

Strengthening Public Financial Management in the Education Sector

First written May 2023, updated June 2024

Purpose

This report is prepared by VAESP as a deliverable under its 2023 Work Plan. It provides a brief outline of public financial management (PFM) strengthening initiatives undertaken by the Ministry of Education and Training (MoET) since October 2020, including those supported by the Vanuatu Australia Education Sector Program Phase II (VAESP) and other partners.

While this report includes progress updates against DFAT's proposed fiduciary risk mitigation measures, it does not seek to provide an assessment of the status of PFM systems within the Education Sector or assess exposure to fiduciary risk for DFAT.

Background

In 2019, DFAT commissioned a PFM assessment of MoET. The assessment report, released in April 2020, identifies specific risks within each component of the MoET PFM system¹ and provided an overall fiduciary risk rating for DFAT using each component. It also proposes a series of recommended mitigation measures to reduce the risk in using those components and identifies implementing agencies for each of the measures.²

The report also provided a 'post mitigation' risk assessment rating against each component, based on estimated residual fiduciary risk where proposed mitigation measures are successfully implemented. These risk ratings are summarised in the table below.

Table 1: Fiduciary Risk Assessment by Component, April 2020

PFM Component	Pre-Mitigation Risk Rating	Post-Mitigation Rating
On Plan	Moderate	Low
On Budget	Moderate	Low
On Parliament	Low	Low
On Treasury	Moderate	Low
On Accounting	High	Moderate
On Procurement	Moderate	Low
On Report	High	Moderate
On Internal Audit	Moderate	Low
On External Audit	Very High	Moderate

¹ Annex A provides a description of the components.

² VAESP is identified as being responsible for many of them, while other initiatives were identified for implementation by other agencies including the Australian High Commission (AHC) and DFAT's Governance for Growth (GfG) program.

School Grants	Moderate	Low
Overall	Moderate	Low

Progress

DFAT shared the 2020 PFM Assessment report with MoET in late 2020. MoET acknowledged the findings and agreed to support implementation of the recommended risk mitigation measures. In October 2020, VAESP contracted two Financial Management Advisers to support MoET with addressing the assessment findings and implementing the risk mitigation measures assigned to VAESP (while also supporting a range of other PFM reform initiatives identified by MoET).

Table 2 summarises the work undertaken by MoET, VAESP and other agencies (where that information was available) between October 2020 and May 2023 to address the identified risks across each component of the MoET PFM system. Additional initiatives (not outlined in the 2020 PFM Assessment, but which nonetheless contribute to improved performance of that component) are also included. Note that risk mitigation measures that were the responsibility of the Australian High Commission (AHC) are not included.

Table 2: Summary of VAESP PFM Activities, October 2020 to May 2023

PFM System Component	Risk Source and Existing Controls (2020 PFM Assessment)	Proposed Risk Mitigation Measures (2020 PFM Assessment)	Responsible	Progress
On Plan	<ul style="list-style-type: none"> MoET does not have a sector strategy in place. MoET is in the process of finalising the VETSS 2020-2030. 	<ul style="list-style-type: none"> Use the planned program midterm review to assess the modality and scope so as to rebalance between contract and DFA, if and as required. 	VAESP	<ul style="list-style-type: none"> MoET now has a sector strategy in place, with the VETSS 2020-2030 launched in June 2020. VAESP supported the design and implementation of a Joint Education Sector Review (JSR). This will strengthen planning, contribute to improved donor coordination and determine progress toward MoET's corporate plan outcomes. MoET Policy and Planning Unit are currently reviewing the corporate plan. After this, they will develop a new results framework. This framework will then feed into a new M&E plan. VAESP delivered program logic workshops to MoET staff (alongside VAESP managers and coordinators) to establish where VAESP support was required in 2023. These program logics also identified annual 2023 indicators and targets for VAESP reporting. MoET, with VAESP support, delivered planning workshops to all provinces. The DFA is currently being reassessed.
On Budget	<ul style="list-style-type: none"> The engagement of PEOs in the annual budget preparation process is somewhat limited. There is no education sector MTEF. 	<ul style="list-style-type: none"> Support MoET in developing annual planning and budgeting guidance for the PEOs as well as to train staff. Assist MFEM and MoET to prepare an education sector MTEF. 	VAESP GfG/ VAESP	<ul style="list-style-type: none"> VAESP supported strengthened planning processes by aligning all MoET Business plan activities and VAESP sub-activities to MoET's Corporate Plan 2022-26. VAESP supported the Policy and Planning Unit (PPU) to deliver planning, monitoring and reporting training to MoET central staff and the six provincial education offices, with a total of 68 provincial staff trained (30 females and 38 males). Further work is required to incorporate annual planning and budgeting guidance into the Financial Management Manual. GfG support to developing an education sector Medium Term Expenditure Framework, through facilitation MoET's participating in the MTEF Working Group. There was limited engagement from MoET on this in 2021, though a basic MTEF for Education was incorporated in the 2022 and 2023 Budget Books. Further work is required to review the MTEF model and incorporate the VETSS and other known pressures. VAESP presented the Compulsory Education Options paper and costing tool to MoET Management, which can be used as a MTEF development tool. Work to support the alignment of the budget structure and the corporate plan is ongoing. This allows for greater PEO engagement in the budget process and provides a foundation for an MTEF. MoET advised that progress toward implementing an overall MTEF has stalled due to limited follow-through from Department of Finance and Treasury (DoFT). MoET submitted an MTEF for their 2024 and 2025 NPPs to DoFT.
On Parliament	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	N/A	<ul style="list-style-type: none"> MoET has improved alignment of DFAT-supported activities in its budget submission, with a notable improvement in the

PFM System Component	Risk Source and Existing Controls (2020 PFM Assessment)	Proposed Risk Mitigation Measures (2020 PFM Assessment)	Responsible	Progress
On Treasury	<ul style="list-style-type: none"> MoET's Finance Officers do not have direct access to the FMIS imprest module. Many teachers are not yet paid according to the 2018 pay scales. 	<ul style="list-style-type: none"> Resolve the lack of access to the FMIS imprest module. Support MoET in calculating and monitoring future back-pay of teachers salaries. 	<p>MFEM, MoET</p> <p>MoET, VAESP</p>	<p>comprehensiveness of the development partner budget estimates in the 2023 Budget Book.</p> <ul style="list-style-type: none"> Planning budget alignment for 2025 will allow matching of recurrent and development partner financing for distinct objectives in the corporate plan. The access issue for the FMIS imprest module is not resolved. Further upgrades to the SmartStream FMIS are on hold as MFEM investigates replacement options. MFEM and MoET conducted a re-grading exercise in 2021, updating teachers' salaries according to the latest TSC scales (based on qualifications). Backpay provisions have been included in New Policy Proposals (NPPs), though it is not clear that all liabilities have been fully paid (at time of reporting). VAESP supported improved payroll management, integrating OVEMIS Teacher Register module with other databases. VAESP conducted a study into the Management and Supply of Teachers, to guide the strengthening of teachers' management for quality teaching and learning. VAESP is continuing to provide ongoing ad hoc advice to the AHC on Direct Funding Agreement matters, including adjustments relating to additional disaster-related funding.
On Accounting	<ul style="list-style-type: none"> MoET's Finance Unit and the PMU do not have FMM in place. Financial management capacity at the level of schools is very weak. 	<ul style="list-style-type: none"> Support the Finance Unit and the PMU in developing FMMs. Continue to support MoET in developing/updating school financial management guidance as well as delivering training to school principals and teachers. 	<p>VAESP</p> <p>MoET, VAESP</p>	<ul style="list-style-type: none"> VAESP supported the completion of the draft MoET Financial Management Guideline, which acts as a 'how to' guide for MoET staff on finance and administration tasks. Individual MoET units including Human Resources, Internal Audit, Procurement, Policy and Planning and Finance) are reviewing the sections relevant to them before finalisation. VAESP supported the preparation of financial management training materials, to support the roll-out of the Guideline. VAESP provided support to upgrades of the OVEMIS Finance module, leading to improved data collection (including recording and reporting against school revenue and expenditure and generation of statistics). VAESP is continuing to support school-level financial management. The Project Management Unit (PMU) was set up in 2015 to implement the DFAT-financed TC Pam Recovery Program. It was re-established to manage MoET's civil works including Ambae and TC Harold recovery. Since then, it has been absorbed into MoET and its responsibilities are now held by the Administration and Asset Management Unit (AAMU). The PMU is mentioned here because it had separate accounts. This no longer the case. All AAMU activities are now subject to regular MoET financial management rules.
On Procurement	<ul style="list-style-type: none"> The PMU does not have a procurement manual in place for the use of DFA funds. MoET and the PMU do not have APPs. 	<ul style="list-style-type: none"> Support the PMU to develop set processes for MoET against the GoV procurement framework. Support MoET and the PMU to prepare APPs. 	<p>VAESP</p> <p>MoET, VAESP</p>	<ul style="list-style-type: none"> VAESP provided training for procurement and infrastructure (facilities) staff on new Government of Vanuatu procurement regulations, including the development of process maps for use by the Facilities Unit. VAESP supported the updating of the MoET Procurement Manual, incorporating guidance on school-based procurement

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On Report	<ul style="list-style-type: none"> IPSAS-compliant reports cannot be generated directly from the FMIS. Some activities to assess the financial reporting from the FMIS are planned, but do not currently focus specifically on IPSAS. 	<ul style="list-style-type: none"> Support MFEM to assess the feasibility of automating the generation of IPSAS-compliant reports from FMIS (or based on another mutually acceptable standard). 	GfG	<ul style="list-style-type: none"> VAESP developed an Annual Procurement Plan template for MoET, including supporting the drafting of the 2022 APP. VAESP provided support to development of a School Procurement Manual, to support schools with managing procurement at the school level. VAESP supported development of a school procurement training package, to complement the manual. VAESP supported development of a concept note on bulk procurement considerations for schools. VAESP provided support to improved school infrastructure designs and investment planning approaches, which is expected to lead to improved infrastructure procurement going forward. The PMU is mentioned here because it had separate accounts. This no longer the case. All AAMU activities are now subject to regular MoET procurement rules.
On Internal Audit	<ul style="list-style-type: none"> MoET's IAU does not have sufficient capacity at the PEO-level. MoET's planned re-organisation will provide for internal auditors being place in all PEOs. MoET's Audit Committee is non-functional. 	<ul style="list-style-type: none"> Support MoET define the staffing, procedures and reporting lines of the new internal audit function. Encourage MoET to revise the Audit Committee, including with development partner participation. 	MoET, VAESP MoET, VAESP	<ul style="list-style-type: none"> VAESP supported MoET's review the Ministry's Internal Audit Charter and Terms of Reference of the Risk and Audit Committee, alongside planning for a workshop to develop a more comprehensive risk register in 2023 to aid the implementation of the financial regulations concerning risk and audit. We prepared a draft updated internal audit charter in alignment with new global standards, prepared a risk and audit committee charter that is compliant with the Vanuatu PFM regulations, and prepared an updated internal audit manual in alignment with global standards. There is agreement that finance officers should be placed in provincial offices, but the current review of education legislation needs to be completed before changes to MoET's structure can be made.
On External Audit	<ul style="list-style-type: none"> OAG capacity. While some support is already being provided to the OAG, more support is required. 	<ul style="list-style-type: none"> Increase the technical assistance to the OAG in relevant areas and as per the OAG's Corporate Plan and annual plans. 	GfG	<ul style="list-style-type: none"> GfG has provided ongoing financial assistance through a DFA to the OAG. OAG is now close to on-time in completing its financial statements audit procedures
School Grants	<ul style="list-style-type: none"> Funds may not be used for the intended purposes due to the weak financial 	<ul style="list-style-type: none"> Support MoET to prepare updated guidance for school financial management 	VAESP	

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	management capacity of school principals and teachers, which is reflected in the large number of non-compliant schools	<ul style="list-style-type: none"> Support MoET to assess the possibilities for engaging external training providers to deliver financial management training to school principals and teachers. 	VAESP	<ul style="list-style-type: none"> VAESP supported the finalisation of the School Financial Management Manual. This is now in current use and is getting updated over time. VAESP supported the development of a complementary school financial management training package. MoET conducted training with schools across all six provinces in 2022, with further training conducted in Q2 2023. This is ongoing. VAESP raised the option of engaging external training providers, though this idea was not supported by MoET counterparts VAESP supported the review and update of the School Grants Code in 2021. A further review is currently underway. VAESP supported the communication of school grant requirements, developing posters and other communication products. VAESP supported the implementation of the Minimum Quality Standards, including a refresher training with coordinators on the monitoring tool. VAESP conducted a study into the impacts of COVID-19 on schools, including exploring the impact of the Vanuatu-Australia School Community Grant. VAESP conducted a study into the financing of Early Childhood Education and Training to guide reform on the ECCE grants' program. VAESP undertook the Cost of Primary Education study, with briefings provided to MoET management. The study examines school grant implementation across schools, investigates how schools and communities augment school finances, analyses expenditure patterns for school finances and reviews oversight and management practices of school grant implementation. Independent external audits of the DFA is contracted through DFAT. A 2022 financial plus compliance (including school grant) audit is underway, to be completed mid-2024, followed by the 2023 audit.

Annex A

Description of PFM System Components used in the 2020 PFM Assessment

Component	Description
On Plan	DFAT funds are On Plan if they are incorporated into MoET strategic plans and into the supporting documentation for the policy intentions behind their budget requests.
On Budget	DFAT funds are On Budget if they and their intended use are incorporated into the MoET and GOV budgeting processes and reflected in budget documentation.
On Parliament	DFAT funds are On Parliament if they are included in the appropriation bills approved by the Parliament of Vanuatu.
On Treasury	Aid funds are On Treasury if they are disbursed into the GOV main revenue funds (typically the Development Account), and then managed according to the government's regular systems for disbursement and financial control.
On Accounting	Aid funds are On Accounting if they are recorded and accounted for in the GOV accounting system (i.e. the financial management information system, FMIS), in line with its own classification system.
On Procurement	Aid funds are On Procurement if aid-funded procurements follow the GOV procurement procedures.
On Report	Aid funds are On Report if they are included in the financial and non-financial reports that monitor and report on MoET's expenditure.
On Internal Audit	Aid funds are On Internal Audit if they are audited by MoET's internal auditing systems.
On External Audit	Aid funds are On External Audit if they are audited by GOV's external auditing systems (i.e. through the Office of the Auditor General, OAG)
On School Grants	Aid funds are On Grant if aid-funded grants follow the MoET grant procedures.