

**Fiji: Report on the Observance of Standards and Codes—
Fiscal Transparency Module**

This Report on the Observance of Standards and Codes on Fiscal Transparency for **Fiji** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **March 3, 2004**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Fiji** or the Executive Board of the IMF.

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FIJI

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

Prepared by the Fiscal Affairs Department

Approved by David Burton and Teresa Ter-Minassian

March 3, 2004

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in Fiji in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Fiji meets the requirements of the fiscal transparency code in a number of respects and has, in recent years, expanded the range of information presented with the budget. Despite the suspension of the PFMA 1999, Fiji has a reasonably sound legal framework. Parliament must authorize all taxation and spending. The RBF enjoys effective independence, and the independence of the Auditor General is provided for in the Constitution. Since the mid-1990s, information on government guarantees, aid-in-kind and arrears of revenue has been presented in the annual budget, and a number of CSOs are explicitly funded from the budget.

There are, however, longer-standing and serious weaknesses in the implementation of the legal framework that need to be addressed urgently. The Auditor General has documented breaches of laws and regulations, and qualified the 2001 Final Government Accounts. A widespread tolerance of this lack of compliance with the rule of law appears to have developed at all levels of the system. In recognition of this the current government has announced its intention to restore financial management accountability and adherence to laws and regulations. Performance contracting has been introduced for all ministry CEOs from January 1, 2004.

Reasserting financial accountability in government will require strong action in a number of areas. The focus should be on putting sound basic financial management systems in place and deferring consideration of more advanced reforms. The key steps include:

- establish sound internal controls within ministries, departments and FIRCA;
- progressively expand the quality and scope of information in the annual budget;
- start quarterly reporting of the fiscal outcome, and present a mid-year fiscal report to Parliament;
- simplify the Income Tax Act, minimize the use of administrative discretion, and strengthen tax administration;
- establish effective legislative scrutiny, and ensure follow up to the findings of the auditor general;
- strengthen the policy framework for, and monitoring of publicly controlled financial institutions.

	Page
I. Introduction.....	4
II. Description of Practice.....	4
A. Clarity of Roles and Responsibilities.....	4
B. Public Availability of Information.....	10
C. Open Budget Preparation, Execution, and Reporting.....	12
D. Assurances of Integrity	16
III. IMF Staff Commentary.....	19
Boxes	
Box 1. Auditor General and Trust Accounts.....	8

ABBREVIATIONS AND ACRONYMS

COFOG	Classification of the Functions of Government, issued by the United Nations
CSO	Community Service Obligation
FDB	Fiji Development Bank
FIRCA	Fiji Islands Revenue and Customs Authority
FNPF	Fiji National Provident Fund
GFS	Government Finance Statistics
HA	Housing Authority
LPO	Local Purchase Order
MoF	Ministry of Finance
PAC	Public Accounts Committee of Parliament
PFMA	Public Finance Management Act 1999
PFI	Public Financial Institution
PFTAC	Pacific Financial Technical Assistance Centre
PSIP	Public Sector Investment Program
ROSC	Report on the Observance of Standards and Codes
RBF	Reserve Bank of Fiji
SEG	Standard Expenditure Group
SDP	Strategic Development Plan
GDSD	The General Data Dissemination System

WEBSITES

Fiji Islands Statistics Bureau
Reserve Bank of Fiji

<http://www.statsfiji.gov.fj>
<http://www.reservebank.gov.fj/>

I. INTRODUCTION¹

1. This report provides an assessment of fiscal transparency practices in Fiji against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*. The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of discussions with the authorities and their responses to the fiscal transparency questionnaire, and drawing on other available information. The second part is an IMF staff commentary on fiscal transparency in Fiji.

II. DESCRIPTION OF PRACTICE

A. Clarity of Roles and Responsibilities

2. **General government is defined according to international standards for statistical reporting, but reporting on general government has not been timely.** The Bureau of Statistics compiles data on the general government sector generally following the format of the 1986 Government Finance Statistics (GFS) Manual.² The coverage is comprehensive, but the data is very out of date, the latest data published being for 1997.³ In practice, fiscal policy in Fiji focuses on the central government budget sector which excludes the activities of central government units with individual budgets (such as agencies, boards, councils and trusts), and sub-national government (although the latter is insignificant in size, see paragraph 7).

3. **Although a number of subsidies to finance the community service obligations (CSOs) of enterprises are included in the government's budget, some significant**

¹ Discussions on fiscal transparency were held in Suva during 28 January to 8 February, and November 11 – 18 2002. The mission team, comprising Messrs. Tom Wilson (PFTAC) and Murray Petrie (IMF panel expert) met with the Minister of Finance, the Governor of the Reserve Bank of Fiji and officials from the Department of Legislature, the Office of the Auditor General, the Ministries of Finance, Public Enterprises, Agriculture, Education, Health, the Reserve Bank of Fiji, the Public Service Commission, the National Planning Office, and the Fiji Islands Revenue and Customs Authority. In addition the mission met with representatives of the Fiji Employers Federation, and the Fiji Chapter of Transparency International.

² There is an institutional table in the GFS Yearbook that describes the units of general government in Fiji based on information reported in 1997. General government currently consists of: (i) central government units covered by the general budget (parliament, the judiciary, the President's office, the prime minister's office, and 42 ministries, departments and offices); (ii) central government units with individual budgets (36 agencies, boards, councils and trusts) that are predominantly funded from grants/subsidies from the central government budget but whose budgets are not generally subject to the same level of parliamentary scrutiny and approval as the 42 ministries, departments and offices; and (iii) provincial and local governments (14 provincial councils, 2 city councils, 9 town councils, and 5 local authorities in rural areas). In addition, the public sector comprises the Reserve Bank of Fiji, 4 public financial institutions, 10 Government Commercial Companies, 5 Commercial statutory Authorities, 5 majority-owned government companies and 19 minority-owned enterprises. The authorities note that a project to establish conformity with the 2001 Government Finance Statistics Manual will commence in early 2004. A GFS mission is currently in the field and collaborating with PFTAC.

³ See "The Challenge of Statistical Capacity Building in the Pacific," by R. Purdue and P. Turnbull, pp. 136-139 of which contains a discussion of the production of GFS data in Fiji and recommendations for improvements in timeliness.

government activities are not clearly distinguished from the activities of public corporations and publicly-controlled entities. The Public Enterprises Act 1996 requires public enterprises to operate commercially, and for any CSOs to be disclosed in the enterprise's corporate plan and to be funded by appropriations from the central government budget. A number of non-commercial obligations are funded by explicit appropriations. There are, however, some remaining CSOs undertaken by non-financial public enterprises that are not reported or funded from the budget, though, as discussed in paragraph 21, the mission was not able to quantify the extent of such CSOs.⁴ In addition, the divestment of the government's equity in public enterprises – which has generally occurred through public tenders - has in many instances involved sale to the Fiji National Provident Fund (FNPF), a government-controlled institution. Concerns have been expressed by some as to whether all the transactions occurred at the genuine market value for the equity. The FNPF has multiple and at times conflicting roles that it is required to balance. In addition to its primary mandate of providing pensions and other services to its contributors, the FNPF is also required to contribute to financial stability, to provide resources for nation building and development, and to meet social policy goals. The FNPF currently holds about three quarters of the government domestic debt on issue and, in recent years, has been fully financing the deficit due to the restriction imposed by government on FNPF's ability to invest overseas. The FNPF is chaired by the Chief Executive Officer, Finance and National Planning.

4. **The central bank has effective independence.** While the Reserve Bank of Fiji (RBF) Act 1983 does not provide for full independence of the Bank in the conduct of monetary policy, in practice it enjoys effective autonomy. The RBF Act restricts the Bank to providing short term cash flow financing only to the government. The RBF is the government's fiscal agent for domestic borrowings. It is also responsible for prudential supervision of the banking and insurance sectors, and the 2003 budget announced that its role is being extended to supervision of the FNPF and the superannuation industry as a whole. The Bank conducts limited quasi-fiscal activities through its administration of two monetary instruments, a non-commercially remunerated Statutory Reserve Deposits Ratio on commercial banks and a non-binding minimum Export Credits Ratio. It has an active publications program, including monthly, quarterly and annual reports.⁵

5. **Regulation of the non-bank private sector is extensive, and the government has acknowledged the need to reduce and simplify regulation in a number of areas.** The government regulates many important aspects of private sector activity. For example, approximately one third of the goods and services in the CPI basket by expenditure weight are subject to price control. The foreign investment approvals process contains unnecessary

⁴ While a number of CSOs undertaken by public enterprises are funded by a subsidy from the government budget, there are some significant unfunded CSOs. For instance, Air Fiji is required to cross-subsidize between different domestic airline routes. Similarly, the Fiji Electricity Authority cross-subsidizes between different consumers through charging a uniform national tariff. The 2003 budget also introduces a requirement for private banks to contribute to a Banking Infrastructure Development Fund to finance the provision of banking services in rural areas.

⁵ Publications and other material are available on the RBF's web site at <http://www.reservebank.gov.fj/>.

discretion and unclear criteria. The government announced in the 2003 budget its intention to reduce and modernize regulation in a number of areas, including price controls, regulation of monopolies, labor market regulation, the investment approvals process, and the superannuation industry. Restructuring of the sugar industry will also require reconsideration of the regulatory regime. Government has been consulting the private sector over regulatory reforms in the labor market and the investment approval process.

6. Government is a shareholder in a number of private companies, and most of these holdings are reported. The government holds significant stakes in Fiji Sugar Corporation, Fiji Pine, and Air Pacific. Since the reorganization of the National Bank of Fiji in 1997 the level of government ownership and/or control of the financial sector has reduced but remains significant. In addition to the government-controlled FPNP (which exceeds the combined size of the banking system), the Government owns the Fiji Development Bank (FDB) and the Housing Authority (HA) (which provides low-income housing loans). Most government shareholdings are disclosed in budget documents.⁶ There is no clear strategy or policy statement on the government's policy and objectives with respect to its holdings of majority and minority shareholdings, nor of the Government's view on whether the FDB should be authorized to expand into general banking activities. The Government recently established the Fiji Investment Corporation to invest in the private sector.

7. Sub-national government is small and largely independent of central government transfers. Fiscal policy in Fiji appropriately focuses on the central government budget, in view of the very small size of sub-national government. In 1997, the last year for which data on general government is available, sub-national government spending accounted for less than 5 percent of general government spending. Only around 10 percent of sub-national government spending is financed from central government transfers. Sub-national governments do have the power to borrow. The national government has the power, and has used those powers, to dismiss local councils if there are serious concerns about fiscal irresponsibility or governance, and has indicated concern about corruption in local government. There is some overlap in responsibilities between national and sub-national government, for instance in school construction and maintenance.

8. The legal framework sets out clearly the fiscal roles of the executive, legislative and judicial branches. The 1997 Constitution sets out clearly the respective fiscal management roles of the legislative and executive branches, including the relative roles of the House of Representatives and the Senate in passing money Bills. A Bill that appropriates moneys, imposes or increases taxes, or reduces a debt, can only be passed by the House of Representatives with the consent of Cabinet. The Constitution also contains special provisions providing for the independence of the judicial branch.

⁶ Government equity holdings in private companies are included in Appendix 4 of the Economic and Fiscal Update, which shows movements in government equity in public enterprises.

9. **Fiscal management is defined by a reasonably comprehensive legal and administrative framework, but there are serious weaknesses in implementation, and inadequate requirements for fiscal reporting.** It is a legal requirement that the raising of revenue by taxation or otherwise must be authorized by an Act of Parliament. The issue of guarantees is also covered by the legal framework. All revenues must be paid into the Consolidated Fund, and can only be withdrawn under an appropriation.⁷ However, in practice this provision has proved insufficient to control unauthorized expenditure. The Minister of Finance has the ability to exert effective control over the public finances, but the only legally mandated fiscal reporting is an annual report on the Consolidated Fund and its component accounts. There is no requirement for within-year fiscal reporting, or for reporting to Parliament on the uses to which contingency funds have been put during the year⁸. Inadequate reporting and monitoring of budget execution is recognized by the authorities as a major cause of weakness in expenditure control. The focus of the legal framework, moreover, is on compliance rather than performance. The Public Finance Management Act (PFMA) 1999 was intended to modernize and codify in one piece of legislation a comprehensive suite of fiscal transparency and accountability requirements⁹. The suspension of the PFMA 1999 has left some important gaps in the legal framework and a tension between the current financial management accountability of chief executives, and the accountability for the delivery of outputs being introduced in the performance contracts for chief executives from January 1, 2004 (following from the civil service reforms in the Public Service Act 1999).¹⁰

10. **There are no formal extra-budgetary funds, although there are serious problems in the management of Trust Accounts.** There are no social security or other extra-budgetary central government funds in Fiji – that is, funds that receive most or all of their revenues from earmarked taxes or contributions.¹¹ There is a substantial number of Trust Accounts, however, established for a variety of purposes, including to receive grants from some foreign donors, to temporarily hold employee contributions (e.g. to the FNPF), to meet the cost of multi-year capital projects, and to operate as revolving funds for government trading operations.¹² The authorities recognize the need to strengthen the accounting for these funds and have taken steps in the 2004 Budget to reduce the number of trust accounts. A

⁷ The legal framework for fiscal management comprises the Constitution, the Finance Act 1981, the Finance (Control and Management) Regulations 1982, and the Finance Instructions.

⁸ The authorities have indicated that no provision has been made for contingency funds in recent budgets.

⁹ The PFMA, which would have comprehensively modernized fiscal transparency and accountability, including the introduction of accrual and output budgeting and management, in Fiji, was introduced and passed in 1999, but was then suspended by the new government.

¹⁰ The authorities indicate that these contracting arrangements for CEOs will establish stronger accountability and require effective budget management within approved limits. These arrangements, they suggest, could also improve the accountability of trust funds.

¹¹ The question of the comprehensiveness of the central government budget is discussed in paragraph 16 below.

¹² There are statutory limits to appropriations from revolving funds and that limit is quite small compared to the size of the overall budget. However, the reporting on moneys set aside in trust accounts from grants from some foreign donors, to hold employee contributions or to meet the cost of multi-year capital projects is very difficult to establish as there is limited reporting of these transactions (and none separately identified in the budget)

number of balances are to be transferred to the consolidated fund and procedures for the use of these accounts will also be tightened.

Box 1. Auditor General and Trust Accounts

The Auditor General has in recent years documented serious problems in the operation of Trust Accounts, including departments exceeding spending limits, and some accounts being overdrawn in breach of regulations. In his report on the 2001 accounts the Auditor General, inter alia qualified the final accounts as the aggregate of the trust fund balances held by the Government to meet future expenditures exceeded the aggregate cash balances of the Government held at that time in the banking system, and he also reported on:

- exceeding appropriation limits in the administration of the Revolving Fund Account;
- outstanding trust account reconciliations;
- failure to submit annual reports;
- poor recovery of accountable advances;
- a continued ignoring of procedures covering the purchase of goods and services;
- laxness in the recovery of debts;
- failure to reconcile trust accounts; and
- a need to update/replace the general ledger to ensure it can produce reliable and credible information.

11. **The integration of capital and recurrent spending is being strengthened.** There is no separate development budget, although the three year rolling Public Sector Investment Program (PSIP) produced by the National Planning Office is not currently well integrated into the budget process or budget documents. The amalgamation in April 2002 of the National Planning Office within the Ministry of Finance and National Planning (MoF) is expected to facilitate more integrated analysis of, and budgeting for, capital and recurrent spending.

12. **The legislative basis for taxation is clear for some taxes, but there are widespread discretionary concessions, and some key statutes are ambiguous and outdated.** Fiji's range of tax and duty concessions is wide and complex, resulting in uncertainty of interpretation, overlapping application, and at times abuse of concessions by tax-payers. The government acknowledged in the 2003 Budget Address that the provisions of the 1974 Income Tax Act are complex, outdated and ambiguous, and indicated it was committed to reviewing the entire legislation in 2003 to consolidate and simplify the Act in consultation with the private sector. The Income Tax Act and the Customs Act provide some discretionary powers for the Minister of Finance and National Planning to waive taxes and duties. Tax officials also have delegated discretion, for example to waive the imposition of late payment penalties. The criteria for the exercise of discretion are not always clear. Some initial moves to simplify the Income Tax Act were announced in the 2003 budget and

ministerial discretion to waive the payment of non-resident withholding tax was removed in the 2002 budget.

13. **There are serious problems in tax administration that are being addressed through an institutional strengthening project.** The creation of the Fiji Islands Revenue and Customs Authority (FIRCA) in 1999 under a separate Board of Directors was intended to facilitate a strengthening of tax administration. Although there are Codes of Conduct for customs and tax officials, there are significant concerns about the level of internal control. A new accounting system has been introduced but is not yet delivering full functionality. FIRCA established a new internal audit unit in 2001. A new set of Regulations for Conduct and Discipline have been introduced that are intended to improve the ability to discipline staff for misconduct. The level of revenue arrears is also a significant problem, and the government announced in the 2003 budget that FIRCA would be given additional powers to collect from delinquent taxpayers. A common taxpayer identification number is being introduced across the income tax and VAT systems, but not the customs system. FIRCA is audited by the Auditor General. However as a statutory authority, there is less transparency over the shortcomings noted by the Auditor General than would be the case if it were still a government department.

14. **There is a need to improve taxpayer services, and to strengthen the protection of taxpayers against arbitrary administrative action.** FIRCA is in the process of expanding the level of information and support it provides to taxpayers, which is a necessary part of a tax system based on voluntary compliance. A system of binding tax rulings was introduced in 2002. It has announced its intention to introduce a tax agent lodgment program, and a Customer Services Centre in 2003. At present taxpayers can appeal a tax assessment to the Commissioner of Inland Revenue, and from there can appeal to the Courts. There is at present, however, no avenue for appealing the Commissioner's ruling to an independent administrative tribunal. While tribunals for VAT and income tax exist no members have been appointed to them in recent years. While the Minister for Finance has announced post-budget the intention to make appointments to the tribunals there is at present no provision in the budget for the operating costs of the tribunals. There is no statement of tax-payers' rights

15. **Public servants are subject to a Code of Conduct, but there are problems with adherence to the Code.** The Public Service Act establishes a Code of Conduct for public servants. There are problems with adherence to the Code, knowledge of which is low, and disciplinary procedures are slow. The Public Service Commission aims to raise the visibility of the Code through staff training. The Constitution establishes general principles of conduct—such as the avoidance of conflicts of interest—for the President, Vice President, Ministers, MPs, permanent secretaries, and other public office holders. The Constitution requires Parliament, as soon as practicable, to implement more fully these rules, and to monitor conduct. This has yet to occur, although the government has announced its intention to introduce a Leaders' Code of Conduct in 2003.

B. Public Availability of Information

16. **The budget documents cover most central government fiscal activities.**¹³ As noted, there are no extra-budgetary funds in Fiji. Information is presented in the Estimates on projected aid-in-kind receipts within each Head and at activity level. However, spending financed from revenues earned by ministries and departments—such as user charges and fees—is not included in appropriations in the annual budget. Such revenues are paid into the Consolidated Fund as required by law. In some cases these user charges are then made available to the agency concerned for spending without appropriation – in breach of section 177 of the Constitution. Spending from Trust Accounts does not require separate annual appropriation, and this expenditure is not reported in the budget documents.¹⁴ No estimates are provided of the budgeted position of general government, but sub-national government is very small in Fiji.

17. **Defense expenditures and peacekeeping revenues are reported in the budget.** The Fiji Military Forces is a separate programme within the Ministry of Home Affairs and Immigration. The Budget Estimates disclose standard details of spending by activity and Standard Expenditure Group (SEG). The level of expected revenues from UN Peacekeeping and Multilateral Force Observer activities is also disclosed. The Auditor General has reported that he continues to be denied access to some Trust Accounts maintained by the Fiji Military Forces, despite a court ruling that he has the authority to audit those Accounts.

18. **The budget documents disclose the main fiscal aggregates for two years prior to the budget year and two years beyond the budget year.** The Economic and Fiscal Update presented with the 2003 budget contains information on actual spending for 2001, and the revised expected outturn for 2002. It does not, however, show the original budget estimate for 2002 to enable some assessment of the reliability of past budget estimates. The Economic and Fiscal Update Report and the Appropriation Bills presented with the annual budget discloses the estimates for the budget plus the two following years, and the Appropriations also show these estimates broken down by agency, programme, activity and by SEG. The legal focus of the estimates is on the appropriation for the budget year. The forward estimates largely reflect the expenditure level of the budget year, with no new policies but discounted for the known completion of any projects.

19. **A number of contingent liabilities are disclosed in the budget documents.** The Economic and Fiscal Update report contains information on government guarantees, including a list of the main individual guarantees, showing their face value for the three years prior to the budget year. The total outstanding value of the stock of government guarantees is shown, together with the change in stock from the previous year. Information is also provided on the total of some other contingent liabilities, principally uncalled capital

¹³ The budget documents comprise the Budget Address, the Economic and Fiscal Update (a Supplement to the annual Budget Address), and the Budget Estimates (or Appropriations).

¹⁴ The Finance Act permits the MoF to approve the creation of trust accounts. As noted, however, the policy of the government is to reduce the number of such accounts and to tighten procedures for their use.

subscriptions to international financial institutions. No information is provided, however, on outstanding legal claims against the government. The Auditor General has reported that some government guarantees have not been reported.

20. **No information is published in the budget documents on tax expenditures, although there is some information in FIRCA's Annual Report.** There are a large number of tax incentives and special provisions in the tax and customs legislation. On introduction, the provisions of new schemes have been announced in the annual budget in recent years, but no information is presented at that time, or subsequently in annual budget documents on their estimated fiscal impact in terms of revenue forgone. FIRCA's 2001 Annual Report does, however, provide a list of some tax concessions, together with estimates of the revenue foregone for most of them.

21. **There is no comprehensive qualitative or quantitative reporting of quasi fiscal activities in the Budget.** CSOs undertaken by public enterprises that are directly funded by a subsidy from the government budget are reported in the appropriation bills. However, there is no consolidation of those CSOs in the budget and no reporting of CSOs that are funded from cross-subsidisation from the other activities of SOEs or by the imposition of a requirement on the private sector.

22. **Information is published on public debt and financial assets.** The budget documents and the final accounts contain a range of information on public debt. The Budget Address discloses projections of the debt stock to GDP ratio for the budget year plus the two following years, and the Estimates contain a breakdown of the debt servicing costs by each individual loan for the next three years, but no information on the structure of outstanding stock of debt. Within-year, the Reserve Bank's Quarterly Review contains aggregate information on domestic public debt by holder and the level of external debt. No information is published, however, on the maturity profile of public debt, or on longer-term projections of debt servicing. Information on some financial assets is reported in the budget and final accounts, including the value of cash assets, the balances in various sub-accounts within the Consolidated Fund, investments in public enterprises and other equity holdings, and arrears of government revenues.

23. **The only legal requirement for fiscal reporting is for the presentation of annual accounts.** The 1981 Finance Act requires the government to transmit the annual statements of receipts and expenditures, and financial assets and liabilities, to the Auditor General within six months after the end of the financial year. The Auditor General is required to submit the audited accounts to Parliament within nine months of the end of the year. This time frame was met in 2002, but there had been delays in previous years. With the suspension of the PFMA 1999 there is no legislative requirement for reporting on the fiscal position prior to the end of the fiscal year, and in practice the only such reporting that currently takes place is the inclusion of two tables in the RBF Quarterly reviews (see paragraph 38). Fiji has recently adopted the IMF's General Data Dissemination System

(GDDS) as an operational framework for the development of official statistics.¹⁵ The 1997 Constitution provides for the government to enact as soon as practicable legislation to give the public the right of access to official documents of the government and its agencies. This would significantly increase the right of the public to access information on government spending and revenue and strengthen transparency and accountability. The Government has announced its intention to introduce a Freedom of Information Bill in 2003.

C. Open Budget Preparation, Execution, and Reporting

24. **The annual budget presentation focuses on financial compliance within programs, and the presentation of expenditures by function and economic type does not conform to international standards.** The budget is presented in three volumes; the Budget Address; the Economic and Fiscal Outlook; and the Budget Estimates or Appropriation Bills. The Economic and Fiscal Update report presented with the annual budget discloses the aggregate fiscal forecasts for the budget year plus the two following years, and the Appropriations also show these estimates broken down by agency, programme, activity, and by line item input category (or SEG). Fiji presents expenditures by four functions, which does not conform to the internationally-recognised standard, the UN Classification of the Functions of Government (COFOG). The SEG classification mixes expenditures of different economic types, and does not conform to the GFS economic classification of expenditures.

25. **The main indicator of the fiscal position in the budget is the central government net deficit, but this measure does not conform to international standards.** The primary measures in the Economic and Fiscal Outlook are the gross deficit (the cashflow position including debt principal repayments, or the gross borrowing requirement); the net deficit (deducting from the gross deficit the amount of any principal repayments - that is the net borrowing requirement); the underlying deficit (calculated by deducting from the net deficit certain one-off transactions, specifically asset sales and National Bank of Fiji refinancing), net cashflows associated with operating activities; and cashflows associated with investing activities. The interrelationship between these measures is not always clear and they are not consistent with the primary presentation under either the 1986 cash-based GFS, or the 2001 accrual based GFS principles, or the International Public Sector Accounting Standards issued by the International Federation of Accountants. Specifically, the current representation of the deficit in the budget:

- mixes transactions in financial and nonfinancial assets and does not separate financing transactions from investing transactions;
- has no clear distinction between revenues earned and grants received;
- does not clearly distinguish between capital and current grants and revenues; and

¹⁵ An action plan for improving Fiji's national statistics is available at the IMF's website at <http://www.imf.org/external/standards/index.htm>

- incorrectly categorises some transactions, such as the treatment of grants used by the beneficiary for capital acquisitions as investing transactions of the government; and the treatment of the proceeds of asset sales as revenues rather than financing transactions.

26. **Medium term fiscal forecasts are clearly presented in budget documents, and the major economic assumptions are disclosed.** The official macroeconomic forecasts are produced in advance of the fiscal forecasts by an interdepartmental Macroeconomic Technical Committee. The forecasts are used as an input to the budget forecasts at the macro level of revenue and expenditure. However, in recent years, there has been no subsequent iteration with the macroeconomic forecasts to ensure mutual consistency of the monetary and fiscal forecasts. The Economic and Fiscal Update discloses a number of the assumptions for the macroeconomic parameters underpinning the fiscal forecasts.

27. **A statement of medium-term fiscal policy and macroeconomic objectives is included in the budget documents.** The 2003 budget contained medium term targets for the government deficit (less than 3 percent of GDP by 2005), government debt (less than 40 percent of GDP by 2005), and investment (25 percent of GDP). Some medium term targets were also announced for macroeconomic indicators such as economic growth, poverty reduction, inflation and foreign exchange reserves, although it is not made clear that these targets are all mutually consistent. These targets were drawn from the Strategic Development Plan, which presents strategies and targets by sector. The Government consulted widely with the private sector and civil society in the preparation of the Plan. The Government has also announced in recent years a medium term strategy for tax reform. In 2001, the government legislated cuts to income tax rates to be implemented in successive budgets. The final stage of these cuts was suspended in the 2003 budget.

28. **The fiscal impact of new initiatives is not clearly distinguished from the ongoing costs of government policies in the budget documents.** The 2003 Budget Address contains summary announcements of new revenue and spending policies. On the revenue side information is provided on the nature of the new revenue measure, though no information on their estimated fiscal impact. On the expenditure side, the Budget Address presents information on specific initiatives for 2003 within sectors and their fiscal cost. It is not clear to a reader, however, whether the fiscal costs given for individual items are the increase in cost due to the new policy, or the total cost including the baseline cost. It is not generally possible to clarify this by examining the specific ministry appropriations. There is no comprehensive schedule of the new revenue and expenditure measures and their fiscal impact.¹⁶

29. **There is no analysis presented of the sensitivity of the budget estimates to changes in economic variables, although government guarantees are disclosed.** No information is presented on the sensitivity of the fiscal position to changes in key

¹⁶ The authorities indicated that partial information on these measures will be provided through the development of Annual Corporate Plans, recently introduced as part of the budget formulation process.

assumptions underpinning the macroeconomic and fiscal forecasts, or on the range of possible expenditures that might be associated with specific potential developments not yet allowed for in the budget—though Head 50¹⁷ does have a specific appropriation of an allowance of \$F 18 million for salary increases and \$F 7 million for merit payments.

30. **Some information on fiscal risks is disclosed with the budget, but there is no discussion of risks to the medium term fiscal position.** Information is presented on government guarantees and some, but not all, other contingent liabilities, though there is no assessment made of the impact these may have on the medium term fiscal position.

31. **There are no measurable non-financial objectives for major programs in the budget documents, although these are being developed separately.** There are broad statements on the objectives and activities of different ministries and departments contained in the Appropriations, but these do not contain information on the outputs to be delivered, let alone measurable indications of outcome objectives of government programmes. The 1999 Public Service Act, however, requires CEOs to provide central agencies with corporate plans specifying the key results area for which they are to be accountable. CEOs are also being asked to provide information on outputs they will deliver, and there is some disclosure of key performance indicators in the PSIP. With the financial framework in the Appropriation Bill premised on programmes, activities and inputs, there is a certain tension between the performance management and financial management frameworks. The Strategic Development Plan developed in 2002 contains a number of objectives and measurable targets for different sectors of government activity. These are intended to be consistent with the Millennium Development Goals.¹⁸

32. **Internal control procedures are not effective.**¹⁹ While the coverage of the accounting system is reasonably comprehensive in terms of payments for both domestic and donor financed transactions, actual recording of transactions is neither timely nor accurate. Records of commitments are maintained manually outside the General Ledger and are incomplete. Serious control problems are evident over the use of Local Purchase Orders (LPOs). The current accounting system does not record LPO issues—they are undertaken manually and outside the centralised accounting system. On the revenue side, there have also been inadequate records kept of revenue arrears, and these have accumulated to significant levels. Departments are supposed to reconcile their own accounts each month with those maintained in the General Ledger in the MoF. In practice compliance with this is uneven.

¹⁷ Head 50 are defined as appropriations not specifically allocated under any Ministry or Department budget. Apart from contingency provisions, these appropriations cover areas such as compensation for leave foregone; expenses of overseas recruitment; travel costs of ministers and public servants, some personal benefits; postage for all ministries; costs of consultants; certain grants and subsidies, fees and refunds of VAT; capital acquisitions; grants to statutory bodies; lending schemes. In total Head 50 comprises almost 8 percent of total appropriations.

¹⁸ The authorities indicate that the annual corporate planning instrument introduced in 2004 will aim to specify in broad terms the deliverables for each ministry as well as the costs of each deliverable.

¹⁹ The authorities indicated that the proposed new financial management system to be implemented with the help of the ADB, will help strengthen internal control and improve financial reporting.

The accounting system does record cash grants from external donors, most of which pass through the Consolidated Fund (although some donors require their grants to be paid into Trust Accounts). Records are also kept of aid-in-kind, and information on aid-in-kind was provided in the 2003 budget documents (total aid-in-kind, by donor, and by Head and activity). The weaknesses in reconciliation procedures (see paragraph 35) indicate a highly vulnerable internal control environment and are significant impediments to the production of timely and accurate within year fiscal reports. The Financial Management and Audit Unit in the MoF does an external inspection of each ministry's activities, and its focus is on verifying compliance of individual transactions with legal requirements, not internal audit. There is no internal audit function within ministries and departments. The Financial Management and Audit Unit does not provide the sort of system/procedural checks that could give management confidence that an appropriate system of checks and balances are in place that would normally be expected from a system of internal audit.

33. **Contracting and procurement rules are unevenly implemented.** Government purchasing is covered by the Finance (Supplies and Services) (General) Regulations 1982 and the Finance (Public Works) Regulations 1982. These establish a Major Tenders Board (for contracts over \$30,000), a Minor Tenders Board (for contracts less than \$30,000 but more than some minimum set out in regulations), and a Public Works Tenders Board (for all public works purchases). The regulations require all invitations for tender to be published at least twice in a newspaper, set out requirements for opening tenders, and provide that any tenderer may be present when their tender is opened. Successful tenders may be announced in a newspaper, but are not required to be. For public works tenders the Board may issue selective invitations to tender, and there are no restrictions in the regulations on the use of this provision. The Auditor General has pointed to serious problems, including that the delegated purchasing authorities are exceeded, the requirement for approval for purchases by Tenders Boards are ignored, competitive quotations are not obtained and unauthorised purchases are being made.

34. **Employment and pay regulations are well defined though disciplinary provisions are somewhat laxly applied.** Pay rates and position classifications are tightly controlled by the Public Service Commission, which has independent powers under the Constitution. Except for some specialist positions (for example, accounting officers for Finance, legal practitioners for the Attorney General's and audit staff for the Auditor General) staffing evaluations and promotion and appointment decisions are taken by the Public Service Commission. Dismissal and disciplinary action within the public service is not effective because the process itself is cumbersome and time consuming. The penalties for incompetence and malfeasance are rarely consistent with the extent of the misuse of government assets or the actual loss faced by the government, or applied uniformly. The Auditor General has pointed to widespread failures to impose or follow through on disciplinary action.

35. **The accounting system is not capable of producing complete and accurate in-year reports on the central government budget outturn.** The government's accounting system was acquired almost twenty years ago and is under serious strain. There is an

automated General Ledger maintained by the MoF, and manual ledgers maintained by individual ministries and departments. The accounting system in departments is very weak. This means that accounting records are incomplete, contain inaccurate information, are not properly reconciled with information from other sources such as bank account balances and ministry manual expenditure records, and reports based on accounting records are not available on a timely basis. The Auditor General in his report for 2001 stated that “(t)here is an urgent need for the MoF to change its General Ledger System as early as 2003 to ensure that reliable and credible accounting information is produced.”

36. **The accounting system is not capable of generating reports on arrears.** No centralised records are kept on commitments or outstanding accounts due for payment (although expenditure arrears are not in practice a problem in Fiji). Serious control problems are evident over the use of LPOs.

37. **The national tax administration is given legal protection from political interference.** The Income Tax Act and the Customs Act provide that the Commissioner of Taxation and the Comptroller of Customs are not subject to direction in respect of individual assessments. The FIRCA is established as a statutory corporation responsible to a Board of Directors primarily sourced from the private sector. It publishes an annual report on its activities.

38. **The legislature does not undertake a mid-year review of the budget.** Public fiscal reporting on outturns by the budget sector against the budget only occurs on an annual basis. However, the Reserve Bank Quarterly Review²⁰ does contain some aggregate information on spending by SEG (separately showing debt service charges) and revenues by type but no comparison with the budget.

39. **The audited final accounts are available within twelve months of the end of the fiscal year.** The audited final accounts must be presented to the Speaker of the Parliament within nine months of the end of the fiscal year. Adherence to this time frame resulted in the audit report on the 2001 final account being tabled with significant issues (such as trust fund balances reportedly less than aggregate cash balances, and borrowings appearing to be twice the magnitude of the cash balance shortfall) unresolved.²¹

D. Assurances of Integrity

40. **There have been significant variances between budgeted and actual outturns of revenues and expenditures in recent years.** Revenue estimates in the budget tend to be conservative i.e. the budget estimate is consistently less than the actual outturn (aside from some volatility in recent years following the events of May 2000). The expenditure estimates in the annual budget are a not a reliable indication of the likely outturn. A number of factors contribute to this. First, there is an evident tendency in some instances for appropriations to

²⁰ The Quarterly Review is available at the RBF's website (<http://www.reservebank.gov.fj>).

²¹ Following the coup in May 2000, there was some difficulties in reporting.

be set at levels that are known to be less than required to meet unavoidable commitments, with subsequent expenditures validated from ex post virements. Second, a large number of staff vacancies have been carried forward from year to year,²² which has led to the consistent over-estimation of spending on staff salaries. Third, while recognizing that virements provide flexibility in government operations, their widespread use has led to a large difference between the allocation of spending at the programme and activity levels in the budget and the final outturn. Fourth, a large number of items are included in Head 50 that should appear in the relevant ministry appropriation. Fifth the increasing use of appropriations subject to requisition control by the MoF, though intended to cater for incompletely planned projects, has meant that a significant amount of expenditure in the budget does not get implemented. The cumulative effect of the above factors is that there is often a significant variation between the budget approved by the Parliament and the budget actually executed. Notwithstanding the unreliability of estimates projections, there has only been moderate use of supplementary budgets in recent years, largely reflecting the overforecasting of expenditure, the extent of flexibility available to the government to adjust spending during the year within different budget heads, and the practice of obtaining virement approval after the spending has occurred, contrary to legal requirements.

41. **The accounting basis is a cash system, which is supplemented by reporting of non-cash elements.** Appropriations lapse at the end of the fiscal year, and the legal framework explicitly provides that no unspent monies may be carried forward or transferred into Trust Accounts (although this is not always observed in practice). The budget and final accounts contain a short reference to the fact that the accounting basis is cash and more detailed provisions underlying this are in the Finance Act, Regulations and Instructions. The non-cash elements disclosed in the budget and final accounts, as required by the Finance Act 1981 include reporting on financial assets. The accounting system framework also provides for departments to maintain records of outstanding commitments i.e. orders for goods and services that have not yet been delivered and/or paid. In practice this requirement is not observed in a number of departments. The suspended PFMA 1999 would have introduced full accrual accounting.

42. **The processes of accounts reconciliation are ineffective.** The extent of the findings of the Auditor General in recent years of irregularities and lack of reconciliations - for example between departments' accounts and the MoF central records, and between MoF central records and the bank account balance - suggests that this aspect of fiscal management is neither effective or timely. The fact that departments generally have only manual accounting records and the limited flexibility of the current general ledger system makes timely reconciliation more difficult. This continues despite regular expressions of concern on inadequate reconciliation practices by the Auditor General. In recent years there have been no regular reconciliations of the monetary and fiscal data.

²² The authorities indicate that steps have been taken over the past three years to reduce the budget for staff vacancies to a minimum level.

43. **External audit is largely independent of the executive branch.** The independence of the Auditor General in Fiji is established in the 1997 Constitution. He is appointed by the Constitutional Offices Commission, a body independent of the Executive, for a period of five years, with provision for reappointment. The Constitution provides that his remuneration may not be reduced during his term. The Auditor General can only be removed from office for inability to perform his functions, or for proven misbehaviour, and he is not subject to direction or control by any person or authority in the performance of his duties. The Office of the Auditor-General is treated as if it were a government department over issues of setting its budget, and in staffing levels and salary scales - although the Constitution provides that the Public Service Commission must seek the agreement of the Auditor-General over appointments to vacancies. The Auditor is mandated to inspect the accounts of all accounting officers. This includes all central government units, provincial councils, and some, but not all statutory authorities. The Auditor-General is required to report at least once a year to Parliament on his inspection and audit of the public accounts. The Audit Act 1969 also empowers the Auditor-General to report at any time on any matter incidental to his powers. Reports are to be submitted to the Speaker of the House of Representatives, with a copy provided to the Minister of Finance. Within 30 days of receipt (or if Parliament is not in session on the first day of its next session) the Speaker must cause the Leader of each House to lay the report before the House.

44. **Strengthening of audit capacity is required.** Audits focus on financial compliance and the office has in recent years benefited from an institutional strengthening project funded by AusAID and the ADB in the exercise of that function. There is a need for more focus on assessing the soundness of the internal control environment in departments and recommending steps required to strengthen it. Further institutional strengthening will be required to maintain local capacity in the face of strong competition for accounting skills from both the private sector the rest of the government sector as well as to prepare for any move towards the introduction of performance audits. The Auditor General does not have a website.

45. **The legislature does not follow up on external audit reports.** The reports of the Auditor-General are intended to be considered by the Public Accounts Committee (PAC) of the House of Representatives, which by convention has been chaired by a member of the Parliamentary opposition. Before they are submitted to the House the Auditor-General seeks a response to his findings from departments, and departmental comments and explanations are included in the body of the Auditor's annual report. The convention historically has been that the PAC receives the report, calls officials before it to answer questions, and reports back to the House. The Government then responds to the matters of concern raised by the Committee. This accountability loop has however broken down over the last decade or so as the government had, until 2000, ceased to provide a formal response to the issues raised by the PAC. In early 2000 this convention was reactivated, but the process has again been interrupted by the political events in 2000 and, since that time the PAC has not met to consider the Auditor General's findings.

46. **The official macroeconomic forecasts are produced by an interdepartmental officials committee, with external review limited mainly to IMF consultations.** The official macroeconomic forecasts are compiled by an interdepartmental Macroeconomic Technical Committee comprising representatives from the MoF, RBF, Bureau of Statistics, the Prime Minister's Office and the Ministry of Foreign Affairs. The individual agency forecasts are discussed by the Committee and subsequently the Macroeconomic Policy Committee chaired by the Governor of the RBF, and a consensus arrived at that constitutes the official forecasts to underpin the budget. The process for producing macroeconomic forecasts is disclosed briefly in the Reserve Bank's Annual Report. There is also quite extensive reporting on the economic outlook (via the Reserve Bank's Quarterly Review), and (in the Economic and Fiscal Update) on the economic assumptions underpinning the macroeconomic forecasts presented with the annual budget. As noted, there is a lack of consistency between the macroeconomic and fiscal forecasts, and there have been delays in updating the revenue outturn data. FIRCA who are responsible for that data are not represented on the officials committee. Nor has the government published, in recent years at least, an ex post review of the accuracy of the macroeconomic forecasts.

47. **The Statistics Act 1971 gives the Government Statistician considerable independence in the production and dissemination of official statistics.** Section 6 of that Act provides that the Government Statistician may determine the method of compilation, tabulation and analysis, and determine whether statistics are published. Section 5 of the Act does provide the Minister for Finance with the power to direct what statistics are to be produced, but this has never occurred. Under the legislation the government statistician has powers to obtain administrative information from other government departments and to authorise anyone to collect statistics under the Statistics Act. He also has the duty to coordinate official statistical activity across government. In practice, the lack of timeliness of the production of statistical data needs to be addressed.²³ To date, Fiji is the only Pacific Island Country to have formally adopted the IMF's GDDS.

III. IMF STAFF COMMENTARY

48. **Fiji meets the requirements of the fiscal transparency code in a number of respects, and in recent years has expanded the range of information presented with the annual budget.** Despite the suspension of the PFMA 1999, Fiji has a reasonably sound legal framework for the conduct of fiscal management. Basic provisions are in place such as the requirement for Parliament to authorize all taxation and spending and controls on the issue of guarantees. The RBF enjoys effective independence in the conduct of monetary policy. Public enterprises are legally required to operate in a commercial manner, and to be funded from the budget for any CSOs they undertake. The Auditor General is independent of the

²³ For much of the economic and financial statistics, the latest data available at the time of the ROSC was for 1998.

executive, and reports directly to Parliament. Fiji has also made improvements in recent years in the range of information presented to the legislature with the annual budget. For example, the budget documents now present information on government guarantees, aid in kind, and revenue arrears, and a number of CSOs are funded from the budget.

49. **The status of reforms to fiscal transparency and accountability in Fiji has been complicated by the suspension of the 1999 Public Finance Management Act.** The PFMA, which would have comprehensively modernized fiscal transparency and accountability in Fiji, was introduced and passed in 1999, but was then suspended by a new government – although its precise legal status now seems unclear and should be clarified.²⁴ The companion Public Service Act 1999, which reforms personnel management, has been retained, however, and this could create a serious inconsistency with the financial management framework. For instance, chief executives are accountable from 1 January 2004 for the delivery of outputs under individual performance contracts, but will remain accountable for the delivery of programmes and activities as specified in the budget. In implementing these new measures, it will be critical that the performance management and financial management systems are harmonized. Failure to do so may weaken rather than strengthen the accountability of CEOs.

50. **There are longer-standing and serious weaknesses in the implementation of the existing legal framework for fiscal management that need to be addressed urgently.** Chief amongst these is a serious and widespread breakdown of internal controls in budget implementation, as evidenced by a series of reports by the Auditor General that point to extensive irregularities and practices in breach of laws and regulations. These breaches include: entering into commitments or expenditure in breach of appropriations; fraud; failure to account correctly for commitments and expenditure; failure to recover advances to staff, or to impose disciplinary action when indicated; inadequate reconciliation practices; abuse of trust accounts; ex post regularization of illegal expenditures; abuse of office in government procurement; and continual ignoring of regulations. In this regard, the Auditor General qualified the 2001 Accounts and Finances of Government to the effect that he could not verify that they had been fully kept in accordance with section 167 of the Constitution.

51. **More seriously, a widespread tolerance of this lack of compliance with the rule of law in financial management appears to have developed at all levels of the system.** For instance, central agencies fail to comply with their own Instructions, and there has been no discussion in the legislature of the last three annual reports of the Auditor General. The government has acknowledged the seriousness of the problems. In the Strategic Development Plan (SDP), it has announced its intention to emphasise accountability for the management and use of public funds, and compliance with laws and regulations. It also indicated a need to strengthen the capability of Parliament to exercise its oversight role.

²⁴ It should be noted that, in the staff's view, some of the provisions in the PFMA were overly ambitious, given the current status of financial management in Fiji, in particular the provisions introducing full accrual budgeting and reporting.

52. **Reasserting financial accountability in government will require strong action in a number of areas, focusing on basic financial management systems and deferring consideration of advanced reforms.** The systemic nature of the breakdown in control is such that reasserting control will not be achieved by ad hoc or isolated initiatives. Many of the problems are inter-related, and need to be addressed in tandem; others require sequencing. Until these basic steps are taken attempts to introduce more advanced techniques of budgeting are likely to reduce rather than increase accountability.²⁵

53. **There is an urgent need at the outset to establish sound internal controls.** There are four main elements to this:

- Up-grade the capability of the current accounting system so that it is capable of producing accurate and timely reports on spending, and of recording commitments and the issue of LPOs.
- At the same time, it is extremely important to make clear who is accountable for financial management in government departments – the MoF, or the CEO of each department. This will require resolving the line of accountability of accounting officers in departments, the role of the Chief Accountant in MoF, the role of MoF's internal audit unit, and identifying clearly what chief executives are accountable for in their performance contracts from 1 January 2004.
- Basic reconciliation processes need to be conducted to ensure the accuracy of accounting and banking records, and the consistency of departmental accounts and the MoF General Ledger.
- The legal framework needs to be revitalized by re-issuing the Finance Instructions, and training accounting officers across government as well as MOF staff.
- Effective and timely disciplinary action needs to be taken for contravention of financial management laws and regulations. This will require resolving an evident tension between the role of the MoF in overseeing financial management, and the role of the Public Service Commission in human resource management, including disciplinary action.
- In the medium term an effective internal audit function needs to be established within government ministries and departments.

54. **There is a need to progressively improve the quality, and expand the scope of the information provided in the annual budget documents.** Specifically, budget documents should include:

²⁵ The authorities indicated that while they broadly agree with the recommendations in this report, the availability of funds and level of human resource capacity may limit their ability to implement them all in the short run.

- The overall budget balance recast in accordance with international standards, such as the GFS. A table should be presented that reconciles the pure cash flow estimates on which the budget appropriations are based to the new analytical presentation. Any other measures of the budget balance used should be similarly reconciled to the overall balance. A budget balance net of foreign assistance should also be presented to measure the extent to which the budget is sustainable from internal resources.
- Tables showing government spending on a functional and economic basis according to internationally recognized standards.
- All spending of revenues from user-charges appropriated and trust account transactions reported in the budget documents.
- An expanded commentary on the macroeconomic and fiscal forecasts, explaining the consistency between the government's announced medium term fiscal targets and its medium term macroeconomic objectives.
- A summary statement showing all new revenue and expenditure measures being introduced in the budget, together with their estimated fiscal effects.
- Much of the spending currently included in Head 50 of the Estimates should be allocated to the appropriate department or ministry.
- A more comprehensive statement of fiscal risks, with information on the sensitivity of the fiscal aggregates to changes in macroeconomic assumptions.
- A statement of tax expenditures, with a list of all tax expenditures, together with existing estimates of their fiscal impact. The statement should be progressively expanded over time to include the public policy purpose of each provision, its duration, the intended beneficiaries, and an estimate of the fiscal impact of each provision.
- All remaining unbudgeted CSOs of public enterprises either disclosed individually in a list, or preferably fully financed from the government budget.
- Non-financial information and targets from the SDP and PSIP progressively incorporated into the Estimates.

55. **Quarterly reporting by MoF on the fiscal outturn, together with a commentary, should be introduced and a mid-year fiscal report should be presented to Parliament.**²⁶ It is a basic requirement of fiscal transparency that at least quarterly reports should be published on the fiscal outturn during the year, and a mid-year report on budget

²⁶ The authorities recently indicated that reports for the first two quarters of 2003 were circulated and that the report for the December quarter is under preparation.

implementation presented to the legislature. These reports should analyze spending against the budget appropriations (by Head and activity). In addition, they should present revenue and spending in terms of a GFS-consistent economic classification, with a comparison to budget and a commentary of what significant variances mean. Over time the within-year reporting should be augmented by presenting spending in terms of COFOG functional categories. The mid-year report should contain a comprehensive analysis of implementation against budget and a revised forecast of spending and revenue for the full year. It should be presented within three months of mid-year. The actual disbursement of the unallocated spending in Head 50 should also be reported to Parliament in the mid-year report and at the end of the year.

56. The tax statutes should be simplified, the criteria for the use of discretion reduced and clarified, and tax administration strengthened. Key measures here include:

- The independent tribunals established to consider tax-payer appeals should be reactivated as soon as possible.
- High priority should be attached to completing during 2003 the modernization and codification of the various statutes that impose income tax, in consultation with private sector experts.
- In 2003 the level of Ministerial discretion over individual tax liabilities should be reviewed, and ideally eliminated so that there is an explicit legal basis for all taxes. The scope for administrative discretion in the application of the tax laws should be minimized to that necessary for the efficient functioning of the tax system (e.g. settlement of overdue taxes). Robust procedural safeguards should be put in place to control the remaining discretionary provisions..
- The internal control environment within FIRCA should be strengthened through more fully exploiting the functionality of the new accounting system to produce management reports, setting up an internal audit unit, and strengthening the oversight role of the Internal Audit Committee of FIRCA's Board of Directors.
- A Statement of Tax Payers' Rights should be introduced.
- The Auditor General should include in his report on the 2002 Accounts and Finances of Government an assessment of the revenue and expenditure details of FIRCA.
- In the medium term a single tax-payer identification number should be introduced across all tax types.

57. Effective legislative scrutiny of public finances needs to be reactivated, and mechanisms introduced to ensure follow-up to the findings of the Auditor General. A necessary element in restoring financial control and probity to government is the restoration

of Parliament's role in holding the executive to account for irregularities and illegalities exposed by the Auditor General. To that end:

- The PAC should be re-convened as soon as possible to discuss the 2001 Audited Final Accounts. (Alternatively, the Parliamentary Sector Committees could play an important role until the obstacles to reconvening the PAC are resolved).
- The PAC should require regular (for example quarterly) reporting from the government on the implementation status of remedial actions until all the shortcomings have been resolved.
- The government should include with the 2002 Accounts and Finances of Government a plain language explanation of the Fund accounting system used in the Consolidated Fund, together with reconciliations between fund balances and bank account balances and the overall budget balance.
- The PAC would be assisted in its work if the Auditor General's report highlighted the major weaknesses more clearly, and explicitly discussed and assessed the soundness of the internal control environment in ministries and departments. Broader public oversight might also be assisted if the Auditor General issued a press release at the time of presentation of his annual audit report, putting his main findings into everyday language.

58. The policy frameworks for the FNPF, FDB and HA need to be clarified, and monitoring of them improved. As recent experience in Fiji demonstrates, weaknesses in the performance of financial institutions can accumulate into a massive shock to the government budget. There is a lack of clarity in the multiple roles carried out by the FNPF. There are also some unresolved issues around the mandate and scope of the roles played by the FDB and the HA, as well as concerns about the soundness of their financial position. In addition to sound prudential supervision, managing fiscal risk over the medium term requires careful attention to the policy and regulatory environment in which these institutions operate, the nature of the business they are authorized to conduct, and on-going monitoring of their performance. A more arms length relationship between the FNPF and government would also assist accountability, for instance through ensuring that Board members do not hold positions in government that relate closely to the functions of the FNPF.