalized, this draft future state then becomes the framework for the Institutional Strengthening Programme. A key focus at the moment is to engage with all the staff of the Ministry to seek their feedback on the draft future state and to get their buy in to the direction of the ISP.

A major deliverable of the ISP is the introduction of updated legislation to support self - assessment for income tax and introduce a simplified basis for taxation for small businesses. The draft legislation has been developed some time ago with the assistance of PFTAC. MfR has been in discussions with the MoF Revenue Policy Advisor and PFTAC regarding the intent of the suggested policy. The draft legislation will need to be reviewed and updated and PFTAC has offered assistance with this. The aim is to progress this through consultation early next year.

The other immediate priority is to engage some Strategic IT advice to assist the Ministry to develop an IT Strategy, which will guide decision-making and IT investment for the future. MfR is currently talking with PFTAC about providing some support in this area and hope to have this in place early in the new year. The completed IT strategy will enable the large decisions to be made about upgrading RMS and the best solution to integrate the tax database with ASYCUDA for management and finance reporting.

This time of the year is a busy time for the Ministry with Business License renewals. A quick review of the business license renewal process was undertaken by the Inland Revenue Service management team facilitated by the Tax Administration expert. The purpose of this review was twofold: firstly, to improve the efficiency of the renewal process; and, secondly, to deliver an improved customer experience. The outcome of this review is that those customers who have a good compliance record with Inland Revenue service will not be

required to wait at the counter whilst we complete a full check their tax records. The checking will have already been undertaken prior to them coming in. This should reduce queues at the counter and reduce customer waiting time from around 20 minutes, to five minutes. Further improvements to the customer experience will be made for those 'non-compliant' customers next year with targeted interactions prior to renewal. The review also highlighted future opportunities to manage the peaks and troughs of business license renewals and this will be considered as part of the ISP.

The Large Taxpayer Unit (LTU) is an integral part of modern tax administrations and international experience has shown that there are considerable revenue gains to be made by focusing IRS resources on the taxpayers that contribute the greatest amount to taxes collected. Previous design studies suggest implementing a fully functional LTU to manage all the work of large taxpayers (excluding taxpayer audit). On review, given the low number of taxpayers who could be considered large taxpayers, there are other approach's that could deliver the same revenue gains and at the same time make efficiency gains through process standardization. A good understanding of this customer segment will enable IRS to deliver tailored services to support compliance. One option could be to account manage large taxpayers within the existing IRS structure without creating a separate business unit. A separate large taxpayer unit can potentially create "chimneys" limiting staff rotation or movement between functions and therefore reduce overall resource flexibility. Tailoring services to large taxpayers, and introducing a sound compliance improvement plan would provide a multi-faceted approach to improving the compliance of the large taxpayer group. Further work in this area is required before a decision can be made.

Previous design studies recommended the introduction of electronic lodgment of returns in Phase two of the ISP. Customers (especially large taxpayers) are increasingly using electronic services to conduct their business. The benefits of straight through data processing should not be underestimated. These include the obvious reduction in the cost of data entry. Moreover, an improvement in data integrity would also result with simple data edits and addition checks being pushed back to the customer to correct prior to submitting the return. Becoming customer centric requires the IRS to focus on delivering services that meet customer needs and facilitates compliance. Choice in channel delivers on this customer need as well as improving the efficiency of the revenue service. It is therefore recommended to consider the introduction of electronic services (specifically return lodgment) within Phase One of the ISP.

A draft inception report outlining the full ISP plan for Phase One will be completed before end 2010.

4. External Audit

The Audit Office of Samoa, under the direction of the Controller and Chief Auditor, is an integral part of the overall governance, accountability and transparency framework of Samoa. As such it is vital that the Audit Office of Samoa be a strong, independent, fully resourced and skilled organisation in order for it to be able to provide effective:

- Independent assurance of public sector financial reporting, administration, control and accountability; and
- Independent assessment of the performance of public sector entities, including identifying the scope for improving efficiency and administrative effectiveness.

To be strong and effective the Audit Office of Samoa must be:

- Independent (in both action and in perception)
- Objective
- Properly resourced (to fully execute its audit mandate)
- Able to manage its staff and financial resources effectively in order to build long-term capability within their organisation
- Properly staffed with motivated, trained and skilled people
- Supported by effective systems, processes, tools and methodologies.

The Audit Office of Samoa has been grateful through the Institutional Strengthening Design Project to achieve 2 major objectives.

The first objective was to initially assess:

- current systems, procedures and technical capacity against international best practices;
- existing staff capacity and available technical resources to meet their mandated responsibilities;
- the quality and timeliness of audit reports; and
- expectations of clients and stakeholders in terms of the role, mandate and effectiveness of the Audit Office of Samoa

This initial assessment was not an audit and we have relied on both verbal representations and documentary evidence made available to us in forming opinions and conclusions on areas requiring strengthening within the Audit Office of Samoa.

The second objective was to produce a Technical Project Design, which provides an overall project framework in which to address recommendations made in the Situational Analysis Assessment. This Technical Project Design document is hence aimed at taking the Audit Office of Samoa towards international best practice, within a sustainable and affordable framework.

In summary, this ISP seeks to:-

- Implement standardized tools, technologies and approaches as used by other Audit Offices around the world, to increase productivity and effectiveness by streamlining existing planning, reporting and audit execution processes;
- Develop standardized audit methodologies and manuals for Financial Audit, Performance Audit (including Environmental Auditing), IT Audit and the Special Investigations areas to ensure consistent quality standards are in place and to increase the effectiveness and efficiency of junior staff;
- Use external technical advisors (TA's) to initially develop IT Audit and Performance Audit functions (as no capability presently exists in these areas within Samoa) whilst also building up the capability of selected Audit Office of Samoa staff/counterpart(s), with initial on the job training. In this way, results will be immediate. This will be further reinforced with selected overseas attachments and observation tours to other Government Audit Offices within New Zealand, Australia and Canada;
- Build an in-house human resource development capability to obtain, train and retain skilled and effective audit staff;

- Reinforce the supporting infrastructure to strengthen the robustness of the Audit Office of Samoa;
- Streamline and strengthen the necessary office management systems and scheduling processes; and
- Revise the current legislative framework in accordance with proposed changes.

The ISP has been implemented through 8 main components, namely:-

- Component 1: Office Governance and Practice Management Enhancement
- Component 2: Financial Audit Enhancement
- Component 3: Implementation of IT Audit capability
- Component 4: Implementation of Performance Audit capability (incl. Environmental audit)
- Component 5: Legislative Framework Revision
- Component 6: Human Resource Development
- Component 7: IT Infrastructure Upgrade

The ISP is scheduled to be completed this month (December 2010). Most of the components have been completed except for Components 5 and 6. The Chief Audit Office is working together with the Attorney Generals Department in finalising new draft bills. On that same note, the CAO is also working with the Office of the Public Service Commission in reviewing the proposed structure incorporating the new functions established under the ISP. However, these two components will be completed in December 2010.

5. External Monitoring of the PFM Reform Plan

5.1 2010 PEFA Assessment – Main Findings

As agreed under the monitoring arrangements for the PFM Reform Plan the Government committed to undertake PEFA assessments every three years. The aim of these assessments is to monitor progress in strengthening PFM systems overtime and to help identify new issues to be included in the PFM Reform process. The first PEFA assessment in Samoa was undertaken in 2006 and a follow-up assessment was originally planned for November 2009, but was postponed to February/March 2010 due to the September 2009 Tsunami. The assessment was conducted by a team of Government officials drawn from Ministry of Finance, the Ministry for Revenue, the Chief Auditor's Office, the Central Bank and the Bureau of Statistics, supported by an external consulted financed by the EU. This approach ensured a good understanding and ownership of the indicator verification process and greater acceptance of the findings. The final report on the assessment was submitted in mid-April 2009. The draft report was refined following comments from Government, PFTAC and the PEFA Secretariat. The document was also shared with development partners and civil society stakeholders. Unfortunately due to errors in the application of the methodology in the 2006 PEFA assessment it was difficult to use the new assessment to accurately measure progress in achieving PFM reforms using a simple comparison of results. The main findings from the 2010 PEFA assessment are as follows:

Credibility of the budget: At an aggregate level the original budget is a credible indicator of actual expenditure with variances of less than 2%. However, at Ministry level there is more

variance with some Ministries (e.g. MWTI) exceeding their original budget and others under spending (e.g. MPP). There is currently no information on expenditure payment arrears (to suppliers), so actual expenditure may be understated. At present Government has no policy on the required timeframe for payments to suppliers so arrears cannot be monitored.

Comprehensiveness and transparency: The budget is fairly comprehensive and transparent. However, since no development expenditures are reported in the financial statements there is only a partial picture of resource utilization. The timeliness of audited statements from public bodies has improved with two key exceptions (Samoa Airports Authority and Samoa Ports Authority).

Policy-based budgeting: The budget process for current expenditure is orderly with Cabinet approving the baseline estimates prior to the issue of the budget circular. There are not yet overall ceilings for both current and development expenditure, as the latter is largely donor funded. Although projects should be appraised by MoF and approved by CDC, in practice this has not always been done. There are ongoing improvements to the budget process including introduction of medium-term forecasts and piloting outcome based budgets with greater emphasis on performance, improved linkages with the SDS and sector plans and greater coordination between planning, budget and aid coordination.

Control in budget execution:

- Revenue administration is weak both in terms of encouraging taxpayer compliance through education and awareness activities, complete registration procedures and enforcement of penalties. Debt collection has also not been actively pursued.
- Loans and guarantees are not yet approved in accordance with agreed criteria and public bodies sometimes go directly to Cabinet bypassing MoF. MoF is developing a debt management strategy and centralizing the recording of all debt to improve the situation.
- Reconciliation between payroll and personnel records is not done on a regular basis and there are delays of 6 to 8 weeks when making payroll changes. There has been no full audit of the payroll system.
- Expenditure commitment controls are in place and purchase orders cannot be raised unless there is sufficient budget allocation, but there are concerns about ministries' understanding of the commitment control system and raising of unofficial orders.
- There is limited understanding of how an effective internal control system should operate and the role of ministries in this process. The 100% pre-audit by the Audit Office of all payments extends a lengthy process and is linked to the problems with delayed payment of suppliers. This arrangement transfers responsibility for data accuracy to the Audit Office, which reduces their ability to conduct independent audits.

Accounting and reporting: The backlog in submission of public accounts has been removed and reconciliation of Government Bank accounts has improved with only one month delay. Quality of data is also improving. Financial statements do not include information on development expenditure/revenue (not required under the PFM Act).

External scrutiny and audit: The ISP in the Audit Office together with increased personnel has improved the timeliness of audited financial statements, particularly of public bodies. Technical quality of audits is also being addressed. The scope of audits is primarily financial and annual coverage of ministries is less than 50% of total expenditure. The Office's independence, both operational and with respect to the length of the Chief Auditor's contract is a concern. Scrutiny of the Chief Auditor's annual report is now done by the Business Committee, and scrutiny of the budget and public accounts is done by the Finance and Expenditure Committee. Audit reports for individual ministries are not submitted, so the ability to conduct in-depth hearings is constrained as they only receive summarised data.

The final scores from the PEFA Assessment are attached as Annex 1. The findings from the assessment were presented to Cabinet in December 2010 and after approval the Final Report will be made available on the Ministry of Finance website.

5.2 Debt Management Performance Assessment (DeMPA)

The Government also received assistance from World Bank in undertaking a Debt Management Performance Assessment (DeMPA). The main findings from this assessment, which was completed in April 2010, are as follows:

- Strengths in governance in the area of debt management can be found in the legal framework. For example, the Public Finance Management Act 2001 (PFMA) defines the authority of the Minister of Finance to borrow in the name of the government, to provide guarantees, and to incur on-lending transactions. Issuance of both loans and guarantees requires approval by the Cabinet while the Minister of Finance has to report to the Legislative Assembly. However, the current legislation does not specify clear debt management objectives and there are no requirements for external audit of debt management activities, policies and operations.
- A draft debt management strategy (DMS), broadly in line with best practices, has been prepared and is expected to be approved by the Cabinet shortly.
- No annual report, including evaluation of debt management activities, is prepared. Similarly, debt management activities are not audited.
- Some strengths were found in the area of coordination with fiscal policy since both the debt management unit at the MOF and CBS provide inputs for budget preparation and execution. The government does not carry out its own debt sustainability analysis.
- Similarly, the mission identified some strengths regarding coordination with monetary policy since access to CBS financing (overdraft) has a ceiling imposed by the Central Bank Act 1984 and has been respected. But coordination could be substantially improved if exchange of information, for example, cash flow forecasts, is made formal and more effective. An agency agreement between the MOF and the CBS is not in place and its preparation would clarify roles and improve coordination.
- For external borrowing, the fact that legal advisers are involved in loan negotiations shows some strength in this area. However, a borrowing plan, including assessment of the most beneficial/cost-effective terms, has yet to be prepared. Domestic borrowing is negligible.
- The government regularly makes use of overdrafts with the banks, which indicates a need to improve cash flow management. The absence of a Treasury Single Account complicates cash management.
- Debt recording and management system backups are important strengths. The external auditor carries out a pre-audit of debt payments that helps to reduce operational risk.
- The registry system of public debt has up-to-date and secure records of holders of government securities and constitutes a strong point in the management of debt records. It should be noted that the number of outstanding government securities is very limited.

6. Future priorities for PFM Reform

Following receipt of the Final PEFA Assessment Report MoF has been working on an update to the PFM Reform Plan. This update takes into account issues identified from PEFA as well as findings from a Debt Management Performance Assessment and an Issues Paper on SOEs submitted by the IMF Article IV mission. However, it is important to emphasise that this process had to be undertaken with care to take into account the linkages between Divisions and the need for a coherent strategy, which is fully owned by those responsible for the reform areas. The PEFA assessment and other external reviews can provide guidance only. The update of the PFM has been combined with a review of the structure and staffing of MoF, based on the proposals from a Ministry Retreat in January 2010. In view of the proposed development of a Finance Sector Plan, the draft update of the Reform Plan includes both short-term actions to strengthen PFM over the coming 2 years as well as a longer-term vision for actions to be achieved over the coming 5 years.

The proposed changes to the MOF structure include the following:

- Recruitment of a PFM Reform/Finance Sector Coordinator
- Establishment of a Procurement Division with an ACEO and Principal Officer under Operations
- Establishment of a Systems Support Unit for Finance One reporting to DCEO Operations with trainers to strengthen systems/capacity in line Ministries
- Establishment of a Debt Management Unit within the Aid Coordination Division to take responsibility for monitoring and advising on both external and domestic debt
- Establishment of an Energy Sector/Climate Change Coordination unit in EPPD

The consultations have led to the preparation of three documents: a draft update of the PFM Reform Plan for MoF, a capacity building plan for MoF for the coming 2 years and proposed adjustments to the structure of MoF. A detailed report has been presented to Cabinet with these proposals. Following Cabinet endorsement consultations will be required with the Chief Audit Office, the Central Bank and MFR for their input as well as discussions on the development of a Finance Sector Plan. The proposed revision of the MOF structure and creation of new posts will require the endorsement of the PSC.

The 2nd phase of the Reform Plan will build on the achievements from Stage 1 and will aim to consolidate and sustain improvements to systems to achieve fiscal discipline leading to the following results:

- The development of Sector Plans across all Government sectors and improved performance monitoring with linkages to the budget and the SDS.
- A strengthened budget process through integration of development partner funding in budget estimates, improved performance measures linked to the SDS and sector plans, and increased stakeholder consultation on budget priorities.
- Increased responsibility and capacity of line Ministries to manage their accounting functions and checks to ensure the accuracy of data in the Finance One computerised system.
- The establishment of a Systems Support Unit for the effective management of Finance One and training of officials to use the system.

- The introduction of a new government policy with deadlines for payments to suppliers and monitoring of late payments.
- Strengthened internal control systems and the development of a new internal audit framework across Government to undertake risk analysis and systems audits.
- The establishment of a Procurement Unit to advise and assist the Tender Board and provide support and training to line-ministries on Government's new procurement guidelines and templates
- The introduction and implementation of the new Debt Management Strategy and Development Cooperation Policy
- Development of a Communications Strategy to strengthen consultation and dialogue on policy reform, investment planning and budget strategy.

Key issues in the next phase of the PFM Reform Plan will include the following:

- i. Developing mechanisms and obtaining development partner support to strengthen PFM capacity at line-Ministry level as part of sector programmes
- ii. Developing closer linkages between the Public Administration sector, in particular human resource management, and PFM
- iii. Obtaining high-level commitment to the PFM reform process and improving awareness of the PFM Reform Plan across Government

6. Constraints affecting Sustainability

The main constraints that have affected the implementation of the PFM Reform process are as follows:

- There continues to be a high turnover of Government personnel, which tends to undermine the objectives of capacity building and complicates the introduction of new procedures and systems. Over the past year a number of key personnel have left MoF or moved to new positions within the organization. Retention of personnel in key positions is a major concern for the sustainability of PFM Reforms. To mitigate this problem MoF is planning to strengthen support from the human resource function of corporate services in succession planning, induction training, job evaluation and reinforcing the use of procedures and training manuals.
- It has proved difficult to sustain the pace of reform when taking account of the existing workload for Government staff. Planning and implementing reforms is time-consuming and staff face difficulties in combining reform efforts with the day-to-day work, which has to continue.
- There has been limited higher-level support for PFM Reform to date and there is also limited awareness of PFM Reform as a crosscutting issue in line-Ministries. MoF has submitted proposals to Cabinet to establish a high-level coordination committee and increase awareness of the PFM Reform Plan
- The capacity limitations of PFM functions in line-Ministries tends to constrain the pace of reform efforts, which to date have been more focused on systems in MoF, MFR and the CAO. In the next phase of the PFM Reform programme greater emphasis will be placed on training, support and communication with line-Ministries.

7. Capacity Building support for PFMR

One of the main advantages of the PFM Reform Plan has been the improved coordination of capacity building support and development of synergies and complimentary activities to support the overall reform process. The PFM has helped to guide decision-making of capacity building support priorities in discussions with interested partners. A number of donors are supporting the PFM reform effort as follows

7.1 Public Sector Improvement Facility (AusAID and New Zealand Aid Cooperation)

The PSIF has proved an extremely useful mechanism for financing the major capacity building support actions, which are developed and led by Government. PSIF is currently financing technical support, training and study tours/attachments in the Chief Audit Office, MoF and MfR. The PSIF capacity building for the CAO will come to an end in December 2010. The phase 1 of support for PFM in MoF (2.5m SAT) is scheduled to continue to mid 2011. The support for the Inland Revenue Service under MfR (3.6m SAT) has just commenced and is scheduled for a two-year period to end 2012.

7.2 PFTAC

The IMF PFTAC office has supported PFM Reforms requested by Government in a number of key areas including:

- Tax policy and legislation
- Improvements to the MTEF process
- Drafting of Updated Treasury Instructions

7.3 AusAID Partnership for Development

AusAID partnership funds have been committed through budget support to contribute to the PFM Reform process, with releases linked to results.

7.4 European Union

The EU is financing support for overall PFM Coordination through a Budget Support Adviser. They have also supported the two PEFA assessments and provide funding under MoF management for local and international technical support and financing of conferences and workshops. Currently EU is funding local consultants to assist in training of implementing agencies in the water sector to strengthen capacity in procurement and contract management using Government procedures.

7.4 ADB

ADB have provided technical support for strengthening internal audit as well as support for the development of the SERF model in 2009 and updating project and sector planning guidelines. ADB has also provided technical assistance to review the internal audit function

in MoF and deliver training and on-the-job support to undertake a systems audit focused on the payroll.

7.5 World Bank

The World Bank has provided support for the Debt Management Performance Assessment as well as drafting of the new procurement manual, guidelines, and templates.

7.6 Future Capacity Building Priorities

The future capacity building priorities in MoF include the following:

Area	Description of TA/Capacity Building Support
Procurement	Intermittent technical support to develop capacity of the proposed new procurement unit
Accounts and IT	Systems Support expert to strengthen the management of the Finance One software and establishment of a Systems Support Unit
Accounts	Continued support to public accounts including emphasis on payroll, adjustment to the chart of accounts and introduction of international accounting standards
Budget	Continued intermittent support to strengthen the MTEF, budget performance monitoring and linkages to sector plans and the SDS
Aid Division	TA, training and attachments to strengthen capacity in Debt Sustainability Analysis and debt management
SOEMD	Intermittent technical support to strengthen corporate governance of SOEs and improved performance monitoring.
EPPD	Intermittent TA support to strengthen economic and financial modelling
EPPD & relevant Ministries	Support for development of sector plans
Internal Audit	Institutional review and development of a strategic plan for internal audit followed by intermittent TA to develop capacity in systems audits and IT auditing tools.
IT	Technical support for training on database management and analysis of hardware constraints affecting Finance 1.
Human Resource Management	Strengthening of human resources support to PFM including induction training, job design and performance evaluation

Further details of the capacity building requirements will be developed along with an Updated PFM Reform Plan in the first quarter of 2011.

ANNEXES:

Annex 1: PEFA Scores

Annex 2: Proposed Update for PFM Reform Actions

ANNEX 1: INDICATOR SCORES FROM PEFA ASSESSMENT (2010)

PFM Performance Indicator		Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	<ul style="list-style-type: none"> Composition of expenditure out-turn compared to original approved budget 	C
PI-3	Aggregate revenue out-turn compared to original approved budget	B
PI-4	Stock and monitoring of expenditure payment arrears	N/R
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	B
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	D+
PI-9	Oversight of aggregate fiscal risk from other public sector entities (Public Bodies)	B
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	<ul style="list-style-type: none"> Multi-year perspective in fiscal planning, expenditure policy and budgeting 	D+↑
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15	Effectiveness in collection of tax payments	D+
PI-16	<ul style="list-style-type: none"> Predictability in the availability of funds for commitment of expenditures 	C+↑
PI-17	Recording and management of cash balances, debt and guarantees	C+↑
PI-18	Effectiveness of payroll controls	D+↑
PI-19	Competition, value for money and controls in procurement	C↑
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
PI-21	Effectiveness of internal audit	D+
C (iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	C
PI-23	<ul style="list-style-type: none"> Availability of information on resources received by service delivery units 	D
PI-24	Quality and timeliness of in-year budget reports	C+↑
PI-25	Quality and timeliness of annual financial statements	D+↑
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+↑
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	D+

Note: N/R = Not recordable (since there is no monitoring on late payment to suppliers)

Arrows indicate ongoing reform efforts

ANNEX 2: Detailed Report on Progress by Component/ Output

Component 1: LEGAL & REGULATORY FRAMEWORK				
	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
1.1	Updating Treasury Manuals with summary of Division-level Manuals and Integrated Budget Cycle management (Dec 2010)	Work has commenced on updating manuals for the Budget and Accounts Divisions.	It has been noted that Manuals are not being used/ referred to. Need to ensure that Manuals are operational/practical and used especially for induction/training of new personnel. It has also been agreed to put more emphasis on training tools and guidelines with a toolkit approach in place of manuals	Technical support is required to achieve this objective in all Divisions. This issue to be raised and agreed within the Task Force to decide the way forward.
1.2	Updating Treasury Instructions in line with PFMA Act (2001) and changes to work processes since the introduction of Finance One – (Dec 2010)	Work has commenced on this with a consultant provided by PFTAC. A first draft has been prepared and is currently under review by a technical committee established specifically for this task. The consultant will be returning to Samoa in the first quarter to finalise the updated Treasury Instructions.	There is need to review and agree whether decision-making and procurement thresholds should be adjusted.	Once finalized the document will need to be formally approved. It will be essential to ensure strong ownership of the Updated Treasury Instructions and mechanisms for circulation, utilization and updating to reflect changes overtime.
Component 2: REVENUE COLLECTION				
	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
2.1	Restructure the tax administration sections in the Ministry of Revenue to improve efficiency and introduce a new client orientation (Jun 2010)	The restructuring process has commenced. Progress will be linked to the MFR ISP, which will be implemented over the coming two years.	The deadlines for action need to be adjusted to give more time to complete the reforms.	

2.2	Introduce a new database information system for income tax collection & monitoring with links to ASYCUDA and Finance One. (Jun 2010)	The PSIF support to MFR includes an expert to review the RMS and develop an IT strategy	MoR needs to analyse the objectives/requirements for the database information system in order to ensure that then RMS upgrade is the best option.	
2.3	Develop future revenue targets and forecasts as an input to the medium term expenditure framework (Jun 2010)	A revenue policy expert is currently assisting MoF and MFR to building capacity in revenue forecasting	There will need to be close collaboration between MfR and MoF in building capacity in revenue policy and forecasting	

Component 3: PLANNING AND PERFORMANCE MONITORING

	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
3.1	Finalise the Monitoring and Evaluation Framework for the Strategy for Development of Samoa (SDS) 2008-2012. – (June 2008)	EPPD has approved an annual review mechanism for the SDS. A major mid-term review is currently under preparation	One of the main constraints identified during performance reviews is the limited performance data from sectors	During 2011 EPPD will commence planning for the update of the SDS with close linkages to sector plans
3.2	Ministries will be required to develop sector-level medium-term strategies (4-5 year) and prioritised plans based on SDS (Dec 2012)	Sector Plans have been completed for 6 sectors (Health, Education, Water/Sanitation, Tourism, Law & Justice, Public Admin), are currently being developed in 7 sectors (including Trade, Finance, Energy, Transport, ICT, Agriculture & Community Dev) from a total of 14 agreed sectors.	A forum for meetings with sector coordinators has been established to facilitate communication and exchange of experience	Initiate consultation with MNRE on the development of an cross-cutting environment sector plan
3.3	Strengthen capacity in macro-economic modelling of the national economy	An ADB TA has developed the SERF model. This model is built in excel and is a powerful tool for forecasting and analyzing the macro-economic situation when considering the impacts of Government intervention. It was used for 2010/11 budget	With a number of key staff leaving there are concerns with regard to sustainability	EPPD to ensure capacity to manipulate the model is broadened. Need to initiate a process of coordination with other users (especially CBS and SBS)

Component 4: IMPROVED BUDGETING				
	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
4.1	Strengthen the quality and presentation of forward estimates within three year rolling Medium-Term Expenditure Framework (MTEF)	The Budget Division is implementing reforms to the MTEF process including an increased focus on the impact of new policies and initiatives with particular emphasis on recurrent cost impacts.	Changes to the budget process need to be carefully planned and incremental to ensure the normal budget process is not disrupted	Develop a long-term vision for the budget reform process.
4.2	Develop closer linkages between the budget and the national and sector strategies and plans.	A new Performance framework with linkages to sector plans and the SDS was introduced on a pilot basis in 2010/11. Full role out of this framework has commenced in the 2011/12 preparation process.	The success in developing the linkages depends on the quality and roll out of sector plans. In the absence of good quality medium terms plans it may be difficult to define outcomes.	Further short-term technical support will be required to facilitate the ongoing reform efforts.
Component 5: ACCOUNTING				
	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
5.1	Remove the backlog of work on reconciliation of public expenditure for the 2006/2007 financial year and introduce mechanisms to prevent future backlog of work. (Oct 2009)	This has been achieved with the support from a Public Accounts expert. The 2009/10 were submitted with 4 months from the end of the FY as required by the legislation. All the main Government accounts are reconciled on at least a weekly basis.	The high turnover of staff remains a major concern. The removal of the backlog has highlighted other issues relating to the quality of the public accounts presentation	
5.2	Strengthen the capacity for cash flow forecasting and monitoring centrally within the Accounts Division and at the Ministry level. (Dec 2009)	A cashflow forecast template has been provided to line Ministries. A Cashflow Management Committee met regularly during a period of cash shortage but has since lapsed.	Further efforts are required to strengthen cashflow management and reporting.	Cashflow committee to be established with a regular meeting schedule

5.3	Undertake a review of the Finance One accounting system to assess whether the software is performing according to Government's current requirements (Dec 2009)	Following the 2009 review of Finance One there have been major improvements to Finance One, both in terms of configuration and custom reports for users. A training facility is being established in MoF for users and line-Ministries	A systems support unit is required to oversee the management of the Finance systems and provide support to users	Obtain approval from PSC to set up a Systems Support Unit.
5.4	Strengthen the monitoring of domestic arrears and ensure that the level of arrears is reduced over time, in particular for VAGST refunds. (Dec 2010)	The Accounts Division have provided training to line Ministries to strengthen monitoring of Debtors and use of Finance One for age analysis.	The main problem with arrears relates to the lack of a Government Policy on timeframe for payments to suppliers	MoF to develop a policy on late payments to suppliers and introduce monitoring of arrears.
5.5	Commence introduction of the IMF Government Financial Statistics (GFS) 2001 classification system (Jun 2011)	GFS figures are currently being produced by Statistics. It has been proposed to review changes to the Chart of Accounts to bring them in line with GFS and make other needed changes in 2012/13 FY.	Will need to agree the content of the changes to Chart of Accounts well in advance and ensure consensus on all changes before introduction.	Some TA support will be required to manage this change process

Component 6: PROCUREMENT

	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
6.1	Approval and introduction of the new Procurement Guidelines together with training of Ministry personnel (Dec 2008)	Support was provided under a WB consultancy to draft new Procurement Manual, and Guidelines. The manual and guidelines have been adopted by the Tenders Board and disseminated to line Ministries	There are no procurement staff in MoF to support the use of the guidelines. The DCEO and Budget Division support the Tenders Board and have insufficient time for procurement issues	It has been proposed to establish a Procurement Unit in MoF to monitor and support the procurement function and support the Tenders Board
6.2	Drafting and introduction of standard tender and contract formats for works, supplies and services in line with the procurement guidelines and consistent with international best practice (June 2009)	A 2 nd consultancy under WB financing prepared templates for tenders and contracts that are consistent with the revised guidelines.	The templates need to be further adapted to the Samoan context. Technical support will be required to achieve this	Identify technical support to further adapt templates

Component 7: AID COORDINATION AND DEBT MANAGEMENT				
	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
7.1	Include information on domestic debt within the current Debt Recording Database with the objective of providing a complete report on both external and domestic debt to Cabinet and parliament (Jun 2009)	Domestic debt information has been recorded in DRMS and a format has been developed for presenting overview of the overall debt situation. A Debt validation for the external loan portfolio with support from the Commonwealth Secretariat was undertaken in Nov'09.		Arrange further training on CS-DRMS through an exchange visit with PNG or Solomons
7.2	Develop new government policy on donor aid and debt management including budget support as the preferred aid modality and debt management controls for loan approvals and domestic debt (Dec 2009)	A Medium Term Debt Strategy and Development Partner Cooperation Policy have been submitted to Cabinet for approval.	Recommendations for follow up include: training on debt sustainability analysis, introduce a Treasury Bill programme for short term debt & an MoU with CBS on information sharing	Prepare MoU with CBS on information sharing. Request WB for training on debt sustainability analysis.
7.3	Include donor funding in annual and medium term budget estimates and out-turn reports (Jun 2009)	Mechanisms have been put in place for the regular updating of information and forecasts of DP financing. These were shared with budget in the 2010/11 budget preparation process with reports developed by IA. However, line-Ministries failed to submit the templates as required.	More time is required in the budget process to allow follow up on submission of donor project templates. Action must be taken if Ministries fail to provide the information required.	There should be renewed efforts to integrate donor funding in the 2011/12 budget

Component 8: INTERNAL AUDIT				
	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
8.1	Utilise the 2004 INTOSAI Guidelines to review and strengthen internal control standards and the role of the Internal Audit Division in the Ministry of Finance (June 2010)	A PFTAC/ADB consultant provide support to review the internal audit function and provide training and support for systems audits. A systems audit of the payroll has been carried out.	The ADB consultant has recommended development of a strategic plan for the internal audit function across Government.	Further TA will be required to assist in developing a strategic plan.
8.2	The work programme of the Internal Audit Division will place increased emphasis on systems monitoring and risk analysis with the objective of strengthening the overall control framework (June 2010)	See above.	See above.	See above
Component 9: CONTROLLER AND CHIEF AUDITOR				
	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
9.1	Development of standard manuals and methodological guidelines for the Chief Auditor's office as a quality control mechanism (Dec 2010)	The ISP has been under implementation over the past two years and has made good progress. New manuals and guidelines have been drafted along with training/ capacity building support. The staff have been provided with new skills for use of IT in the audit process. The ISP is due to be completed by end 2010.		Additional support to ensure the capacity enhancement is sustained will be considered in March 2011 after the ISP support has been completed

Component 10: MONITORING OF STATE OWNED ENTERPRISES

	OUTPUT DESCRIPTION	PROGRESS TO DATE	ISSUES ARISING	FOLLOW-UP ACTION
10. 1	Strengthen the capacity of the SOE Monitoring Division in provision of finance/business analysis and project appraisal to support the improved performance of SOEs.	An organization performance expert is currently developing a methodology for organization performance self—assessments by SOEs. This will be piloted in two SOEs (SWA and SSFA) in early 2011.	There is a need for confidentiality of performance assessments especially in the early stages in order to get the support of SOEs for reform and improved performance	