



MINISTRY OF FINANCE AND PLANNING

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**RESPONSE TO AUDITOR GENERAL'S
DEPARTMENT
REVIEW OF FISCAL POLICY PAPER FY 2015-16**

MOFP'S RESPONSE TO AUDITOR GENERAL'S DEPARTMENT

REVIEW OF FISCAL POLICY PAPER FY 2015-16

GENERAL COMMENTS

The Ministry of Finance and Planning (MOFP) recognizes the efforts of the Auditor General's Department (AuGD) in undertaking and completing its review of the Fiscal Policy Paper and related documents, in line with statutory requirements. The final report of the AuGD dated March 3, 2015 documents several MOFP responses to issues raised by the AuGD. However, some additional commentary on the final report is warranted.

- In evaluating Criterion D (pp. 14 – 16) and in Table 8, the AuGD provides commentary on the deviations of actual tax revenues relative to budget, and notes from table 5, that “tax revenue targets have not been achieved in the last seven years”. While this is a factual statement, the report fails to acknowledge, as evidenced in table 5 itself, that the variances of actual tax revenues relative to budget have declined significantly, and since 2011/12, have declined consistently. For FY 2014/15, the variance is projected to be 1.7% compared to 7.1% at the end of FY 2008/09.
- Further, while the variance of tax revenues, in total and for specific components, is analyzed in detail, the performance of expenditures except for wages is not assessed similarly. In the context of Criterion D (“Expenditure to be managed in line with revenue so as to achieve the desired fiscal outcome”) expenditure management is an equally powerful tool. In particular, the MOFP notes that expenditure adjustments have facilitated the attainment of primary balance and debt targets, and have done so while accommodating sometimes unforeseen additional expenditure commitments.

SPECIFIC RESPONSES

Limitation of Scope

1. **The law requires that the Auditor General reviews and reports on the Fiscal Policy Paper two weeks after it is tabled in the Houses of Parliament. This requirement makes it necessary that there is robust collaboration and a communication mechanism between the Ministry of Finance and the Auditor General to facilitate the timely, proper and complete review of the FPP. The reduction in the legislative timeline was expected to be facilitated by the provision of additional resources to the AuGD. Unfortunately, the approval to facilitate the engagement of the requisite skill set and competence was not provided within a timeframe to permit availability of staff for involvement in the audit**

process. This has had a significant impact on the depth of the review of the FPP and all related documents within the legislative timeframe of two weeks.

MOFP Response:

The Estimates of Expenditure for FY 2014/15 allocated financial resources necessary to support acquisition of relevant skills. However, despite several consultations on the level appropriate for the execution of the functions, the requisite approval was provided much later than originally intended, thereby contributing to the difficulty experienced by the AuGD. The MOFP in letters dated November 3, 2014 and December 18, 2014, informed the AuGD that it had given approval for the reorganization of the Department, and, further, for the use of a contract for the recruitment of all the positions within the new Economic Assessment Unit, to facilitate the necessary recruitments, while allowing the re-organization to take place simultaneously. The MOFP regrets the delay in finalizing arrangements and will continue to work with the AuGD Department to ensure it is adequately resourced to undertake its enhanced role for future FPPs .

Further, in order to provide the Standing Finance Committee with a report within the legislative timeframe, the MoFP must provide the Auditor General with a draft before the report is tabled. It is neither practicable nor advisable to restrict the audit of a complex, sensitive and high risk area to ten days, without the requisite resources and support from the Ministry of Finance. This will have serious implications for the audit outcome and quality. I was not provided with a copy of the FPP until it was tabled on February 19, 2015.

MOFP Response:

The MOFP concurs that an approach will have to be developed to support the work of the AG in the review of the Fiscal Policy Paper. The suggestion made by the AuGD will be explored.

- 2. Information was requested from the MoFP with respect to the PPP arrangements by way of letter dated February 6, 2015. The MoFP did not respond until February 26, 2015. The short time-frame of two days (to Monday March 2, 2015) did not allow me to conduct a meaningful analysis for comment in this FPP. Consequently, I have not conducted any review of the proposed PPP arrangements.**

MOFP Response:

The MOFP regrets the delay in the response provided.

Recommendations

- 3. The MoFP has stated its concern regarding public disclosure of market sensitive assumptions. In that regard, I propose that the Ministry provides the Auditor General's Department with an addendum to the FPP, which provides the following information: (i) scenario analysis based on the perceived fiscal risks; (ii) quantification of the growth and cost savings measures; and (iii) the major assumption underlying the preparation of the FPP. This will aid in the assessment of the variances between the fiscal targets and the outturns, as well as the explanations provided by the Ministry. The MoFP has failed to act upon my recommendations pertaining to the provision of information on the perceived fiscal risk and quantification on the growth and cost saving majors.**

MOFP Response:

The MOFP continues to offer no objection to this recommendation. Nevertheless, in order to further clarify its position the MOFP wishes to state the following:

A Fiscal Risks Consultancy commenced in August 2013 with support from the IDB. The objective of the consultancy is to support the GOJ in better identifying, evaluating, quantifying and reporting its main fiscal risks for better public financial and fiscal management and economic planning.

The Consultancy titled "THE EVALUATION OF AND QUANTIFICATION OF MAIN FISCAL RISKS AND STRENGTHENING OF THE FISCAL RESPONSIBILITY FRAMEWORK" was initially due to end on December 31, 2013. However, the Consultant was not able to get all the information within the stipulated contract period and the term of the consultancy was extended to October 2014. The Consultant who was undertaking the project has moved on to other endeavours. Consequently the IDB hired another consultant in October 2014 to complete the project. The project is now expected to be completed by September 2015 and this information was conveyed to the AuGD, which is reflected in Paragraphs 31 and 46 of the AuGD's report. Upon completion of the project, the MOFP expects to receive from the consultant:

- 1. a recommended framework for the evaluation of fiscal risks, inclusive of contingent liabilities, related to Public Private Partnerships (PPPs) given that the MOFP will be required to do this within the enhanced fiscal governance framework;*

2. *a recommended framework for the evaluation of fiscal risks related to commercial public bodies that do not form part of the specified public sector; and*
3. *a mechanism to monitor and quantify fiscal risks that includes the establishment of a historical database of these main fiscal risks which the MOFP can then update/build on in successive years.*

The information emanating from the consultancy will be reflected in the FY 2016/17 FPP, and where the information is considered to be market-sensitive, it will be included in an Addendum to the FPP and thereby provided to the AuGD.

4. **The Ministry should assess the compliance measures to be undertaken by Tax Administration Jamaica and Jamaica Custom Agency intended to attain the revenue target, and factor this into the revenue projections, in light of the consistent revenue shortfall.**

MOFP Response:

Appendix V on Tax Administration in the FPP provides a lot of information on the administrative activities being undertaken, and, to be initiated by TAJ and JCA. Largely from these activities, the MOFP has factored in an amount of \$8.0bn, or 0.5% of GDP into the revenue projections.

5. **The Ministry should explain in future FPPs the reasons why step-up compliance actions did not lead to the expected revenue increases that were initially targeted; and to clarify the measures that will be undertaken in order to overcome the difficulties in achieving the revenue targets from step-up compliance.**

MOFP Response:

The MOFP offers no objection to this recommendation.