



REPUBLIC OF MAURITIUS

NATIONAL AUDIT OFFICE

PERFORMANCE AUDIT REPORT

GOVERNMENT CASH MANAGEMENT

**Ministry of Finance, Economic Planning
and Development**

JUNE 2022

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FOREWORD

Section 16 (1A) of the Finance and Audit Act requires the Director of Audit to carry out performance audit and report on the extent to which a Ministry, Department or Division is applying its resources and carrying out its operations economically, efficiently and effectively.

I am pleased to submit to the Minister of Finance, Economic Planning and Development, and through him to the National Assembly, this Performance Audit Report entitled “Government Cash Management”.

As spelt out in the Budget Estimates 2020-21 and 2021-22, Government experienced an unprecedented contraction in tax revenue due to the impact of the COVID-19 pandemic on the economy in the financial years 2019-20 and 2020-21. The challenge of meeting extended cash needs to finance emergency spending to support businesses and individuals along with the rising debt level over the past years motivated the selection of this subject matter.

The main objective of this performance audit was to assess whether the oversight role of the Ministry of Finance, Economic Planning and Development was sufficient in ensuring that funds to Public Bodies were disbursed in an effective manner and were utilised efficiently. It covered the period July 2017 to June 2020 and where applicable, updated information is included in the report.

The Ministry was given the opportunity to comment on the content of the Report, which also includes recommendations for improvement. A follow-up audit will be carried out in due course to evaluate the adequacy, effectiveness, and timeliness of actions taken by the Ministry on reported findings and recommendations.

I would like to take this opportunity to thank the Financial Secretary, the Senior Chief Executive of the Ministry of Local Government and Disaster Risk Management, the Permanent Secretary of the Ministry of Social Integration, Social Security and National Solidarity (Social Integration Division), the Accountant General and all their staff for their cooperation and collaboration. I also wish to thank my staff who were engaged in the conduct of this audit.



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30 June 2022

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ABBREVIATIONS AND ACRONYMS

ARC	Assessment Review Committee
BCG	Budgetary Central Government
BoM	Bank of Mauritius
CABRI	Collaborative Africa Budget Reform Initiative
CM	Cash Management
EBUs	Extra Budgetary Units
GDP	Gross Domestic Product
LAs	Local Authorities
LAGU	Local Authorities Governance Unit
MoFEPD	Ministry of Finance, Economic Planning and Development
MoLG	Ministry of Local Government and Disaster Risk Management
MoU	Memorandum of Understanding
MRA	Mauritius Revenue Authority
MSI	Ministry of Social Integration, Social Security and National Solidarity (Social Integration Division)
NAO	National Audit Office
NRF	National Resilience Fund
PDM	Public Debt Management
PEFA	Public Expenditure and Financial Accountability
PSD	Public Sector Debt
TAS	Treasury Accounting System
TCs	Treasury Certificates
TSA	Treasury Single Account

EXECUTIVE SUMMARY

Government cash management may be defined as “*the strategy and associated processes for managing cost-effectively the short-term cash flows and cash balances, both within Government, and between Government and other sectors*”. The objective of cash management is to have adequate control over the cash position, so as to ensure that Government has the right amount of money at the right time to meet its obligations in the most cost-effective way, and that excessive cash is used in the most efficient and effective manner.

The key functions of the Ministry of Finance, Economic Planning and Development (MoFEPD) include monitoring the performance of the Mauritius Revenue Authority (MRA) and other major revenue collecting departments and overseeing, through the Parent Ministry, performance of Public Bodies and compliance with legal financial reporting requirements.

According to MoFEPD, as spelt out in the Budget Estimates 2020-21 and 2021-22, Government experienced an unprecedented contraction in tax revenue due to the impact of the COVID-19 pandemic on the economy in the financial years 2019-20 and 2020-21. At the same time, Government faced challenges of meeting extended cash needs to finance emergency spending to support businesses and individuals. To address these challenges, in addition to its traditional sources of financing, Government had recourse to exceptional fiscal support from the Bank of Mauritius to finance its payment obligations.

In May 2020, the Public Debt Management Act was amended for the purpose of waiving the debt ceiling which capped the Public Sector Debt at 65 per cent of Gross Domestic Product. Since then, the Public Sector Debt soared from 65.3 per cent as of 30 June 2019 to 83.4 per cent as of 30 June 2020. With the rising debt level, it became even more important for Government to strengthen cash management.

It is against this background that the National Audit Office (NAO) conducted this Performance Audit on Government Cash Management to assess whether the oversight role of MoFEPD was sufficient in ensuring maximum revenue mobilisation and that funds to Public Bodies were disbursed in an effective manner and were utilised efficiently. It covers the period July 2017 to June 2020 and where applicable, updated information is included in the report.

Key Findings

Government Revenue

Revenue generated by Government was on average below the original estimates over the financial years 2017-18 to 2019-20. The shortfall in revenue increased from Rs 6.4 billion in the financial year 2017-18 to Rs 17.9 billion in 2019-20. As such, Government had recourse to both domestic and foreign sources of finance to meet its payment obligations. In 2019-20, a contribution of Rs 18 billion was also received from the Bank of Mauritius.

Recovery of Arrears

The current strategies implemented for recovery of arrears appeared to be insufficient. The total arrears of revenue, increased from Rs 11 billion at 30 June 2018 to Rs 14.5 billion at 30 June 2020. At the end of financial year 2020-21, the total arrears of revenue amounted to Rs 14.2 billion, after the write off of debts of Rs 3.2 billion.

Disputed debts increased from Rs 18.3 billion to Rs 22.3 billion between 30 June 2020 and 30 June 2021 and these debts have been excluded from the Statement of Arrears of the Treasury. These debts related to claims pending under objections at the MRA and cases lodged at the Assessment Review Committee. Some Rs 13 billion of the total disputed debts of Rs 22.3 billion related to the financial years 2017-18 to 2020-21.

In its reply, MoFEPD stated that consideration is being given to set up a Central Debtors' Management Unit under the aegis of the Treasury. Moreover, amendment will be brought in the forthcoming Finance Bill to empower the Treasury for monitoring of the collection of arrears of revenue.

Control of Expenditure – Disbursements and Transfers to Public Bodies

Total Government expenditure increased from Rs 119.4 billion in the financial year 2017-18 to Rs 157.8 billion in 2019-20. Total expenditure which included grants to Statutory Bodies, Local Authorities and other Public Bodies, and transfers to Special Funds increased from Rs 31.8 billion in 2017-18 to Rs 36.4 billion in 2019-20.

Surplus Cash held by Local Authorities

The cash and cash equivalents, held by the twelve Local Authorities at the end of financial years 2017-18 to 2019-20, were on average of Rs 830 million. Investments by the Local Authorities in Government securities and fixed deposits totalled some Rs 1 billion at the end of each financial year under review.

The major part of the cash balances held by the Local Authorities is obtained by way of grants from the Central Government. Moreover, there was no policy or guideline on the minimum cash balances to be kept by each Local Authority.

MoFEPD informed that as from financial year 2021-22, Local Authorities have adopted the cash-based budgeting system and the need for retaining cash for expenditure would not arise. In addition, consideration may be given to develop guidelines on minimum cash and cash equivalents.

Disbursements of Grants to Local Authorities - Non-Compliance with Financial Instructions

Applications for funds by the Local Authorities were not always supported by financial and non-financial data as required by the Financial Instructions No 2 of 2014 on Administration of Government Grants. In each of the financial years 2017-18 to 2019-20, the amount budgeted for grants of some Rs 3 billion were released in toto without proper needs assessment by the Ministry of Local Government and Disaster Risk Management.

Surplus Cash held by Statutory Bodies

An analysis of the financial statements of 34 Statutory Bodies revealed that the aggregate cash and cash equivalents held by those Public Bodies at the end of each of the financial years 2017-18 to 2019-20 amounted on average, to some Rs 3 billion per annum.

NAO was informed that Circular No 3 of 2022 – Financial Instructions on “Remittance of Surplus Cash Balances” was issued in March 2022 and requires for Supervising Officers to submit data on operating surplus and accumulated revenue reserves and cash balances of Statutory Bodies to MoFEPD.

Surplus Cash held by National Empowerment Foundation

In the financial years 2017-18 to 2019-20, funds for the implementation of capital projects were released to the Foundation without due consideration to its payment commitments. Unutilised capital grants at the end of financial years 2017-18 to 2019-20 were on average Rs 170 million. In the financial year 2020-21, the Foundation invested a total amount of Rs 175 million in two commercial banks.

In its reply, MoFEPD stated that the National Empowerment Foundation has been informed that investment of any surplus funds should be in accordance with Circular No. 6 of 2019 – “Using Surplus Funds for Early Repayment of Public Sector Debt”.

Cash Transferred to Special Funds

In the financial years 2017-18 to 2020-21, a total amount of Rs 45.8 billion was transferred from the Consolidated Fund to four Special Funds, whose monies are deposited with the Accountant General. The largest transfer of Rs 31.7 billion was effected in the financial year 2020-21.

At the end of the financial year 2020-21, some Rs 25.3 billion were held by these Special Funds in unremunerated bank accounts, while Rs 10.8 billion were invested in Treasury Certificates and in other Financial Institutions. MoFEPD did not compute the opportunity cost of holding significant funds in unremunerated bank accounts and the finance cost paid on borrowings.

The cash requirements of the Special Funds to meet short to medium term payment obligations did not appear to have been the key factor motivating the transfer of money to those Special Funds.

NAO was informed that once funds are appropriated by the National Assembly, transfers to Special Funds have to be effected according to approved policy.

Conclusion

There is room for improvement as the oversight role of MoFEPD is not sufficient in ensuring maximum revenue mobilisation and that grants and transfers to Public Bodies are disbursed in an effective manner and are utilised efficiently.

MoFEPD, through the Parent Ministries, has not ensured that Public Bodies comply with conditions of Financial Instructions and Circulars. The current system may have occasioned surplus cash, to be unnecessarily locked in unremunerated bank accounts.

The Public Sector Debt as a percentage of Gross Domestic Product increased from 83.4 per cent as at 30 June 2020 to 96.2 per cent as at 30 June 2021. An efficient and effective management of cash resources will have a definite positive effect on the level of Government borrowings.

Key Recommendations

- (i) MoFEPD should improve the existing and/or set up appropriate mechanisms to ensure that
 - revenues are collected by Ministries and Departments as soon as they become due with a view to minimising arrears; and
 - arrears are recovered as soon as possible to minimise the risks of the arrears becoming irrecoverable.
- (ii) MoFEPD should strengthen its oversight, through Parent Ministries, to ensure that funds are disbursed on a need basis and utilised for the intended purpose and that there is full compliance with the conditions of the Financial Instructions No 2 of 2014 on Administration of Government Grants.
- (iii) MoFEPD should examine the possibility for extending the system for the disbursements of funds by the Treasury to meet payment obligations of Ministries and Departments to other Public Bodies which obtain grants from the Central Government.
- (iv) MoFEPD should develop proper guidelines regarding the level of cash and cash equivalents to be kept by Public Bodies, based on their specificities.
- (v) Transfers from Consolidated Fund to Special Funds should be made as and when the need arises to meet the payment obligations.
- (vi) The Treasury should consider implementing a Treasury Single Account System that would enable it to have custody of all cash accruing to the Consolidated Fund and that are not immediately required by Public Bodies for payment purposes. This would also enable the determination of Government's short-term cash requirements in a more precise manner.

CHAPTER ONE

INTRODUCTION

This Chapter provides a background of the subject matter examined and describes the approach used in carrying out the audit.

1.1 Background

Government cash management may be defined as “*the strategy and associated processes for managing cost-effectively the short-term cash flows and cash balances, both within Government, and between Government and other sectors*”. The objective of cash management (CM) is to have adequate control over the cash position, so as to ensure that Government has the right amount of money at the right time to meet its obligations in the most cost-effective way, and that excessive cash is used in the most efficient and effective manner.

According to Collaborative Africa Budget Reform Initiative (CABRI) Report on ‘Improving Cash Management Through Effective Co-Ordination’, modern CM includes policy and strategic objectives which consider attaining cost effectiveness by minimising financing costs and maximising returns on cash balances. This is achieved by eliminating large, idle cash balances so that the needs to borrow arises only when it is necessary.

1.2 Audit Motivation

According to MoFEPD, as spelt out in the Budget Estimates for financial years 2020-21 and 2021-22, Government experienced an unprecedented contraction in tax revenue due to the impact of the COVID-19 pandemic on the economy in the financial years 2019-20 and 2020-21. At the same time, Government faced the challenge of meeting extended cash needs to finance emergency spending to support businesses and individuals. To address these issues, in addition to its traditional sources of financing, Government had recourse to exceptional fiscal support from the Bank of Mauritius (BoM) to finance its payment obligations.

In May 2020, the Public Debt Management (PDM) Act was amended for the purpose of waiving the debt ceiling which capped the Public Sector Debt (PSD) at 65 per cent of Gross Domestic Product (GDP). Since then, the PSD has soared from 65.3 per cent as of 30 June 2019 to 83.4 per cent as of 30 June 2020. With the rising debt level, it became even more important for Government to strengthen CM.

The Reports of the National Audit Office (NAO) for the financial years 2018-19 and 2019-20 highlighted several lapses in the administration of grants particularly with respect to non-compliance with financial instructions issued by the Ministry of Finance, Economic Planning and Development (MoFEPD). It was also reported that there were unspent and uncommitted funds held by some Government entities.

It is against this background that the NAO carried out this Performance Audit on Government Cash Management.

1.3 Audit Objective

The audit assessed whether the oversight role of the Ministry of Finance, Economic Planning and Development (MoFEPD) was sufficient in ensuring maximum revenue mobilisation and that funds to Public Bodies were disbursed in an effective manner and were utilised efficiently.

The audit was designed by formulating two audit questions and the answers to these questions supported the conclusion against the objective. The audit questions are as follows:

- Were the strategies for ensuring maximum revenue mobilisation effective?
- Did MoFEPD ensure that disbursement of grants and transfers to Public Bodies were carried out in an effective manner and used efficiently?

1.4 Audit Scope

The Performance Audit examined key aspects of revenue mobilisation, the disbursement of grants mainly to the Local Authorities (LAs) and Statutory Bodies as well as transfers to the Special Funds whose money is deposited with the Accountant General.

One State Owned Company, namely, the National Empowerment Foundation (hereinafter referred to as the Foundation), recipient of significant capital grants over the period under review, was also selected to assess whether funds were disbursed and utilised in an efficient and effective manner. Cash Management at the level of the Rodrigues Regional Assembly was excluded.

The Performance Audit covered the period July 2017 to June 2020 and where applicable, updated information is included in the report.

1.5 Audit Approach and Methodology

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions. Different methodologies were used to understand the audit area, along with obtaining sufficient, relevant and reliable audit evidence to support the conclusions and recommendations.

1.6 Methods Used for Gathering and Analysing Data

Data was gathered mainly from files and documents. This was complemented by interviews to confirm information in files. Quantitative and qualitative data obtained from interviews and document reviews were compiled and analysed to provide competent evidence to support the conclusion and recommendations.

1.6.1 Documents Reviewed/Consulted

Relevant Acts and Regulations and other documents were consulted. Further, information on policies, processes, systems, procedures and practices were collected through review of files and documents from MoFEPD and the selected Public Bodies.

1.6.2 Personnel Interviewed

Interviews were conducted to confirm the information collected from files and documents reviewed, and for obtaining additional explanations. Interviews were carried out with key personnel at operational, middle and senior management level of MoFEPD, the Treasury and the selected Public Bodies.

1.6.3 Sampling

The Financial Statements of selected Statutory Bodies as well as those of the LAs were scrutinised to take cognisance of the grants disbursed, Investments and cash and cash equivalents balances at the end of the three financial years 2017-18 to 2019-20. Further, the Financial Statements of Special Funds created under the Finance and Audit Act and whose monies are deposited with Accountant General were also examined.

1.7 Assessment Criteria

Assessment Criteria are standards that were used as a basis for evaluating the evidence collected, developing audit findings and reaching conclusion on the audit objective. The criteria were extracted from Circulars and Financial Instructions issued by MoFEPD as well as good practices. Other assessment criteria, as used in the relevant sections in the Report were extracted, amongst others, from the following sources:

(i) Laws and Regulations

- The Constitution of Mauritius
- Public Debt Management Act
- The Statutory Bodies (Accounts and Audit) Act
- The Local Government Act
- Finance and Audit Act
- Regulations issued under the Finance and Audit Act (Special Fund Provisions)

(ii) Publications from International Organisations

- IMF Report on Modernising Cash Management
- CABRI Report
- Public Expenditure and Financial Accountability (PEFA) Reports

(iii) Other Documents

- NAO Reports
- Budget Estimates
- Annual Reports of the Treasury

1.8 Data Validation

All the Ministries and Departments selected were provided with the audit criteria, findings, conclusion and recommendations to confirm their relevance, accuracy and suitability.

1.9 Structure of the Report

The remaining part of the Report covers the following:

- Chapter Two describes the audit area, the roles and responsibilities of key stakeholders involved in Government cash management. Key aspects of the different activities relevant to Government cash management are also described.
- Chapter Three presents the audit findings based on the audit questions.
- Chapter Four provides the audit conclusion against the audit objective based on analysis and findings supported by audit evidence.
- Chapter Five outlines the recommendations based on the audit findings and conclusion.

CHAPTER TWO

DESCRIPTION OF THE AUDIT AREA

This Chapter describes the audit area, the roles and responsibilities of key stakeholders involved in Government cash management. Key aspects of the different activities relevant to Government cash management are also described.

2.1 Introduction

The objectives as well as the roles and responsibilities of the key players involved in CM have been described in paragraph 2.2. The functions of the Public Bodies selected as well as the legal and regulatory framework for CM are detailed in paragraphs 2.4 and 2.5 respectively while other key aspects relevant to CM are elaborated in paragraphs 2.6 to 2.12.

2.2 Roles and Responsibilities of Key Players

The roles and responsibilities along with the functions of MoFEPD and other key players falling under its aegis are as follows.

2.2.1 Ministry of Finance, Economic Planning and Development

The Ministry is responsible for formulating policies for the economic and social development and for the economic management of the affairs of the Government. It is also responsible for ensuring financial soundness of the socio-economic policies for effective mobilisation of revenue and for the proper control of expenditure.

Its functions include, amongst others, monitoring the performance of the Mauritius Revenue Authority and other major revenue collecting departments and overseeing, through the Parent Ministry, performance of public bodies and compliance with legal financial reporting requirements.

The Treasury, which falls under the aegis of MoFEPD, is responsible to determine the cash requirements to meet Government's obligations as they fall due and to ascertain that proper CM systems are in place in all Departments for the efficient and effective use of cash resources.

The Cash Management Unit at the Treasury is responsible, amongst others, for preparing cash flow forecasts and monitoring the cash flow position of Government as well as assisting MoFEPD with the determination of the borrowing requirements. On the other hand, PDM Unit ensures co-ordination among the various stakeholders and manages the loan contraction and debt management processes.

2.3 Definition of Public Sector

According to PEFA reports, Public Sector consists of the General Government Sector, the Non-Financial Public Corporations and Public Financial Corporations.

The General Government comprises the Central Government and the Sub-National Government. The Central Government covers all units that are agencies of the country's central authority and it consists of the Budgetary Central Government (BCG) and the Extra Budgetary Units (EBUs).

All Ministries and Departments fall under BCG while EBUs include Special Funds and Statutory Bodies. EBUs are responsible for the performance of specialised governmental functions in such fields as health, education, social welfare, and construction amongst others. They are set up under the Regulations issued under the Finance and Audit Act (Special Fund Provisions), Statutory Bodies (Accounts and Audit) Act and/or are guided by their relevant Acts.

2.4 Functions of the Public Bodies Selected

The Public Bodies selected for the audit depend largely on Government funding to carry out their operations. Annual Grants are disbursed to LAs, Statutory Bodies and other Public Bodies while transfers from the Consolidated Fund are effected to some of the Special Funds whose monies are deposited with the Accountant General.

2.4.1 Ministry of Local Government and Disaster Risk Management

The Ministry is responsible for the formulation of appropriate policies and strategies and the establishment of necessary legal framework to ensure that entities under its purview operate smoothly to contribute effectively towards achieving national objectives amongst others, in respect of Local Government matters. The Ministry is also responsible for the disbursement of annual grants to LAs for the implementation of Government programmes and to ensure that grant is being appropriately applied.

2.4.2 Ministry of Social Integration, Social Security and National Solidarity (Social Integration Division)

The vision of the Ministry of Social Integration, Social Security and National Solidarity (Social Integration Division) (MSI) is the eradication of extreme and chronic poverty and the creation of an inclusive and more equitable society.

The National Empowerment Foundation (hereinafter referred to as the Foundation) is a not-for-profit state-owned company and operates as the executive arm of the Ministry. The Foundation provides dedicated support to specific vulnerable groups, particularly to those unemployed and to low income and vulnerable households. The support was geared towards broadening the circle of opportunities of vulnerable groups in areas like employment, education and housing.

A Memorandum of Understanding (MoU)¹ signed between the Ministry and the Foundation on 18 March 2016 and renewed on 18 March 2019 clearly defined the roles and responsibilities of the Ministry (Article 3) and the Foundation (Article 1 and 2) with respect to the application and disbursement of grants by the Ministry and the implementation of the Programmes/Projects as may be entrusted to the Foundation.

2.4.3 Special Funds

Special Funds are governed by Regulations issued under the Finance and Audit Act (Special Fund Provisions) or by their own individual legal frameworks approved by Parliament. According to Section 9 of the Finance and Audit Act, no proposal for the creation of a new Special Fund shall be made save in exceptional circumstances and with the prior approval of the Minister to whom responsibility for the subject of Finance is assigned.

Every Special Fund shall be administered in the manner specified in the enactment or the instrument creating it. In case there is no such provision in the enactment or instrument creating a Special Fund, the Minister may provide for its administration. Subject to Section 9 of the Finance and Audit Act and to any other enactment, money standing to the credit of a Special Fund may, with the Minister's approval, be invested with a bank, financial institution, fund, or in such securities while any interest or dividend received in respect of a Special Fund shall accrue to that Fund.

2.5 Legal and Regulatory Framework for Cash Management

The legal framework for the management of public finance is primarily regulated by Chapter X of the Constitution. Section 103 establishes a single consolidated fund into which *'all revenues or other money raised or received for the purposes of the Government... shall be paid into and form one Consolidated Fund'*. The Constitution also provides for the conditions under which withdrawals can be made and how expenditure should be authorised (appropriated) therefrom. Other Acts relevant to CM are as follows.

➤ ***The Finance and Audit Act***

The Act expands on the provisions of the Constitution with regard to the operations of the consolidated fund, including powers of the Minister of Finance.

➤ ***The Public Debt Management Act 2008***

The provisions in the Act gives power to the Minister to whom responsibility for the subject of finance is assigned to raise funds on behalf of the Government.

➤ ***Statutory Bodies (Accounts & Audit) Act***

The Act stipulates that where the financial statements of the statutory body show an operating surplus or accumulated revenue reserve, the Board shall, at the request of the Minister to whom responsibility for the subject of finance is assigned, remit the surplus or accumulated revenue

¹ It became effective on the day of signing and remained in force for a period of three years, unless otherwise terminated, revoked or rescinded.

reserve into the Consolidated Fund or invest in Treasury Certificates or other Government securities.

➤ ***Local Government Act***

In the Act, it is stated that the purpose of a Local Authority is to ensure that resources are used efficiently and effectively to best meet the needs of the local community.

2.6 Financial Instructions and Circulars

The Finance and Audit Act makes provisions for the Minister, to whom responsibility for the subject of finance is assigned, to issue Financial Instructions for the better carrying out of the provisions of the Act. The Financial Instructions and Circulars relevant for CM are as follows:

➤ ***Financial Instructions No 2 of 2014 – Administration of Government Grants***

According to the Financial Instructions No 2 of 2014, a grant may be defined as an arrangement for the provision of financial assistance by the Government under which public money is to be paid to a recipient referred to as Grant Recipient. In administering approved grants, spending agencies must comply with the overarching obligation to make efficient, effective and ethical use of public funds. All applications for funds shall be supported by relevant documents including both financial and non-financial data.

➤ ***Circular No 6 of 2019 – Using Surplus Funds for Early Repayment of Public Sector Debt***

In order to enable the early repayment of PSD, Government, through the BoM, would issue specifically designed Treasury Certificates (TCs) so as to reduce the excess liquidity in the banking system as well as the cost of mopping up that excess liquidity. The TCs would be open exclusively to Non-Financial Public Sector Bodies, EBU's and LAs.

➤ ***Circular No 11 of 2019 – Amendments to Statutory Bodies (Accounts and Audit) Act***

It is stated that where the Financial Statements of a Statutory Body show an operating surplus or accumulated revenue reserve, the Board shall at the request of the Minister responsible for the subject of finance, remit them into the Consolidated Fund or invest in TCs or other Government Securities.

2.7 Budget Process

Every year, MoFEPD requests Ministries and Departments to submit their budget proposals, for both expenditure and revenue, for three financial years. This is done through a budget circular which sets out the dates by which the estimates should be submitted and the conditions governing their preparation.

2.7.1 Government Revenue

Government obtains revenue from taxes, duties, service charges, rent, and loans from foreign and domestic sources, dividends and external grants. Total revenue collected including grants and loans are paid into the Consolidated Fund. Arrears of Revenue arise when the amounts claimed are not paid to Government within the period they fall due.

2.7.2 Government Expenditure

Government Expenditure consists of Compensation of Employees, Goods and Services and Acquisition of Non-Financial Assets. Grants to Statutory Bodies, LAs and other Public Bodies and transfers to Special Funds form part of the total expenditure.

2.8 Supplementary Estimates

Section 105 (3a) of the Constitution of Mauritius provides that “*where in any financial year it is found that the amount appropriated by the appropriation law for the purpose included in any head of expenditure is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by the appropriation law, a supplementary estimate showing the sums required or spent shall be laid before the Assembly and the heads of expenditure shall be included in a Supplementary Appropriation Bill introduced in the Assembly to provide for the appropriation of those sums, or in a motion or motions introduced into the Assembly for the approval of such expenditure*”.

2.9 Cash Flow Forecasting

After the budget has been approved, a standing circular is issued to all Ministries and Departments requesting the breakdown, by budgetary item, of yearly estimates into monthly forecasts for submission to the Treasury. The monthly forecasts are further broken down by the Treasury, firstly, into weekly forecasts for the following 6-month period and entered into the Treasury Accounting System (TAS) and, then, into daily forecasts in order to plan the Government’s borrowing requirements with more precision.

On the revenue side, a major input is from the Mauritius Revenue Authority (MRA), which provides data on tax revenues and this constitutes between 70 and 80 per cent of total receipts.

2.10 Treasury Single Account

According to the IMF, Treasury Single Account (TSA) is a prerequisite for modern cash management. It involves the consolidation of all Government cash balances into a single account, usually and preferably at the central bank. This consolidation allows Government to minimise the volume of idle balances in the banking system, with significant cost savings. This is achieved by using cash surpluses in one area of Government activity to cover cash shortages in another. If cash is not consolidated, the extra cash requirement has to be financed by borrowing. (*Technical Notes and manuals July 2010 and August 2011*)

Since 1999, TAS has connected the Treasury to all BCG and it is by way of this architecture that the Treasury has exercised control over their revenues and expenditures on a daily basis. The Treasury Accounting System also assists the Treasury to ensure that there is no idle cash balances in bank accounts by undertaking regular sweeps to the TSA.

2.11 Public Sector Debt

According to the PDM Act, PSD is defined as any debt incurred through the raising of loans (mostly external), the issuing of securities through the BoM, overdrafts or by any other means by Government and public enterprises.

Government securities include Treasury Bills which are short term debt having a maturity date of 12 months or less from the date of issue, Treasury Notes which are medium term debt having a maturity date of more than 12 months and less than five years from the date of issue and bonds which are long term debt having a maturity date of five years or more from the date of issue.

In May 2020, the Act was amended for the purpose of waiving the debt ceiling which capped the PSD at 65 per cent of GDP. The total PSD for Government is disclosed in Statement J of the accounts of the Treasury.

CHAPTER THREE

FINDINGS

This Chapter presents the audit findings on whether the oversight role of MoFEPD was adequate in ensuring maximum revenue mobilisation and that funds to Public Bodies were disbursed in an effective manner and were utilised efficiently.

3.1 Introduction

According to MoFEPD, as spelt out in the Budget Estimates 2021-22, Government experienced an unprecedented contraction in tax revenue due to the impact of the COVID-19 pandemic on the economy in the financial years 2019-20 and 2020-21. At the same time, Government faced challenges of meeting extended cash needs to finance emergency spending to support businesses and individuals. To address these challenges, in addition to its traditional sources of financing, Government had recourse to exceptional fiscal support from BoM to finance its payment obligations.

The Performance Audit examined key aspects of revenue mobilisation, the disbursement of grants mainly to the LAs, Statutory Bodies as well as transfers to the Special Funds whose monies are deposited with the Accountant General. The findings are organised and presented in paragraphs 3.2 to 3.6.

3.2 Revenue and Recovery of Arrears

Collecting revenue is a crucial function of Government for ensuring that cash is available to meet its obligations. In the financial years 2017-18 to 2019-20, there were shortfalls in revenue as compared to the original estimates as well as increases in arrears of revenue. Details are provided in paragraphs 3.2.1 and 3.2.4.

3.2.1 Government Revenue

The fundamental principles underpinning the strategy for the financial year 2019-20 was to ensure buoyancy in revenue collection. However, the shortfall arising from the total revenue collected as compared to the original estimates in the financial year 2019-20 was Rs 17.9 billion. This was explained by an under collection of taxes of Rs 12.9 billion representing 72 per cent of the shortfall. In 2019-20, a contribution of Rs 18 billion was also received from BoM.

As regards the financial years 2017-18 and 2018-19, the shortfalls amounted to Rs 6.4 billion and Rs 9.2 billion respectively. Details are illustrated in Table 1.

The shortfall in capital revenue was significant and the percentage of actual collections as compared to the original estimates varied from 31 per cent in the financial year 2018-19 to 61 per cent in 2019-20. In the financial year 2018-19, the shortfall of Rs 7.2 billion in capital revenue accounted for 78 per cent of the total shortfall.

Table 1 Estimates and Actual Revenue 2017-18 to 2019-20

	2017-18		2018-19		2019-20	
	Original Estimates Rs billion	Actual Revenue Rs billion	Original Estimates Rs billion	Actual Revenue Rs billion	Original Estimates Rs billion	Actual Revenue Rs billion
Recurrent Revenue	99.5	98.3	106.9	104.9	114.8	99.6
External Grants	7.0	2.6	8.9	1.6	6.3	4.2
Other	5.7	4.8	1.6	1.7	0.6	-
Total Capital Revenue	12.7	7.5	10.5	3.3	6.9	4.2
Total Revenue	112.2	105.8	117.4	108.2	121.7	103.8
Shortfall		6.4		9.2		17.9

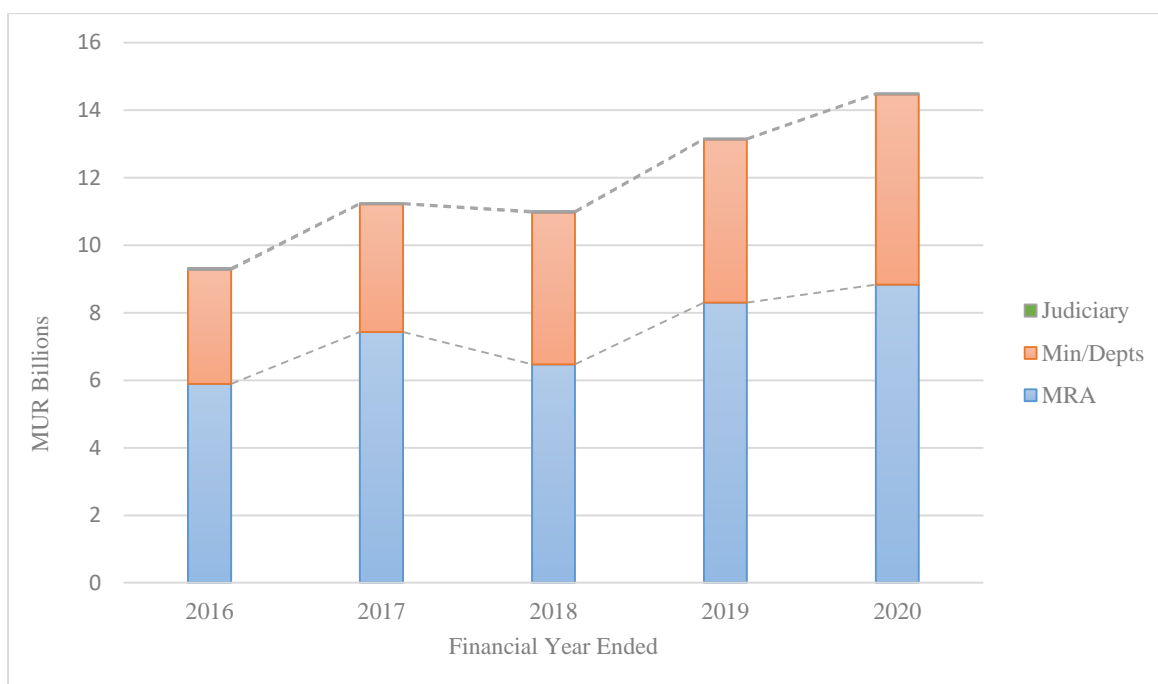
Source: Accounts of the Treasury

3.2.2 Recovery of Arrears of Revenue

The PEFA Assessment Report of 2015 highlighted that with regards to the effectiveness in collection of tax arrears, the average debt collection ratio for 2013 and 2014 was 46 per cent. Since the last assessment in 2015, the total arrears of revenue, representing funds due to Government, increased from Rs 11 billion at 30 June 2018 to Rs 14.5 billion at 30 June 2020. The current strategies implemented for recovery of arrears appeared to be insufficient.

For the financial year 2019-20, the total arrears was made up of arrears at the MRA, Ministries and Departments and the Judiciary amounting to Rs 8.8 billion, Rs 5.6 billion and Rs 44 million respectively. Arrears at MRA, classified as ‘Collectible Debts’ represented around 60 per cent of the total arrears of Rs 14.5 billion.

At the end of financial year 2020-21, the total arrears of revenue amounted to Rs 14.2 billion, after allowing for write off of debts of Rs 3.2 billion. Figure 1 illustrates the trend in arrears over the past five financial years 2015-16 to 2019-20.



Source: NAO Analysis of Treasury Data

Figure 1: Arrears of Revenue for period 2016-2020

3.2.3 Disputed Debts

The total book balance of arrears of revenue at the MRA stood at Rs 27 billion at 30 June 2020 while arrears recognised in the Statement of Arrears of Revenue amounted to Rs 8.7 billion. The difference represented disputed debts which increased from Rs 18.3 billion to Rs 22.3 billion between 30 June 2020 and 30 June 2021. These debts related mostly to tax claims which were pending under objections at the MRA and cases lodged at the Assessment Review Committee (ARC).

The disputed debts were not included in the Statement of Arrears of Revenue. Further, some Rs 13 billion of the total disputed debts of Rs 22.3 billion related to the financial years 2017-18 to 2020-21. These disputed debts involving significant arrears, were taking inordinately long time to be resolved and hence impacting on revenue.

No review had yet been carried out to identify the causes for the long delay in resolving the disputed cases. Government has not set up a mechanism that brings ARC and all the concerned institutions together to develop and implement an integrated approach to monitor, follow-up and take appropriate actions on the disputed cases.

3.2.4 Performance Audit Report on Arrears of Revenue

One of the roles of MoFEPD is to ensure that Ministries and Departments are managing appropriately their arrears with a view to maximising collection of revenue. Every year, the Ministry, through its Budget Circulars, requests revenue collecting Ministries and Departments to closely monitor their respective arrears. My Office conducted a Performance Audit on Managing Arrears of Revenue at the Registrar-General's Department, the Companies and Business Registration Department and the Ministry of Housing and Land Use Planning. The

report was laid before the National Assembly in 2019. Several recommendations were formulated and included the setting up of a Central Monitoring Unit to oversee the management of arrears of revenue in Government entities.

However, an analysis of the figures as reported in the Statement of Arrears revealed that recoverability from arrears did not improve at the afore-mentioned entities. At the Registrar-General's Department, the arrears increased from Rs 377 million in the financial year 2018-19 to Rs 414 million in 2020-21. For the same period, the arrears at the Companies and Business Registration Department and the Ministry of Housing and Land Use Planning increased from Rs 99 million to Rs 110 million and from Rs 752 million to Rs 814 million respectively.

MoFEPD's Response

- Consideration is being given to set up a Central Debtors' Management Unit under the aegis of the Treasury in respect of arrears of revenue of Ministries and Departments, excluding MRA and Registrar-General's Department.
- Amendment will be brought in the forthcoming Finance Bill to empower the Treasury for monitoring the collection of arrears of revenue.
- With a view to reducing the number of hearings at the ARC, any representations relating to income tax, value added tax and gambling taxes are now required to be accompanied by written Statement of Case and a Witness Statement.

3.3 Control of Expenditure – Disbursements and Transfers to Public Bodies

The total Government expenditure increased from Rs 119.4 billion in the financial year 2017-18 to Rs 157.8 billion in 2019-20, as illustrated in Table 2. Further, the total estimated and actual expenditure showed an increasing trend over the financial years 2017-18 to 2019-20. The actual recurrent and capital expenditures for the financial year 2017-18 amounted to some Rs 111.4 billion and Rs 8 billion respectively as compared to the actual recurrent and capital expenditure in the financial year 2019-20, which increased to some Rs 134.9 billion and Rs 22.9 billion respectively.

Table 2 Original Estimates and Actual Expenditure 2017-18 to 2019-20

	2017-18		2018-19		2019-20	
	Estimates Rs billion	Actual Rs billion	Estimates Rs billion	Actual Rs billion	Estimates Rs billion	Actual Rs billion
Recurrent Expenditure	108.9	111.4	115.9	111.9	121.6	134.9
Capital Expenditure	18.8	8.0	17.9	12.1	17.0	22.9
Total	127.7	119.4	133.8	124	138.6	157.8

Source: Accounts of the Treasury (Statement AF)

Total Government expenditure which included grants to Statutory Bodies, Local Authorities and other Public Bodies, as well as transfers to Special Funds increased from Rs 31.8 billion in 2017-18 to Rs 36.4 billion in 2019-20.

Faced with an unprecedented fiscal challenge, it has become more important to ensure that funds are spent responsibly and in the best way possible. Thus, strengthening and improving control over public spending is an absolute necessity. However, at the Public Bodies selected, there were several issues regarding the disbursement and utilisation of funds as elaborated in paragraphs 3.4 to 3.7.

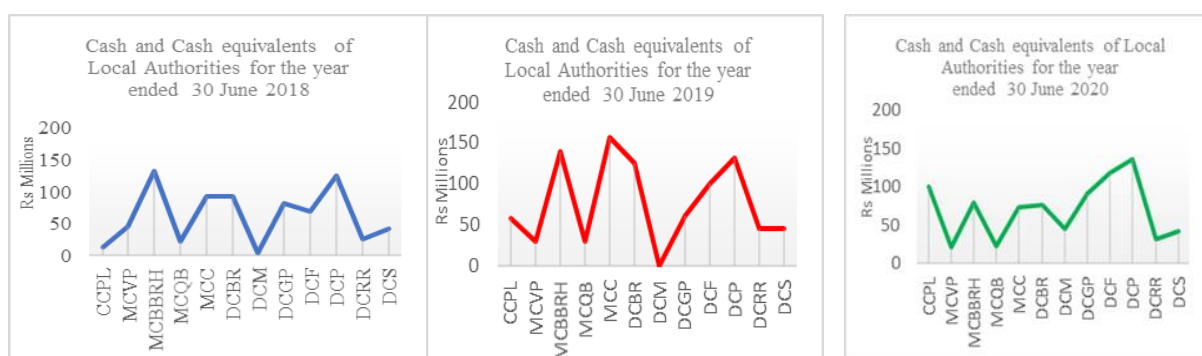
3.4 Grants to Local Authorities

Local Authorities depend on Government funding to carry out their operations. Recurrent grants represented an average of 75 per cent of their revenue. In each of the financial years 2017-18 to 2019-20, some Rs 3 billion were disbursed.

3.4.1 Non-Compliance with Financial Instructions

According to the Financial Instructions No 2 of 2014, “*all applications for funds shall be supported by relevant documents on both financial and non-financial data that include a revised estimate of expenditure and revenue for the fiscal year, bank statements showing bank balances in respect of all bank accounts held by the recipient organisation, cash flow forecast for the period, and a progress report on delivery of outputs/services*”. In the financial year 2019-20, the LAs did not submit the relevant documents.

The Financial Instructions also state that “*the timing and structure of grant payments needs to appropriately reflect the cash flow required by the Grant Recipient and that the provision of an amount in PBB does not construe that the amount should be released in toto*”. However, the budgeted amount for recurrent grants was always released in toto to the LAs. Due to non-compliance with some of the conditions of the Financial Instructions, funds were released without proper needs assessment and resulted in the accumulation of cash and cash equivalents of Rs 737 million, Rs 925 million and Rs 839 million at the end of the financial years 2017-18 to 2019-20.



Source: Financial Statements of Local Authorities

Figure 2: Cash and Cash Equivalents of Local Authorities

For the financial years 2017-18 to 2019-20, the cash held by each LA differed from its counterpart and varied over the years as illustrated in Figure 2. For example, at the District Council of Pamplémousses, the cash and cash equivalents at the end of the financial years ranged between Rs 123 million and Rs 136 million as compared to the District Council of Moka where the cash and cash equivalents over the same period ranged between two million rupees and Rs 44 million.

Moreover, at the District Council of Black River the recurrent grants, which represented on average 87 per cent of its total revenue increased from Rs 222 million to Rs 233 million while the cash and cash equivalents increased from Rs 157.6 million to Rs 177.1 million over the financial years 2017-18 to 2019-20.

MoFEPD's Response

- As from financial year 2021-22, Local Authorities have adopted the cash-based budgeting system and are now aligned with central government budgeting. Accordingly, the need for retaining cash for expenditure would not arise.
- Parent Ministries/ Sector Ministry Support Team would ensure compliance with administration of government grants and other instructions.

3.4.2 Acid Test Ratio

An analysis of the Acid Test Ratio, which measures the liquidity of an entity by calculating how well the most liquid current assets can cover current liabilities, revealed that over the financial years 2017-18 to 2019-20, the ratio for five of the 12 LAs was above the accepted norm of 1:1 indicating that they had more cash and liquid assets than their short-term liabilities. For example, at the Municipal Council of Beau Bassin-Rose Hill and the District Council of Black River, the acid test ratio over the financial years 2017-18 to 2019-20 ranged between 3.42:1 and 4.71:1.

According to a Report on “Cash Management and Treasury Function” from IMF, it is stated that “*to minimise borrowing costs or maximise interest-bearing deposits, operating cash balances should be kept to a minimum*”. There was no policy or guideline on the minimum cash balances to be kept by each LA. NAO was informed that the minimum amount for operational requirements is not static. However, consideration may be given to develop guidelines on minimum cash and cash equivalent to be held by LAs.

With regards to the surplus cash and cash equivalents held by the LAs, in May 2020, MoFEPD decided that some Rs 480 million should be transferred to the Consolidated Fund. As at January 2021 an amount Rs 401 million was transferred by 10 LAs to the Consolidated Fund. Further, following the issue of the Budget Circular 2020-21, the Voted amount of recurrent grants was reduced from Rs 3,600 million for 2019-20 to Rs 3,200 million.

The Ministry of Local Government and Disaster Risk Management did not take appropriate actions to ensure compliance with the conditions of the Financial Instructions and on the surplus cash and bank balances held by the LAs.

NAO was informed that to comply with the Financial Instructions, MoLG will request the LAs applying for Grant, to submit monthly forecast of expenditure and to provide information on the latest cash and bank balances. NAO was further informed that the large balances of cash and cash equivalents have been earmarked, amongst others, for specific purposes such as retention money and refundable deposits.

3.4.3 Investments by the Local Authorities

Investment of surplus cash is a way to obtain some financial benefits from available resources. Over the years, the accumulated high cash balances have provided opportunities for LAs to invest and have become one of their principal management functions. In the financial years 2017-18 to 2019-20, the LAs had some Rs 1 billion invested in both commercial banks and Government securities.

Following issue of Circular No. 6 of 2019 on “Using Surplus Funds for Early Repayment of Public Sector Debt” LAs have been requested to invest their surplus cash balances in the new TCs or in traditional Government securities.

Almost all the LAs complied with the Circular with the exception of the Municipal Council of Curepipe and the City Council of Port Louis. A total amount of Rs 136.6 million was frozen in a commercial bank which went under Conservatorship in April 2020. The funds could not be withdrawn for reinvestment as per the Circular.

The Ministry (MoLG) informed that a Committee has been set up to examine investments decisions. MoFEPD proposed that public entities would have to seek its approval before proceeding with investments and a provision would have to be included in the Finance and Audit Act for procedures to be followed for investing surplus funds.

3.4.4 Monitoring Mechanisms

Effective monitoring is important to obtain assurance that grant is applied appropriately by LAs for intended purposes. The setting up of the Local Authorities Governance Unit (LAGU) was announced in the budget speech 2012. The Terms of Reference of the LAGU included the monitoring of LAs’ budget. Despite the existence of this mechanism, there were surplus cash and bank balances at the LAs. The LAGU had to report to a Steering Committee monthly to ensure good governance practices and optimisation of the use of resources. As of March 2021, the composition of the Steering Committee was established but according to the Ministry no meeting was held.

The Ministry informed that due to severe cuts in financial resources for LAs, a mid-term review was undertaken, followed by a third quarter review which together addressed adequately and comprehensively the need for monitoring financial performance of LAs.

3.5 Grants to Statutory Bodies

In the financial year 2019-20, some Rs 21.9 billion were disbursed as Grants to Statutory Bodies. Capital Grants accounted for around Rs 3.3 billion while the remaining Rs 18.6 billion were Recurrent Grants.

3.5.1 Non-Compliance with Financial Instructions

One of the conditions of the Financial Instructions on Administration of Government Grants states “*the Department should determine the frequency at which grants shall be released to grant recipients on the basis of the cash flows of the organisations and other relevant information. Grants released to grant recipients should not remain idle in the organisations’ bank accounts*”.

The Financial Statements of 34 Statutory Bodies were scrutinised to take cognisance of their cash and cash equivalents. On average, the cash and cash equivalents held by the entities in commercial banks at the end of the financial year 2017-18 to 2019-20 were around Rs 3 billion per annum and were outside the control of the Treasury. Furthermore, the opportunity cost of maintaining idle balances in bank accounts and the finance cost incurred on borrowings were not computed.

MoFEPD’s Response

- Consideration will be given to the creation of a Government Cash Management Unit. The Director, Financial Operations would regularly have meetings with Officer in Charge, Finance to ensure compliance with Financial Instructions and to report any significant departure to MoFEPD management.
- Circular No 3 of 2022 - Financial Instructions “Remittance of Surplus Cash Balances”, issued in March 2022 requires Supervising Officers to submit to MoFEPD data on operating surplus and accumulated revenue reserves and cash balances of Statutory Bodies.
- During budget exercise, Parent Ministry and Sector Ministry Support Team would have to take into consideration any surplus funds in the bank accounts of statutory bodies prior to approval of grant.

3.5.2 Current Ratio

The current ratio is one of the key financial metrics to determine the ability of spending agencies to pay their short- term financial obligations. A scrutiny of 28 financial statements for 10 of the 34 Statutory Bodies selected and which related to the financial years 2017-18 to 2019-20, indicated that they had high cash and cash equivalents and the current ratio ranged between 4:1 and 67:1, that is, above the accepted norm of 2:1. For example, the current ratio at the National Library increased from 1.6:1 in the financial year 2017-18 to 9:1 in 2019-20. At the Beach Authority and the Public Officers’ Welfare Council, the current ratio which were already on the high side, that is, 5.6:1 and 4:1 respectively, in the financial year 2017-18, further increased to 7.4:1 and 31.7:1 in 2019-20.

3.6 Grants to Other Public Bodies - The National Empowerment Foundation

In the financial years 2017-18 to 2019-20, the cumulative actual recurrent and capital expenditure of the National Empowerment Foundation (hereinafter referred to as the Foundation) amounted to Rs 430.6 million and Rs 327.7 million.

3.6.1 Non-Compliance with Financial Instructions

According to Financial Instructions on Administration of Government Grants, the amount provided in the budget did not construe that the amount should be released in toto. The total disbursements of funds made to the Foundation during the financial years 2017-18 to 2019-20 ranged between 97 to 99 per cent of the budgeted amount. Moreover, most of the disbursements of funds were effected during the months of March to June.

With regards to capital projects, cumulative disbursement of funds for the financial years 2017-18 to 2019-20 totalled Rs 327.7 million out of which Rs 320.3 million were disbursed during March to June. In June only, the Ministry disbursed some Rs 180 million representing 55 per cent of the total funds disbursed for capital projects. On the other hand, with regards to recurrent expenditures amounting to Rs 431 million for the financial years 2017-18 to 2019-20, some Rs 246 million representing 57 per cent of the expenditures were disbursed during the months of March to June.

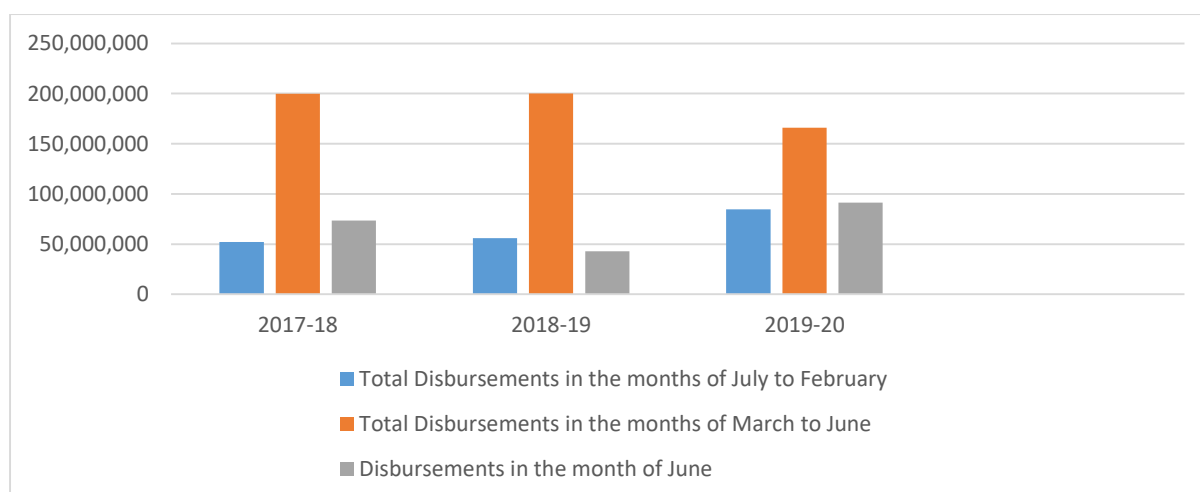


Figure 3: Release of Funds to the Foundation

The release of funds during the last four months and particularly in the month of June, as illustrated in Figure 3, urged the Treasury to seek funds despite the Financial Instructions on Carry Over of Capital Expenditure states that “where an amount has been appropriated by the National Assembly for the purpose included in an item of capital expenditure for a fiscal year and the amount earmarked for a project has not already been fully incurred or reallocated to any other item of capital expenditure at the end of the fiscal year, the balance of the provision earmarked for that project may be carried over to a period not exceeding 3 months in the following fiscal year without the necessity for further appropriation by the National Assembly”.

In most cases, funds were released to the Foundation without considering the commitments and the obligations for payments. Funds specifically earmarked for capital expenditure were

not fully utilised in the year of release and the Foundation seized the opportunities to invest the unutilised funds.

3.6.2 Non-Compliance with Other Conditions of the Financial Instructions

According to the Grant Memorandum in the Financial Instructions “*all applications of funds made throughout the fiscal year shall be supported by relevant documents including both financial and non-financial data, such as a revised estimate of expenditure and revenue for the fiscal year, cash flow statements for the last 12 months, cash flow forecast for the period to the end of the fiscal year, bank statements showing bank balances in respect of all bank accounts held by the recipient organisation and a progress report on delivery of output/services*”.

However, the Foundation did not submit all the relevant supporting documents to justify their requests. Despite the non-compliance, the Ministry acceded to the requests of the Foundation for release of funds. For example, in May 2020, the Foundation applied for the disbursement of Rs 3 million for a project with only a copy of the Board of Directors’ approval. Similarly, in June 2020, for the disbursement of funds of some Rs 91 million, only an extract of the Bank Statement and a Bank Reconciliation Statement for the same month were submitted.

3.6.3 Non-Compliance with Safeguards Established by the Ministry

In addition to the Financial Instructions issued by MoFEPD, MSI established other safeguards for ensuring that grant was appropriately applied by the Foundation. For example, an MoU was signed with the Foundation on 18 March 2016 and renewed on 18 March 2019 which clearly defined the roles and responsibilities of the Ministry with respect to the application of funds. On 1 August 2019, the Ministry established a protocol indicating the time frames for the submission of documents and information.

However, the Foundation did not comply with the safeguards. The Ministry drew the attention of the Foundation on several occasions, but there were no improvements. Further, over the financial years 2017-18 to 2019-20, funds were always released to the Foundation although there were non-compliance issues.

3.6.4 Unutilised Capital Grants

According to the financial information gathered at the Foundation, unutilised grants with respect to capital projects at the end of the financial years 2017-18, 2018-19 and 2019-20 were Rs 115 million, 169 million and Rs 230 million respectively. This was not in accordance with the conditions of the Financial Instructions which state “*that grants released should not remain idle and that spending agencies must comply with the overarching obligation to make efficient, effective and ethical use of public funds*”.

The Ministry (MSI) informed NAO that henceforth it would ensure that any funds disbursed to the Foundation in excess of requirements would be offset against future disbursements. Also, disbursements of funds would be effected only on submission of contractual commitments and progress of work.

3.6.5 Delay for the Submission of Financial Statements

According to the Financial Instructions on Administration of Government Grants, the Accounting Officer, when assessing grant eligibility, should ascertain that the recipient organisation has been compliant with relevant legislation with respect to the preparation and submission of statutory accounts. It also states that “*Accounting Officers should also ensure that annual report of grant recipients appropriately disclose grants received from Government and the application thereof*”.

The Foundation which falls under the purview of the Companies Act (2001)² requires the Board to prepare within six months after the balance sheet date of the company, an annual report on the affairs of the company during the accounting period ending on that date. On the other hand, the MoU requires the Foundation to submit an Annual Report to the Ministry not later than four months after the end of its financial year. The Protocol dated 1 August 2019 set the deadline on 31 October of each year.

However, the Foundation neither complied with its statutory obligations nor with the provisions of the MoU and submitted the financial statements pertaining to financial years 2017-18³ and 2018-19⁴ to the NAO for audit purposes on 2 September 2020 and 23 February 2021 respectively. Despite the delay encountered by the Foundation in the preparation and submission of statutory accounts, the Ministry disbursed funds upon the requirement of the Foundation.

The Ministry (MSI) informed NAO that the Board of Directors took note of the delay in the preparation of Financial Statements for financial years 2017-18 and 2018-19 and has given instructions to the Foundation to finalise the Financial Statements for financial years 2019-20 and 2020-21 at the earliest possible and that funds would be disbursed when obligations for payments fall due and upon submission of requisite certified documents.

3.6.6 Investment by the National Empowerment Foundation

The Ministry of Finance, Economic Planning and Development issued Circular No 6 of 2019, encouraging Non-Financial Public Sector Bodies⁵ to invest their surplus funds in traditional Government securities through the secondary market and in TCs issued through the BoM as from 3 June 2019.

Over the years, the accumulated high cash balances provided opportunities for the Foundation to invest. The cash and cash equivalents of the Foundation, arising mainly from unutilised capital grants, and amounting to Rs 254 million and Rs 313 million remained idle at the end of the financial years 2017-18 and 2018-19 respectively. However, following the directives of MoFEPD in May 2019, the Foundation invested in TCs on three occasions namely in June 2019, September 2019 and November 2019 respectively for a nominal amount of Rs 100

² Section 218(1) of the Companies Act (2001)

³ The Board of Directors, at its meeting held on 26 August 2020, approved that an amended financial statement for the financial year 2017-18 be re-submitted for audit purposes to the NAO.

⁴ The Board of Directors, at its meeting held on 20 January 2021, approved that the financial statement be submitted to the NAO.

⁵ They are Government-owned or Government-controlled corporations whose principal activity is the production of market goods or non-financial services. According to the Digest of Public Finance Statistics 2017-18, there are 42 such units in Mauritius which include Central Electricity Board, Mauritius Broadcasting Corporation and Landscape Mauritius.

million. However, in 2020-21, the Foundation did not comply with the provisions of Circular No 6 of 2019 and invested Rs 125 million in one commercial bank and Rs 50 million in another commercial bank.

The Ministry (MSI) stated that the Foundation took cognisance that management failed to implement the decision and approved that an enquiry be carried out to situate the responsibilities. The Ministry also informed that it approached MoFEPD for the posting of an Analyst thereat to assist in analysing the financial situation and ascertaining that the Foundation comply with statutory requirements as well as advising the Ministry accordingly.

3.7 Cash Transferred to Special Funds

At the end of the financial year 2020-21, there were seven Special Funds and their cash and cash equivalents at the end of each of the financial years 2017-18 to 2020-21 are illustrated in Table 3.

Table 3 Cash and Cash Equivalents of the Special Funds

	2017-18 Rs million	2018-19 Rs million	2019-20 Rs million	2020-21 Rs million
Curatelle Fund	33	28	32	37
Morris Legacy Fund	7	7	7	9
National Resilience Fund	1,951	200	10,203	13,565
Prime Minister's Relief Fund	353	326	362	294
National Environment and Climate Change Fund	2,000	1,664	2,438	3,277
COVID-19 Projects Development Fund				18,488
National COVID-19 Vaccination Programme Fund				818
Total	4,344	2,225	13,042	36,488

Source: Annual Reports of the Accountant General

3.7.1 Transfers from the Consolidated Fund

In the financial years 2017-18 to 2020-21, a total amount of Rs 45.8 billion was transferred from the Consolidated Fund to four Special Funds, whose monies are deposited with the Accountant General. The Curatelle Fund, the Morris Legacy Fund and the Prime Minister's Relief Fund did not receive funding from Government for meeting the costs of their operations.

At the end of the financial year 2020-21, some Rs 25.3 billion were held by the afore-mentioned four Special Funds in unremunerated bank accounts, while Rs 10.9 billion were invested in TCs and in other Financial Institutions. The Ministry (MoFEPD) did not compute the opportunity cost of holding significant funds in unremunerated bank accounts and the finance cost incurred on borrowings. According to good practice, the process of computing the cost of holding idle cash balances enhances the awareness of good cash management practices.

3.7.2 Utilisation of Funds

The cash requirements of the Special Funds to meet short to medium term payment obligations did not appear to have been the key factor motivating the transfer of money to those Special Funds. Most of the transfers to these Special Funds were made by the end of the respective financial years following Supplementary Appropriation Acts. However, the funds appropriated for meeting the services of Government remained unspent in the financial years of transfer.

At the National Resilience Fund, on 24 July 2020, Rs 10 billion were transferred from the Consolidated Fund for the implementation of schemes and programmes. However, the funds were not used for the intended purpose in the year of transfer and even in the subsequent financial year.

The Ministry (MoFEPD) informed NAO that once funds are appropriated by the National Assembly, transfers to Special Funds have to be effected according to approved policy.

3.7.3 Effects of Cash Transferred to Special Funds

According to the Statement of Government Operations for the financial year 2019-20, the amount to be appropriated to the Special Funds through the Appropriation (2019-2020) Act 2019 which was estimated at Rs 100 million was revised to Rs 12.1 billion. The transfer of additional funds increased the total Capital Expenditure from Rs 10.1 billion to Rs 19.3 billion and contributed to increase the estimated budget deficit from 3.2 per cent to 13.6 per cent.

Moreover, for the financial year 2020-21, the transfer to the Special Funds which was initially estimated at Rs 15 billion was revised to Rs 31.7 billion following the Supplementary Appropriation (2020-2021) Act. The transfers required additional funds that were not provided for by the Appropriation (2019-2020) Act 2020. Further, the transfer of funds led to an increase in the Capital Expenditure from Rs 30 billion to Rs 43.7 billion. As of 30 June 2021, the actual budget deficit was calculated at seven per cent of GDP as compared to the revised estimates of 5.6 per cent.

3.8 Public Sector Debt and Cash Management

Government experienced a contraction in revenue and increase in expenditure over the financial years 2015-16 to 2018-19. In the financial years 2019-20 and 2020-21, Government faced additional challenges of meeting extended cash needs to finance emergency spending due to the impact of the COVID-19 pandemic on the economy. To address these challenges, Government had recourse to borrowings and other sources of finance.

As illustrated in Figure 4, over the financial years 2015-16 to 2019-20, the recurrent expenditure exceeded the recurrent revenue and the gap which was in the range of some Rs 7 billion to Rs 17 billion up to the financial year 2018-19 widened to some Rs 35 billion in the financial year 2019-20.

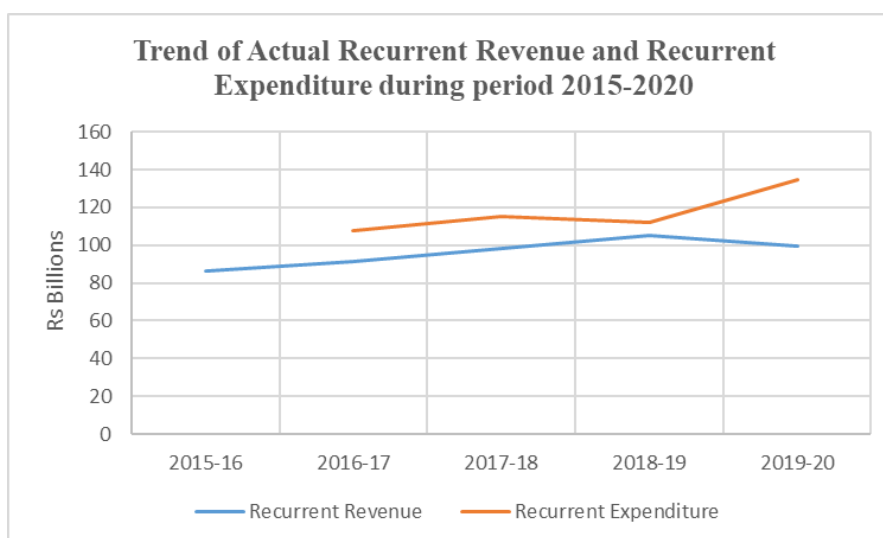


Figure 4 Trend of Actual Recurrent Revenue and Recurrent Expenditure during period 2015-2020

While Government had recourse to borrowings and other contributions to finance its obligations, the Public Bodies relying on Government funding to finance their operations seized opportunities of investing surplus funds, the major part of which was obtained by way of grants and transfers from the Consolidated Fund, in securities issued by BoM. This was mainly due to non-compliance with the conditions of the Financial Instructions issued by MoFEPD as elaborated in paragraphs 3.4.1, 3.5.1, 3.6.1 and 3.6.2. The impact on Government borrowings is elaborated in paragraph 3.8.1.

In its reply, MoFEPD informed NAO that the Parent Ministries/Sector Ministry Support Team would ensure compliance with administration of government grants and other instructions.

3.8.1 Estimates and Actual Public Sector Debt

In the Statement of Government Operations for the financial year 2019-20 and as illustrated in Table 4, it was estimated that the overall budget deficit would be Rs 16.9 billion, that is, 3.2 per cent of GDP and that the borrowing requirements would be some Rs 19.2 billion, that is, 3.6 per cent of GDP. However, the estimated budget deficit was revised to 13.6 per cent and the borrowing requirement increased to Rs 69.8 billion that is 14.9 per cent of GDP. The actual budget deficit for 2019-20 reached Rs 53.9 billion representing 11.8 per cent of GDP compared to the forecast of 3.2 per cent. The actual borrowing requirements reached Rs 63.4 billion, that is, 13.6 per cent of GDP.

Table 4 Estimates and Actual Data

	Estimates Rs billion	Revised Estimates Rs billion	Actual Rs billion
Recurrent Revenue	114.8	97.2	99.6
Recurrent Expenditure	(121.6)	(141.5)	134.9
Recurrent Balance	(6.8)	(44.3)	(35.3)
Capital Revenue	6.9	4.5	4.3
Capital Expenditure	(17.0)	(23.8)	(22.9)
Capital Balance	(10.1)	(19.3)	(18.6)
Budget Balance	(16.9)	(63.6)	(53.9)
As a percentage of GDP	3.2	13.6	11.8
Other Net Expenditure	(2.3)	(6.2)	(9.5)
Government Borrowing Requirements	(19.2)	(69.8)	(63.4)
Borrowing a percentage of GDP	3.6	14.9	13.6

Source: Statement of Government Operations 2019-20

3.8.2 Amendment to the Public Debt Management Act – Public Sector Debt Ceilings

In May 2020, the PDM Act was amended through the COVID-19 (Miscellaneous Provisions) Act 2020 which repealed the provision relating to PSD ceilings. The abolition of statutory PSD ceilings, did away with the very purpose and essence of PDM Act.

The PSD ratio under the PDM Act provided a safeguard against borrowing to finance expenditures. It was stated that the ratio would not exceed 65 per cent of GDP at the end of any financial year. However, the PSD which was estimated at Rs 324.5 billion that is 61.6 per cent of GDP in 2019-20 reached Rs 382 billion that is 83.4 per cent of GDP as at 30 June 2020. As of 30 June 2021, on a gross basis, it was at Rs 419.4 billion that is 96.2 per cent of GDP while on a net basis, it was calculated at Rs 344.9 billion that is 79.2 per cent of GDP. The removal of the PSD ceiling was not followed by other safeguards.

3.9 Treasury Accounting System and Treasury Single Account

The Treasury Accounting System is a computerised accounting system based on Oracle Financials. A Treasury Single Account (TSA) which is operated by BoM, is a unified structure of Government's bank accounts enabling consolidation and optimum utilisation of cash resources. According to IMF, TSA is an essential tool for consolidating and managing Governments' cash resources, thus minimising borrowing costs. It is by way of this architecture that the Treasury exercises control over the revenues and expenditures on a daily basis.

3.9.1 Coverage of Government Cash Management

Central Government includes Budgetary Central Government (BCG) and Extra Budgetary Units (EBUs). As of December 2021, TAS and TSA connected the Treasury to the Ministries and Departments, falling under BCG, only.

Unlike BCGs, detailed financial transactions in EBUs and LAs were not recorded in the TAS and thus, did not form part of the TSA. The inadequate information can affect the assessment of the overall macro-economic and fiscal position of Government.

MoFEPD's Response

- The concept of TSA is already being applied in the BCG. Ministries do not hold idle cash balances.
- In case the TSA concept has to be extended to organisations beyond BCGs, a study needs to be undertaken.

3.9.2 Unreported Government Operations in the Accounts of Treasury

One of the main objectives of the Treasury, amongst others, is to prepare the annual financial statements and to ensure that accounting systems respond to Government's needs for the proper processing, recording and accounting of financial transactions. However, different PEFA Assessment Reports highlighted that the consolidated annual accounts contained financial transactions for the BCG only.

These Reports further pointed out that the level of unreported extra-budgetary expenditure that was not included in estimates and in-year reports and final accounts was estimated to be more than 10 per cent of consolidated total expenditure. However, the movements in Special Funds whose money is deposited with the Accountant General were disclosed in Statement H of the annual accounts of the Treasury.

Since the last PEFA Report of 2015, the level of unreported transactions in the budget and in the accounts of the Treasury had not been quantified by MoFEPD. Further, the exclusion of financial transactions of EBUs and LAs in the budget and in the accounts of the Treasury had remained the same.

CHAPTER FOUR

CONCLUSION

This Chapter concludes against the audit objective based on analysis and findings supported by audit evidence.

The Ministry of Finance, Economic Planning and Development is responsible to improve the public financial management system which encompasses amongst others, mobilisation, allocation as well as efficient and effective utilisation of financial resources.

There is room for improvement as the oversight role of the Ministry is not sufficient in ensuring maximum revenue mobilisation and that grants and transfers to Public Bodies are disbursed in an effective manner and are utilised efficiently.

MoFEPD, through the Parent Ministries, has not ensured that Public Bodies comply with conditions of Financial Instructions and Circulars. As such, the current system may have occasioned surplus cash unnecessarily locked in unremunerated bank accounts.

The combined effect of decreasing revenue and escalating expenditure has urged Government to increase its borrowing requirements. As a result, the Public Sector Debt as a percentage of Gross Domestic Product increased from 83.4 per cent as at 30 June 2020 to 96.2 per cent as at 30 June 2021. Debt sustainability remains a major issue for public finances and an efficient and effective management of cash resources will have a definite positive effect on the level of Government borrowings.

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CHAPTER FIVE

RECOMMENDATIONS

This Chapter presents the recommendations based on the findings and conclusion.

5.1 Revenue and Recovery of Arrears

MoFEPD should improve the existing and/or set up appropriate mechanisms to ensure that:

- Revenues are collected by Ministries and Departments as soon as they become due with a view to minimising arrears;
- Arrears are recovered as soon as possible to minimise the risks of the arrears becoming irrecoverable;
- An integrated approach to monitor, follow-up and take appropriate actions on the disputed cases should be developed and implemented; and
- The amount and timing of external grants are accurately forecasted.

5.2 Strengthening the Oversight of MoFEPD

MoFEPD should strengthen its oversight, through Parent Ministries, to ensure that funds are disbursed on a need basis and utilised for the intended purpose and that there is full compliance with the conditions of the Financial Instructions on Administration of Government Grants. This will ensure close monitoring over the efficient, effective and ethical use of financial resources.

The opportunity cost (interest foregone) of maintaining idle cash balances by Local Authorities, Statutory Bodies, other Public Bodies and Special Funds should be calculated to enhance awareness of good cash management practices.

5.3 Extending Coverage of Government Cash Management

MoFEPD should examine the possibility of extending the system for the disbursements of funds by the Treasury to meet payment obligations of Ministries and Departments to other Public Bodies which obtain grants from the Central Government.

5.4 Guidelines on Cash and Cash Equivalents

MoFEPD should develop proper guidelines regarding the level of cash and cash equivalents to be kept by Public Sector Bodies based on the specificities.

5.5 Special Funds

Transfers from Consolidated Fund to Special Funds should be made as and when the need arises to meet the payment obligations.

5.6 Implementation of a Treasury Single Account System

The Treasury should consider implementing a Treasury Single Account System that would enable it to have custody of all cash accruing to the Consolidated Fund. This would also enable the determination of Government's short term cash requirements in a more precise manner.

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