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Mozambique

Final Report

Volume Two

(Applying 2015 methodology – 'testing version')

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List of Abbreviations

AR	Assembleia da República Assembly of the Republic
CEDSIF	Centro de Desenvolvimento de Sistemas de Informação de Finanças Centre for Development of Information Systems Finance
CFM	Caminhos de Ferro de Moçambique Mozambique Ports and Railways
CFMP	Cenário Fiscal de Médio Prazo Medium-Term Fiscal Scenario
CGE	Conta Geral do Estado General State Accounts
CPO	Comissão de Plano e Orçamento (da Assembleia da República) Plan and Budget Committee (parliament's budget committee)
CUT	Conta Única do Tesouro Treasury Single Account
DAF	Direcção de Administração e Finanças Directorate for Administration and Finance
DNCP	Direcção Nacional de Contabilidade Publica National Directorate of Public Accounting
DNIC	Direcção Nacional de Investimento e Cooperação National Directorate of Investment and Cooperation
DNO	Direcção Nacional do Orçamento National Directorate of Budget
DNPE	Direcção Nacional do Património do Estado National Directorate of State Patrimony
DNT	Direcção Nacional do Tesouro National Directorate of Treasury
DPPF	Direcção Provincial de Plano e Finanças Provincial Directorate of Planning and Finance
GoM	Government of Mozambique

IGEPE	Instituto de Gestão das Participações do Estado
	Institute of Management of State Shareholdings
IGF	Inspeção Geral de Finanças
	General Inspectorate of Finances
IMF	International Monetary Fund
INIR	Instituto Nacional de Irrigação
	National Institute of Water
MAEFP	Ministério de Administração Estatal e Função Pública
	Ministry of State Administration and Civil Service
MEDH	Ministério de Educação e Desenvolvimento Humano
	Ministry of Education and Human Resource Development
MEF	Ministério de Economia e Finanças
	Ministry of Economy and Finance
MEO	Modulo de Elaboração do Orçamento (do e-SISTAFE)
	e-SISTAFE Budgeting Module (MEO)
MEX	MEX Modulo de Execução Orçamental (do e-SISTAFE)
	Budget Execution Module (e-SISTAFE)
MISAU	Ministério da Saúde
	Ministry of Health
MOPH	Ministério de Obras Públicas e Habitação
	Ministry of Public Works and Housing
MPD	Ministério de Planificação e Desenvolvimento
	Ministry of Planning and Development
OE	Orçamento do Estado
	State Budget
OSC	Organização da Sociedade Civil
	Civil Society Organization
PAPs	Programme Aid Partners
PEFA	Public Expenditure & Financial Accountability
PER	Public Expenditure Review (Revisão das Despesas Publicas)
PES	Plano Económico Social

	Social Economic Plan
PI	Performance Indicator
PII	Programa Integrado de Investimento
	Integrated Investment Program
PQG	Plano Quinquenal do Governo
	Government's Five-Year Plan
REO	Relatório de Execução Orçamental (trimestral)
	Quarterly Budget Execution Reports
SISTAFE	Sistema de Administração Financeira do Estado
	State Financial Management System
TA	Tribunal Administrativo
	Administrative Court
TdR	Terms of Reference
UFSA	Unidade Funcional de Supervisão das Aquisições
	Unit for Supervision of Acquisitions
UGB	Unidade Gestora Beneficiária (do Orçamento)
	Beneficiary Management Unit
UGE	Unidade Gestora Executora (do Orçamento)
	Execution Management Unit (Budget)
UGEA	Unidade Gestora Executora das Aquisições
	Managing and Executing Units for Procurement Process

VOLUME TWO: PEFA assessment 2015 based on the 2015 methodology ('testing version')

1. **This report provides an assessment of the PFM system in Mozambique against the 2015 'testing version' of the PEFA methodology.** This version of the PEFA is still undergoing refinement but its structure is not expected to change and refinements are likely to focus only on specific details of the methodology. In its refined form, it will be introduced as the new PEFA methodology from April, 2016. The Government of Mozambique and its Partners have therefore taken the opportunity to apply the 2015 testing version of the methodology to develop a baseline for comparison against future PEFA assessments.
2. **The 2015 PEFA methodology is substantially different from the 2011 PEFA methodology,** which has provided the basis for Volume One and for comparison with the 2007 and 2010 assessments in Mozambique. 20 of the 90 performance dimensions in the 2015 methodology have remained unchanged and a further 22 dimensions are relatively similar. The evaluation team have taken care to ensure that the scoring of these dimensions is consistent across the two methodologies. However, because the numbering of the indicators has been changed and because over half of the 90 dimensions are either new or substantially different, direct comparison between the methodologies is difficult and is not recommended.
3. **The evaluation team have therefore used the 2015 methodology as a complement to the 2011 methodology.** It has allowed an assessment of the aspects of the PFM system largely absent from the 2011 methodology, notably the management of assets and liabilities and the programming and management of public investments. It has also permitted a more nuanced view of performance in other areas, where the new methodology covers largely the same ground but often with a higher level of detail.
4. **This report presents a baseline score for the PFM system in Mozambique against the 30 indicators of the 2015 PEFA methodology.** The Report has been through two rounds of comments from the "Assurance Oversight Team", namely the PEFA Secretariat, the Government of Mozambique, the European Union and SECO. It is therefore now issued in its final form.
5. The 30 indicators of the 2015 PEFA methodology are grouped into seven thematic areas:

- A. Budget Credibility (PI 1-3);
- B (i) Comprehensiveness & Transparency (PI 4-9);
- B (ii) Asset & Liability Management (PI 10-13);
- C (i) Policy-based Planning & Budgeting (PI 14-18);
- C (ii) Predictability & Control in Budget Execution (PI 19-25);
- C (iii) Accounting, Recording & Reporting (PI 26-28);
- C (iv) External Scrutiny & Audit (PI 29 – 30).

Mozambique 2015 Summary Table of PEFA Scores (applying 2015 "testing version" of methodology)

Indicator (2015 Methodology)	2015 Assessment by Dimension				2015 Score
	(i)	(ii)	(iii)	(iv)	
Pillar I. PFM OUT-TURNS: Credibility of Fiscal Strategy & Budget					
PI-1: Aggregate Expenditure Outturn compared to original approved Budget	B				B
PI-2: Composition of expenditure out-turn compared to original approved budget	D	C	A		D+
PI-3: Aggregate Revenue Out-turn compared to original approved Budget	A				A
Pillars II - III. KEY CROSS-CUTTING ISSUES					
II. Comprehensiveness and Transparency					
PI-4: Classification of the budget	C				C
PI-5: Comprehensiveness of information included in budget documentation	D				D
PI-6: Extent of reporting on extra-budgetary operations (EBOs).	B	C			C+
PI-7: Transparency of inter-governmental fiscal relations	A	C	B		B
PI-8: Performance information for achieving efficiency in service delivery	C	B	D	C	C
PI-9: Public access to key fiscal information	D				D
III. Asset & Liability Management					
PI-10: Fiscal risk management	C	A	D		C+
PI-11: Public investment management	C	D	D		D+
PI-12: Public asset management	C	B	C		C+
PI-13: Management and reporting on debt and expenditure arrears	A	C	A	D	B
Pillars IV – VII. BUDGET CYCLE					
IV. Policy-Based Planning & Budgeting					
PI-14: Credible Fiscal Strategy	D	D	D		D
PI-15: Revenue budgeting	D	D	B		D+
PI-16: Medium-term perspective in expenditure budgeting	D	D	D		D
PI-17: Orderliness and participation in the annual budget preparation process	A	A	C		B+
PI-18: Legislative scrutiny of the annual budget law	B	B	C	B	C+
V. Predictability & Control in Budget Execution					
PI-19: Revenue administration compliance	A	C	C	D	C+
PI-20: Accounting for revenues	A	B	C		B+
PI-21: Predictability in the availability of funds to support service delivery	C	A	B	C	B

Indicator (2015 Methodology)	2015 Assessment by Dimension				2015 Score
	(i)	(ii)	(iii)	(iv)	
PI-22: Effectiveness of payroll controls	B	B	B	B	B
PI-23: Transparency, competition and complaint mechanisms in procurement	D	D	D	A	D+
PI-24: Effectiveness of internal controls for non-salary expenditure	A	B	A		A
PI-25: Effectiveness of internal audit	A	A	C	C	C+
VI. Accounting, Recording & Reporting					
PI-26: Accounts reconciliation and financial data integrity	B	D	B	A	B
PI-27: Quality and timeliness of in-year budget reports	A	C	B		C+
PI-28: Quality and timeliness of annual financial reports	B	B	B		B
VII. External Scrutiny & Audit					
PI-29: SAI Independence and external audit of the government's annual financial reports.	C	A	D	D	D+
PI-30: Legislative scrutiny of external audit reports	C	D	B	D	D+

A. Budget Credibility (PI 1-3)

PI-1: Aggregate Expenditure Outturn compared to original approved Budget

Indicator (M1)	Dimension Assessed	2015 Assessment	Justification for Scoring assigned
PI-1: Aggregate Expenditure Outturn compared to original approved Budget	Out-turn of primary expenditure (total expenditure less debt servicing) as compared with original approved Budget	**B**	*Aggregate expenditure out-turn (without debt amortization but including interest on debts) was 104.3% in 2013 and 94.8% in 2014.*

Indicator PI-1: 2015 PEFA Assessment[1]

6. This indicator measures the extent of difference between actual expenditure and the originally budgeted expenditure (excluding payments of principal but including interest on debt). Principal re-payments on debt are excluded from the calculation because they are "below the line" items, which do not constitute part of current expenditure. In addition, they are subject to sources of volatility, such as exchange rate fluctuations, which are outside of the control of the authorities.

7. The indicator aims to assess the extent to which the PFM system has the necessary mechanisms to develop and agree a realistic budget, based on accurate revenue projections, and to execute recurrent and investment expenditures during the year in a manner consistent with the initially approved budget. The better equipped the PFM system is to do this, the more predictable will be the budget execution process and the more credible the overall budget process.

Table 1: Analysis of aggregate expenditure outcomes – approved and executed budgets 2012-14

	(Millions of MZM)	Approved Budget	Executed Budget	Executed (%)	Approved Budget	Executed Budget	Executed (%)	Approved Budget	Executed Budget	Executed (%)
			2012			2013			2014	
1	**Total expenditure (as reported in the Budget)**	163,035	145,245	89.1%	174,955	182,191	104.1%	240,891	227,049	94.3%
2	Principal Repayments	2,816	2,814	99.9%	3,841	3,670	95.6%	6,688	5,029	75.2%
3	**Adjusted Total Spending (1-2)**	160,219	142,431	88.9%	171,113	178,520	104.3%	234,203	222,020	94.8%

Source: OE for approved Budget, CGE for Executed budget

8. As may be observed in Table 1, executed expenditure has been close to the budgeted expenditure in 2013 (104.3%) and in 2014 (94.8%), but that was not the case in 2012 (88.9%). **This performance scores B for this indicator as the aggregate expenditure out-turn was between 90% and 110% for at least two of the last three fiscal years.**

[1] This indicator is not comparable to PI – 1 in the previous PEFA methodology, as it includes projects externally financed.

PI-2: Composition of expenditure out-turn compared to original approved budget

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-2: Composition of expenditure out-turn compared to original approved budget	(i) Extent of the variance in expenditure composition during the last 3 years, excluding contingency items, and interest on the debt.	**D**	**D+**	*Variance in expenditure composition by Vote was 39.8% in 2012; 40.1% in 2013 and 58.1% in 2014.*
	(ii) Extent of the variance in expenditure composition by economic classification during the last three years including interest on the debt but excluding contingency items.	**C**		*Variance in expenditure composition by economic classification 12,1% in 2012; 18,7% in 2013 and 9,5% in 2014.*
	(iii) The average amount of expenditure charged to a contingency vote over the last three years	**A**		*No expenditures have been charged directly to the contingency vote but rather to the budget lines, to which the contingency budget has been reallocated.*

Indicator PI-2[2]: 2015 PEFA Assessment

9. This indicator measures the extent to which variance in expenditure composition exceeded overall deviation in expenditure (as defined in PI-1) during the last three years. When the composition of expenditure varies considerably from the original budget, the budget is no longer a useful statement of intent with regard to spending programmes and policies. Moreover, frequent changes in budgets during the execution process undermine predictability, making the planning of procurements and other expenditures less effective, with negative effects on overall value for money.

10. The measurement of this indicator requires an empirical assessment at a disaggregated level of actual expenditure implemented against the original budget. The methodology normally requires the deduction of both interest and contingency items from the expenditure data. We have excluded interest payments but not contingency items. This is for two reasons. In the first place, in the Mozambican system the "Dotação Provisional" corresponds to a contingency vote. However, this vote mixes provisions for salary increments (which are foreseen but whose distribution between institutions is not known at the start of the fiscal year) and contingencies (unforeseen by nature). Secondly, in practical terms, there is a very large number of (small) reallocations from the contingency vote to institutional votes (UGBs) during the fiscal year and an aggregate summary report of these re-allocations is not produced as a standard element of the end-of-year accounts: thus, to exclude contingency re-allocations from the executed expenditure charged to each institutional vote (or economic classification) would have been very complicated. For these reasons, contingency items have not been excluded in scoring this indicator. Given that the contingency budget is relatively small (1-2 % of total expenditure) and distributed relatively evenly across institutions, this should not introduce any significant distortions on the calculations.

[2] This indicator is not comparable to PI – 2 in the previous PEFA methodology, as it includes projects externally financed. Dimension i) addresses the same issue as PEFA 2011 PI-2 i). Dimension ii) is new. Dimension iii) addresses the same issue as PEFA 2011 PI-2 ii).

11. The following three tables show the variance in the spending composition by the 30 most significant institutions (UGBs) in terms of their initial budgets. Although there are over 1,000 administrative or institutional votes (UGBs), the 30 largest comprise about 33% of total spending.

12. As may be observed from the tables, **in all years the variance in the spending composition is extremely high - 39.8% in 2012, 40.1% in 2013 and 58.1% in 2014. This explains the D score attributed to dimension (i)**.

Table 2: Variance in expenditure composition by 30 main institutional Votes (UGBs), 2012

Data for year =	2012					
Administrative head (millions of MZM)	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Fundo de Estradas	14,201	11,971	11,717.2	253.8	253.8	2.2%
Millennium Challenge Account - Moçambique	8,321	3,589	6,865.9	-3,276.4	3,276.4	47.7%
Ministério da Educação	6,739	3,788	5,560.2	-1,772.2	1,772.2	31.9%
Ministério dos Transportes e Comunicações	5,925	405	4,889.0	-4,483.5	4,483.5	91.7%
Ministério do Interior	4,940	4,370	4,075.9	294.1	294.1	7.2%
Ministério da Saúde	4,428	9,157	3,653.4	5,503.4	5,503.4	150.6%
Forças Armadas de Defesa de Moçambique	3,224	3,279	2,660.2	618.6	618.6	23.3%
Autoridade Tributária de Moçambique	3,017	3,539	2,489.2	1,049.7	1,049.7	42.2%
Universidade Eduardo Mondlane	2,044	1,749	1,686.6	62.6	62.6	3.7%
Ministério da Agricultura	2,001	1,197	1,651.2	-454.1	454.1	27.5%
Ministério das Obras Públicas e Habitação	1,279	2,690	1,055.5	1,634.6	1,634.6	154.9%
Serviço de Informação e Segurança do Estado	1,216	1,258	1,003.7	254.1	254.1	25.3%
Presidência da República	1,206	1,275	995.3	279.5	279.5	28.1%
Fundo de Investimento e Património do Abastecimento de Água	1,184	1,240	976.7	262.8	262.8	26.9%
Ministério da Defesa Nacional	1,120	1,037	924.2	113.0	113.0	12.2%
Embaixadas e Outras Representações Diplomáticas	967	924	797.5	126.8	126.8	15.9%
Hospital Central de Maputo	963	751	794.7	-43.3	43.3	5.4%
Ministério da Administração Estatal	882	273	727.5	-455.0	455.0	62.5%
Ministério da Indústria e Comércio	743	275	613.2	-338.6	338.6	55.2%
Comando Geral da PRM	661	650	545.0	104.8	104.8	19.2%
Fundo de Desenvolvimento Agrário	657	327	542.3	-215.1	215.1	39.7%
Assembleia da República	650	790	536.2	254.1	254.1	47.4%
Centro de Desenvolvimento de Sistemas de Informação de Finanças	627	821	517.1	304.2	304.2	58.8%
Casa Militar	621	662	512.0	149.5	149.5	29.2%

Tribunal Administrativo	616	673	508.3	164.5	164.5	32.4%
Ministério do Turismo	611	189	503.8	-314.6	314.6	62.4%
Fundo de Energia	547	628	451.1	177.4	177.4	39.3%
Ministério da Ciência e Tecnologia	532	326	439.3	-113.1	113.1	25.7%
Administração Regional das Águas do Sul	486	442	400.9	40.6	40.6	10.1%
Instituto Nacional de Gestão das Calamidades	481	215	397.0	-182.0	182.0	45.8%
Allocated expenditure (30 major institutions)	***70,888***	***58,490***	***58,490.1***	***0.0***	***23,295.8***	
Composition (PI-2) variance						***39.8%***

Source: DNO. Actuals are extracted from the end-of-year report (CGE).

Table 3: Variance in expenditure composition by 30 main institutional Votes (UGBs), 2013

Data for year =	**2013**					
Administrative head (millions of MZM)	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
FUNDO DE ESTRADAS	17,852	11,361	11,557.5	-196.2	196.2	1.7%
MINISTERIO DAS OBRAS PUBLICAS E HABITACAO	7,025	140	4,548.3	-4,408.4	4,408.4	96.9%
MINISTERIO DA EDUCACAO	6,317	3,736	4,089.8	-354.1	354.1	8.7%
MINISTERIO DO INTERIOR	5,962	5,696	3,859.8	1,836.7	1,836.7	47.6%
MINISTERIO DOS TRANSPORTES E COMUNICACOES	5,153	543	3,335.9	-2,793.4	2,793.4	83.7%
MINISTERIO DA SAUDE	4,266	4,395	2,762.0	1,632.8	1,632.8	59.1%
AUTORIDADE TRIBUTARIA DE MOCAMBIQUE	4,078	3,867	2,640.2	1,226.6	1,226.6	46.5%
FORCAS ARMADAS DE DEFESA DE MOCAMBIQUE	3,738	3,763	2,419.8	1,343.3	1,343.3	55.5%
FUNDO DO DESENVOLVIMENTO AGRARIO	2,929	673	1,896.2	-1,223.5	1,223.5	64.5%
UNIVERSIDADE EDUARDO MONDLANE	2,671	2,030	1,729.4	300.7	300.7	17.4%
MINISTERIO DA AGRICULTURA	1,516	1,307	981.4	325.8	325.8	33.2%
HOSPITAL CENTRAL DE MAPUTO	1,443	1,048	934.1	114.2	114.2	12.2%
SERVICO DE INFORMACAO E SEGURANCA DO ESTADO	1,437	1,394	930.3	463.3	463.3	49.8%
PRESIDENCIA DA REPUBLICA	1,236	1,550	800.0	750.1	750.1	93.8%
EMBAIXADAS E OUTRAS REPRESENTACOES DIPLOMATICAS	1,186	1,039	767.9	271.5	271.5	35.4%
MINISTERIO DA DEFESA NACIONAL	1,168	1,053	756.4	296.2	296.2	39.2%
MINISTERIO DA ADMINISTRACAO ESTATAL	897	395	580.9	-185.8	185.8	32.0%
MINISTERIO DA INDUSTRIA E COMERCIO	783	293	506.6	-213.3	213.3	42.1%
MINISTERIO DA CIENCIA E	742	283	480.2	-196.9	196.9	41.0%

TECNOLOGIA						
FUNDO DE INVESTIMENTO E PATRIMONIO DO ABASTECIMENTO DE AGUA	740	276	479.0	-203.1	203.1	42.4%
ASSEMBLEIA DA REPUBLICA	735	858	476.2	381.8	381.8	80.2%
COMANDO GERAL DA POLICIA	723	826	468.0	358.0	358.0	76.5%
FUNDO NACIONAL DE ENERGIA	699	594	452.7	141.4	141.4	31.2%
ADMINISTRACAO REGIONAL DAS AGUAS DO SUL	699	313	452.2	-139.4	139.4	30.8%
CASA MILITAR	683	702	442.4	259.9	259.9	58.7%
TRIBUNAL ADMINISTRATIVO	682	605	441.3	163.2	163.2	37.0%
CENTRO DE DESENVOLVIMENTO DE SISTEMAS DE INFORMACAO DE FINANCAS	665	582	430.8	151.1	151.1	35.1%
MINISTERIO DA ENERGIA	655	311	424.0	-112.7	112.7	26.6%
UNIVERSIDADE PEDAGOGICA	562	443	363.7	78.9	78.9	21.7%
ADMINISTRACAO DE INFRA-ESTRUTURAS DE AGUA E SANEAMENTO	554	290	358.7	-68.7	68.7	19.2%
Allocated expenditure (30 major institutions)	***77,796***	***50,366***	***50,365.7***	***0.0***	***20,190.8***	
Composition (PI-2) variance						***40.1%***

Source: DNO. Actuals are extracted from the end-of-year report (CGE).

Table 4: Variance in expenditure composition by 30 main institutional Votes (UGBs), 2014

Data for year =	**2,014**					
Administrative head (millions of MZM)	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
FUNDO DE ESTRADAS	19,938	13,024	10,982.8	2,040.8	2,040.8	18.6%
MINISTERIO DA DEFESA NACIONAL	12,131	998	6,682.1	-5,684.4	5,684.4	85.1%
MINISTERIO DA SAUDE	9,150	7,132	5,040.0	2,092.5	2,092.5	41.5%
MINISTERIO DO INTERIOR	7,872	7,232	4,336.3	2,895.2	2,895.2	66.8%
MINISTERIO DA EDUCACAO	7,699	3,021	4,240.8	-1,219.4	1,219.4	28.8%
FUNDO DE APOIO A REABILITACAO DA ECONOMIA	6,462	27	3,559.3	-3,532.7	3,532.7	99.3%
AUTORIDADE TRIBUTARIA DE MOCAMBIQUE	5,149	4,753	2,836.1	1,917.1	1,917.1	67.6%
FORCAS ARMADAS DE DEFESA DE MOCAMBIQUE	4,524	4,704	2,492.1	2,212.4	2,212.4	88.8%
MINISTERIO DOS TRANSPORTES E COMUNICACOES	3,628	461	1,998.4	-1,537.7	1,537.7	76.9%
FUNDO DO DESENVOLVIMENTO AGRARIO	3,039	928	1,673.8	-745.8	745.8	44.6%
MINISTERIO DAS OBRAS PUBLICAS E HABITACAO	3,019	152	1,662.8	-1,510.9	1,510.9	90.9%
UNIVERSIDADE EDUARDO	2,900	2,335	1,597.5	737.6	737.6	46.2%

MONDLANE						
MINISTERIO DA INDUSTRIA E COMERCIO	2,683	243	1,477.9	-1,234.7	1,234.7	83.5%
MINISTERIO DA AGRICULTURA	2,076	1,053	1,143.4	-90.0	90.0	7.9%
MINISTERIO DA ADMINISTRACAO ESTATAL	1,918	414	1,056.6	-642.6	642.6	60.8%
SERVICO DE INFORMACAO E SEGURANCA DO ESTADO	1,904	1,989	1,048.9	939.6	939.6	89.6%
FUNDO PARA O FOMENTO DE HABITACAO	1,727	214	951.4	-737.1	737.1	77.5%
HOSPITAL CENTRAL DE MAPUTO	1,595	1,284	878.3	405.2	405.2	46.1%
FUNDO DE INVESTIMENTO E PATRIMONIO DO ABASTECIMENTO DE AGUA	1,534	850	845.0	5.2	5.2	0.6%
PRESIDENCIA DA REPUBLICA	1,252	1,930	689.7	1,240.2	1,240.2	179.8%
EMBAIXADAS E OUTRAS REPRESENTACOES DIPLOMATICAS	1,215	1,211	669.3	542.0	542.0	81.0%
MINISTERIO DA ENERGIA	1,069	323	589.0	-266.3	266.3	45.2%
ADMINISTRACAO REGIONAL DAS AGUAS DO SUL	1,046	341	576.4	-234.9	234.9	40.8%
COMANDO GERAL DA POLICIA	904	951	498.2	452.9	452.9	90.9%
ASSEMBLEIA DA REPUBLICA	901	942	496.3	446.1	446.1	89.9%
FUNDO NACIONAL DE ENERGIA	824	666	453.9	211.9	211.9	46.7%
CASA MILITAR	762	882	419.8	462.7	462.6	110.2%
TRIBUNAL ADMINISTRATIVO	713	639	392.7	245.8	245.7	62.6%
UNIVERSIDADE PEDAGOGICA	647	575	356.5	218.1	218.1	61.2%
CENTRO DE DESENVOLVIMENTO DE SISTEMAS DE INFORMACAO DE FINANCAS	596	699	328.1	371.2	371.2	113.1%
Allocated expenditure (30 major institutions)	***108,876***	***59,973***	***59,973.2***	***0.0***	***34,872.9***	
Composition (PI-2) variance						***58.1%***

Source: DNO. Actuals are extracted from the end-of-year report (CGE).

Table 5: Variance in expenditure composition by Economic Classification, 2012 - 2014

Data for year =	**2012**					
Economic head (Thousands of MZM)	***budget***	***actual***	***adjusted budget***	***deviation***	***absolute deviation***	***percent***
Compensation of employees	41,353,379	41,591,996	36,762,021	4,829,975	4,829,975	13.1%
Use of goods and services	14,006,921	14,321,602	12,451,769	1,869,833	1,869,833	15.0%
Interest	4,626,376	4,125,408	4,112,722	12,686	12,686	0.3%
Transfers and Subsidies	18,950,143	18,766,611	16,846,158	1,920,453	1,920,453	11.4%
Capital Expenditure	65,517,764	53,457,152	58,243,497	-4,786,345	4,786,345	8.2%

Other expenses (incl. net lending and capital replacement)	15,764,670	10,167,758	14,014,360	-3,846,602	3,846,602	27.4%
Total expenditure	160,219,253	142,430,527	142,430,527	0	17,265,894	
Composition variance						**12.1%**
Data for year =	**2013**					
Economic head (Thousands of MZM)	***budget***	***actual***	***adjusted budget***	***deviation***	***absolute deviation***	***percent***
Compensation of employees	48,809,100	49,521,006	43,389,953	6,131,053	6,131,053	14.1%
Use of goods and services	18,456,654	18,859,066	16,407,460	2,451,606	2,451,606	14.9%
Interest	5,622,421	3,969,731	4,998,178	-1,028,447	1,028,447	20.6%
Transfers and Subsidies	19,276,350	18,769,310	17,136,147	1,633,163	1,633,163	9.5%
Capital Expenditure	69,425,029	72,300,602	61,716,949	10,583,653	10,583,653	17.1%
Other expenses (incl. net lending and capital replacement)	9,523,647	15,100,116	8,466,261	6,633,855	6,633,855	78.4%
Total expenditure	171,113,201	178,519,831	152,114,948	26,404,883	28,461,777	
Composition variance						**18.7%**
Data for year =	**2014**					
Economic head (Thousands of MZM)	***budget***	***actual***	***adjusted budget***	***deviation***	***absolute deviation***	***percent***
Compensation of employees	56,958,737	59,831,189	50,634,757	9,196,432	9,196,432	18.2%
Use of goods and services	25,017,551	26,037,637	22,239,917	3,797,720	3,797,720	17.1%
Interest	6,347,003	5,192,930	5,642,312	-449,382	449,382	8.0%
Transfers and Subsidies	20,748,860	21,004,024	18,445,168	2,558,856	2,558,856	13.9%
Capital Expenditure	100,769,835	87,036,196	89,581,623	-2,545,427	2,545,427	2.8%
Other expenses (incl. net lending and capital replacement)	24,360,854	22,917,996	21,656,132	1,261,864	1,261,864	5.8%
Total expenditure	234,202,840	222,019,972	208,199,909	13,820,063	19,809,680	
Composition variance						**9.5%**

Source: OE for approved Budget, CGE for Executed budget

13. Dimension two focuses on the variance in spending composition at economic classification level. Table 5 (above) shows this variance on an annual basis. For the same reasons mentioned above, it has not been possible to exclude contingency items from the calculations. Figures show that the variance for economic classification behaves better (12,1% in 2012; 18,7% in 2013 and 9,5% in 2014) than the institutional variance.

As the variance in two out of the three last years is lower than 15%, the score for dimension two merits a "C".

14. Dimension three attempts to capture the effect of contingencies over spending. Thus, the indicator measures the average amount of expenditure charged to the contingency vote over the last three years. Despite the problems related to the definition of contingency in the budget explained above, no expenditures have been charged directly to the contingency vote but rather to the budget lines, to which the contingency budget has been reallocated. **Therefore the score for dimension (iii) is "A" regardless of concerns over the definition of contingencies.**

PI-3: Aggregate Revenue Out-turn compared to original approved Budget

Indicator (M1)	Dimension Assessed	2015 Assessment	Justification for Scoring assigned
PI-3: Aggregate Revenue Out-turn compared to original approved Budget	(i) Actual revenue compared to that provided for in the originally approved budget.	**A**	*97 % in 2012; 117 % in 2013 and 102 % in 2014, thus the revenue out-turn was between 97 & 106% in 2 out of the 3 years.*

Indicator PI-3[3]: 2015 PEFA Assessment

Table 6: Actual Receipts of Revenues and Grants compared with budgeted projections, 2012-14

(Millions of MZN)	Original Budget	Executed Budget	%	Original Budget	Executed Budget	%	Original Budget	Executed Budget	%
	2012			2013			2014		
Domestic Revenue (incl. capital gains)	95,538	98,477	**103%**	113,962	126,319	**111%**	147,372	156,336	**106%**
External Revenue (Grants)	34,719	27,332	**79%**	19,811	30,233	**153%**	30,402	24,106	**79%**
Total Revenue	130,257	125,809	**97%**	133,773	156,552	**117%**	177,773	180,443	**102%**

Source: OE for original Budget, CGE for Executed budget

15. This indicator measures actual revenue collection compared to revenue estimates in the original approved budget. Within the definition of total revenues are included funds received from Budget Support Grants, as well as all components of domestic tax (including capital gains taxes) and non-tax revenue. Therefore, this indicator cannot be directly compared with PI-3 in the 2011 PEFA methodology. In common with indicators PI-1 and PI-2 considered in this report, the data for this section is drawn from the annual budgets (OE) approved by the Legislature and from the final Fiscal Year Out-turns for 2012, 2013 and 2014 (CGE).

16. In general, total receipts of Grants and Domestic Revenues have been close to the budgeted projections. On average, 105% of planned revenue was indeed collected in the three years. **The revenue out-turn**

[3] This indicator is not comparable to PI – 3 in the 2011 PEFA methodology, which excludes external Budget Support grants.

was between 97% and 106% in 2 out of the 3 years, which scores an "A" in the 2015 PEFA methodology. Table 6 shows more details about trends, disaggregating domestic and external revenue.

B (i) Comprehensiveness & Transparency (PI 4-9)

PI-4: Classification of the budget

Indicator (M1)	Dimension Assessed	2015 Assessment	Justification for Scoring assigned
PI-4: Classification of the budget	(i) Extent to which the classification system used for formulation, execution and reporting of the central government's budget is consistent with international standards	C	*The economic classification presented in the budget and financial reports does not follow GFS, although it is compatible. Functional classification is only correctly applied for 10 functions but not for the 69 sub-functions of COFOG.*

Indicator PI-4[4]: 2015 PEFA Assessment

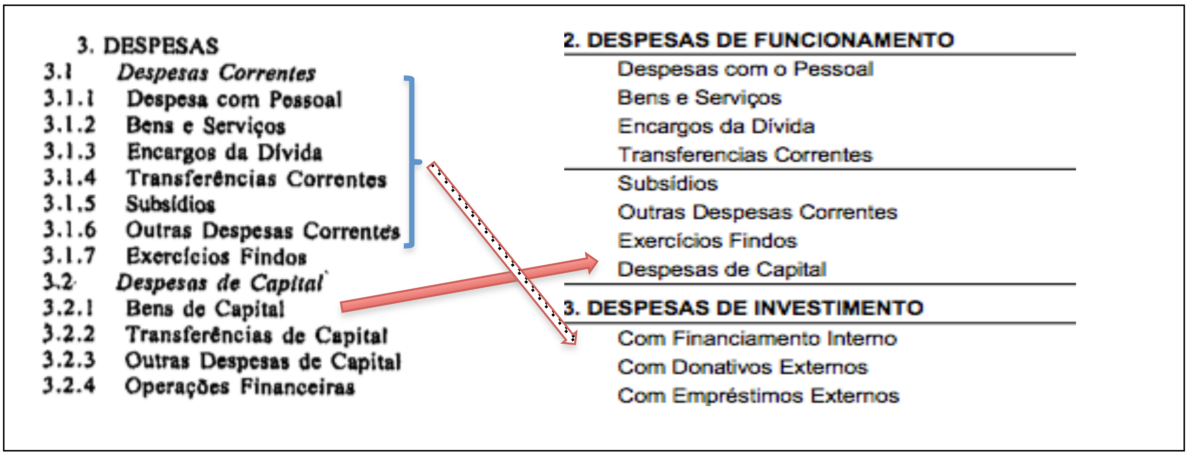
17. The SISTAFE law establishes an economic classification that is fully consistent with international standards (see Figure 1). However, this classification is not used when the budget document is formulated and reported (in-year and year-end reports). Published documents are presented using a different classification, which distinguishes between "funcionamento" and "investimento" categories. "Funcionamento" includes all recurrent spending and some capital expenditure (i.e. "Despesas de Capital", relating to purchase of equipment). "Investimento" captures all development project expenditure and thus includes salaries and other recurrent spending attached to projects. Hence, the classification used in the budget presentation and financial reports does not follow GFSM standards (no matter what Manual is used: 1986, 2001 or 2014). This fact is also stressed by IMF (2014) concluding that "the economic classification currently in use does not classify capital and recurrent spending according to the IMF's GFS standards" (IMF, 2014).

18. Nevertheless, budget formulation, execution and reporting are undertaken using the same "ad hoc" economic classification, showing at least internal consistency. In addition, IMF Article IV reports are prepared using the distinction between Recurrent and Capital, which is consistent with GFSM. As the source used for article IV reports is MEF, it could be presumed that the conversion to GFS standards is possible although it is not used for budget reports. For all these reasons, we consider that an economic classification is applied in a consistent manner, despite the fact that the economic classification used in budget formulation, execution and reporting is not presented following GFS standards.

Figure 1: Conceptual differences between Economic Classification in the SISTAFE Law and the information presented in Budget documents and reports

Economic Classification in the SISTAFE Law	Economic classification used in Budget & Financial Reports

[4] This indicator is comparable to PI – 5 in the previous PEFA methodology, although its formulation has changed and the scope of the indicator is more extensive in the application of GFS requirements.



Some recurrent expenditure linked to projects is included under "Investimento".

Some capital expenditure is included in "Funcionamento" as "Despesas de Capital"

19. In addition to the use of administrative and economic classifiers, this indicator requires that full functional/ sub-functional classification be in place in order to score more than a C. Although execution is reported at functional and sub-functional level, there are doubts about the accuracy with which sub-functional classifications are applied. Moreover, budget documents do not present planned spending with this level of disaggregation. **Consequently, a score of "C" is attributed to this indicator.**

Table 7: Budget classifications in use 2012-2014

Classification Type	Budgetary classification in use	Presentation in the Budget	Presentation in the End-year Financial Statement
Administrative	Organic classification	Yes, for all years	Yes, for all years
Economic	Economic classification of revenue and expenditure. SISTAFE law uses a fully compatible GFS standard	Yes, for all years, using an 'ad hoc' economic classification different from GFS. (e.g. Tables in the Budget and budget justification document)	Yes, for all years, using an 'ad hoc' economic classification different from GFS.
Functional	Functional classification (COFOG), with 10 functions and 69 sub-functions.	Partially. Aggregated at function level. (Budget justification document). Consistent with COFOG at this level. Sub-functional level not disclosed	Yes, for all years functional & sub-functional levels, but with doubts over the correct application of sub-functional classifiers.
Programmatic	Programme and sub-programme classification (Table E of the budget)	Yes, for all years	No, not in any year

20. Regarding programme-based budgeting, the IMF's Fiscal Transparency Assessment confirms that a programme classification was used in the budget to present expenditures of six priority programs[5]. The introduction of this classification started in 2008 through pilots in priority sectors (agriculture, infrastructure, and education). While it has been extended and used in the budget proposal since 2009, it is

[5] 2013 revised budget, Mapa E, p. 798.

still at its early stages and it is not being used for budget reporting (IMF, 2015). Table 7, above, summarises the current use of different budget classifications in Mozambique:

PI-5: Comprehensiveness of information included in budget documentation

Indicator	Dimension Assessed	2015 Assessment	Justification for Scoring assigned
PI-5: Comprehensiveness of information included in budget documentation	(i) Share of the above-listed information in the executive's annual budget proposals most recently issued by the central government	**D**	*Budget documentation does not include all 4 basic elements; in particular, data on past year expenditure and on current year estimates (elements 2 and 3) are not presented in the same format as the estimates in the budget proposal.* *An explicit Forecast of the fiscal deficit or surplus is not presented (element 1).*

Indicator PI-5[6]: 2015 PEFA Assessment

21. This indicator assesses the comprehensiveness of the information provided in the documentation of the Executive's annual budget proposal. This dimension requires the presentation of at least four basic elements to score higher than a D. These are as follows:

    i) Forecast of the fiscal deficit or surplus (or accrual operating result);

    ii) Previous year's budget outturn, presented in the same format as the budget proposal;

    iii) Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal; and

    iv) Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-4), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates.

22. **Of these four basic elements, only the final one is included in Budget documentation in Mozambique. Hence a "D" score is attributed to this indicator.**

23. In particular, neither the budget proposal nor the approved budget provides a clear definition of what constitutes the fiscal deficit and how it will be financed (IMF, 2015). PI -14 analyses the quality of the Fiscal Policy and, as will be explained, there is considerable room for improvement in presenting forecasts of fiscal deficit/surplus following international standards. Although information to calculate indirectly the fiscal deficit target is provided in the budget proposal, this figure is not explicitly stated in the document. Therefore, basic element number one is not provided in Budget documentation.

24. For basic elements numbers two and three, the 2015 PEFA Field Guide requires that prior year and current year out-turns/estimates are presented at a detailed level for all budget lines in the budget proposal *in the same way as the proposals for the forthcoming budget year* (so that expenditure by economic codes can be tracked over time for each department etc.). Thus, the inclusion of these two basic elements in the Budget

[6] This indicator is not comparable to PI – 6 in the previous PEFA methodology, as its method of scoring has been changed (basic/additional elements).

documentation would ensure that the readers (i.e Parliamentarians) were able to understand the changes being proposed in expenditure allocations and planned revenue sources by comparison with the current and prior years, and to relate the proposed changes to government policies. To that effect, fully comparable figures for prior year, current year and the forthcoming budget year should be presented for all major lines in the budget classification: in the documentation of the last two budgets (2014 and 2015) this has not been done.

25. Such a format was, however, commonly utilised in the documentation of the Executive Budget Proposal in earlier years. It may be that the increase in the total number of vote holders (UGBs) in more recent years made such a presentation excessively voluminous. Certainly, there are signs that deliberate efforts have been made to generate a more summarized presentation in the Budget documentation but the unfortunate result has been that for the proposed budgets of central government institutions, a direct comparison with current and prior years is no longer possible. Curiously, this is not the case in the Autarquias (SNGs) for which a format that allows comparison with the last two years at vote holder level is still presented in the budget proposal.

26. Furthermore, there are some additional elements, which would be desirable. Only the first of these is included in the documentation of the Executive's Budget Proposal:

- Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.
- Debt stock, including details at least for the beginning of the current year (presented in accordance with GFS or other internationally recognized standard).
- Financial Assets, including details at least for the beginning of the current year (presented in accordance with GFS or other internationally recognized standard).
- Summary information of fiscal risks (including contingent liabilities such as guarantees, and contingent obligations embedded in PPP contracts, etc.).
- Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programmes.
- Documentation on the medium-term fiscal and expenditure framework.
- Quantification of tax expenditures.

PI-6: Extent of reporting on extra-budgetary operations (EBOs)

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-6: Extent of reporting on extra-budgetary operations (EBOs).	(i) The level of extra-budgetary operations (revenue and expenditure) which is unreported, i.e. not included in ex-ante and ex-post fiscal reports.	**B**	**C+**	*Unreported EBOs are estimated to be 1-5 % of total expenditure, the most prominent items being unreported expenditures from externally financed projects. However, the revenue & expenditure of the National Institute for Social Security is reported in the CGE and, in general, ex-post reporting on*

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
				AGAs is good. There are also indications that reporting of expenditures from 'own revenues' is improving
	(ii) The details of income, expenditure and financing information on reported extra-budgetary operations (not applicable if EBOs constitute less than 1% of total budgetary expenditure)	**C**		*Ex-post reports in the CGE include reports of revenues and expenditures for most AGAs, as well as the National Institute for Social Security. Most loan funded projects and half of grant funded projects are either fully on budget or at least report ex-post. However, relatively few EBOs are reported upon ex-ante in budgetary documentation. .*

Indicator PI-6: 2015 PEFA Assessment

27. This indicator assesses the extent to which ex-ante and ex-post fiscal reports cover budgetary and extra-budgetary activities of central government to allow a complete picture of revenue, expenditures, and financing. The first dimension of this indicator assesses the magnitude of operations that are not reported while the second dimension assesses the quality of income and expenditure information on extra-budgetary operations.

28. In terms of comparability with the PEFA 2011 methodology, the concept assessed by the first dimension is similar to the dimension PI-7 (i) from the 2011 methodology, but it includes coverage of externally funded projects and its evaluation criteria are changed. The dimension ii) introduces a new concept to assess. Thus, scores are not comparable.

29. There are four principal sources of Central Government Extra Budgetary Operations in Mozambique:

   (i) The semi-autonomous government agencies, institutes and Funds, which have operational but not financial autonomy. These are generally included both in ex-ante reports within the Budget (approximately 60 such institutes and funds are included in the State Budget 2015) and in ex-post reports within the CGE.

   (ii) The financially autonomous agencies of the Central Government, of which the most prominent is the National Institute for Social Security. A few of these report on planned spending in the OE but the majority provide ex post reports on revenue and expenditure. Specifically, the CGE has a table included as an attachment to the main accounts, which provides a summary of revenues and expenses for 30 autonomous institutions.

   (iii) The operations of government ministries and agencies, which are financed from own revenues ('receitas propias'), collected directly by these ministries and agencies, such as for example hospital fees for private patients ('atendimento especial'). In principle, all such expenses should be pre-budgeted and fees should be deposited in the CUT and then re-credited to the relevant ministry. In practice, a significant proportion of these revenues are not reported.

   (iv) Externally financed development projects and programmes, which are managed outside of the CUT and only partially reported in ex-ante budget reports and ex-post financial reports.

30. With regard to the semi-autonomous and fully financially autonomous funds and institutes, although the list of all entities that comprises the Public Sector is not exhaustive (IMF, 2014, Fiscal Transparency Assessment, p7), particularly with respect to autonomous entities, the information included in ex-post financial reports (whether the REOs, or CGE) is broad enough and comprehensive enough to consider that all of the budgetarily important agencies are covered, including notably the National Institute of Social Security. This is confirmed by the same assessment of the IMF, according to the FTA methodology.

31. With regard to own revenues, it is still not possible to obtain comprehensive coverage of the revenue collected by public entities. The audits of the Tribunal Administrativo confirm that an unquantified proportion of this income is still not declared and is thus used without fully observing the procedures laid down by law, particularly with regard to the phases of the expenditure cycle.

Table 8: Reporting of Own Revenues, 2012 - 2014

OWN REVENUES (MZN 10^6)	OE initially approved	CGE Execution	Execution Rate
2012	3.122	3.264	105%
2013	3.812	3.987	105%
2014	3.302	5.223	158%
2012 -2014 growth	5.8%	60.0%	

Source: OE & General State Accounts (CGE) 2012, 2013 & 2014 (Amounts in Mt. Millions)

32. However, the MEF has made efforts to encourage the implementation of correct procedures for forecasting, budgeting, billing and accounting of own revenues, following the dissemination in 2010 of a memorandum on this matter, which lead to increased collections in more recent years. Therefore, with regard to the collection of Own Revenues, there has been an increasing trend in terms of collection of these revenues, with an increase of 60% recorded between 2012 and 2014, as may be seen from Table 8. This table also shows that in aggregate the scale of such expenditures is low, being substantially less than 1% of total spending. (Compare with Table 7 in Volume One, applying the 2011 methodology.)

33. With regard to externally financed projects, there remain significant problems in capturing the details of planned budgets and of executed expenditures in a manner which is fully compatible with the national budget process. On the other hand, virtually all loan-financed projects generate financial reports, which are either incorporated directly in in-year reports (REOs) and final accounts (CGE) or recorded first within the CS-DRMS debt management system, as loan drawdowns, and then incorporated into final accounts. Financial reporting of grant-funded projects is less comprehensive and probably represents the single largest category of extra budgetary operations, although here too there have been continuous efforts to bring on-budget, those grant-funded projects which finance government activities.

34. Overall, we judge that unreported expenditure by autonomous and semi-autonomous agencies, as well as by ministries using own revenues would comprise a maximum of 1% of public spending. Unreported

expenditure by grant-financed projects is estimated to comprise 2-3 % of total spending[7]. **Therefore for dimension (i) of this indicator, the rating "B" is accorded.**

35. As we have noted, where reports exist these are generally ex-post financial reports and in many cases ex-ante budgetary estimates of spending are lacking. **Thus a "C" is accorded to dimension (ii) of this indicator and therefore a "C+" overall.**

PI-7: Transparency of inter-governmental fiscal relations

Indicator	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-7: Transparency of inter-governmental fiscal relations	(i) Transparent and rules-based systems in the horizontal allocation among SNGs of unconditional and conditional transfers from central government (both budgeted and actual allocations).	**A**	**B**	*The horizontal allocation of transfers for recurrent and investment expenditure from Central Government are fully defined by the "Lei das Financas Autarquicas". Only externally financed allocations fall outside of this framework.*
	(ii) Timeliness of reliable information for budget planning to SNGs on their allocations from central government for the coming year	**C**		*The Central Government releases preliminary information in July, which provides the basis for budget preparation by the Autarquias. Updated information on transfers is included in the Executive's Budget Proposal tabled in mid-October before SNG budgets are voted in November. However, the definite amount to be transferred is notified after the CG budget is approved in December. Many Autarquias therefore submit a revised budget to their assemblies in February or March.*
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government	**B**		*The CGE (issued in May each year), provides consolidated information for all Autarquias. Own revenues are not reported, however. Thus 75 -90% of SNG expenditures are reported on a timely basis in a consolidated manner.*

Indicator PI-7: 2015 PEFA Assessment

36. This indicator assesses the transparency and predictability of transfers from central government to sub-national governments (SNG) for the use of these funds during the last completed FY 2014, and the extent to which its revenue and expenditure data is consolidated and included in the general government reports.

[7] Table 3 in Volume One (applying the 2011 methodology) shows the overall summary of the financial operations of central government. In 2014, grants are reported as 4 % of GDP, against total spending of 41.9 % of GDP. Approximately half of these grants comprise Budget Support and common basket funds; thus grant funded projects comprise approximately 5% of spending. Given these broad parameters, the scale of unreported grant-funded projects is thus estimated at 3-4% of spending at most.

37. Regarding comparability with the PEFA 2011 methodology, the concept assessed by the first dimension is similar to the dimension PI-8.i from the 2011 methodology and the two are comparable. The concepts assessed by the other two dimension are also similar to the dimensions PI-8.ii and PI-8.iii from the 2011 methodology, but their scoring criteria are changed. Scores for these two dimensions are not directly comparable but should be similar in most cases.

38. The Act for Local Government Finances defines in Articles 43 and 44 the amount to be transferred and the distribution formula between autarchies (SNG). The Medium-term Fiscal Framework (CFMP), based on the mentioned Law sets the total amount to be transferred to SNG, as well as the forecast of such amount for the next two years. The distribution formula is described in the MAF and the coefficients for applying the formula are calculated and described in the fiscal scenario (CFMP) based on macro-economic and regional indicators. **An "A" score is therefore accorded to this first dimension.**

39. The SNG receives the initial information of the calculation of the planned transfers in July, with the publication of the Fiscal Scenario for the Medium Term (CFMP). The Autarquias develop their own budgets on the basis of this information and submit these budgets to their Assemblies for approval in November of each year. Updated information on transfers to Autarquias is however available 3-4 weeks earlier in the Executive Budget Proposal, submitted to the National Assembly in mid-October but the team's interviews suggested that most Autarquias do not make use of this information source, despite its reliability. Formal notification of the amounts to be transferred to Autarquias is made when the National Assembly approves the central government budget in December. Most SNGs therefore prepare revised budgets for submission to their respective assemblies in February or March.

40. Thus, we conclude that although information on annual transfers to SNGs is available in October, this may already be too late for significant changes to budget plans to be made, given that these are voted by Local Assemblies in November. **We therefore attribute a "C" score to this dimension.**

41. The CGE includes the consolidated financial information of the general government, including the information on income and expenditure of subnational governments. Summarized information of SNG expenditure is also included in the quarterly budget execution reports (REO). Neither report includes the expenditures financed by SNGs' own revenues. While for some Autarquias, these may represent only a small proportion of expenditure (5% or less), for the larger municipalities (such as Maputo, Beira or Nampula), these may comprise as much as 30% of expenditure. We therefore estimate that 75 – 90 % of SNG spending is included in the consolidated report of SNG spending contained in the CGE issued in May each year (5 months after the close of the fiscal year), **meriting a "B" score on this dimension.**

PI-8: Performance information for achieving efficiency in service delivery

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-8: Performance information for achieving efficiency in service delivery	(i) Disclosure, within budget documentation, of key performance indicators and targets for service delivery (coverage measured as percent of service delivery functions financed by central government).	**C**	**C**	*Targets are defined in the PES report which accompanies the Budget Proposal, and these cover education, health, infrastructure and other sectors which together comprise more than 50% of service delivery functions. However, there are inconsistencies in the format in which targets are presented (activities, outputs and outcomes are mixed) and a lack of clarity over measurement methods.*
	(ii) Disclosure, within budget documentation, year-end reports or other public documents, of data on the performance results achieved by service delivery functions (in the most recent, completed fiscal year).	**B**		*The Balance of the PES report describes twice a year the status of the implementation of the PES in a format which is comparable with original targets. The sectors covered are estimated to comprise 25-50% of service delivery functions.*
	(iii) Monitoring of resources received by service delivery units	**D**		*Reports on expenditure by sector are provided at the district level but not at the level of service delivery units (schools, aid posts, etc.). In addition, there are no reports seeking to combine data on financial resources received and in-kind resources received at this level (eg. medicines, text-books.)*
	(iv) Content and coverage of independent performance evaluations (assessing the design, efficiency and effectiveness of service delivery functions or programs)	**C**		*No programme evaluations are routinely undertaken but performance audits are undertaken by IGF and TA. Coverage is less than 25% of service delivery functions but performance audits do include recommendations to improve service delivery.*

Indicator PI-8: 2015 PEFA Assessment

42. This indicator assesses the quality of the annual performance information at different stages of the budget cycle. It focuses on annual information on public service delivery, and the extent to which the nature and coverage of such information is likely to promote greater operational efficiency in service delivery.

43. Comparability with the PEFA 2011 methodology: the concept assessed by the third dimension is similar to the dimension PI-23 from the 2011 methodology, but its evaluation criteria are changed. The other three dimensions are new.

44. The National Development Strategy 2015-2035 provides a framework for certain long-term general development actions. The Five-Year Government Plan sets the goals and priorities of the government for the medium term. Both documents are the basis for identifying budgetary priorities and to establish goals and objectives to be achieved in the forthcoming fiscal year. On this basis, each sector prepares an annual Economic and Social Plan (PES), which establishes the activities, goals, and outputs to achieve in the year, as well as the related performance indicators. The MEF then consolidates all Sectoral PES and prepares the

PES of the Government, which is presented to the National Assembly as an accompaniment to the annual budget proposal. The sectors covered by this process certainly comprise more than 50% of service delivery functions but there are inconsistencies in the format in which targets are presented (activities, outputs and outcomes are mixed) and a lack of clarity over measurement methods. **Thus a "C" score is accorded to this dimension.**

45. Twice a year the progress of the PES is reviewed and reported upon in the Balance do PES, which is reviewed and commented upon by the National Assembly. The reporting format is consistent and fully comparable with the initial presentation of targets in the PES but the sectoral coverage is less complete, comprising 25 -50 % of service delivery functions. **A "B" score is therefore accorded to dimension (ii).**

46. The management of the education and health sectors is highly decentralized. Units providing primary services are supervised and managed at the district level. All information is maintained locally, so there are no centrally consolidated reports on the resources budgeted and received by service delivery units. **A "D" score is therefore accorded to this third dimension.**

47. No evaluations of budget programmes are undertaken on a routine basis. However, a small number of performance audits are undertaken each year both by IGF and by the Tribunal Administrativo (TA). Coverage is certainly less than 25% of service delivery functions but both IGF and TA performance audits include recommendations to improve service delivery. **A "C: score is therefore accorded to dimension (iv).**

PI-9: Public access to key fiscal information

Indicator	Dimension Assessed	2015 Assessment	Justification for Scoring assigned
PI-9: Public access to key fiscal information	(i) Quality, timeliness and range of the documents for which public access is provided	**D**	*In-year reports (element 3) are published late (6-7 weeks after quarter end). The TA's audit report on the Annual Accounts is available only 15 months after the reference period. Thus only 2 of 4 basic elements are fulfilled.*

Indicator PI-9[8]: 2015 PEFA Assessment

48. This indicator assesses the extent to which budget documentation is made available to the general public. In order to score in the assessment, the full specification of the information benchmark must be met. The critical period should be the most recent, completed and relevant stage of the budget cycle for each document. Table 9 summarises what information is available at the level of quality requested.

[8] This indicator is not comparable to PI – 10 in the previous PEFA methodology, as its method of scoring has been changed (basic/additional elements). However, Figure 8 in Volume One may be consulted for comparison.

Table 9: Quality of Public Access to Budgetary and Fiscal Information (PI-9)

Basic elements:	Achieved (✓) Not achieved (✗)	Comments
1. Annual Executive Budget Proposal documentation: A complete set of executive budget proposal documents (as assessed in PI-5) is available to the public within one week of the executive submitting them to the legislature.	✓	Budget documents are posted annually to the DNO web-site 3-5 days after submission to Parliament.
2. Enacted Budget: The annual budget law approved by the legislature is published within two weeks of passage of the law.	✓	Approved by Parliament 27 April 2015. Published in the Official Gazette 7 May 2015
3. In-year budget execution reports: The reports are routinely made available to the public within one month of period end. Where a more comprehensive and analytical mid-year report is produced, publication should take place within 3 months of period end.	✗	Published 45 days after period end. Last approved report (Jan-March) was published 18 May 2015
4. Audited annual financial report, incorporating or accompanied by the external auditor's report: The report(s) are made available to the public within twelve months of the year end.	✗	CGE 2013 was published in July 2014 but TA report on CGE 2013 was only made available in March 2015.
Additional elements:		
5. Pre-Budget Statement: The broad parameters for the executive budget proposal regarding expenditure planned revenue and debt is made available to the public at least four months before the start of the fiscal year and two months before the executive budget proposal is submitted to the legislature.	✓	Budget ceilings for 2014 budget were approved and disseminated 31 May 2013.
6. Other external audit reports: All non-confidential reports on central government consolidated operations are made available to the public within six months of submission.	✓	All audit reports of public institutions are confidential but the TA's report on the annual accounts (CGE) is public.
7. Summary of the Budget Proposal: A clear, simple summary of the Executive's Budget Proposal and/or the Enacted Budget accessible to the non-budget experts (often referred to as a 'citizens' budget'), is publicly available within 2 weeks of the EBP being submitted to the legislature and within 1 month of the budget's approval respectively.	✓	Last citizen budget was published 12 May 2015. The budget was enacted 27 April 2015.
8. Medium Term Budget Outlook: (as assessed in PI-16) is available within one week of its endorsement.	✗	CFMP 2015-2017 was not published, although earlier CFMPs have been.

49. Fiscal information related to budget is the responsibility of the Budget Department (DNO). There is a website within the Ministerio das Finanças which contains all documents available related to the budget cycle. In-year reports are placed in another website but are easy to find as soon as the abbreviation of these

reports is known (REO = In-year reports). Access to the information in these websites is free of charge and the information contained is the same for every fiscal year and it is up to date.

50. In order to score more than a D, all four basic elements must be achieved. **However, one additional element and two of four basic elements were not met, thus a "D" is scored for this indicator**:

- In-year budget execution reports (basic element 3) are made public on average within 45 days, following time limits established by law. Therefore, they are published more than one month after the close of the period, which is the standard set in the methodology.
- Audited annual financial reports are not made public until the Parliament approves the report of the Tribunal Administrativo on the annual accounts (CGE)[9]. This process normally takes more than 12 months. The report of the TA on the 2013 CGE was made public in March 2015.
- The CFMP 2015 -2017 (additional element 8) has not been approved although the process of elaboration was fully undertaken by UGBs. The reason behind this was that, due to the October 2014 elections, the members of the Executive in charge of the process considered in May 2014 that the CFMP 2015- 2017 should be discussed and approved by the incoming Administration. Previous CFMPs were made public in 2013 and 2014, but there is no record of the dates of approval and publishing.

B (ii) Asset & Liability Management (PI 10-13)

PI-10: Fiscal risk management

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-10: Fiscal risk management	(i) Extent of central government monitoring of AGAs and PEs	**C**	**C+**	*Most but not all the AGAs and the PEs submit audited annual financial statements to the DNT of MoF or IGEPE. However, there is no consolidated annual report.*
	(ii) Extent of central government monitoring of SNGs' fiscal position	**A**		*SNGs report on their revenues, expenditures and balances annually. Moreover, SNGs are not allowed to borrow without MoF approval.*
	(iii) Extent of central government monitoring of explicit contingent liabilities from central government programs and projects	**D**		*Although details of PPPs are included in the CGE, contingent liabilities are not generally reported.*

Indicator PI-10: 2015 PEFA Assessment

51. This indicator assesses the extent and quality of the Central Government's oversight of other public sector entities. It focuses specifically on the monitoring, quantification, management and reporting of fiscal risks at a consolidated level.

[9] However, the unaudited annual accounts are normally made available within 7 months of the reference period. CGE 2013 was available in July 2014 and CGE 2014 in July 2015. In recent years, the auditing process has not required significant changes to the annual accounts.

52. Comparability with the PEFA 2011 methodology: The concept assessed by the first dimension is similar to the dimension PI-9.i from the 2011 methodology, but its evaluation criteria are changed. The second dimension is similar to the dimension PI-9.ii and is comparable. The third dimension is new.

53. The majority of AGAs and PEs submit their audited financial statements to the Central Government on an annual basis, either directly to the Direcção Nacional de Tesouro (DNT) of MEF or to the IGEPE (autonomous government entity responsible for oversight of the central government investments in the private sector). There are two principal exceptions: i) companies created by other public companies only report to the "mother" public enterprise, not to IGEPE or MEF; ii) the National Institute of Social Security does not report to MEF or IGEPE and IMF 2014 reports that it has not submitted audited accounts since 2009. Thus, the coverage of AGAs and PEs is substantial but not complete. The second problem is that there is no consolidated annual report produced by MEF, assessing the overall fiscal risks to the central government. The IGEPE produces a consolidated report on the position of the private sector companies in which the State has holdings but this information is not consolidated by MEF into an aggregate annual report on fiscal risk, addressed to the Minister of Finance. **For these reasons, a "C" score is attributed to this first dimension.**

54. Articles 19 and 20 of the Act for Autarchic Finances limit the ability of SNGs to borrow. They can have only short-term borrowing in the domestic financial system, up to an amount equivalent to a quarter of the transfers they receive from central government. All other borrowing must be approved by the MEF. Thus, the SNG cannot generate financial liabilities for the central government without prior authorization. In addition, all SNGs report to DNCP annually on their revenues from central government, the corresponding expenditures and their balances, and this information is presented in the CGE. **For these reasons, an "A" score is accorded to this second dimension.**

55. The CGE in its Volume III reports on the various elements of the fiscal risks generated by the SNGs and Public Enterprises (financial situation, judicial compensation, accounts receivable, etc.). It also reports on Public-Private Partnerships (PPPs). However, there is no quantification of emerging threats such as environmental impacts or other liabilities generated by public programmes or projects. Moreover, contingent liabilities are not reported or recorded in the accounts. **For these reasons, a "D" score is attributed to the third dimension, and thus the indicator is scored as a "C+" overall.**

PI-11: Public investment management

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-11: Public investment management	(i) Objective economic analysis.	**C**	**D+**	*At least one major capital investment project in each of the five major investing UGBs is reviewed by Cabinet, based on economic analysis*
	(ii) Costing over the project life cycle.	**D**		*There is no evidence that the full life cycle costs of projects are discussed in the budgeting process.*
	(iii) Project monitoring and reporting	**D**		*There is no monitoring database that provides both physical and financial information on major projects.*

Indicator PI-11: 2015 PEFA Assessment

56. This indicator[10] focuses on how public investments are assessed (based on economic analysis and project life cycle implications) and systematically monitored during their implementation. Other aspects related to Public Investment Management are considered in related indicators such as the medium term fiscal strategy (PI-16), the quality of the procurement system (PI-23) and the management of assets (PI-12).

57. In order to measure the three dimensions included in this indicator, the PEFA 2015 framework ties the scope of this indicator to the analysis of the process of selection of 'major projects'. These are defined as projects containing two out of the following three criteria: (i) the project's cost (gross nominal cost) amounts to 1% or more of total annual budget expenditure; (ii) the project is among the largest 10 projects (by gross nominal cost) within the 10 largest government institutions; (iii) the project's implementation period is more than 3 years. In line with this definition, Table 10 shows the major projects considered for this indicator.

58. Mozambique does not have an integrated system for project selection and monitoring that considers simultaneously both financial and physical information regarding projects. The review of sectoral CFMP (medium term budget) proposals by the Ministry of Economy & Finance (and previously by the Ministry of Planning & Development) incorporates a process for project selection based on the assessment of the likely contribution to PQG targets. More recently, with the support of Development Partners[11], the Government has introduced the Integrated Investment Plan (Programa Integrado de Investimento) which was approved in September 2013 by the Cabinet. The PII's primary objective is to prioritize investment projects. However, these initiatives have made relatively little impact and further efforts are needed to establish a disciplined project selection process at sector and provincial level. (IMF, 2014).

[10] This indicator is not comparable to any other indicator in the previous PEFA methodology, as it is completely new.

[11] World Bank, DFID and AFRITAC South (IMF AFS).

Table 10: List of major projects in the *Programa Integrado de Investimento* (Indicator PI-11)

Project	Cost USD (10^6)	Start and end dates (2014-2017)	Institution in charge of the project in PES	Gross nominal cost of Project / total annual budget expenditure	Within the 10 most important projects of the institution in the PES 2014	More than 3 years	At least 2 out of 3 PEFA criteria
Construção da Barragem Moamba Major	320	2015	MOPH	5.19%	Yes	No	Yes
Reabilitação do Regadio de Chokwe	78.76	2013-2016	INIR	1.28%	Yes	Yes	Yes
Reabilitação da Barragem de Chipembe	49.32	2015-2017	INIR	0.80%	Yes	Yes	Yes
Reabilitação do Regadio do Baixo Limpopo	43.14	2013-2017	INIR	0.70%	Yes	Yes	Yes
Linha Férrea: Moatize – Nacala (Fase I)	4895	2013-2017	CFM	79.42%	Yes	Yes	Yes
Expansão do Porto de Nacala (Cidade)	112.67	2013-2015	CFM	1.83%	Yes	Yes	Yes
Central Térmica a Gás de Maputo	172	2014	MEN	2.79%	Yes	No	Yes
Hospital Central de Quelimane	57	2013-2015	MISAU	0.92%	Yes	Yes	Yes
Abastecimento de Água ao Grande Maputo	178	2014-2019	MOPH	2.89%	Yes	Yes	Yes
Construção do Aterro Sanitário para as Cidades de Maputo e Matola	60.83	2014	MICOA	0.99%	Yes	No	Yes
Ponte Maputo-Katembe e Estrada para Ponta de Ouro	725.8	2014	MOPH	11.78%	No	No	No
Reabilitação da Estrada N6 entre Machipanda e Beira nas Províncias de Manica e Sofala	433	2014-2017	MOPH	7.03%	No	Yes	Yes
Circular de Maputo (inclui a Ponte da Macaneta)	298.94	2014	MOPH	4.85%	Yes	No	Yes
Estrada N13: Cuamba-Mandimba-Lichinga	291.6	2014	MOPH	4.73%	No	No	No
Estrada N104-Nampula Namitil	75.4	2014	MOPH	1.22%	No	No	No
Estrada Corredor Nacala III: Muita-Mandimba- Lichinga	150.19	2013-2016	MOPH	2.44%	No	Yes	Yes
Reabilitação da Estrada do Tica-Buzi-Nova Sofala	149.72	2014-2016	MOPH	2.43%	Yes	Yes	Yes

Source: Public Investment Programme 2014 – 2017 approved by Cabinet.

59. The first dimension of this indicator attempts to capture the extent to which robust appraisal methods based on economic analysis are in place. Annex Table 10 shows the projects within the PII (Integrated Investment Programme), which fall within the classification of major projects. The table shows that the PII includes at least one major capital investment project in each of the five institutions with substantial investment projects (MOPH, MEN, MISAU, MICOA & INIR). Although the assessment team were unable to examine in detail the economic analyses prepared for these projects, the authorities advised that the full set of projects in the PII were reviewed by the Cabinet prior to its approval in September 2013, and that all of the projects included in the PII had been subject to a previous economic analysis undertaken at UGB and/or MPD level, **meriting a "C" score for dimension (i).**

60. Despite the fact that some progress has been made to improve major project prioritization within the PII initiative and within the framework of CMFP planning discussions between MPD/ MEF and sector institutions, the consideration of project life cycle implications within the multiyear budgeting process remains weak. Neither the PII nor the CFMP show evidence of the systematic consideration of the financial implications of major projects for future recurrent expenditure. Moreover, the resource persons interviewed within MPD/ MEF as well as in the *Fundo de Estradas* and the MEDH confirmed that recurrent cost implications of projects were not systematically considered in budgeting discussions. **Therefore, dimension (ii) scores a "D".**

61. As noted above, there is not an integrated system in Mozambique for monitoring simultaneously the financial and physical progress of major projects. There are 'ad hoc' systems for project monitoring within the responsible UGBs. However, the level of managerial decisions remains at budgetary vote holder level. There are no systematic and clear arrangements at the central level regarding monitoring of projects. Information regarding the progress of some projects is reported within the six-monthly PES reports at aggregate level (*Balanço do PES*). However, **Balanço do PES reports do not include both financial and physical progress data and, moreover, they do not analyse the reasons for deviations from planned progress targets. For these reasons dimension (iii) also scores a "D", giving a "D+" overall.**

PI-12: Public asset management

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-12: Public asset management	(i) Quality of central government financial asset monitoring.	**C**	**C+**	*The registry of Financial Assets is substantially complete and updated. Annual Performance monitoring processes on state ownerships are in place, although the criteria for assessing financial performance are not well-established and not all reports are not publicly disclosed.*
	(ii) Quality of central government non-financial asset monitoring.	**B**		*A comprehensive and substantially complete registry of fixed assets has been produced annually since 2012 as Annex 7 of the CGE. An annual report on*

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
				non-financial assets is produced by DNPE and is also publicly available. However, the report provides only limited detail on asset operations (rentals, leases, etc.).
	(iii) Transparency in the sale of non-financial assets	**C**		*Procedures for transfer or sale of public assets are clearly defined within the legal framework. Transfers or sales must apply competitive and transparent procedures. However, it is not possible to assess the degree of compliance with these procedures.*

Indicator PI-12: 2015 PEFA Assessment

62. This indicator assesses the quality of management and monitoring of public assets. It focuses on the quality and integrity of registries, and on the extent to which registry managers can provide updated and accurate information on financial and non-financial public assets. The three dimensions of this indicator are new and thus there is no comparable indicator wiithin the 2011 methodology.

63. The Direcção Nacional do Património do Estado (DNPE) is the government entity responsible for managing public assets (financial and non-financial assets), in line with specifications in the '*Lei SISTAFE*' 23/ 2004 and the *Regulamento do Património do Estado, Decreto* 23/2007. The accounting system keeps the records of the asset values and inventories, which are reported annually as in Annex 7 of the CGE report. A specialized module of e-SISTAFE, e-Patrimonio, is under development with a view to achieving full automation of this process.

64. The MEF oversees the State's public enterprises, while shareholdings in publicly-owned corporations are managed by the semi-autonomous agency IGEPE. The Law of Public Enterprises allows the government oversight of the creation, acquisition and disposal of government financial assets in Public Enterprises, and separate legislation allows IGEPE to monitor public shareholdings in private corporations. Although the Government can create, acquire and dispose of financial assets, there are not well-established government criteria for that, nor for assessing the financial performance of such assets. Thus, there are annual performance monitoring processes in place for financial assets but these are limited by the lack of performance criteria. Moreover, the public disclosure of the performance of financial assets is incomplete. **A "C" score is therefore accorded to dimension (i).**

65. The scope and procedures for the management of non-financial assets are clearly defined in the legal framework[12], and an updated and substantially complete registry of fixed assets has been produced annually since 2012, as Annex 7 of the CGE. This Annex comprises three large volumes, divided into 10 sub-annexes. The *e-inventario* module within e-SISTAFE provides the basis for preparation of this registry of

[12] Regulamento do Patrimonio do Estado. Decreto 23/2007. Chapter III

fixed assets. In addition to the inventory reported in the CGE, which includes an estimated valuation of fixed assets, there is an annual report on non-financial assets, produced by DNPE, which is also publicly disclosed. However, its coverage of the details of asset operations, especially rentals and leases, is incomplete. **A "B" score is therefore attributed to this dimension.**

66. The legal framework[13] defines clear procedures for transfer or sale of public assets, also specifying that competitive and transparent procedures must be used. However, since individual ministries, departments and agencies (MDAs) execute these procedures on an autonomous basis with no centralised supervision, audit reports at the MDA level (by the IGF or the TA) are the only means of verification of the application of these procedures and these are not made public. It was therefore not possible to confirm the extent to which MDAs respect the regulations. **A "C" score is therefore accorded to this dimension and thus a "C+" for the indicator overall.**

PI-13: Management and reporting on debt and expenditure arrears

<table>
<tr><th>Indicator (M2)</th><th>Dimension Assessed</th><th colspan="2">2015 Assessment</th><th>Justification for Scoring assigned</th></tr>
<tr><td rowspan="4">PI-13: Management and reporting on debt and expenditure arrears</td><td>(i) Domestic and foreign debt data recording and reporting.</td><td>A</td><td rowspan="4">B</td><td>Debt records are accurate, complete, updated and reconciled monthly with comprehensive reports produced on a quarterly basis, using the CS-DRMS system.</td></tr>
<tr><td>(ii) Systems for contracting loans and issuance of guarantees</td><td>C</td><td>By law, only the Ministry of Finance can contract loans for Central Government and only MoF can issue guarantees - within a limit set in the annual Budget Law. However, this legislation was overruled in 2014, with the issue of a guarantee for EMATUM for a loan far in excess of the approved guarantee limit. Thus, we conclude that MoF guarantees do not always follow guidelines and given ceilings.</td></tr>
<tr><td>(iii) Preparation of a debt management strategy</td><td>A</td><td>There is a medium term debt strategy updated every three years and approved by the Minister of Finance. Annual Debt Sustainability Analyses are undertaken to assess the continued viability of the strategy, making annual amendments where necessary.</td></tr>
<tr><td>(iv) Stock and monitoring of expenditure arrears</td><td>D</td><td>A formal and regular arrears monitoring system does not exist and there is no evidence of ad-hoc analyses of arrears performed in recent years.</td></tr>
</table>

[13] Regulamento do Patrimonio do Estado. Decreto 23/2007. Chapter V

Indicator PI-13: 2015 PEFA Assessment

67. This indicator assesses the Government's ability to monitor the financial liabilities that arise from domestic and foreign borrowing or from payment arrears – including salaries – that may create unnecessarily high debt service costs and that could reduce the government capacity to deliver services. For the purposes of this indicator debt refers to all central government debt – both domestic and external. Monitoring of debt contracted by sub-national government and public enterprises are considered under PI-10 Fiscal risk management.

68. Comparability with the PEFA 2011 methodology: Dimension i) assess the same concept as in PEFA 2011 PI-17.i, but applying diferent rating criteria. Dimension ii) is similar to the dimension PEFA 2011 PI-17.iii. Dimension iii) is new and dimension iv) describes the same issue as PEFA 2011 PI-4.i but applying diferent assessment criteria.

69. The recording of the debts of the central government is complete and regularly updated, using the Commonwealth Secretariat Debt Recording & Management System (CS-DRMS) [14]. Data are reconciled monthly with local and foreign creditors and are thus considered to be of high integrity. Quarterly reports on the state of public debt are issued by MEF, but are not usually made public (the latest available public report on the public debt is December 2013). However, the CGE Volume I, contains a brief annual summary of the state of public debt, which is made public. **Dimension (i) therefore scores an "A".**

70. The MoF must approve all central government and SNG borrowing and is the only authority entitled to issue guarantees for the loans of other public sector entities. For external debt, limits are established by the Public Debt Strategy, which amongst other things prioritises concessional loans, and by the medium term fiscal strategy (CFMP), which is updated annually and approved by Cabinet - in most years in May. Domestic borrowing is limited by the annual budget law that sets limits on interest rates and loan periods and also limits on the maximum value of guarantees. However, this legislation was overruled in 2014, with the issue of a guarantee for EMATUM - the tuna fishing company partially owned by the State - for a loan far in excess of the approved guarantee limit. **Thus, we conclude that MoF guarantees do not always follow guidelines and given ceilings. We therefore accord a "C" score to this dimension.**

71. The Public Debt Strategy 2012-2015 was prepared by the Department of Public Debt Administration and is an official report of the Ministry of Finance, approved by the Minister of Finance. It was issued in June 2012 and covers the period 2012-2015. The strategy focuses on giving preference to concessional loans and limiting domestic borrowing and ensures the overall sustainability of the debt position. It contains an analysis of risk, which is updated annually – generally with the support of the IMF. The strategy presents scenarios for the maintenance of interest rate, re-financing and exchange rate risks within a defined target range. The strategy also explains the challenges for implementation. **An "A" score is therefore accorded to dimension (iii).**

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[14] Public Enterprises may incur debt without government authorization, and this is not centrally recorded, unless it carries the guarantee of the central government.

72. There is no system for the regular quarterly or annual monitoring of arrears. Nor is there evidence that in recent years any ad hoc study was made to determine the total amount of arrears. **A "D" score is therefore accorded to dimension (iv) and thus a "B" overall.**

C (i) Policy-based Planning & Budgeting (PI 14-18)

PI-14: Credible Fiscal Strategy

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-14: Credible Fiscal Strategy	(i) Formulation of fiscal objectives and strategy.	**D**	**D**	*GFS 2001 specifies that the fiscal strategy should contain at least three core elements that are not present in the CFMP.*
	(ii) Preparation and use of macroeconomic forecasts as a basis for annual and medium-term budgets.	**D**		*Macroeconomic assumptions are not explained, and the CFMP does not include risk to debt analysis.*
	(iii) Difference between actual and the originally forecasted central government fiscal balance	**D**		*The difference between actual Central Government balance and forecast is higher than 2% in two of the last three years*

Indicator PI-14[15]: 2015 PEFA Assessment

73. This indicator assesses to what extent a credible fiscal strategy supports the achievement of government's fiscal policy objectives. Specifically, it analyses the formulation of fiscal objectives, the quality of macroeconomic forecasting and the final outcome of the fiscal policy, as compared with medium term projections.

74. There are several different documents that include fiscal policy targets in Mozambique[16] The long-term fiscal policy is guided by the Vision of Public Finances 2011–2025. This defines a set of fiscal objectives and targets for 4-year periods up to 2025. Under this long-term vision, medium-term fiscal policy objectives are targeted in the CFMP. The coordination of this strategy is jointly led by the Ministry of Planning and the Ministry of Finance.[17] Other institutions are also involved in this process: on the revenue side, the Tax Agency (ATM) and the Mozambican Central Bank provide inputs at a technical level; on the spending side, all the major UGBs are required to submit their sectoral medium term strategies (*CFMP sectoriais*) in accordance with budget ceilings. This annual process ends up in a rolling medium term budgetary and fiscal projection, from which the medium term fiscal policy is defined.

[15] This indicator is not comparable to any other indicator in the previous PEFA methodology, as it is completely new.

[16] Fiscal targets are presented in the 2025 Vision, in the Annual Socio-economic Plan (PES), in the documentation attached to the budget proposal ("Fundamentação"), in the Budget law and in the end-of-year financial statement (CGE). Information concerning fiscal targets is presented in a different manner in each of these documents, which undermines consistency and clarity

[17] In early 2015 these two Ministries merged into the Ministry of Economy & Finance

75. The SISTAFE law establishes that the CFMP should be the base for the preparation of the annual budget and the annual Economic & Social Plan (PES). However, the law does not require its submission to Parliament and thus, the medium term fiscal strategy is not approved or discussed at that level.

76. Dimension (i) focuses on the capacity of the government to develop a credible fiscal strategy based on a macro-fiscal forecasting process. As explained above, the relevant document to be assessed is therefore the CFMP. Although some fiscal targets can be extracted from the CFMP at the start of budget preparation (particularly expenditure and revenue targets), there are shortcomings in the quality of the CFMP as a sound fiscal policy anchor. The GFSM 2001 Manual recommends a set of analytical measures for Fiscal Policy that standardise the presentation of Fiscal Strategies. However, only two of the variables defined in GFSM 2001 are presented in the CFMP (total expenditure and total revenue), and the CFMP does not present targets for the fiscal balance following any of the measures specified in GFS 2001 standards. **The CFMP therefore does not meet the international standards necessary to be defined as a comprehensive fiscal strategy, and for this reason a "D" score is accorded to this dimension.**

Table 11: Difference between actual and forecast fiscal balance, 2012-14

	2012	2013	2014
Forecast Fiscal balance (millions of MZM)	(32,439)	(48,806)	(50,037)
Actual Fiscal balance (millions of MZM)	(16,621)	(21,967)	(41,577)
Difference	15,818	26,839	8,460
Difference (% GDP)	3.7%	5.7%	1.6%

Source: State Financial Statements (CGE) and CFMP/OE for years 2012, 2013 and 2014.

77. Dimension two assesses the preparation and use of macroeconomic forecasts as a basis for annual and medium-term budgets. The CFMP includes forecasts of key macroeconomic variables for the following three years, while budget documentation includes similar variables for a one year period. Nonetheless, there is no evidence of the use of behavioural macroeconomic models or financial programming models in order to set fiscal targets within the CFMP. As stated by IMF (2015), Mozambique's budget projections are based on simple macroeconomic forecasts of four variables produced by various agencies. The key variables are real GDP growth rate, nominal GDP, the exchange rate and the inflation rate, which is used as a proxy for the GDP deflator. The analytical part of the budget document reviews global and domestic economic conditions and developments on an annual basis. Notwithstanding these explanations, neither underlying assumptions nor a risk analysis of the forecasts are provided. For the PEFA standard in this dimension, **the major bottleneck constraining the scoring is the lack of inclusion of a debt risk analysis within the CFMP. In its absence, a "D" score must be attributed to dimension (ii).**

78. Although an explicit level of fiscal balance defined with international standards (after grants, including net lending and excluding financing operations) is not established in the CFMP, the CGE reports at the end of the fiscal year against the implicit target than can be inferred from the CFMP. As Table 11 shows, **the difference between the actual fiscal balance and the forecast during the last three years**

exceeded 2% of GDP in 2012 and 2013, i.e. in 2 of 3 years. Thus, a "D" score is also attributed to this dimension.

PI-15: Revenue budgeting

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-15: Revenue budgeting	(i) Medium-term forecasting of revenues.	**D**	**D+**	*Assumptions about how revenue calculations are run are not explained in the CFMP.*
	(ii) Assessment of the fiscal impact of proposed policy changes.	**D**		*Impacts of Policy changes and related assumptions are not described in any document (CFMP/ OE / PES)*
	(iii) Variance in revenue composition during the last three years	**B**		*Variance in revenues composition was: 11,3%, 9,4% and 7.9% in 2012, 2013 and 2014 respectively. Thus, there is a deviation of less than 10% in two out of three fiscal years.*

Indicator PI-15[18]: 2015 PEFA Assessment

79. Revenue budgeting is an essential part of the PFM system, as this will define the resource envelope and form the basis for effective medium-term planning. The revenue budgeting process is not free of political interference and thus having transparent and formalized processes in place is essential to ensure accountability for the revenue collection function.

80. Dimension (i) assesses whether the revenue forecasting function is developed and integrated into the budgeting process. As explained in PI – 14, the main document for setting the medium-term term fiscal position is the CFMP. The CFMP forecast is prepared annually and it is the basis of each year's budget preparation. However, although it is comprehensive, the CFMP forecast of revenue is presented only at an aggregate level (i.e. tax revenue, non-tax revenue and grants, without disclosing information for each type of revenue). Thus, targets for each kind of revenue are not specified at a disaggregated level (i.e. VAT, income taxes, trade taxes, etc.). Moreover, in addition to requiring some degree of disaggregation of revenue forecasts, the PEFA standard states that for each source of revenue forecast, the assumptions and methodology used must be explained and published. This is not the case in Mozambique as none of the documents forecasting taxes explain the assumptions and methodology. **Therefore, a "D" score is accorded to dimension (i).**

81. Dimension (ii) assesses whether there are procedures in place to ensure that the fiscal implications of policy changes are assessed. A failure to estimate the fiscal implication of policies may result in an unexpected reduction in revenues. Once again, none of the documents forecasting revenues contains any explanation of the implications of specific tax policy changes. **Thus, a D score is also attributed to dimension (ii).**

[18] This indicator is not comparable to any other indicator in the previous PEFA methodology, as it has two completely new dimensions i) and ii). Dimension iii) considers the same issue as the previous PI -3 but the scope is different.

82. Dimension three analyses the revenue compositional variance. The indicator attempts to capture the quality of forecasts and ability of the government to collect each category of revenues as intended. In this case, it is clear that Mozambique's collecting capacity has increased substantially and revenue targets have in general been hit. Variance in revenue composition was 11.3%, 9.4% and 7.9% in 2012, 2013 and 2014, respectively. **Therefore, there is a deviation of less than 10% in two out of three last fiscal years, which scores B in dimension (iii).**

Table 12: Revenue collections against forecasts, 2012-2014

Year	Total revenue deviation	Composition variance
2012	103.5%	11.3%
2013	85.4%	9.4%
2014	98.5%	7.9%

83. Table 13 provides more details on the composition variance presented in the previous table for each type of revenue considered. Some comments on these results are presented in the following points:

- A considerable part of the difference between budget and execution can be explained by the variance in Grants. Grants finally received in 2012 were far less than expected (27% less, which is slightly more than 7 millions of MZM) and this explains the shortfall of revenue resources (around 5 million of MZM). The same effect occurred in 2014, planning 26% more grants than finally received. By contrast, in 2013 only 66% of grants were expected at the beginning of the fiscal year. It can be seen in each year that there is unpredictability in grant receipts, which is subsequently compensated by a better performance in domestic revenue collection.
- The good performance in domestic revenue in 2013 and 2014 was significantly influenced by the taxes on capital gains from sale of assets. These capital gains arose primarily from sales of assets (specifically exploration rights) in the extractive industry. These gains have represented 10% and 12% of total revenue in 2013 and 2014, respectively. Capital gains taxes obtained in 2013 were 10% more than expected which contrasts with 2014 in which capital gains were 10% less than expected.
- It is worth mentioning that the apparent proceeds from VAT collections are inflated over the period analyzed. This is due to the fact that this revenue has been accounted for on a gross basis during the period (i.e. without excluding reimbursements owed to taxpayers). To correct this, an expenditure provision has been budgeted every year. Nevertheless, these provisions have never been enough to attend all refunds requested, and thus the stock of debt has increased. This was particularly the case in late 2014 when the potential global debt stock reached MZN 8.9 billion. From 2015 onwards, VAT is being planned and recorded correctly as refunds will not be considered as expenditures.

Table 13: Detailed analysis of Revenue collections against budget forecasts, 2012-2014.

Data for year =	**2012**					
Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	Per cent
Tax revenues						
Fiscal revenue	80,441,700	84,455,516	77,695,109	6,760,407	6,760,407	8.7%
Non fiscal revenue (incl own revenues)	6,530,884	6,035,925	6,307,894	-271,969	271,969	4.3%
Earmarked revenues	6,034,292	6,205,021	5,828,258	376,763	376,763	6.5%
Capital gains	2,531,080	1,780,187	2,444,659	-664,472	664,472	27.2%
Grants						
Grants from foreign governments	34,718,555	27,332,400	33,533,129	-6,200,729	6,200,729	18.5%
Total revenue	130,256,511	125,809,049	125,809,049	0	14,274,341	
overall variance						103.5%
composition variance						11.3%
Data for year =	**2013**					
Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	Per cent
Tax revenues						
Fiscal revenue	95,492,433	107,542,728	111,753,358	-4,210,630	4,210,630	3.8%
Non fiscal revenue (incl own revenues)	8,895,694	7,487,385	10,410,497	-2,923,112	2,923,112	28.1%
Earmarked revenues	6,756,699	7,664,361	7,907,263	-242,902	242,902	3.1%
Capital gains	2,817,157	3,624,240	3,296,876	327,364	327,364	9.9%
Grants						
Grants from foreign governments	19,810,662	30,233,400	23,184,119	7,049,281	7,049,281	30.4%
Total revenue	133,772,645	156,552,114	156,552,114	0	14,753,289	
overall variance						85.4%

composition variance						9.4%
Data for year =	**2014**					
Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	Per cent
Tax revenues						
Fiscal revenue	126,557,964	135,084,802	128,458,104	6,626,698	6,626,698	5.2%
Non fiscal revenue (incl own revenues)	9,404,990	9,665,813	9,546,196	119,617	119,617	1.3%
Earmarked revenues	8,221,231	8,698,448	8,344,664	353,784	353,784	4.2%
Capital gains	3,187,403	2,887,044	3,235,258	-348,214	348,214	10.8%
Grants						
Grants from foreign governments	30,401,909	24,106,479	30,858,363	-6,751,884	6,751,884	21.9%
Total revenue	177,773,496	180,442,586	180,442,586	0	14,200,196	
overall variance						98.5%
composition variance						7.9%

PI-16: Medium-term perspective in expenditure budgeting

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-16: Medium-term perspective in expenditure budgeting	(i) Coverage and content of sector strategies	**D**	**D**	*Sector strategies are not fully costed for most sectors/ institutions. When fully costed, there is not a clear link between these and the CFMP ceilings.*
	(ii) Reconciliation of top-down and bottom-up approaches in the medium-term budget framework	**D**		*The total ceilings published in the CFMP 2014-2016 are not comprehensive (just for Goods and Services and Internally financed Capital Expenditure items). There is no documentation of how the process of reconciliation is made.*
	(iii) Links between medium-term framework and annual budgets	**D**		*Second year ceiling of CFMP at aggregate level varies significantly. Current Spending: 105%, Capital Spending: 127%, Domestic Revenue: 114%, Grants: 77%*

Indicator PI-16[19]: 2015 PEFA Assessment

84. A credible and comprehensive medium term expenditure framework allows government decision makers to plan their strategies within a sustainable scenario. This indicator attempts to capture how this affects the planning and implementation of sector strategies. It has three dimensions, assessing: i) The coverage and content of sector strategies; ii) The reconciliation of top-down and bottom-up approaches in the medium-term budget framework; and (iii) the links between the medium-term framework and annual budgets.

85. Regarding the first dimension, in Mozambique there are sector strategies for some of the most important sectors (i.e. Education, Health, Agriculture) but there are some others that remain without an explicit sector strategy (e.g. Transport). Due to the level of budgetary deconcentration in Mozambique, with more than a thousand vote holders, the main sector ministries face a difficult challenge to maintain leadership through the planning and budgeting process.

86. Within the group of sectors that have elaborated strategies, there is no evidence of a full costing of the strategy that allows reconciliation with the medium-term ceilings agreed in the CFMP. A good example of this is the Education Sector Plan 2011-2015. The plan contains data on the total level of resources expected for the sector based on a projection of the share for education within GDP but the link between these projections and the Education ceilings set in the CMFP is unclear. Moreover, most of the strategies that contain resource quantifications are only updated at the end of the strategy period (every 5 years), hence the anticipated yearly expenditures are not updated in accordance with the CFMP rolling ceilings.

[19] This indicator is not comparable to PI 12 in the previous PEFA methodology as its scope and dimensions have been substantially reformulated.

87. A further issue is that in several sectors (the Roads Master Plan is a good example), sector strategies cover only investments projects and do not project recurrent cost requirements. Therefore, while there exist sector strategies covering in excess of 50% of primary expenditures, several of these have limitations in their coverage of investment and recurrent expenditures and none are fully costed, in a manner consistent with the aggregate medium term fiscal framework (CFMP). **Thus, dimension one merits a "D".**

88. Dimension two attempts to capture the reconciliation process between top-down and bottom-up approaches in the medium-term budget framework. There is an established calendar for negotiation of the sectoral CFMPs, from which a final set of ceilings is established within the aggregate CFMP, which is normally presented to Cabinet in May of each year, thus initiating the more detailed formulation of the annual budget (OE). Resource persons interviewed at DNO explained that the IT module for budget formulation (MEO) provides complete annual ceilings to each budget vote holder after the approval of the overall ceiling at Cabinet level, based upon the CFMP. These one-year ceilings are binding but the UGBs are allowed to send to DNO an additional budget request - outside of the MEO -in order to request increases in specific budget items. These requests are considered by MEF in the final process of consolidation of the annual budget in September of each year.

89. The process of elaboration of the CFMP allows MEF and the sector ministries to have a discussion of the most relevant projects to be prioritized for the following period, and this practice has improved the alignment of projects and programmes to the strategic objectives of the Government's 5-year plan (PQG). However, the main focus of these discussions has been based on capital expenditure and rarely on the recurrent budget items.

90. The fact that a CFMP process has been in existence for a number of years and that it has embedded within it a process of reconciliation of top-down ceilings with bottom-up strategies and programmes are positive features of the Mozambican planning and budgeting system. However, this top-down – bottom-up reconciliation process still has a number of deficiencies:

- There is a lack of consistency in the quality of the sectoral CFMPs, especially in their completeness and the realism of the projections included therein.
- There are doubts over the coverage and completeness of the ceilings issued by the DNO, for example, the CFMP 2014-2016, in the chapter of the document that provides information about sectors, only presents partial institutional ceilings (i.e. for Good and Services and Internally financed Capital Expenditure budget items; not for salaries or externally financed investments).
- However, the most significant deficiency lies in the fact that the ceilings issued by DNO upon approval of the CFMP by Cabinet are 1-year ceilings to guide the formulation of the annual budget, rather than 3-year ceilings to permit a full updating of each year of the CFMP.
- Partially as a consequence, future plans for years 2 & 3 in the CFMP are not updated in the light of the ceilings for year 1 (the OE) and sector ministries and institutions do no further work on the sectoral CFMPs until the new cycle of CFMP/ OE formulation begins again.

91. The fact that the top-down – bottom-up reconciliation process is only concerned with the formulation of the annual budget (OE) and does not have a medium term perspective is the most significant shortcoming of the current system. **As a result, a "D" score is attributed to dimension (ii).**

92. The third dimension of this indicator considers the clarity of the link between CFMP and annual budgets. Annex Table 14 shows the deviation from the second year of the CFMP 2013 – 2015 to the 2014 annual budget. As may be observed, deviations remain significant at aggregate level for items that can be compared between the CFMP and the annual budget (i.e recurrent expenditure, capital expenditure, domestic revenue and grants). For instance, total spending in 2014 was 20% more than forecast for 2014 in the CFMP 2013 – 2015. Capital Spending deviated 27% from planned. Therefore, the credibility of the medium term ceilings in the CFMP is limited, and perhaps more significantly, no explanation of these divergences is provided in the OE and the accompanying documentation. **Thus, a "D" score must also be attributed to dimension (iii) and a "D" score to the indicator as a whole.**

Table 14: Credibility of the second year ceilings included in the CFMP 2013 - 2015.

		Current Spending	Capital Spending	Total Spending 1/	Domestic Revenue	Grants
1	Forecast for 2014 in CFMP 2013 -2015	109,867	79,283	201,472	129,641	39,666
2	Forecast of 2014 in CFMP 2014 -2016	112,607	68,999	190,212	127,333	21,581
3	Approved budget (2014)	115,271	100,770	240,891	147,372	30,402
4	Executed budget (2014)	118,469	87,036	222,019	156,336	24,106
5	% deviation of 2014 approved budget from 2014 forecast in CFMP 2013 – 2015 (3/1)	**105%**	**127%**	**120%**	**114%**	**77%**

1/ Includes capital repayments on Public Debt.
Source: CFMP 2013 – 2015, CFMP 2014 – 2016, OE 2014, CGE 2014

PI-17: Orderliness and participation in the annual budget preparation process

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-17: Orderliness and participation in the annual budget preparation process	(i) Existence of and adherence to a fixed budget calendar.	**A**	**B+**	*The Budget Calendar is fixed in advance, widely disseminatedto all UGBs and it is fully respected for the budget formulation process.*
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	**A**		*Budget ceilings are approved by Cabinet and there is a dissemination process that informs all UGBs in a timely and comprehensive manner of their ceilings through written guidelines and through ceilings incorporated in the formulation module (MEO) of e-SISTAFE.*
	(iii) Timely submission of the annual budget proposal to the legislature or similarly mandated body (within the last three	**C**		*The Prime Minister submits the Budget proposal by September 30th (3 months before the beginning of the FY). This has been respected for two of*

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
	years).			*the last three years, the exception being the fiscal year 2015, which followed national elections, when the budget proposal was submitted after the start of the fiscal year.*

Indicator PI-17[20]: 2015 PEFA Assessment

93. This indicator has three dimensions and assesses: (i) the existence and adherence to a fixed budget calendar; (ii) the comprehensiveness of the guidance for the formulation of budget submissions, and the political involvement therein; and (iii) timely budget approval by the legislature. The assessment covers the last three fiscal years.

Table 15: Mozambique Budget Formulation Calendar

Month	Weeks	Activity
December (year n-1)	4	Production and dissemination of the methodology for the preparation of the CFMP
April	4	Preparation of macro-fiscal projections, Technical/methodological assistance to sectors/provinces by MPD/MF and preparation of the CFMP document
May	2	Drafting of the CFMP document (with provisions, from 2014, for the Integrated Investment Plan)
May	3	Approval of global CFMP limits by the Council of Ministers (CdM)
May	4	Issue of Budget Circular (*'orientações'*) by MF/MPD and PES/OE drafting guidelines to sectors (ministries) and provinces (Provincial Governors), accompanied by the overall ceilings in the approved CFMP
June	3	Coordination at the sector, province and district level for the distribution of ceilings between subordinate UGBs
July	1	Uploading of the indicative budget ceilings in e-SISTAFE in MEO by DNO, opening of the system and detailed OE formulation in the MEO by each UGB
August	2	Coordination/ negotiation meetings of the DNO with the sectors, provinces and the IMF
August	4	Consolidation of data and harmonization with the aggregate fiscal tables (DNO)
September	2	OE submission to the CdM for approval (Min. of Finance)
September	4	Submission of the PES/OE by the Prime Minister's Office to National Assembly (AR)
December	2	PES/OE approval by the AR. Publication of the OE in the Government Gazette as law.

Source: Budget preparation calendar (DNO) and the planning cycle, monitoring and evaluation (DNP), supplemented by information gathered in meetings with DNO, DNP and DNEAP.

94. The budget preparation calendar is well known (Table 15) and has been fully respected by UGBs in all non-election years, notably in 2011, 2012 and 2013, as confirmed to the evaluation team by several different

[20] This indicator is comparable with due care to PI-11 in the previous PEFA methodology.

stakeholders[21]. Because 2014 was an election year, the budget formulation calendar was compressed, beginning in December 2014 and concluding with the approval of the Budget in April 2015; despite being compressed, the team were advised by different stakeholders that the calendar established for that year was also respected. In non-election years, UGBs have enough time (minimum six weeks) to upload their detailed budgets directly into the module for the formulation of the Budget in e-SISTAFE (MEO). **Thus, a fixed budget calendar exists and is respected by UGBs, which gives dimension one an "A" score.**

95. The dissemination of budget ceilings is undertaken by DNO based on the ceilings within the CFMP, which are approved by the Cabinet in July of each year. In advance of the approval by Cabinet, one set of documented guidelines ('orientações') are sent to sector ministries and provinces accompanied by detailed methodologies including instructions on the completion of budget formats, guidance on the preparation of proposals for the PES / OE and global indicative expenditure ceilings. Sectors and provinces, in turn, have to coordinate with the institutions (UGBs) falling under their responsibility. These guidelines are detailed and comprehensive. They are also available on the website of DNO, which gives transparency to the process. Subsequent to the approval of budget formulation ceilings, these are entered into the budget formulation module of e-SISTAFE (MEO) in order to initiate the formulation process[22]. **An "A" score is therefore accorded to this dimension.**

96. According to the schedule set by law, the Government presents its proposed budget to the Legislature by the end of September. This is the normal practice for each fiscal year (at least for 2011, 2012, 2013). However, because general elections were held in 2014, the budget proposal was prepared outside the normal schedule and it was only submitted and approved in 2015 after the new government and the new legislature had taken office. The submission of budget proposals for FY 2013 and FY 2014 was made more than 2 months before the start of the fiscal year. However, **because for FY 2015 it was submitted after the start of the fiscal year, dimension (iii) therefore scores "C", giving a "B+" score for the indicator as a whole.**

PI-18: Legislative scrutiny of the annual budget law

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-18: Legislative scrutiny of the annual budget law	(i) Scope of the legislature's scrutiny.	**B**	**C+**	*The Legislature's review covers fiscal policy and aggregates for the coming year as well as details of expenditure and revenue but not a review of the medium term framework (CFMP).*
	(ii) Extent to which the legislature's procedures are well-established and respected.	**B**		*The process of Budget scrutiny is based on clearly defined and respected procedures, which are firmly established. However, no*

[21] This was independently confirmed to the assessment team by each of the Directorates of MEF and by the three sector ministries and agencies, who were interviewed in detail.

[22] These budget formulation ceilings present limits for non-salary recurrent expenditures and for internally financed investment projects. Salary budgets are determined through a separate process. Externally financed projects are not subject to pre-defined ceilings, although these projects are scrutinized by DNO at the time of budget submission.

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
				technical support is provided to the Parliamentary commissions.
	(iii) Timeliness of budget proposal approval.	**C**		*The Legislature approved the annual budget before the start of the fiscal year in two out of three FY but not in FY2015, when approval was nearly 4 months after the start of the FY.*
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	**B**		*Budget Law allows the Executive to reallocate resources within the total budget limits approved by the Assembly. Although Executive discretion is high, rules governing amendments are clear and respected and all amendments are fully reported.*
Assessment methodology: M1.				

Indicator PI-18[23]: 2015 PEFA Assessment

97. This indicator has four dimensions, which assess: (i) the scope of the Legislature's scrutiny of the Budget proposal; (ii) the extent to which the Legislature's procedures are well-established and respected; (iii) the timeliness of the Legislature's approval of the Budget in the most recent three fiscal; and (iv) the rules for in-year amendments to the budget without ex-ante approval by the Legislature. The assessment covers the last completed FY which is 2014.

98. The Legislature's review covers details of expenditure and revenue, as well as the related annual Economic & Social Plan (PES). To undertake this responsibility, the Legislature and its Commissions have on average two months and a half (October to mid December). This review does not include the medium term fiscal policy, as the CFMP is not required by law to be submitted to the Assembly and therefore, the Budgetary & Planning Commission (CPO) does not review it. Therefore, Legislative scrutiny does not include analysis of the medium term framework but it does include analysis of fiscal policies and aggregates for the coming year, as well as details of revenue and expenditure. **This fact merits a "B" score for dimension one.**

99. Dimension two measures the extent to which the Legislature's procedures are well-established and respected. The functions and mandates of the Planning & Budgetary Commission (CPO) and of the sectoral Commissions are well established by Law (13/2014 art. 86). Moreover, there is an internal set of Parliamentary procedures governing this process and outlining the respective roles of the different committees, the process for consultation with members of the Executive and/ or the Public, and for negotiation where appropriate, and the timelines for the overall review process. These procedures have been consistently respected for the three years covered by this assessment. However, the one significant

[23] Dimensions within this indicator can be compared with different dimensions in the previous PEFA methodology. Dimension i) can be compared with PI – 27 i). Dimension ii) can be compared with due care with PI – 27 ii), although the scope is slightly different; Dimension iii) can be compared to PI – 11 iii); and dimension iv) can be compared with PI – 27 iv).

deficiency in this process is that neither the CPO nor the sectoral commissions are provided with technical support to undertake their functions. **For this reason, dimension (ii) scores a "B".**

100. Budget proposals have been approved by Parliament before the start of the fiscal year in 2013 and 2014 Specifically, the dates of approval of the last four Annual Budget Laws were as follows: December 15, 2011; December 14, 2012; December 13, 2013; and April 27, 2014. However, due to the elections in 2014, **the Budget Law for 2015 was approved in April 2015, nearly 4 months after the start of the fiscal year and for this reason dimension (iii) is scored with a "C".**

101. The powers for reallocating budgetary resources given by the Assembly to the Executive by Law are extensive. These reallocations may include both horizontal transfers between institutions and vertical transfers between budget lines. Only in cases where an increase of the overall expenditure limit approved in the Annual Budget is required, do budget reallocations need to be submitted to the Assembly for approval. It should be noted that budget amendments are systematically documented with a high level of detail within in-year reports (REO's "Anexo Informativo' # 3) as well as in a dedicated table of the Annual Financial Statement (CGE). The REO includes copy of the authorizations issued by the MEF for this purpose, following paragraph 1 of article 34 of Law No. 9/2002 of 12 / Feb (Sistafe Law).

102. Thus, for 2014 budget, the law (Law No. 1/2014 of 24 / Jan, in its article 8) gives the Executive the broadest powers that Sistafe Act allows, ie: # 2 - make reinforcements of funds using the provisional appropriation; # 3 - reallocate funds within the limits established by the National Assembly; # 4 - transfer of an organ or state institution to another. Thus, **clear rules for budget reallocations exist and are respected, which do not permit expansion of total expenditure but because these rules allow for extensive re-allocations by the Executive, the evaluation of dimension (iv) is "B". This gives an overall score of "C+",** given that the MI, "weakest link" methodology must be applied for this indicator.

C (ii) Predictability & Control in Budget Execution (PI 19-25)

PI-19: Revenue administration compliance

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-19: Revenue administration compliance	(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government.	**A**	**C+**	*The ATM is the only entity managing revenues. Legal information on tax obligations and rights of taxpayers and on tax procedures are clear, comprehensive and easy to access.*
	(ii) Management of risks to revenue.	**C**		*The ATM has a risk analysis and risk management system, as well as fiscal intelligence processes implemented at national and provincial levels. However, some detail is lacking in terms of the analysis of specific risks for particular types of tax payers.*

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
	(iii) Audit and fraud investigation practices (including penalties) to achieve planned outputs in terms of coverage and additional revenue.	C		*The ATM Annual Report shows that a risk-based audit and investigation plan is developed each year covering the full range of revenue collection functions of the ATM. However, in one out of the last three years, the planned outputs of the audit plan were not achieved.*
	(iv) Management of revenue arrears	D		*At the end of 2014 the revenue arrears were Mt 3649 million, equivalent to 2.34% of revenue collections (excluding windfall capital gains taxes). Moreover, over 75% of tax arrears were more than 12 months old.*

Indicator PI-19: 2015 PEFA Assessment

103. This indicator assesses the performance of the entities that administer central government revenues. Dimensions i), iii) and iv) assess the same concepts as in PEFA 2011 PI-13. PI-14.iii and PI-15.i, but they apply diferent evaluation criteria. Dimension ii) is entirely new.

104. The Mozambique Tax Authority (ATM) is the only collecting agency for State revenues, including tax, customs and most of the non-tax revenues (fees and charges) of the public agencies. Thus it is directly responsible for collecting 95% or more of central government revenues. Because the tax collection process is integrated with e-SISTAFE, reports can be obtained on a daily basis on aggregate revenue collections; fully updated and reconciled reports are available weekly. The tax policy framework is simple (defined for each type of taxpayer and for taxable activities) and has been relatively stable over time. The ATM Web portal provides comprehensive information on the obligations and rights of the taxpayer. The ATM performs continuous tax education campaigns and has mobile stands and offices that provide continuous assistance to taxpayers. The ATM Law sets out in detail the rights of taxpayers, the procedures for complaints and the processes for administrative and judicial pursuit of tax irregularities. **An "A" score is therefore attributed to dimension (i).**

105. The ATM have implemented at national level procedures for the continuous analysis and management of risks, as well as a system of tax intelligence. These risk management procedures in 2014 identified at provincial level various forms of tax evasion, amounting to some MT 200 million. The risk reports cover the phases of declaration, inspection, collection and enforcement, as well as the evaluation of the processes of quality control that are performed. The risk analysis is a systematic process, in which all of the main risk areas are identified for the main categories of revenue. However, the recent TADAT diagnostic review (2015) points to weaknesses in the level of detail, in terms of the degree of attention to different types of tax-payers and the range of interventions that might be considered by ATM. In short, a more detailed mechanism of analysis and management of risks would be necessary in order to concentrate ATM resources more closely on monitoring those payers and transaction with the highest risk of non-

compliance. Due to these limitations in the scope of ATM's risk management processes, **dimension (ii) is therefore accorded a "C" score.**

106. Every year the ATM prepares an Audit and Fraud Investigation Plan based on a risk analysis covering the whole country, and embracing the full range of revenue collection functions. As may be seen in Table 16, in 2013 the audit plan was not executed in full but both in 2012 and in 2014, the number of audits executed exceeded those planned. Although **the planned outputs of the audit and investigation processes are generally achieved, the fact that in one of the last three years, the audit and investigation plan was not completed means that a "C" score is accorded to dimension (iii).**

Table 16: ATM - Planned & Executed Audits, 2012 - 2014

	2012	2013	2014
Planned audits	1070	1450	1050
Executed audits	1097	1174	1101
Identified undeclared tax	Mt 7,026 million	Mt 1,0481 million	Mt 23,750 million
Identified unpaid tax owed	Mt 1,843 million	Mt 915 million	Mt. 5,761 million
Source: ATM reports 2012, 2013, 2014			

Table 17: Annual Recovery Rates for Outstanding Tax Arrears, 2013 - 2014

	MZN 10^6	2013	2014
1	Processos executivos, saldo no início do ano	2.315,45	2.544,97
2	Processos de contencioso, saldo no início do ano	996,28	1.569,25
3	Processos executivos cobrados e anulados durante o ano	208,31	211,40
4	Processos de contencioso cobrados, anulados, virtualizados e contestados durante o ano	401,79	252,91
	Índice de recuperação (3+4)/(1+2)	**18,4%**	**11,3%**

Fonte dos dados: Relatório de Actividade da AT 2014, pp 27-28

107. The ATM Annual Report shows the unresolved contentious and executive processes, which correspond to tax arrears. At December 31, 2014, these amounted to Mt 3,649.91 million, equivalent to 2.34% of the collected revenue (156000 million of Mt), excluding windfall capital gains taxes[24]. Any amount in excess of 2 per cent of total domestic revenues would be considered significant in the 2011 PEFA methodology, and for consistency the evaluation team have used this same benchmark here[25]. Moreover, **the amounts overdue more than 12 months on December 31st, 2014 were substantially in**

[24] We exclude the capital gains taxes received by the Government in 2014 due to the re-sale of exploitation rights for Liquid Natural Gas because capital gains (and therefore taxes) of this magnitude are highly unusual and must therefore be considered a "windfall", rather than a normal trend in tax collection.

[25] The testing version of the 2015 PEFA methodology makes reference to benchmarks for the level of tax arrears of 20% of total collections for a "B or "C" score and 10 % for an "A" but given the huge discrepancy with the 2011 methodology, we assume that this must be an error.

excess of 75 % of the outstanding stock of arrears. Therefore a "D" score is accorded to dimension (iv).

PI-20: Accounting for revenues

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-20: Accounting for revenues	(i) Coverage and timeliness of revenue information collected by the Ministry of Finance.	**A**	**B+**	*The revenues collected by the ATM are recorded into e-SISTAFE daily. Reconciliations with the DNT are monthly.*
	(ii) Effectiveness of transfer of revenue collections to the Treasury or other designated agencies.	**B**		*Revenue collections are transferred to the CUT daily but some small amounts collected in provinces are transferred weekly.*
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears records and receipts by the Treasury or other designated agencies.	**A**		*The ATM reconcile every month at the beginning of the month: assessments, collections, arrears and transfers to the CUT.*

Indicator PI-20: 2015 PEFA Assessment

108. This indicator assesses how the information on revenue collection is consolidated and analyzed, to ensure that revenue collection is on track and that cash management of the government is effective.

109. Comparability with the PEFA 2011 methodology: Dimensions ii) and iii) assess the same concept as in PEFA 2011 PI-15.ii and PI-15.iii, but applying diferent evaluation criteria. Dimension i) is new.

110. As noted above, the Mozambique Tax Authority (ATM) is the only collecting agency for State revenues, including tax, customs and most of the non-tax revenues (fees and charges) of the public agencies. Thus, it is directly responsible for collecting more than 95% of central government revenues, and for this reason, our analysis for this indicator is focused exclusively on the accounting of collections by ATM[26]. The ATM performs tax collection directly through their tax collection offices, which are distributed nationwide; certain taxes can also be paid directly into commercial bank accounts by tax payers. At the time of collection, the Collector Unit records the information in the ATM's collection module. Upon deposit in the Treasury accounts (CUT), ATM makes registration in the e-SISTAFE. The transactions are reconciled daily at source before being transferred to the central system, and monthly, the values transferred to the Treasury are reconciled, as well as the information about the amounts collected on each tax and each taxpayer. Every month the collection results, disaggregated by type of tax, are reported in the DNT's Public Finances Report, **thus meriting an "A" score for dimension (i).**

111. ATM transfers to the CUT are made within three days of receiving the money at tax collection counters, thus meriting a "B" score for dimension (ii).

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[26] The main items not collected by ATM are the dividends on state shareholdings, which are received directly by IGEPE and paid into the CUT and certain user charges (such as hospital fees for private care), which are designated for use by the collecting entities to finance expenditures. These "own revenues" are also paid into the CUT, although some delays in this process have been recorded.

112. The ATM undertakes a monthly reconciliation of assessments, collections, payments into the CUT and revenue arrears. The formal reconciliation with DNT is made monthly on the first day of the month. **Dimension (iii) is therefore accorded an "A' score.**

PI-21: Predictability in the availability of funds to support service delivery

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-21: Predictability in the availability of funds to support service delivery	(i) Extent and frequency of consolidation of the central government's cash balances.	**C**	**B**	*CUT cash balances are consolidated daily, but consolidation with the other bank accounts are monthly (bank statements are received on the 15th of the month)*
	(ii) Extent to which cash flows are forecast and monitored.	**A**		*Cash flow is prepared annually, revised monthly and updated weekly by the DNT*
	(iii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	**B**		*The annual Cash plan is prepared at the beginning of the year with details by month . It includes quarterly commitment ceilings which may be updated at the request of the MDAs subject to availability of cash and levels of accumulated commitments.*
	(iv) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	**C**		*Adjustments to budget allocations are frequent, but they are undertaken within the mandates of the relevant legislation and regulations and are undertaken in a fully transparent manner.*

Indicator PI-21: 2015 PEFA Assessment

113. This indicator assesses the extent to which the MEF is able to forecast commitment and cash requirements and provide reliable information on the availability of funds to MDAs for service delivery.

114. Comparability with the PEFA 2011 methodology: dimension i) assess the same concept as in PEFA 2011 PI-17.ii, but applying diferent evaluation criteria. Dimensions ii), iii) and iv) are comparable with PEFA 2011 PI-16.i, PI-16.ii and PI-16.iii.

115. The CUT (*Conta Unica de Tesoro* – Treasury Single Account) is automatically consolidated daily by the e-SISTAFE, as established in the MAF Art. 113. Details of the expenditures executed through accounts other than the CUT, and the statements of these bank accounts, are submitted on the 15th of each month to the Treasury (MAF Art. 88) and consolidated monthly. **A "C" score is therefore accorded to dimension (i).**

116. Articles 36 and 37 of the MAF require that financial programming and cash flow should be reviewed and updated weekly. In accordance with these requirements, a cash flow is prepared annually, is reviewed monthly and is updated weekly, based upon the requirements established in the programming of

expenditures/ cash requirements submitted by MDAs, the planned payments at the central level and the availability of cash. **An "A" score is therefore attributed to dimension (ii).**

117. At the beginning of the year, the programming of the monthly expenses of the entire budget is prepared, which is adjusted monthly according to the actual execution (MAF Art. 33.2) Spending limits available are confirmed on a quarterly basis (MAF Article 36 and 37). **Therefore, agencies can programme their expenses for the year within quarterly commitment ceilings, meriting a "B" score for dimension (iii).**

118. Pursuant to Article 17 and 18 of the MAF, the MEF can unilaterally propose adjustments to the budget, in order to increase, decrease or redistribute budget allocations so long as aggregate expenditure limits are not surpassed, Thus, MEF enjoys a high degree of discretion in effecting budgetary reallocations but these are all processed and implemented through the MEX budget execution module of e-SISTAFE. The CGE in its Volume 3, table 6-a, lists all budget amendments made during the budget year. In general these budget amendments are requested by entities based on their operational needs. However, **re-allocations are frequent and significant: a "C" score is therefore accorded to this dimension.**

PI-22: Effectiveness of payroll controls

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-22: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between approved staff lists, personnel records and payroll data.	**B**	**B**	*Approved staff list, personnel database and payroll are directly linked to ensure budget control, data consistency and monthly reconciliation. However, a minority of public servants are not yet on this system and manual systems must be used for verification of salary payments.*
	(ii) Timeliness of changes to personnel records and the payroll.	**B**		*The system requires the prior approval and processing of any changes to personnel records before payroll adjustments may be made. This process is normally completed in less than 3 months. There are a small number of retroactive payroll changes as a consequence.*
	(iii) Internal controls of changes to personnel records and the payroll.	**B**		*Authority for changes is clearly defined and respected and ensures a high level of data integrity, although certain manual processes may not generate a complete audit trail.*
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**B**		*Entity-specific payroll audits are conducted frequently by IGF. The coverage of central government entities is not complete in any single year but the data suggest that in a period of three years, the number of entity-specific audits is sufficient to cover all*

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
				central government entities...

Indicator PI-22: 2015 PEFA Assessment

119. This indicator focuses on the payroll for public servants, and assesses the degree of integration between personnel, payroll and budget data; the timeliness of changes to personnel and payroll data; the controls that are applied to effect changes to personnel and payroll data; and, the integrity of the payroll.

120. Comparability with the PEFA 2011 methodology: Dimension i) assess the same concept as in PEFA 2011 PI-18.i, but applying diferent evaluation criteria. Dimensions ii), iii) and iv) are comparable with PEFA 2011 PI-18.ii, PI-18.iii and PI-18.iv.

121. Decree 54 of 8 September 2009 establishing the System Career and Public Sector Remuneration, provides the catalogue of job positions, job categories, salary schemes and the professional qualifications required for each position. The Decree applies to all public officers. In the Service Record of each worker all applicable data are entered as established in Decree 54, as well as historical information of all payments received and changes or developments made during the period in the service of the state. Service Records are continuously updated in e-CAFE module of e-SISTAFE and in order to be within the computerized payroll of e-SISTAFE – e-FOLHA - staff must first be on e-CAFE.

122. The team were informed that 85 % of eligible public servants are within the e-CAFE/ e-FOLHA system but the process of entry onto the e-CAFE system may take up to 6 months as the necessary documentation and certificates are submitted and the different approvals are provided. Moreover, some staff – such as those recruited on temporary contracts, or international volunteer staff (such as doctors and teachers from Cuba) – will never fulfill the full requirements to be on e-CAFE. Such staff cannot therefore be included within e-Folha and are thus paid through separate payroll systems. The processing of their salaries therefore involves a series of manual checks, including a comparison with the payroll of the previous month. **Dimension (i) therefore scores a "B".**

123. Any change in the Service Record of a worker within e-CAFE must follow a prior approval that must include the favourable opinion of the internal controller and, depending on the nature of the change, of either the Ministry of State and Public Service (MAEFP) or the SAI (Tribunal Administrativo). It is only at the end of the process of review and approval that the appointment or change in the employment status of workers may be authorized within e-CAFE. In this way, administrative processes must be coordinated and executed before the change, which eliminates the possibility of subsequent adjustments to the Service Records. The process of updating of service records in e-CAFE and subsequent payroll corrections is normally completed within a period of 3 months. The DNCP reported some retroactive payments to personnel, but for insignificant amounts, which are due to changes that have been authorized after the payroll of the month has closed. **Dimension (ii) therefore scores a "B".**

124. Changes in personnel records are decided internally within entities and must be approved first by the institutional highest authority. Subsequently, the administrative and control procedures to ensure budget availability must be followed, as well as compliance with all labour requirements of Decree 54. Thus, the

authority for changes is clearly defined and respected and ensures a high level of data integrity. However, for those staff not in e-CAFE and e-FOLHA, it may be that not all the manual processes for approval would generate a complete audit trail. **A "B" score is therefore accorded to this dimension.**

125. In legal terms, the IGF is the competent authority to carry out audits of payroll and we confirmed that entity-specific payroll audits are conducted frequently, given that this is explicitly considered as a risk area by IGF. The assessment team were also able to examine a random sample of payroll audits undertaken by IGF and to confirm their quality.

126. However, in view of the large number of public entities in the country (some 1,200 according to IGF's annual plan) and the relatively limited number of inspectors that IGF has, associated with the fact that its sphere of competence encompasses other areas that must also be audited by this authority, the degree of coverage of central government entities is not complete in any single year. However, the data suggests that in a period of three years, the number of entity-specific audits is sufficient to cover all central government entities. **Thus, a "B" score is accorded to dimension (iv), and a "B" to the indicator as a whole.**

PI-23: Transparency, competition and complaint mechanisms in procurement

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-23: Transparency, competition and complaint mechanisms in procurement	(i) Monitoring the efficiency and effectiveness of the procurement system.	**D**	**D+**	*Since 2013 procurement records are centralized through e-SISTAFE which records basic information, but not contract performance data. UFSA monitors the procurement system and produces general statistics on procurement but its coverage is not complete because authority for procurement is decentralised. Moreover, it does not monitor actual procurement processes against procurement plans.*
	(ii) Use of competitive procurement methods.	**D**		*UFSA statistics show that in 2014 67.6.% of processes did not apply competitive methods. The amount acquired by direct contracting methods was equivalent to nearly 53.% of all the registered purchases.*
	(iii) Public access to complete, reliable and timely procurement information.	**D**		*Elements 2, 4 and 5 are not published. Regarding element 4, Most competitive tender awards are published but non-competitive purchases are not required to be published.*
	(iv) Effectiveness of an independent administrative procurement complaint system	**A**		*Based on the legal provisions of the current legislation, the evaluators' assessment of the existing complaints system in comparison with the requirements specified in the 2015 methodology is that the 6*

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
				necessary elements are fulfilled

Indicator PI-23: 2015 PEFA Assessment

127. This indicator assesses how transparent and competitive is the procurement process in all its stages, as well as how efficient are such processes. In terms of comparability with the PEFA 2011 methodology, dimension i) is new; dimensions ii), iii) and iv) are similar to PEFA 2011 PI-19.ii, iii and iv, but their evaluation criteria are different.

128. The UFSA keeps a record of the procurement processes in their stages of invitation to tender and the award of contracts, drawing on information available in e-SISTAFE. However, this is not sufficient to permit a tracking of actual contract payments (taking account of contract waivers and other changes) against the initial value of contract awards. The UFSA also keeps statistics of public procurement, including those made by less competitive methods but it does not receive all annual procurement plans (given that authority for procurement is decentralized) and cannot therefore track actual procurements against planned processes. **These two significant shortcomings in the monitoring mechanisms mean that dimension (i) scores a "D".**

129. Beginning in 2013, public procurement has been reported in e-SISTAFE. Statistical information reported by the UFSA, as presented in Table 18, show that in 2014, 598,270 procurement processes were executed for an amount of Mt 46,419 million. **Of these, just over 47% in value used competitive procedures and just under 53% non-competitive processes. A "D" score is therefore also accorded to dimension (ii).**

Table 18: Public procurement by competitive ('concursos') and non-competitive ('ajustes directos') methods, 2012 - 2014

Tipo de Modalidade\Ano	2012				2013				2014			
	N.º Total	% do Total	Montante Total	% do Mont. Total	N.º Total	% do Total	Montante Total	% do Mont. Total	N.º Total	% do Total	Montante Total	% do Mont. Total
Concursos	3 139	65,219	n.d.		686 315	64,83	10 976 851 318,83	53,47	193 945	32,42	21839 656 908,42	47,05
Ajustes Directos	1674	34,781			372 246	35,17	9 551200 284,28	46,53	404 325	67,58	24 579 900 048,75	52,95
TOTAL	4 813	100			1 058 561	100	20 528 051 603,11	100	598 270	100	46 419 556 957,17	100

Source: UFSA

130. The new PEFA methodology requires that the five elements listed in Figure 2 should be made available to the public in a timely manner. From the list the elements two, four and five, highlighted in red, are not made public. In relation to contract awards, this information is generally (but not always) provided for competitive tenders; however, the award of tenders by direct agreement is not made available to the public. **A "D" score is therefore accorded to dimension (iii).**

Figure 2: Elements of procurement Information to be made available to the Public

Key procurement information comprising:
(1) legal and regulatory framework for procurement;
(2) annual departmental procurement plans;
(3) bidding opportunities,
(4) contract awards (purpose, contractor and value);
(5) data on resolution of procurement complaints
is made available to the public through appropriate means

131. A complaints mechanism exists and is supported by legal provisions. It is structured on the basis of a sequence of levels of appeal, starting at the administrative level, where there exists the possibility of complaint to the jury managing the procurement, proceeding through appeals at a higher hierarchical level, and concluding in a litigation process, where provision is made for the possibility of recourse to the courts to resolve the dispute. At the two higher levels, the bodies assessing complaints or appeals are not involved in any capacity in procurement transactions or in the process leading to contract award decisions.

Figure 3: Requirements for the Independent Procurement Complaints Review Body

Are complaints reviewed by a body which:
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;
(2) does not charge fees that prohibit access by concerned parties;
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available;
(4) exercises the authority to suspend the procurement process;
(5) issues decisions within the timeframe specified in the rules/regulations; and,
(6) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)?

132. The new PEFA methodology requires that “the body” that reviews procurement processes and the possible complaints should fulfil the six requirements shown in Figure 3. In Mozambique, as noted, it is not a single body that has this responsibility. However, based on the legal provisions of the current legislation, the evaluators’ assessment of the existing complaints system in comparison with the requirements specified in the 2015 methodology is that the six necessary elements are fulfilled, **resulting in an “A” score for this indicator and a “D+” overall.**

PI-24: Effectiveness of internal controls for non-salary expenditure

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-24: Effectiveness of internal controls for non-salary expenditure	(i) Segregation of duties.	**A**	**A**	*All functions related to financial processes are clearly defined in MAF and are implemented by budget entities because all e-SISTAFE operations require different levels of approvals and responsibilities for each transaction.*
	(ii) Effectiveness of expenditure commitment controls.	**B**		*The level of commitments is limited in the e-SISTAFE by the level of budget allocations and the in-year credit limits. These controls work in the majority of*

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
				cases but it is possible to make either premature or delayed commitments, which reduces the efficiency of these controls.
	(iii) Compliance with systems of control for making payments	**A**		*With the exception of projects implemented off-budget, only a small minority of transactions financed from own funds are processed outside e-SISTAFE, although these are subsequently regularized and recorded in the system. Moreover, over 90% of non-salary recurrent expenditures are paid from the CUT utlising the e-SISTAFE system.*

Indicator PI-24: 2015 PEFA Assessment

133. This indicator assesses the effectiveness of the internal control systems for non-salary expenditure. Regarding comparability with the PEFA 2011 methodology, dimension i) is new; dimension ii) is similar to PEFA 2011 PI-20.i. and dimension iii) is similar to PEFA 2011 PI-20.iii, but its evaluation criteria are different.

134. Article 23 of the Financial Administration Manual (MAF - *Manual de Administração Financeira de Procedimentos Contabilísticos)* clearly defines different types of agents, each of whom is responsible for specific functions and responsibilities of budget execution. The expenditure execution process has been segregated into 13 executive functions that are assigned to different agents, so that one person cannot perform two functions. The powers of these agents are defined in Art. 24-35 of the MAF. The Internal Control Agent (MAF Article 26) is responsible for controlling and supervising institutional spending and verifying the implementation of the procedures established by the regulatory framework. In practice, the simple fact that each of these controls is built into the e-SISTAFE system, through which the vast majority of non-salary expenditures are authorized and managed means that the segregation of responsibilities operates as defined and is fully respected. **Dimension (i) therefore scores an "A".**

135. Commitment controls are exercised through the e-SISTAFE system, which limits commitments to the approved allocations in the budget and to the quarterly cash limits, which are introduced into the system upon the receipt and approval of cashflow projections at the outset of the fiscal year. These cash limits are revised on a monthly basis as budgetary execution proceeds. However, in interviews with sector ministries as well as with provincial and district staff, the assessment team were advised of two anomalies in the timing of commitments, which were not uncommon. Firstly, it is possible to make premature commitments (before goods or services are really needed and prior to the actual ordering of goods and services) as a way of 'blocking' funds, which might not be available later in the fiscal year if cash constraints become sharper. It is also possible to make late commitments, after goods have actually been supplied, so that the expenditure commitments is recorded almost simultaneously with the payment request. Although these practices are applied only in a minority of cases, **due to the continuing looseness in the control of the timing of commitments, a "B" score is accorded to this dimension rather than an "A".**

136. The rules stipulate that all payments must be approved by the Internal Control Agent and must be requested by the agent issuing the payment order[27], and should be processed in the e-SISTAFE, with payments being made from the Single Treasury Account (CUT). However, since some own funds ('receitas propias') are not immediately deposited in the Treasury, it is possible to make some payments out of the system, which are then recorded afterwards through journal entries. Nevertheless, **over 90% of non-salary recurrent expenditures are paid from the CUT utilising the e-SISTAFE system and thus an "A" score is accorded to this dimension, and an "A" for the indicator as a whole.**

PI-25: Effectiveness of internal audit

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-25: Effectiveness of internal audit	(i) Coverage of the internal audit function.	**A**	**C+**	*IGF is the entity responsible for internal audit in the whole public sector, excluding financial sector public enterprises. Audits are organised according to a risk-based methodology in which all central government institutions are subject to audit in a period of 3 years.*
	(ii) Implementation of audits and distribution of reports (percentages quoted refer to the average rate of completion of audit plans for all audited entities).	**A**		*In 2014 IGF carried out 233 audit processes from 255 planned (91,4%). Audit reports are submitted to the audited entities and MEF, as well as to the Tribunal Administrativo.*
	(iii) Extent of management response to internal audit findings.	**C**		*IGF statistics show that from 5357 recommendations issued on 2014, 2754 were implemented (51.4%)*
	(iv) Nature of audit performed and adherence to professional standards	**C**		*IGF Internal Audit processes focus primarily on financial issues (salaries, procurement, pensions, taxes and customs). Internal controls are examined but the internal control system is not the primary focus.*

Indicator PI-25: 2015 PEFA Assessment

137. This indicator assesses the effectiveness of the internal audit system as a method of providing feedback to management on the quality and integrity of the internal control system, and thus as a method of improving the effectiveness of risk management, control and governance within government institutions. The function should be primarily focused on the provision of assurance over the adequacy and effectiveness of internal controls, the reliability and integrity of financial and operational information, the effectiveness

[27] The evaluation team were not able to obtain data on the numbers of initial payment requests that are rejected by Internal Control Agents. However, because these processes are computerized, any necessary corrections to payment orders can be quickly made. The key point is that no payment orders can be processed through e-SISTAFE, without passing through the required internal controls.

and efficiency of operations and programmes, the safeguarding of assets and compliance with laws, regulations, and contracts.

138. Comparability with the PEFA 2011 methodology: dimension iv) is new. Dimension i) and ii) are similar to PEFA 2011 PI-21.i and ii, but the evaluation criteria are different. Dimension iii) is similar to PEFA 2011 PI-21.iii.

139. The IGF is the governing body of the system of internal audit in government. It exerts its function through audit teams who work nationwide, from the IGF head office in Maputo and its two regional offices in Beira and Nampula. All institutions of the central government (191 budgetary institutions or 'UGEs') as well as all the public enterprises – except financial sector entities - and all the autonomous and semi-autonomous government agencies and funds are subject to audit by IGF. Additionally, there are provincial and municipal governments that are also subject to audit by the IGF. Thus, the mandate of the IGF covers the whole of the non-financial public sector.

140. The annual audit plan is organized according to a risk-based strategy. One criterion within this risk assessment is the time since the last audit. Consequently, audit activities are organized so as to ensure that all central government agencies are subject to audit in a period of 3 years. **Given this approach to the organization of audit work and the clearly established and comprehensive mandate of IGF, an "A" score is accorded to the first dimension**, concerning the coverage of Internal Audit.

141. The audit plan for 2014 included 255 audits of which 233 were carried out (91% of the plan was executed). IGF reports are submitted to the head of the institution audited and to the Ministry of Finance. With regard to the submission of reports to the Tribunal Administrativo (TA), this is not a legal requirement and is not done in a systematic manner. However, virtually all reports are shared with the TA, especially in the case of financial irregularities, which need to be sent to that Court (*Tribunal*) for the purpose of settling any liability. All audits include a management response and a specification of management responsibilities for follow-up. **An "A" score is therefore accorded to dimension (ii).**

142. With regard to the implementation of the recommendations resulting from audits, IGF perform a systematic follow-up to their own audits, and since July 2014 have also performed a systematic follow-up to the recommendations arising from external audits performed by the TA. For the latter, there is a shared system between the IGF and the TA which allows the former to know which are the recommendations to be followed and also to introduce information on the results of their follow-up actions.

143. With regard to recommendations resulting from audits of the IGF, a tracking system has been designed which details the recommendations made and the degree of compliance - unfulfilled, in progress or completed. To be specific, the assessment of compliance considers the follow-up made by the audited entity to the audit recommendations received in terms of concrete implementation measures. The level of compliance is measured either by means of questionnaires sent to the entity, which is required to respond in 45 days attaching the respective evidence, and/ or through visits to the entity itself in order to assess compliance. Based on this information, Table 19 has been constructed.

Table 19: Follow-up to IGF Audit Recommendations

YEARS	TARGET (PES)	N.º of REC.	REC. COMPLIED WITH	
			N.º	%
2012	20%	8, 456	2, 331	27.6
2013	35%	10, 541	5, 145	49.2
2014	45%	5, 357	2, 754	51.4

Source: IGF

144. The IGF issued in 2014 a total of 5357 recommendations, of which it was reported that 2754 were implemented (51.45%). Although it is not clear which proportion of audited entities are implementing audit recommendations, **based on the fact that over 50% of recommendations were implemented in 2014, a "C" score is accorded to dimension (iii).**

145. Audits are managed according to an annual risk-based audit plan and are conducted within a structured framework for quality assurance. The main focus of internal audit is on general aspects of risk in public financial management, because the IGF's vision is geared, not at the institutional level, but rather towards the public sector as a whole. Issues to audit are normally: procurement, salary and personnel management issues and revenue management processes. Institutional and internal controls issues are discussed in the reports when appropriate, but the internal control system is not the primary focus of internal audit. **A "C" score is therefore accorded to dimension (iv) and a "C+" overall, following the M1 methodology.**

C (iii) Accounting, Recording & Reporting (PI 26-28)

PI-26: Accounts reconciliation and financial data integrity

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-26: Accounts reconciliation and financial data integrity	(i) Regularity of bank reconciliation.	B	B	*CUT is reconciled daily, but other bank accounts are reported by the entities every 15th day of the month and reconciled monthly.*
	(ii) Regularity of reconciliation and clearance of suspense accounts.	D		*Suspense accounts are cleared and reconciled annually, as part of the preparation of the CGE report in the first half of year. Some accounts linked to off-budget investment projects are not cleared.*
	(iii) Regularity of reconciliation and clearance of advance accounts.	B		*Advance accounts are normally cleared on a monthly basis, but there are occasional delays, meaning that advances may remain uncleared for a full quarter.*
	(iv) Processes supporting	A		*Data integrity of e-SISTAFE is*

Indicator (M2)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
	financial data integrity			*high. There are rules restricting access to records and changes, and a systematic structure of automated controls.*

Indicator PI-26: 2015 PEFA Assessment

146. This indicator assesses the government practices and procedures for the reconciliation of bank accounts, suspense accounts and advances. In terms of comparability with the PEFA 2011 methodology, dimension iv) is new; dimensions i), ii) and iii) are similar to PEFA 2011 PI-22.i and ii, but the evaluation criteria are changed.

147. The CUT - the Single Treasury Account - is reconciled automatically and daily. Accounts outside of the CUT are reconciled monthly, since entities must report their statements and movements made within the first 15 days of the next month. The reconciliation of these accounts is done within 4 weeks after the end of the month reported. **Dimension (i) therefore scores a "B".**

148. Article 95 of the MAF states that in each fiscal year, advanced or suspended funds must be liquidated and balances must be repaid to the CUT or recorded as accounts receivable in the following year. However, in the case of suspense accounts, this clearing process is generally undertaken after the close of the fiscal year, during the period when the end-of-year accounts (CGE) are being compiled. **A "D" score is therefore accorded to this dimension.**

149. All advances of funds, whatever their purpose or destination must be registered in e-SISTAFE. Operating funds advanced to the UGBs should be settled monthly (Art 133 MAF). **Advance accounts are indeed normally cleared on a monthly basis, but there are occasional delays, meaning that advances may remain uncleared for a full quarter; thus a "B" score is accorded to this dimension.**

150. All expenditure – with the exception of off-budget projects - is administered by the e-SISTAFE, which has defined authorities and users for each type of operation. Every transaction has one responsible executor registered. The data integrity of e-SISTAFE is therefore high. There are rules restricting access to records and changes, and a systematic structure of automated controls. CEDSIF perform an oversight function on the system, verifying financial data integrity. **An "A" score is thus accorded to this dimension and a "B" overall, following the M2 methodology.**

PI-27: Quality and timeliness of in-year budget reports

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-27: Quality and timeliness of in-year budget reports	(i) Coverage and comparability of reports.	**A**	**C+**	*Coverage and classification of reports allows direct comparison with the original budget including for deconcentrated units.*
	(ii) Timeliness of the issue of	**C**		*Reports are prepared quarterly*

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
	reports.			*and issued 6 to 7 weeks (45 days) from the end of the reported period.*
	(iii) The quality of the information contained in the reports.	**B**		*Information is consistent and of high quality but commitments are only covered at the aggregate level.*

Indicator PI-27: 2015 PEFA Assessment

151. This indicator assesses how complete and comparable with the approved budget is the information on budget execution that is included in quarterly budget execution reports. Regarding comparability with the PEFA 2011 methodology, dimensions i), ii) and iii) are similar to PEFA 2011 PI-24.i, ii and iii.

152. Within the last completed financial year (2014), quarterly reports cover all details shown in the approved budget, both at institutional (central and decentralized) level and at the provincial and district levels, following the scope and detail of the annual budget law. Moreover, expenditures made from transfers to the de-concentrated units of central government are also detailed according to economic and functional classifications. **Thus, dimension (i) scores an "A".**

153. Reports on budget execution are quarterly. In each of the last three completed financial years, they have been issued within 45 days of the end of the reporting period. For the first quarter of 2015, there was a delay but the REO was still issued less than 8 weeks after the close of the reporting period. **A "C" score is therefore accorded to dimension (ii).**

154. The quarterly budget execution reports (*REOs*) contain a first descriptive part, in which there is a set of aggregated data according to various classifiers. These data include revenue and expenditure, the latter being divided into operating expenses and investment expenses and further subdivided into domestic investment and foreign investment. After the aggregate tables, are presented detailed tables that refer exclusively to the execution of the expenditure budget. In general, the analysis presented in REOs leans heavily towards expenditure rather than revenue. However, the degree of coverage in relation to expenditures is deep, with several tables presented relating to the degree of budget execution, comparing appropriations with the execution rates with regard to operating and investment expenditures. In addition, for both categories of expenditure, data are presented on amounts committed, authorized (liquidated) and paid, although this information is presented only in the aggregate tables.

155. Therefore, the presentation of data in the REOs is relatively complete and allows a direct comparison with the budget; in addition, data is presented at commitment, liquidation and payment stages, although only at the aggregate level. **A "B" score is therefore accorded, and a "C+" overall following the M1 methodology.**

PI-28: Quality and timeliness of annual financial reports

Indicator (M1)	Dimension Assessed	2015 Assessment	Justification for Scoring assigned

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-28: Quality and timeliness of annual financial reports	(i) Completeness of the financial reports.	**B**	**B**	*The CGE constitutes a transparent and consistent consolidated government financial statement with full coverage of revenues and expenditures. It includes reasonably complete information on financial assets and liabilities, although there are some gaps in particular in relation to contingent liabilities.*
	(ii) Timeliness of submission of the financial reports.	**B**		*CGE is submitted to external audit at the end of May every year. (5 months after the close of the year)*
	(iii) Transparency, completeness and consistency of accounting standards applied	**B**		*Accounting standards used in the CGE are consistent with those defined in SISTAFE regulations and more recently in the MAF. The accounting improvements and new standards which have been adopted since 2014 are close to IPSAS norms and could be considered comparable with those norms.*

Indicator PI-28: 2015 PEFA Assessment

156. This indicator assesses the quality and timeliness of the annual public accounts (CGE) and the consistency of the accounting standards applied. Dimensions i), ii) and iii) are similar to PEFA 2011 PI-25.i, ii and iii, but the evaluation criteria are changed.

157. The General State Account (*CGE – Conta Geral do Estado*) is the document which comprises the consolidated year-end financial statements of the Government. It presents the details of the execution of the central government budget and the related financial operations, as well as presenting the fiscal year results and performance of State bodies and institutions. The CGE also contains information concerning financial operations, assets and liabilities, OE financing, public debt and some contingent obligations, such as loan guarantees..

158. Based on our detailed analysis of the CGE, we conclude that it constitutes a transparent and consistent consolidated government financial statement with full coverage of revenues and expenditures. It also includes reasonably complete information on financial assets and liabilities, although there are some gaps in particular in relation to contingent liabilities. **Dimension (i) therefore scores a "B".**

159. Article 50 of the SISTAFE Law provides that before the end of May each year, the government must present the CGE to the National Assembly and to the SAI (Administrative Court). The content of this document is defined in Articles 47 and 48 of the said Act. **This requirement has been consistently respected over the last three years and more, and thus a "B" score is accorded.**

160. The accounting standards used in the CGE are consistent with those defined in SISTAFE regulations and more recently in the Financial Administration Manual of accounting procedures (*MAF – Manual de Administração Financeira de Procedimentos Contabilísticos*), approved by Ministerial Degree N.º 181/2013, of October 2014. This Manual includes an overall set of standards, as well as clear explanatory details on the use of budgetary classifiers for accounting purposes.

161. In addition to a set of detailed tables for functional, economic, and territorial classifications of central government revenue and expenditure, the CGE also contains information on the revenue, expenditures and opening and closing balances related to autonomous Institutions, municipalities, public enterprises and companies with majority State shareholdings. The consolidated inventory of State Assets has also been part of the CGE since 2012. (This is Annex 7 of the CGE, which is presented in three volumes.)

162. Finally, it should be noted that the CGE includes an overall balance of State revenue, expenditure and financing with debit and credit entries presented using double entry book-keeping methods. In addition to the adoption of the new standards specified in the MAF, this represents a significant upgrading of standards in relation to those applied at the time of the 2010 PEFA assessment.

163. Hence, we consider that the accounting improvements and new standards which have been adopted are close to IPSAS norms and could be considered comparable with those norms. **Thus, dimension, (iii) is evaluated with a "B", and a "B" score is accorded to the indicator overall.**

C (iv) External Scrutiny & Audit (PI 29 – 30)

PI-29: SAI Independence and external audit of the government's annual financial reports

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-29: SAI Independence and external audit of the government's annual financial reports.	(i) Coverage and auditing standards of audit performed.	C	D+	*External audits are undertaken according to ISSAI standards and on the bass of a simple risk assessment procedure. The coverage of total value of audited expenditure and revenue was above 50% on average in the last 3 FY.*
	(ii) Timeliness of submission of audit reports to legislature on the government's financial reports.	A		*Audit reports on the annual accounts (CGE) are submitted to the Legislature within 6 months from reception by the TA of the CGE from the Executive.*
	(iii) Evidence of follow up on audit recommendations or observations by the executive or audited entity.	D		*Although in a significant number of audits, follow up on implementation of TA recommendations is made by IGF or TA, there is no systematic process to ensure follow up by the Executive or the audited entity in all cases.*
	(iv) Independence of the SAI and	D		*TA has no budgetary independence, and this hinders*

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
	access to information			*significantly the TA performance.*

Indicator PI-29[28]: 2015 PEFA Assessment

164. This indicator has four dimensions that assess: (i) the scope and nature of the audit performed annually (including adherence to auditing standards); (ii) the timeliness of annual submission of Audit reports to the Legislature; (iii) the evidence of follow-up on audit recommendations; and (iv) the level of independence of the Tribunal Administrativo.

165. Law N.° 14/2014, of August, 2014, establishes the organisation, functioning and procedure for the external control of public revenues and expenditures, as well as for the prior approval (*'visto'*) of the Administrative Court (TA – Tribunal Administrativo). The TA has jurisdiction and financial control throughout the legal system of the Republic of Mozambique, both in national and foreign territory, which is a wide jurisdictional scope with regard to the exercise of its powers.

166. Thus, the TA is the supreme and independent audit institution, controlling the legality and efficiency of public revenue and expenditure and undertaking, among other functions, the ex post control of the entities under its jurisdiction (external audit), the verification of any financial responsibility that may fall upon the State, as well as the issue of a prior approval (*'visto'*) regarding the legality and budgetary coverage of acts and contracts resulting in revenue or expenditure for the State.

167. The TA is also responsible for rendering an opinion on the year-end accounts of the government – the CGE. This involves an analysis, and subsequent issuance of opinion on the State's financial activities in the year to which the accounts relate, covering all aspects of revenue and expenditure, subventions, tax benefits, credits and other forms of support granted by the State.

168. Within this framework, dimension (i) of this indicator refers essentially to the TA's activities with regard to ex post control, in other words the external audits of the entities under its jurisdiction – audit reports which should, according to the new law of 2014, be advertised in the Bulletin of the Republic. These audits follow international standards, in particular those of INTOSAI, and are divided into regular audits and performance audits, the latter being the more recent in the context of the activity of the TA.

169. During the evaluation team's analysis of the regular audit process[29], we noted that these are conducted according to pre-defined check-lists for each area of analysis, that evidence is systematically collected for this purpose and that the accompanying working papers are carefully archived. We also confirmed the systematic undertaking of internal quality assurance reviews of audit work.

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[28] This indicator can be compared with due care with PI -26 in the 2011 PEFA methodology for dimensions i), ii) and iii). However, the scope of these dimensions is wider in the 2015 methodology. Dimension iv) is new and cannot be compared.

[29] With regard to performance audits, no performance audit reports were provided for scrutiny by the team, therefore we are unable to provide an opinion on their quality.

170. The selection of entities to be audited is based upon the application of criteria of risk analysis, although the definition thereof does not appear in any of the documentation made available to us (Background to the Plan and the Plan Matrix for 2012/13/14 – *Fundamentação do Plano e Matriz do Plano*). According to the information transmitted in meetings, these criteria comprise the inherent risk (without clarification regarding how the same is measured) and other indicators (referred to in a general manner without additional explanation). Moreover, the document referred to as a "Risk Matrix" is not a matrix in the technical sense of the term, but an annual plan, which refers, for example, to goals, priorities, rationale for chosen audits, and financing costs. Hence, there is no explicit reference in this "Risk Matrix" to budgetary and fiscal risks nor to the selection of audit actions on the basis of risk analysis.

171. With regard to the annual coverage of the institutions of the State achieved by the external audits, as may be seen from Table 20, this falls short of the 50%, defined by the PEFA methodology as the minimum required for a "C" score on dimension (i). However, the institutions audited include a majority of the large institutions of the central government and thus in terms of coverage of annual expenditure, this exceeds the 50 % benchmark. Similarly, the regular inclusion of ATM amongst the entities audited also ensures that coverage of revenue collection exceeds 50 %. **Thus, dimension one merits a "C".**

Table 20: Audits Completed and Judged by the TA, 2012-2014

YEARS	N.º of Audits	% of OE bodies	N.º of Audits Judged	% of Audits Judged
2012	450	40.32	84	18.67
2013	450	39.50	145	32.22
2014	403	42.20	207	51.36

Source: TA Financial progress reports (2012/13/14)

172. Dimension (ii) refers to the timeliness of submission of audit reports to the Legislature. In this respect, it should be noted that, in accordance with the legal provisions, the TA is not required to submit to Parliament the external audit reports carried out within the framework of the TA's competences of ex post external control ('*fiscalização sucessiva*'), which are subject to judicial review by the judges of the TA and not subject to Legislative review. However, the TA is required to submit an annual opinion ('*parecer*') to the Legislature on the year-end financial accounts of the Executive, i.e the CGE. This opinion contains an analysis, and subsequent issuance of opinion, about the State's financial activities in the year to which the CGE relate, in the areas of revenue and expenditure, subsidies, tax benefits, credits and other forms of support granted by the State.

173. Having regard to the legally established calendar, the TA must submit to the Assembly of the Republic its report on the General State Accounts by the 30th, November of the following year to which the account relates. According to data that have been transmitted, and as shown in the Table 21, the calendar has always been fulfilled. Thus, **the TA report on the CGE has consistently been submitted within 6 months of the receipt of the CGE, meriting an "A" score for dimension (ii).**

Table 21: Dates of Submission of the TA Report on the CGE, 2010 - 14

Fiscal Year	Date of Submission	Accomplished (Yes/No)
2010	29/Nov/2011	Yes
2011	29/Nov/2012	Yes
2012	29/Nov/2013	Yes
2013	28/Nov/2014	Yes

Source: Offical Statements. http://www.ta.gov.mz/

174. The external audits of the TA are subject to the so-called principle of the adversarial procedure (*'principio do contraditório'*), which gives the audited entity a formal right of reply, should they wish to use it, to the findings and recommendations of the audit. In this respect there is a formal response on the part of audited entities, as this right is enshrined in Law and is respected. However, there is no evidence of a systematic procedure for the TA to perform a follow up on the implementation of its recommendations. Indeed, the evaluation team was informed that the implementation of past recommendations is only checked by the TA if and when the entity is again to be audited by the TA[30].

175. On the other hand, since July, 2014, the TA has been sharing with the IGF the recommendations arising from its external audits. This has allowed the IGF, within the limits of its capacities, to undertake through its financial inspections and internal audits a systematic follow-up to the recommendations included in the TA's external audits. Despite this improvement, data from IGF show that, since July 2014, the TA has issued 423 recommendations of which 158 were assessed by IGF, in other words, 37% of the total. Of this total, 69 were complied with, which corresponds to 16% of recommendations verified as implemented. In short, even with the support of the IGF in the follow up of recommendations, the evidence suggests that the process of follow up remains weak.

176. **Therefore, the assessment for this dimension, (iii) is "D"**, reflecting the fact that, despite the fact that there is a formal response by audited entities, the evaluation team did not receive sufficient evidence to confirm that these responses are timely and thorough, and moreover there is limited evidence of systematic (and timely) follow up to recommendations, particularly by the TA itself.

177. The indicator related to TA independence benchmark includes several variables required to score this dimension: legislation that ensures that the TA undertake its functions independently from the executive, the procedures for appointment/removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports as well as the approval and execution of the SAI's budget, unrestricted and timely access to records, documentation and information, and budgetary independence. Within all these, budgetary independence is needed to score a "C". In Mozambique, the TA has the same treatment in budgetary terms as any other UGB. **Thus, it has no budget execution independence: this limits considerably its activities as mentioned by resource persons in the TA. Therefore, this fourth dimension scores "D".**

30 Based on the coverage of audit shown within Table 20, this would normally be within a period of 3-4 years. However, the evaluation team were informed that larger institutions and institutions considered subject to fiduciary risks are audited more frequently.

PI-30: Legislative scrutiny of external audit reports

Indicator (M1)	Dimension Assessed	2015 Assessment		Justification for Scoring assigned
PI-30: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	C	**D+**	*Scrutiny of audit reports regarding the annual accounts (CGE) has been completed by the Legislature between 3 and 6 months from the receipt of the TA reports on the CGE.*
	(ii) Extent of hearings on key findings undertaken by the legislature.	D		*There are no in-depth public hearings by the Legislature of key audit findings that involve both the TA and the audited entity*
	(iii) Issuance of recommended actions by the legislature and follow up of implementation.	B		*The Legislature issues recommendations to be implemented by the Executive and undertakes a follow up to these recommendations. However, this follow up process is not fully rigorous and systematic.*
	(iv) Transparency of the legislative scrutiny function	D		*Committee reports are not published on an official website.*

Indicator PI-30[31]: 2015 PEFA Assessment

178. This indicator has four dimensions, assessing: i) the scope of the Legislature's scrutiny; ii) the extent of hearings undertaken by the Legislature; iii); the Issuance of recommendations by the Legislature and follow up of implementation, and iv) the transparency of the Legislative scrutiny function. The assessment covers the last completed FY (i.e. 2014), except for dimension one that covers FY 2011, 2012 and 2013.

179. Scrutiny of audit reports regarding the CGE has been completed by the legislature between 5 and 7 months from the receipt of audit reports. **Therefore, scoring for this dimension is C (between 6 and 12 months for audit reports submitted to legislature within the last 3 years).**

Table 22: Dates of Scrutiny by Legislature of Annual Audit Report, 2011 - 2014

Fiscal Year Audited	Submission to Assembly	Scrutiny of Audit reports by Assembly
2011	29 November 2012	19 July 2013
2012	29 November 2013	April 2014
2013	28 November 2014	18 June 2015

[31] This indicator can be compared with due care with PI -28 in the 2011 PEFA methodology for dimensions i), ii) and iii). However, the scope of these dimensions is wider in the 2015 methodology. Dimension iv) is new.

180. The team has been informed through Civil Society Organizations about the existence of various 'ad hoc' public hearings in the parliament based on issues raised in TA reports. Newspaper reports and Aide Memoires in the framework of annual reviews linked to Budget Support also document some of these cases. However, there is no evidence of in-depth public hearings about audit key findings that involves both the TA and the audited entity as is required for this dimension. In particular, PEFA 2015 criteria (Field Guide instructions PI-30, paragraph 4) define in-depth public hearings as those involving both the TA and the audited entity. **Thus, scoring of dimension two is D.**

181. In emitting its opinion on both the CGE itself and the accompanying report of the TA, the Legislature issues recommendations to be implemented by the Executive. Both the IGF and the TA follow up on these recommendations during their operations in the subsequent year and in the next year's report of the TA on the CGE presented to the Legislature, a section is dedicated to an assessment of the follow up actions undertaken by the Executive. Moreover, members of the CPO (Budgetary & Planning Committee) of the Legislature also undertake visits to government entities at the central, provincial and district levels during the months of July and August in order to undertake their personal assessment of the quality of follow-up. It is therefore certainly the case that the Legislature issues recommendations to the Executive and follows up on their implementation. However, there is some doubt over how systematic the follow up by the Legislature has been. In particular, many of the recommendations of the TA on the CGE are of a cross-cutting nature, so that it is not always fully clear which entity of the Executive is directly responsible for follow up. For the same reason, the reporting back by the TA in the subsequent year on the nature of follow up actions taken often lacks precision. **In the absence of detailed reports showing the scope and accomplishment of the recommendations issued by the Legislature, this dimension is therefore assessed with a "B."**

182. Dimension (iv) assesses the transparency of the scrutiny function in terms of public access. Opening committee hearings to the public is a good opportunity for a parliamentary committee to inform people about its work and facilitates public scrutiny of the proceedings. Hearings can be "open" in a variety of ways, which range from allowing exceptional public access to the committee room to inviting members of the public to speak on a subject. To score higher than a C in this dimension, Committee reports have to be published on an official website, which is not the case in Mozambique. **For all these reasons, a D must be attributed to dimension (iv), and therefore a "D+" for the indicator as a whole.**

Summary Table of PEFA Scores for Mozambique, applying the 2015 "testing version" of the PEFA methodology

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
PI-1: Aggregate Expenditure Outturn compared to original approved Budget	Out-turn of primary expenditure (total expenditure less debt servicing) as compared with original approved Budget	**B**		*Aggregate expenditure out-turn (without debt amortization but including interest on debts) was 104.3% in 2013 and 94.8% in 2014.*
PI-2: Composition of expenditure out-turn compared to original approved budget	(i) Extent of the variance in expenditure composition during the last 3 years, excluding contingency items, and interest on the debt.	**D**	**D+**	*Variance in expenditure composition by Vote was 39.8%in 2012; 40.1%in 2013 and 58.1%in 2014.*
	(ii) Extent of the variance in expenditure composition by economic classification during the last three years including interest on the debt but excluding contingency items.	**C**		*Variance in expenditure composition by economic classification 12,1% in 2012; 18,7% in 2013 and 9,5% in 2014.*
	(iii) The average amount of expenditure charged to a contingency vote over the last three years	**A**		*No expenditures have been charged directly to the contingency vote but rather to the budget lines, to which the contingency budget has been reallocated.*
PI-3: Aggregate Revenue Out-turn compared to original approved Budget	(i) Actual revenue compared to that provided for in the originally approved budget.	**A**		*97 % in 2012; 117 % in 2013 and 102 % in 2014, thus the revenue out-turn was between 97 & 106% in 2 out of the 3 years.*
PI-4: Classification of the budget	(i) Extent to which the classification system used for formulation, execution and reporting of the central government's budget is consistent with international standards	**C**		*The economic classification presented in the budget and financial reports does not follow GFS, although it is compatible. Functional classification is only correctly applied for 10 functions but not for the 69 sub-functions of COFOG.*
PI-5: Comprehensiveness of information included in budget documentation	(i) Share of the above-listed information in the executive's annual budget proposals most recently issued by the central government	**D**		*Budget documentation does not include all 4 basic elements; in particular, data on past year expenditure and on current year estimates (elements 2 and 3) are not presented in the same format as the estimates in the budget proposal.* *An explicit Forecast of the fiscal deficit or surplus is not presented (element 1).*
PI-6: Extent of reporting on extra-	(i) The level of extra-budgetary operations (revenue and expenditure) which is	**B**	**C+**	*Unreported EBOs are estimated to be 1-5 % of total expenditure, the most prominent items being unreported*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
budgetary operations (EBOs).	unreported, i.e. not included in ex-ante and ex-post fiscal reports.			*expenditures from externally financed projects. However, the revenue & expenditure of the National Institute for Social Security is reported in the CGE and, in general, ex-post reporting on AGAs is good. There are also indications that reporting of expenditures from 'own revenues' is improving.*
	(ii) The details of income, expenditure and financing information on reported extra-budgetary operations (not applicable if EBOs constitute less than 1% of total budgetary expenditure)	**C**		*Ex-post reports in the CGE include reports of revenues and expenditures for most AGAs, as well as the National Institute for Social Security. Most loan funded projects and half of grant funded projects are either fully on budget or at least report ex-post. However, relatively few EBOs are reported upon ex-ante in budgetary documentation.*
PI-7: Transparency of inter-governmental fiscal relations	(i) Transparent and rules-based systems in the horizontal allocation among SNGs of unconditional and conditional transfers from central government (both budgeted and actual allocations).	**A**	**B**	*The horizontal allocation of transfers for recurrent and investment expenditure from Central Government are fully defined by the "Lei das Financas Autarquicas". Only externally financed allocations fall outside of this framework.*
	(ii) Timeliness of reliable information for budget planning to SNGs on their allocations from central government for the coming year	**C**		*The Central Government releases preliminary information in July, which provides the basis for budget preparation by the Autarquias. Updated information on transfers is included in the Executive's Budget Proposal tabled in mid-October before SNG budgets are voted in November. However, the definite amount to be transferred is notified after the CG budget is approved in December. Many Autarquias therefore submit a revised budget to their assemblies in February.*
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government	**B**		*The CGE (issued in May each year), provides consolidated information for all Autarquias. Own revenues are not reported, however. Thus 75 -90% of SNG expenditures are reported on a timely basis in a consolidated manner.*
PI-8: Performance information for achieving efficiency in service delivery	(i) Disclosure, within budget documentation, of key performance indicators and targets for service delivery (coverage measured as percent of service delivery functions financed by central government).	**C**	**C**	*Targets are defined in the PES report which accompanies the Budget Proposal, and these cover education, health, infrastructure and other sectors which together comprise more than 50% of service delivery functions. However, there are inconsistencies in the format in which targets are presented (activities, outputs and outcomes are mixed) and a lack of clarity over measurement methods.*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
	(ii) Disclosure, within budget documentation, year-end reports or other public documents, of data on the performance results achieved by service delivery functions (in the most recent, completed fiscal year).	B		*The Balance of the PES report describes twice a year the status of the implementation of the PES in a format which is comparable with original targets. The sectors covered are estimated to comprise 25-50% of service delivery functions.*
	(iii) Monitoring of resources received by service delivery units	D		*Reports on expenditure by sector are provided at the district level but not at the level of service delivery units (schools, aid posts, etc.). In addition, there are no reports seeking to combine data on financial resources received and in-kind resources received at this level (eg. medicines, text-books.)*
	(iv) Content and coverage of independent performance evaluations (assessing the design, efficiency and effectiveness of service delivery functions or programs)	C		*No programme evaluations are routinely undertaken but performance audits are undertaken by IGF and TA. Coverage is less than 25% of service delivery functions but performance audits do include recommendations to improve service delivery.*
PI-9: Public access to key fiscal information	(i) Quality, timeliness and range of the documents for which public access is provided	D		*In-year reports (element 3) are published late (6-7 weeks after quarter end). The TA's audit report on the Annual Accounts is available only 15 months after the reference period. Thus 2 of 4 basic elements are fulfilled.*
PI-10: Fiscal risk management	(i) Extent of central government monitoring of AGAs and PEs	C	C+	*Most but not all the AGAs and the PEs submit audited annual financial statements to the DNT of MoF or IGEPE. However, there is no consolidated annual report.*
	(ii) Extent of central government monitoring of SNGs' fiscal position	A		*SNGs report on their revenues, expenditures and balances annually. Moreover, SNGs are not allowed to borrow without MoF approval.*
	(iii) Extent of central government monitoring of explicit contingent liabilities from central government programs and projects	D		*Although details of PPPs are included in the CGE, contingent liabilities are not generally reported.*
PI-11: Public investment management	(i) Objective economic analysis.	C	D+	*At least one major capital investment project in each of the five major investing UGBs is reviewed by Cabinet, based on economic analysis*
	(ii) Costing over the project life cycle.	D		*There is no evidence that the full life cycle costs of projects are discussed in the budgeting process.*
	(iii) Project monitoring and reporting	D		*There is no monitoring database that provides both physical and financial*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
				information on major projects.
PI-12: Public asset management	(i) Quality of central government financial asset monitoring.	**C**	**C+**	*The registry of Financial Assets is substantially complete and updated. Annual Performance monitoring processes on state ownerships are in place, although the criteria for assessing financial performance are not well-established and reports are not publicly disclosed.*
	(ii) Quality of central government non-financial asset monitoring.	**B**		*A comprehensive and substantially complete registry of fixed assets has been produced annually since 2012 as Annex 7 of the CGE. An annual report on non-financial assets is produced by DNPE and is also publicly available. However, the report provides only limited detail on asset operations (rentals, leases, etc.)..*
	(iii) Transparency in the sale of non-financial assets	**C**		*Procedures for transfer or sale of public assets are clearly defined within the legal framework. Transfers or sales must apply competitive and transparent procedures. However, it is not possible to assess the degree of compliance with these procedures.*
PI-13: Management and reporting on debt and expenditure arrears	(i) Domestic and foreign debt data recording and reporting.	**A**	**B**	*Debt records are accurate, complete, updated and reconciled monthly with comprehensive reports produced on a quarterly basis, using the CS-DRMS system.*
	(ii) Systems for contracting loans and issuance of guarantees	**C**		*By law, only the Ministry of Finance can contract loans for Central Government and only MoF can issue guarantees - within a limit set in the annual Budget Law. However, this legislation was overruled in 2014, with the issue of a guarantee for EMATUM for a loan far in excess of the approved guarantee limit. Thus, we conclude that MoF guarantees do not always follow guidelines and given ceilings.*
	(iii) Preparation of a debt management strategy	**A**		*There is a medium term debt strategy updated every three years and approved by the Minister of Finance. Annual Debt Sustainability Analyses are undertaken to assess the continued viability of the strategy, making annual amendments where necessary.*
	(iv) Stock and monitoring of expenditure arrears	**D**		*A formal and regular arrears monitoring system does not exist and there is no evidence of ad-hoc analyses of arrears performed in recent years.*
PI-14: Credible Fiscal Strategy	(i) Formulation of fiscal objectives and strategy.	**D**	**D**	*GFS 2001 specifies that the fiscal strategy should contain at least three core elements that are not present in*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
				the CFMP.
	(ii) Preparation and use of macroeconomic forecasts as a basis for annual and medium-term budgets.	**D**		*Macroeconomic assumptions are not explained, and the CFMP does not include risk to debt analysis.*
	(iii) Difference between actual and the originally forecasted central government fiscal balance	**D**		*The difference between actual Central Government balance and forecast is higher than 2% in two of the last three years*
PI-15: Revenue budgeting	(i) Medium-term forecasting of revenues.	**D**	**D+**	*Assumptions about how revenue calculations are run are not explained in the CFMP.*
	(ii) Assessment of the fiscal impact of proposed policy changes.	**D**		*Impacts of Policy changes and related assumptions are not described in any document (CFMP/ OE / PES)*
	(iii) Variance in revenue composition during the last three years	**B**		*Variance in revenues composition was: 11,3%, 9,4% and 7.9% in 2012, 2013 and 2014 respectively. Thus, there is a deviation of less than 10% in two out of three fiscal years.*
PI-16: Medium-term perspective in expenditure budgeting	(i) Coverage and content of sector strategies	**D**	**D**	*Sector strategies are not fully costed for most sectors/ institutions. When fully costed, there is not a clear link between these and the CFMP ceilings.*
	(ii) Reconciliation of top-down and bottom-up approaches in the medium-term budget framework	**D**		*The total ceilings published in the CFMP 2014-2016 are not comprehensive (just for Goods and Services and Internally financed Capital Expenditure items). There is no documentation of how the process of reconciliation is made.*
	(iii) Links between medium-term framework and annual budgets	**D**		*Second year ceiling of CFMP at aggregate level varies significantly. Current Spending: 105%, Capital Spending: 127%, Domestic Revenue: 114%, Grants: 77%*
PI-17: Orderliness and participation in the annual budget preparation process	(i) Existence of and adherence to a fixed budget calendar.	**A**	**B+**	*The Budget Calendar is fixed in advance, widely disseminatedto all UGBs and it is fully respected for the budget formulation process.*
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	**A**		*Budget ceilings are approved by Cabinet and there is a dissemination process that informs all UGBs in a timely and comprehensive manner of their ceilings through written guidelines and through ceilings incorporated in the formulation module (MEO) of e-SISTAFE.*
	(iii) Timely submission of the annual budget proposal to the legislature or similarly mandated body (within the last three years).	**C**		*The Prime Minister submits the Budget proposal by September 30th (3 months before the beginning of the FY). This has been respected for two of the last three years, the exception being the fiscal year 2015, which followed*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
				national elections, when the budget proposal was submitted after the start of the fiscal year.
PI-18: Legislative scrutiny of the annual budget law	(i) Scope of the legislature's scrutiny.	**B**	**C+**	*The Legislature's review covers fiscal policy and aggregates for the coming year as well as details of expenditure and revenue but not a review of the medium term framework (CFMP).*
	(ii) Extent to which the legislature's procedures are well-established and respected.	**B**		*The process of Budget scrutiny is based on clearly defined and respected procedures, which are firmly established. However, no technical support is provided to the Parliamentary commissions.*
	(iii) Timeliness of budget proposal approval.	**C**		*The Legislature approved the annual budget before the start of the fiscal year in two out of three FY but not in FY2015, when approval was nearly 4 months after the start of the FY.*
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	**B**		*Budget Law allows the Executive to reallocate resources within the total budget limits approved by the Assembly. Although Executive discretion is high, rules governing amendments are clear and respected and all amendments are fully reported.*
PI-19: Revenue administration compliance	(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government.	**A**	**C+**	*The ATM is the only entity managing revenues. Legal information on tax obligations and rights of taxpayers and on tax procedures are clear, comprehensive and easy to access.*
	(ii) Management of risks to revenue.	**C**		*The ATM has a risk analysis and risk management system, as well as fiscal intelligence processes implemented at national and provincial levels. However, some detail is lacking in terms of the analysis of specific risks for particular types of tax payers.*
	(iii) Audit and fraud investigation practices (including penalties) to achieve planned outputs in terms of coverage and additional revenue.	**C**		*The ATM Annual Report shows that a risk-based audit and investigation plan is developed each year covering the full range of revenue collection functions of the ATM. However, in one out of the last three years, the planned outputs of the audit plan were not achieved.*
	(iv) Management of revenue arrears	**D**		*At the end of 2014 the revenue arrears were Mt 3649 million, equivalent to 2.34 % of revenue collections (excluding windfall capital gains taxes). Moreover, over 75% of tax arrears were more than 12 months old.*
PI-20: Accounting for revenues	(i) Coverage and timeliness of revenue information collected	**A**	**B+**	*The revenues collected by the ATM are recorded into e-SISTAFE daily. Reconciliations with the DNT are*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
	by the Ministry of Finance.			*monthly.*
	(ii) Effectiveness of transfer of revenue collections to the Treasury or other designated agencies.	**B**		*Revenue collections are transferred to the CUT daily but some small amounts collected in provinces are transferred weekly.*
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears records and receipts by the Treasury or other designated agencies.	**A**		*The ATM reconcile every month at the beginning of the month: assessments, collections, arrears and transfers to the CUT.*
PI-21: Predictability in the availability of funds to support service delivery	(i) Extent and frequency of consolidation of the central government's cash balances.	**C**	**B**	*CUT cash balances are consolidated daily, but consolidation with the other bank accounts are monthly (bank statements are received on the 15th of the month)*
	(ii) Extent to which cash flows are forecast and monitored.	**A**		*Cash flow is prepared annually, revised monthly and updated weekly by the DNT.*
	(iii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	**B**		*The annual Cash plan is prepared at the beginning of the year with details by month. It includes quarterly commitment ceilings, which may be updated at the request of the MDAs subject to availability of cash and levels of accumulated commitments.*
	(iv) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	**C**		*Adjustments to budget allocations are frequent, but they are undertaken within the mandates of the relvant legislation and regulations and are undertaken in a fully transparent manner.*
PI-22: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between approved staff lists, personnel records and payroll data.	**B**	**B**	*Approved staff list, personnel database and payroll are directly linked to ensure budget control, data consistency and monthly reconciliation. However, a minority of public servants are not yet on this system and manual systems must be used for verification of salary payments.*
	(ii) Timeliness of changes to personnel records and the payroll.	**B**		*The system requires the prior approval and processing of any changes to personnel records before payroll adjustments may be made. This process is normally completed in less than 3 months. There are a small number of retroactive payroll changes as a consequence.*
	(iii) Internal controls of changes to personnel records and the payroll.	**B**		*Authority for changes is clearly defined and respected and ensures a high level of data integrity, although certain manual processes may not generate a complete audit trail.*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	B		*Entity-specific payroll audits are conducted frequently by IGF. The coverage of central government entities is not complete in any single year but the data suggest that in a period of three years, the number of entity-specific audits is sufficient to cover all central government entities..*
PI-23: Transparency, competition and complaint mechanisms in procurement	(i) Monitoring the efficiency and effectiveness of the procurement system.	D	D+	*Since 2013 procurement records are centralized through e-SISTAFE which records basic information, but not contract performance data. UFSA monitors the procurement system and produces general statistics on procurement but its coverage is not complete because authority for procurement is decentralised. Moreover, it does not monitor actual procurement processes against procurement plans.*
	(ii) Use of competitive procurement methods.	D		*UFSA statistics show that in 2014 67.6.% of processes did not apply competitive methods. The amount acquired by direct contracting methods was equivalent to nearly 53.% of all the registered purchases.*
	(iii) Public access to complete, reliable and timely procurement information.	D		*Elements 2, 4 and 5 are not published. Regarding element 4, Most competitive tender awards are published but non-competitive purchases are not required to be published.*
	(iv) Effectiveness of an independent administrative procurement complaint system	A		*Based on the legal provisions of the current legislation, the evaluators' assessment of the existing complaints system in comparison with the requirements specified in the 2015 methodology is that the 6 necessary elements are fulfilled.*
PI-24: Effectiveness of internal controls for non-salary expenditure	(i) Segregation of duties.	A	A	*All functions related to financial processes are clearly defined in MAF and are implemented by budget entities because all e-SISTAFE operations require different levels of approvals and responsibilities for each transaction.*
	(ii) Effectiveness of expenditure commitment controls.	B		*The level of commitments is limited in the e-SISTAFE by the level of budget allocations and the in-year credit limits. These controls work in the majority of cases but it is possible to make either premature or delayed commitments, which reduces the efficiency of these controls.*
	(iii) Compliance with systems of control for making payments	A		*With the exception of projects implemented off-budget, only a small*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
				minority of transactions financed from own funds are processed outside e-SISTAFE, although these are subsequently regularized and recorded in the system. Moroever, over 90% of non-salary recurrent expenditures are paid from the CUT utlising the e-SISTAFE system.
PI-25: Effectiveness of internal audit	(i) Coverage of the internal audit function.	**A**	**C+**	*IGF is the entity responsible for internal audit in the whole public sector, excluding financial sector public enterprises. Audits are organised according to a risk-based methodology in which all central government institutions are subject to audit in a period of 3 years.*
	(ii) Implementation of audits and distribution of reports (percentages quoted refer to the average rate of completion of audit plans for all audited entities).	**A**		*In 2014 IGF carried out 233 audit processes from 255 planned (91,4%). Audit reports are submitted to the audited entities and MEF, as well as to the Tribunal Administrativo..*
	(iii) Extent of management response to internal audit findings.	**C**		*IGF statistics shows that from 5357 recommendations issued on 2014, 2754 were implemented (51.4%)*
	(iv) Nature of audit performed and adherence to professional standards	**C**		*IGF Internal Audit processes focus primarily on financial issues (salaries, procurement, pensions, taxes and customs). Internal controls are examined but the internal control system is not the primary focus.*
PI-26: Accounts reconciliation and financial data integrity	(i) Regularity of bank reconciliation.	**B**	**B**	*CUT is reconciled daily, but other bank accounts are reported by the entities every 15th day of the month and reconciled monthly .*
	(ii) Regularity of reconciliation and clearance of suspense accounts.	**D**		*Suspense accounts are cleared and reconciled annually, as part of the preparation of the CGE report in the first half of year. Some accounts linked to off-budget investment projects are not cleared.*
	(iii) Regularity of reconciliation and clearance of advance accounts.	**B**		*Advance accounts are normally cleared on a monthly basis, but there are occasional delays, meaning that advances may remain uncleared for a full quarter.*
	(iv) Processes supporting financial data integrity	**A**		*Data integrity of e-SISTAFE is high. There are rules restricting access to records and changes, and a systematic structure of automated controls.*
PI-27: Quality and timeliness of in-year budget reports	(i) Coverage and comparability of reports.	**A**	**C+**	*Coverage and classification of reports allows direct comparison with the original budget including for deconcentrated units.*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
	(ii) Timeliness of the issue of reports.	C		*Reports are prepared quarterly and issued 6 to 7 weeks (45 days) from the end of the reported period.*
	(iii) The quality of the information contained in the reports.	B		*Information is consistent and of high quality but commitments are not covered*
PI-28: Quality and timeliness of annual financial reports	(i) Completeness of the financial reports.	B	B	*CGE do not provide full information of financial liabilities. Some minor revenues are not reported. Tax refunds are also not mentioned.*
	(ii) Timeliness of submission of the financial reports.	B		*CGE is submitted to external audit at the end of May every year. (5 months after the close of the year)*
	(iii) Transparency, completeness and consistency of accounting standards applied	B		*Accounting standards used in the CGE are consistent with those defined in SISTAFE regulations and more recently in the MAF. The accounting improvements and new standards which have been adopted since 2014 are close to IPSAS norms and could be considered comparable with those norms.*
PI-29: SAI Independence and external audit of the government's annual financial reports.	(i) Coverage and auditing standards of audit performed.	C	D+	*External audits are undertaken according to ISSAI standards and on the bass of a simple risk assessment procedure. The coverage of total value of audited expenditure and revenue was above 50% on average in the last 3 FY.*
	(ii) Timeliness of submission of audit reports to Legislature on the government's financial reports.	A		*Audit reports are submitted within 6 months from reception of the CGE from Executive.*
	(iii) Evidence of follow up on audit recommendations or observations by the executive or audited entity.	D		*Although in a significant number of audits, follow up on implementation of TA recommendations is made by IGF or TA, there is no <u>systematic</u> process to ensure follow up by the Executive or the audited entity in <u>all</u> cases.*
	(iv) Independence of the SAI and access to information	D		*TA has no budgetary independence, and this hinders significantly the TA performance.*
PI-30: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	C	D+	*Scrutiny of audit reports regarding the annual accounts (CGE) has been completed by the Legislature between 3 and 6 months from the receipt of the TA reports on the CGE.*
	(ii) Extent of hearings on key findings undertaken by the legislature.	D		*There is no evidence of in-depth public hearings about audit key findings that involves both the TA and the audited entity*
	(iii) Issuance of recommended actions by the legislature and	B		*The Legislature issues recommendations to be implemented by the Executive and*

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned
	follow up of implementation.			*undertakes a follow up to these recommendations. However, this follow up process is not fully rigorous and systematic.*
	(iv) Transparency of the legislative scrutiny function	D		*Committee reports are not published on an official website.*

Annex One: Implications for PFM Reform

At the request of the Government of Mozambique, an independent team undertook an external assessment of the central government's Public Finance Management (PFM) system based on the Public Expenditure and Financial Accountability (PEFA) methodology. The assessment examines progress since the PEFA assessment of 2010 and provides a new baseline for monitoring future progress in PFM reform and for supporting the Authorities in refining, where necessary, the current PFM reform strategy. In addition to a repeat assessment applying the 2011 PEFA methodology, the assessment has involved the application of the 2015 "testing version" of the new PEFA methodology. This will provide a baseline against which future assessments can be compared once the new PEFA methodology is formally established from April 2016 onwards.

This annex summarises the results of the application of the 2015 PEFA methodology and identifies the potential implications for the design and implementation of PFM reforms in Mozambique. It presents first an overview of the findings and an assessment of the overall implications for the current and future direction of reforms. It then presents in matrix form some brief recommendations with regard to the reform actions that might be relevant for each of the 30 performance indicators of the 2015 methodology.

The recommendations and proposals in this annex are presented for the purpose of discussion only. They will need to be carefully reviewed by the Authorities and assessed both in relation to existing priorities for reform and in relation to the human and financial resources available to pursue both current and potential new reform actions. A workshop is planned to take place in the week of 8th -12th, February 2016 in order to facilitate discussion of these proposals, with a view to updating PFM reform plans in the light of the results of the 2015 PEFA assessment.

Main findings

The 2015 PEFA assessment shows that Mozambique has succeeded in consolidating the major improvements in the PFM system recorded in 2010, while continuing to improve performance – most particularly in the areas of budget execution, accounting, reporting and internal & external audit. The coverage of the e-SISTAFE system has been substantially extended, while the number and range of internal and external audits undertaken has also increased. These improvements were made possible by the strong political commitment to the PFM reform strategy and the determined implementation of reforms.

The scores both against the PEFA benchmarks of the 2011 methodology and those of the 2015 methodology show a consolidation of the gains identified in 2010. In particular, the high scores achieved in 2010 on indicators relating to revenue administration, cash and debt management, and accounts reconciliation have been repeated. In addition, improvements have been recorded in accounting and reporting processes, as well as in Internal Audit. In particular, improvements are registered in the coverage of reporting of extra-budgetary government operations, the monitoring of fiscal risk, the coverage and quality of IGF's reports as well as the effectiveness of follow-up to these reports and the quality of in-year reporting and end-of-year accounts.

The scores against the 2015 PEFA methodology place Mozambique amongst the higher performing Developing Countries in terms of its PFM systems. As may be seen from the table below, 11 indicators had "A" or "B" scores, which would indicate performance in these areas of the PFM system consistent with good international practise, and 9 indicators were scored as "C" or "C+", suggesting an adequate degree of functionality, even if there is room for improvement.

However, 10 out of 30 indicators are scored as "D" or "D+", suggesting that performance in these areas falls significantly below good international practise. While clearly some of these areas are of greater importance than others, as a general strategy it would make sense to ensure that current reforms are adequately addressing these weaknesses and, if not, to identify new reform actions which should also be prioritised. The matrix of potential reform actions presented below should assist in this process.

Overall Priorities for 2016 and beyond

Improvements in planning and budgeting must be the priority for the future in order to complement advances made in the quality of budget execution and control. The CFMP should be at the heart of this process, focusing first on the development of a credible fiscal strategy, and then proceeding to improved medium term budgeting of projects and programmes. In parallel, it is essential to consolidate the advances in budget execution systems achieved through the expanded coverage and increased functionality of e-SISTAFE, while continuing to improve the monitoring of fiscal risks, and strengthening the competitiveness and the transparency of the procurement system.

Table 23: Mozambique 2015 Overview of PEFA Scores by Pillar (applying 2015 methodology)

Pillar	A, B+, B	C+, C	D+, D	Total
I. Credibility of Fiscal Strategy & Budget	2		1	3
II. Comprehensiveness and Transparency	1	3	2	6
III. Asset & Liability Management	1	2	1	4
IV. Policy-Based Planning & Budgeting	1	1	3	5
V. Predictability & Control in Budget Execution	4	2	1	7
VI. Accounting, Recording & Reporting	2	1		3
VII. External Scrutiny & Audit			2	2
TOTAL (30 Indicators)	11	9	10	30

Matrix of PEFA Scores (applying 2015 methodology) and corresponding implications for PFM Reforms

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
PI-1: Aggregate Expenditure Outturn compared to original approved Budget	Out-turn of primary expenditure (total expenditure less debt servicing) as compared with original approved Budget	**B**		*Aggregate expenditure out-turn (without debt amortization but including interest on debts) was 104.3% in 2013 and 94.8% in 2014.*	In most years, the Authorities have managed to ensure that aggregate expenditure is close to the level initially approved in the Budget (OE). Minor problems have arisen in recent years in estimating the value and timing of receipts of Capital Gains Taxes but, overall, control of aggregate expenditure against Budget has been effective.
PI-2: Composition of expenditure out-turn compared to original approved budget	(i) Extent of the variance in expenditure composition during the last 3 years, excluding contingency items, and interest on the debt.	**D**	**D+**	*Variance in expenditure composition by Vote was 39.8%in 2012; 40.1%in 2013 and 58.1%in 2014.*	Mozambique has had consistent problems over several years in achieving accurate budgeting at the institutional/ agency level. This is a significant concern because when the composition of expenditure varies considerably from the original budget, the budget is no longer a useful statement of intent with regard to government spending. Moreover, frequent changes in budgets during the execution process undermine predictability, making the planning of procurements and other expenditures less effective, with negative effects on overall value for money. **This problem derives from inefficiencies in the budget formulation process at the institutional level, which in turn reflects weaknesses in medium term budgeting at the central level. Actions by MEF to strengthen the CFMP and to improve the scrutiny of the preliminary budget proposals prepared by ministries, departments and agencies should help to correct this problem.**
	(ii) Extent of the variance in expenditure composition by economic classification during the last three years including interest on the debt but excluding contingency items.	**C**		*Variance in expenditure composition by economic classification 12,1% in 2012; 18,7% in 2013 and 9,5% in 2014.*	
	(iii) The average amount of expenditure charged to a contingency vote over the last three years	**A**		*No expenditures have been charged directly to the contingency vote but rather to the budget lines, to which the contingency budget has been reallocated.*	
PI-3: Aggregate Revenue Out-	(i) Actual revenue compared to that provided for in the	**A**		*97 % in 2012; 117 % in 2013 and 102 % in 2014, thus the revenue out-turn was*	Despite some problems arising in recent years in the accurate forecasting of the value and timing of receipts of Capital

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
turn compared to original approved Budget	originally approved budget.			*between 97 & 106% in 2 out of the 3 years.*	Gains Taxes, the Authorities forecasts of revenue have been close to actual levels of revenue collection.
PI-4: Classification of the budget	(i) Extent to which the classification system used for formulation, execution and reporting of the central government's budget is consistent with international standards	C		*The economic classification presented in the budget and financial reports does not follow GFS, although it is compatible. Functional classification is only correctly applied for 10 functions but not for the 69 sub-functions of COFOG.*	Given the importance of externally funded projects within the investment budget and the difficulties of separating capital from recurrent items within these projects, the GoM's 'ad hoc' approach to the application of economic classifiers is a pragmatic response to this problem and there is no reason to change it. **The Authorities have rightfully placed emphasis on the development of Programmatic classifiers and it would be advisable to continue with this approach, focussing initially on a limited number of high priority ministries and institutions.**
PI-5: Comprehensiveness of information included in budget documentation	(i) Share of the above-listed information in the executive's annual budget proposals most recently issued by the central government	D		*Budget documentation does not include all 4 basic elements; in particular, data on past year expenditure and on current year estimates (elements 2 and 3) are not presented in the same format as the estimates in the budget proposal.* *An explicit Forecast of the fiscal deficit or surplus is not presented (element 1).*	It is important for purposes of accountability and transparency that the information presented in the Executive's Budget Proposal should be as comprehensive and clear as possible. **It is recommended that MEF should carefully analyse the existing formats and procedures for the presentation of Budget (OE) information to the Legislature so as to conform to the international norms incorporated in the PEFA methodology. This should be a high priority within the PFM Reform Programme, from which "quick wins" in the quality of PFM transparency can be achieved.**
PI-6: Extent of	(i) The level of extra-budgetary operations	B	C+	*Unreported EBOs are estimated to be 1-5 % of total expenditure, the most prominent items*	Ex-post reporting (in the CGE) of the extra-budgetary

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
reporting on extra-budgetary operations (EBOs).	(revenue and expenditure) which is unreported, i.e. not included in ex-ante and ex-post fiscal reports.			*being unreported expenditures from externally financed projects. However, the revenue & expenditure of the National Institute for Social Security is reported in the CGE and, in general, ex-post reporting on AGAs is good. There are also indications that reporting of expenditures from 'own revenues' is improving.*	operations of central government has improved significantly since 2010, particularly with regard to reporting of use of own revenues ('*receitas propias*') and expenditure by semi-autonomous government agencies. However, two significant gaps remain: firstly, reporting of spending by grant-financed externally funded projects is poor and, secondly, ex-ante reporting within the budget (OE) of anticipated extra-budgetary spending and reporting during budget execution (in the REO) are also deficient. **It is recommended that the focus of attention in this area should be on improving reporting within the OE and within the REOs. In this way, it becomes possible to plan extra-budgetary expenditure in an integrated manner with on-budget expenditure, so as to avoid duplication and ensure greater efficiency.**
	(ii) The details of income, expenditure and financing information on reported extra-budgetary operations (not applicable if EBOs constitute less than 1% of total budgetary expenditure)	**C**		*Ex-post reports in the CGE include reports of revenues and expenditures for most AGAs, as well as the National Institute for Social Security. Most loan funded projects and half of grant funded projects are either fully on budget or at least report ex-post. However, relatively few EBOs are reported upon ex-ante in budgetary documentation.*	
PI-7: Transparency of inter-governmental fiscal relations	(i) Transparent and rules-based systems in the horizontal allocation among SNGs of unconditional and conditional transfers from central government (both budgeted and actual allocations).	**A**	**B**	*The horizontal allocation of transfers for recurrent and investment expenditure from Central Government are fully defined by the "Lei das Financas Autarquicas". Only externally financed allocations fall outside of this framework.*	The mechanisms of financing of the Autarquias are transparent and this is not in general a "problem area" within the PFM system. However, a small change in the timing of MEF's communications to Autarquias regarding the anticipated value of annual transfers from central government would facilitate the process of budgeting at the local level. **Specifically, it is recommended that MEF should formally communicate with Autarquias the anticipated value of their transfers in October at the time when the Executive's budget proposal is tabled in Parliament. This would permit Autarquias to submit more accurate budgets to their local assemblies in November.**
	(ii) Timeliness of reliable information for budget planning to SNGs on their allocations from central government for the coming year	**C**		*The Central Government releases preliminary information in July, which provides the basis for budget preparation by the Autarquias. Updated information on transfers is included in the Executive's Budget Proposal tabled in mid-October before SNG budgets are voted in November. However, the definite amount to be*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				transferred is notified after the CG budget is approved in December. Many Autarquias therefore submit a revised budget to their assemblies in February.	(In the event that decisions by the Assembly of the Republic at the national level altered the level of transfers from the central government, then Autarquias could make budgetary adjustments in February as at present but recent history suggests that in most years this would not be necessary.)
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government	**B**		*The CGE (issued in May each year), provides consolidated information for all Autarquias. Own revenues are not reported, however. Thus 75 -90% of SNG expenditures are reported on a timely basis in a consolidated manner.*	
PI-8: Performance information for achieving efficiency in service delivery	(i) Disclosure, within budget documentation, of key performance indicators and targets for service delivery (coverage measured as percent of service delivery functions financed by central government).	**C**	**C**	*Targets are defined in the PES report which accompanies the Budget Proposal, and these cover education, health, infrastructure and other sectors which together comprise more than 50% of service delivery functions. However, there are inconsistencies in the format in which targets are presented (activities, outputs and outcomes are mixed) and a lack of clarity over measurement methods.*	Now that the mechanisms of budget execution and internal control have improved in Mozambique, it has become possible to place more emphasis on the links between planned expenditures and anticipated results in terms of the outputs and outcomes of service delivery. **It is recommended that a detailed medium-term strategy should be developed to strengthen planning and budgeting and to improve the focus on results. This would need to include a number of elements, which would impact on performance against several of the PEFA indicators, notably:** - **Strengthening of the process of development of the medium-term fiscal projections and the medium term; fiscal and expenditure strategy of the government.** - **Definition of precise output and outcome targets for the priority sectors, as part of the development of the sectoral CFMPs;** - **Improved guidance on the definition of**
	(ii) Disclosure, within budget documentation, year-end reports or other public documents, of data on the performance results achieved by service delivery functions (in the most recent, completed fiscal year).	**B**		*The Balance of the PES report describes twice a year the status of the implementation of the PES in a format which is comparable with original targets. The sectors covered are estimated to comprise 25-50% of service delivery functions.*	
	(iii) Monitoring of resources received by service delivery units	**D**		*Reports on expenditure by sector are provided at the district level but not at the level of service delivery units (schools, aid posts, etc.).*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				In addition, there are no reports seeking to combine data on financial resources received and in-kind resources received at this level (eg. medicines, text-books.)	**Programme classifications, as a key aspect of the sectoral CFMPs for the priority sectors;** - **Improved definition of the output and outcome indicators to be included in the PES;** - **Improved definition of the sources of information on performance for inclusion in the *Balanço do PES*, and of the associated monitoring and evaluation processes.**
	(iv) Content and coverage of independent performance evaluations (assessing the design, efficiency and effectiveness of service delivery functions or programs)	**C**		*No programme evaluations are routinely undertaken but performance audits are undertaken by IGF and TA. Coverage is less than 25% of service delivery functions but performance audits do include recommendations to improve service delivery.*	
PI-9: Public access to key fiscal information	(i) Quality, timeliness and range of the documents for which public access is provided	**D**		*In-year reports (element 3) are published late (6-7 weeks after quarter end). The TA's audit report on the Annual Accounts is available only 15 months after the reference period. Thus 2 of 4 basic elements are fulfilled.*	It is recommended that steps should be taken to conform to the international standards on public access to information, which are the basis of this indicator. **Two measures would permit the achievement of "quick wins" in this area:** - **Accelerating the preparation of the REOs, so that they are released 4 weeks after the quarter rather than 6 weeks as at present.** - **Making available to the public the Parecer of the Tribunal Administrativo on the CGE at the same time as it is tabled before the Assembly of the Republic (11 months after the close of the fiscal year.)**
PI-10: Fiscal risk management	(i) Extent of central government monitoring of AGAs and PEs	**C**	**C+**	*Most but not all the AGAs and the PEs submit audited annual financial statements to the DNT of MoF or IGEPE. However, there is no consolidated annual report.*	The Authorities have made steady progress since 2010 in the quality of reporting by public enterprises. However, as reported by the IMF in the Fiscal Transparency Report of 2014, significant challenges remain for the identification and management of fiscal risks. Moreover, such risks <u>will tend to</u>
	(ii) Extent of central government monitoring of	**A**		*SNGs report on their revenues, expenditures and balances annually. Moreover, SNGs are*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	SNGs' fiscal position			*not allowed to borrow without MoF approval.*	<u>increase in the medium and long term</u> in line with the development of the Mozambican economy. **Therefore, it is important that the government develop a medium term strategy to strengthen the monitoring of fiscal risks. In the short term, the immediate objective must be to develop an annual <u>Consolidated Fiscal Risk Report</u>, and over the medium term to strengthen the organizational arrangements for the monitoring of fiscal risks by MEF, by the Legislature and by the Tribunal Administrativo. This would involve training and technical support (perhaps by the IMF), as part of a sequenced programme of development of capabilities in this area.**
	(iii) Extent of central government monitoring of explicit contingent liabilities from central government programs and projects	**D**		*Although details of PPPs are included in the CGE, contingent liabilities are not generally reported.*	
PI-11: Public investment management	(i) Objective economic analysis.	**C**	**D+**	*At least one major capital investment project in each of the five major investing UGBs is reviewed by Cabinet, based on economic analysis*	The need to meet the infrastructure needs of a growing economy will require Mozambique to manage a major programme of public investment over the next 10-15 years and this will in turn require the development of the institutional capacity to identify, formulate and implement projects effectively. The introduction of the Integrated Investment Plan (*Programa Integrado de Investimento* - PII) approved in September 2013 by the Council of Ministers has been a first step in this direction. **A medium term strategy is now needed to consolidate this development and strengthen the capabilities of MEF to guide the development of the PII and oversee the efficient implementation of projects. This will certainly involve training and external technical support, as part of a sequenced**
	(ii) Costing over the project life cycle.	**D**		*There is no evidence that the full life cycle costs of projects are discussed in the budgeting process.*	
	(iii) Project monitoring and reporting	**D**		*There is no monitoring database that provides both physical and financial information on major projects.*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
					development of capabilities in this area.
PI-12: Public asset management	(i) Quality of central government financial asset monitoring.	**C**	**C+**	*The registry of Financial Assets is substantially complete and updated. Annual Performance monitoring processes on state ownerships are in place, although the criteria for assessing financial performance are not well-established and reports are not publicly disclosed.*	The legislative and institutional framework for managing the registries of financial assets and of non-financial fixed assets is well established, and these registries have been produced annually since 2012. **Three relatively simple steps would help to strengthen asset management bringing some "quick wins" in this area:** - **the introduction of explicit annual norms for the financial performance (rates of return) of financial assets, (established perhaps as part of the wider process of improving the fiscal risks of the public sector);** - **the systematic disclosure of the annual accounts of all publicly owned financial assets;** - **the upgrading of the annual reporting procedures of DNPE in relation to non-financial fixed assets, so as to report comprehensively on asset operations such as rental or lease of public assets.**
	(ii) Quality of central government non-financial asset monitoring.	**B**		*A comprehensive and substantially complete registry of fixed assets has been produced annually since 2012 as Annex 7 of the CGE. An annual report on non-financial assets is produced by DNPE and is also publicly available. However, the report provides only limited detail on asset operations (rentals, leases, etc.)..*	
	(iii) Transparency in the sale of non-financial assets	**C**		*Procedures for transfer or sale of public assets are clearly defined within the legal framework. Transfers or sales must apply competitive and transparent procedures. However, it is not possible to assess the degree of compliance with these procedures.*	
PI-13: Management and reporting on debt and expenditure arrears	(i) Domestic and foreign debt data recording and reporting.	**A**	**B**	*Debt records are accurate, complete, updated and reconciled monthly with comprehensive reports produced on a quarterly basis, using the CS-DRMS system.*	The management of debt has generally been a relatively strong aspect of the PFM system in Mozambique. **However, there are two weaknesses, which should be corrected in order to bring practices up to the best international standards:** - **firstly, a systematic process should be introduced to track payment arrears during**
	(ii) Systems for contracting loans and issuance of guarantees	**C**		*By law, only the Ministry of Finance can contract loans for Central Government and only MoF can issue guarantees - within a limit set in the annual Budget Law. However, this*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				legislation was overruled in 2014, with the issue of a guarantee for EMATUM for a loan far in excess of the approved guarantee limit. Thus, we conclude that MoF guarantees do not always follow guidelines and given ceilings.	**budget execution and to formally document the value of outstanding payments at year end in the CGE;** - **secondly, in the wake of the EMATUM scandal procedures for the approval of loan guarantees by the central government should be tightened, so as to strengthen the oversight of the Executive's decisions on loan guarantees by either the Legislature or the Tribunal Administrativo.**
	(iii) Preparation of a debt management strategy	**A**		*There is a medium term debt strategy updated every three years and approved by the Minister of Finance. Annual Debt Sustainability Analyses are undertaken to assess the continued viability of the strategy, making annual amendments where necessary.*	
	(iv) Stock and monitoring of expenditure arrears	**D**		*A formal and regular arrears monitoring system does not exist and there is no evidence of ad-hoc analyses of arrears performed in recent years.*	
PI-14: Credible Fiscal Strategy	(i) Formulation of fiscal objectives and strategy.	**D**	**D**	*GFS 2001 specifies that the fiscal strategy should contain at least three core elements that are not present in the CFMP.*	Although the CFMP instrument has been in place for more than a decade, the low scores against this indicator show that there are major deficiencies in respect of the formulation and presentation of medium term fiscal and budget objectives as well as the quality of macroeconomic forecasting. **It is recommended that the Authorities take urgent steps to procure external technical support in order to strengthen the quality of the CFMP and to build up MEF's capabilities in macroeconomic forecasting. Such a programme is likely to include:** - **a review of the current structure of the CFMP, in order to define the steps needed to bring it up the standards specified in the IMF's GFSM 2001 Manual for the formulation and**
	(ii) Preparation and use of macroeconomic forecasts as a basis for annual and medium-term budgets.	**D**		*Macroeconomic assumptions are not explained, and the CFMP does not include risk to debt analysis.*	
	(iii) Difference between actual and the originally forecasted central government fiscal balance	**D**		*The difference between actual Central Government balance and forecast is higher than 2% in two of the last three years*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
					presentation of medium term Fiscal Strategies; - **an analysis of the existing models used for macroeconomic forecasting, with a view to introducing improvements;** - **an analysis of the organisational and institutional arrangements for the formulation, review and finalisation of the CFMP;** - **specification of a short to medium term programme of capacity building in this area.**
PI-15: Revenue budgeting	(i) Medium-term forecasting of revenues.	**D**	**D+**	*Assumptions about how revenue calculations are run are not explained in the CFMP.*	The weaknesses in Revenue Budgeting identified in this indicator derive from the same systemic weaknesses identified under PI-14. **The recommended actions to strengthen the quality of the CFMP and to build up MEF's capabilities in macroeconomic forecasting should also generate a positive impact on performance with respect to this indicator.**
	(ii) Assessment of the fiscal impact of proposed policy changes.	**D**		*Impacts of Policy changes and related assumptions are not described in any document (CFMP/ OE / PES)*	
	(iii) Variance in revenue composition during the last three years	**B**		*Variance in revenue composition was: 11,3%, 9,4% and 7.9% in 2012, 2013 and 2014 respectively. Thus, there is a deviation of less than 10% in two out of three fiscal years.*	
PI-16: Medium-term perspective in expenditure budgeting	(i) Coverage and content of sector strategies	**D**	**D**	*Sector strategies are not fully costed for most sectors/ institutions. When fully costed, there is not a clear link between these and the CFMP ceilings.*	Again, the weaknesses in medium-term expenditure budgeting identified in this indicator derive largely from the same systemic weaknesses identified under PI-14, although they also reflect the prevailing limitations in capacity for medium-term expenditure budgeting at the sectoral and institutional levels. **Improvements in this area will require in the short term a process of strengthening capabilities at the**
	(ii) Reconciliation of top-down and bottom-up approaches in the medium-term budget framework	**D**		*The total ceilings published in the CFMP 2014-2016 are not comprehensive (just for Goods and Services and Internally financed Capital Expenditure items). There is no documentation of how the process of*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				reconciliation is made.	**central level to formulate and monitor the CFMP, in line with the capacity-building strategy outlined above. As capabilities are built up at the central level, MEF will then need to roll out a programme to strengthen the sectoral and institutional inputs into the CFMP.**
	(iii) Links between medium-term framework and annual budgets	**D**		*Second year ceiling of CFMP at aggregate level varies significantly. Current Spending: 105%, Capital Spending: 127%, Domestic Revenue: 114%, Grants: 77%*	
PI-17: Orderliness and participation in the annual budget preparation process	(i) Existence of and adherence to a fixed budget calendar.	**A**	**B+**	*The Budget Calendar is fixed in advance, widely disseminated to all UGBs and it is fully respected for the budget formulation process.*	An orderly framework for the annual Budget formulation process has been in place for a number of years, follows good international practice and is well institutionalized. The only factor that has prevented this indicator from being scored an "A" overall is the fact that the 2015 Budget (OE) was passed only in April 2015, well after the start of the fiscal year. This was due to the fact that national elections were held in October-November 2014 and the process of formulation of the budget was postponed until the new Administration could be nominated.
	(ii) Clarity/ comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	**A**		*Budget ceilings are approved by Cabinet and there is a dissemination process that informs all UGBs in a timely and comprehensive manner of their ceilings through written guidelines and through ceilings incorporated in the formulation module (MEO) of e-SISTAFE.*	
	(iii) Timely submission of the annual budget proposal to the legislature or similarly mandated body (within the last three years).	**C**		*The Prime Minister submits the Budget proposal by September 30th (3 months before the beginning of the FY). This has been respected for two of the last three years, the exception being the fiscal year 2015, which followed national elections, when the budget proposal was submitted after the start of the fiscal year.*	
PI-18: Legislative scrutiny of the annual budget law	(i) Scope of the legislature's scrutiny.	**B**	**C+**	*The Legislature's review covers fiscal policy and aggregates for the coming year as well as details of expenditure and revenue but not a review of the medium term framework (CFMP).*	Procedures for the Legislative scrutiny of the Executives' Budget proposal are also well established and generally follow international good practice. **There is one significant area of weakness, which could**
	(ii) Extent to which the	**B**		*The process of Budget scrutiny is based on*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	legislature's procedures are well-established and respected.			*clearly defined and respected procedures, which are firmly established. However, no technical support is provided to the Parliamentary commissions.*	**be strengthened through simple procedural changes: the medium term revenue and expenditure framework (CFMP) does not formally fall within the requirements for the Legislature's review of budget document. International good practice suggests that it should be a formal part of this review process.** Such a measure would bring the additional advantage of giving greater prominence to the CFMP, and as a consequence to the efforts (which have been recommended above) to strengthen its formulation and management.
	(iii) Timeliness of budget proposal approval.	C		*The Legislature approved the annual budget before the start of the fiscal year in two out of three FY but not in FY2015, when approval was nearly 4 months after the start of the FY.*	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	B		*Budget Law allows the Executive to reallocate resources within the total budget limits approved by the Assembly. Although Executive discretion is high, rules governing amendments are clear and respected and all amendments are fully reported.*	
PI-19: Revenue administration compliance	(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government.	A	C+	*The ATM is the only entity managing revenues. Legal information on tax obligations and rights of taxpayers and on tax procedures are clear, comprehensive and easy to access.*	The ATM has been successful in steadily raising annual revenue collections in Mozambique and is certainly one of the more efficient revenue administrations in Sub-Saharan Africa. However, the PEFA methodology benchmarks performance against the best international standards and this PEFA assessment – in common with the recent diagnostic review following the TADAT methodology - has demonstrated that there remain a number of areas where operational improvements are needed. **We understand that the ATM are in the process of preparing a formal management response to the findings of the TADAT diagnostic. Among the actions proposed in the response of the ATM management should be:**
	(ii) Management of risks to revenue.	C		*The ATM has a risk analysis and risk management system, as well as fiscal intelligence processes implemented at national and provincial levels. However, some detail is lacking in terms of the analysis of specific risks for particular types of tax payers.*	
	(iii) Audit and fraud investigation practices (including penalties) to achieve planned outputs in	C		*The ATM Annual Report shows that a risk-based audit and investigation plan is developed each year covering the full range of revenue collection functions of the ATM.*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	terms of coverage and additional revenue.			*However, in one out of the last three years, the planned outputs of the audit plan were not achieved.*	- **measures to reduce the current level of revenue arrears and to prevent the build-up of arrears in future;** - **measures to improve the design of the risk analysis and risk management system;** - **measures to expand audit and investigation activity and to ensure that audit plans are completed as planned.**
	(iv) Management of revenue arrears	**D**		*At the end of 2014 the revenue arrears were Mt 3649 million, equivalent to 2.34 % of revenue collections (excluding windfall capital gains taxes). Moreover, over 75% of tax arrears were more than 12 months old.*	
PI-20: Accounting for revenues	(i) Coverage and timeliness of revenue information collected by the Ministry of Finance.	**A**	**B+**	*The revenues collected by the ATM are recorded into e-SISTAFE daily. Reconciliations with the DNT are monthly.*	The processes of accounting for revenues and for transferring revenue payments to the CUT work well and no significant improvements in this area appear to be needed.
	(ii) Effectiveness of transfer of revenue collections to the Treasury or other designated agencies.	**B**		*Revenue collections are transferred to the CUT daily but some small amounts collected in provinces are transferred weekly.*	
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears records and receipts by the Treasury or other designated agencies.	**A**		*The ATM reconcile every month at the beginning of the month: assessments, collections, arrears and transfers to the CUT.*	
PI-21: Predictability in the availability of funds to support service delivery	(i) Extent and frequency of consolidation of the central government's cash balances.	**C**	**B**	*CUT cash balances are consolidated daily, but consolidation with the other bank accounts are monthly (bank statements are received on the 15th of the month)*	The process of cash management and of commitment control works well and gives the UGBs a high level of predictability in the planning and management of expenditure. The major factor reducing the score against this indicator is the frequency of amendments to budget appropriations during the execution process. Although budget amendments are made transparently and in line with the prevailing
	(ii) Extent to which cash flows are forecast and monitored.	**A**		*Cash flow is prepared annually, revised monthly and updated weekly by the DNT.*	
	(iii) Reliability and horizon of periodic in-year information	**B**		*The annual Cash plan is prepared at the beginning of the year with details by month. It*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	to MDAs on ceilings for expenditure commitment.			*includes quarterly commitment ceilings, which may be updated at the request of the MDAs subject to availability of cash and levels of accumulated commitments.*	legislation, frequent changes in budgets during the execution process undermine predictability, making the planning of procurements and other expenditures less effective, with negative effects on overall value for money.
	(iv) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	C		*Adjustments to budget allocations are frequent, but they are undertaken within the mandates of the relevant legislation and regulations and are undertaken in a fully transparent manner.*	**While the root cause of the problem almost certainly relates to weaknesses in budget formulation at the institutional level, consideration might be given by the Authorities to limiting the scope for making budget amendments in-year, as a way of creating an incentive to improve budget formulation**. (For example, the timing of budget amendments might be limited to two specific points in the year at the end of the second and third quarters.)
PI-22: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between approved staff lists, personnel records and payroll data.	B	B	*Approved staff list, personnel database and payroll are directly linked to ensure budget control, data consistency and monthly reconciliation. However, a minority of public servants are not yet on this system and manual systems must be used for verification of salary payments.*	The steady expansion of the coverage of e-CAFE and e-FOLHA has strengthened the effectiveness of payroll controls. In combination with the efforts made by IGF to undertake frequent payroll audits, this has served to generate a strong score against this indicator. **The only recommendation is simply to continue with the process of development of e-CAFE and e-FOLHA and to ensure that payroll audits continue to be undertaken regularly by IGF and that adequate follow-up to the recommendations of these audits is made by IGF and the institutions audited.**
	(ii) Timeliness of changes to personnel records and the payroll.	B		*The system requires the prior approval and processing of any changes to personnel records before payroll adjustments may be made. This process is normally completed in less than 3 months. There are a small number of retroactive payroll changes as a consequence.*	
	(iii) Internal controls of changes to personnel records and the payroll.	B		*Authority for changes is clearly defined and respected and ensures a high level of data integrity, although certain manual processes*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				may not generate a complete audit trail.	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**B**		*Entity-specific payroll audits are conducted frequently by IGF. The coverage of central government entities is not complete in any single year but the data suggest that in a period of three years, the number of entity-specific audits is sufficient to cover all central government entities..*	
PI-23: Transparency, competition and complaint mechanisms in procurement	(i) Monitoring the efficiency and effectiveness of the procurement system.	**D**	**D+**	*Since 2013 procurement records are centralized through e-SISTAFE which records basic information, but not contract performance data. UFSA monitors the procurement system and produces general statistics on procurement but its coverage is not complete because authority for procurement is decentralised. Moreover, it does not monitor actual procurement processes against procurement plans.*	Despite the efforts made to reform the national procurement system and the genuine improvements that have resulted from these reforms, this remains one of the weaker aspects in the control of public expenditures. In particular, it remains the case that over 50% by value of public acquisitions are procured by direct bidding (*ajuste direto*). Moreover, several significant aspects of the process of public procurement are not fully open to the public, for example annual procurement plans are not all published and there is no requirement for publication of awards made by non-competitive procedures. It is not fully clear to the PEFA assessment team exactly why reforms are failing to impact on these areas. One potential problem is that with responsibilities for procurement decentralised, the UFSA team are unable to exercise control over some of these key areas. **We recommend a detailed review of the existing programme of procurement reforms to be undertaken by UFSA and DNPE with the support of CEDSIF, of external technical assistance and, if possible, of IGF. This should specifically identify**
	(ii) Use of competitive procurement methods.	**D**		*UFSA statistics show that in 2014 67.6.% of processes did not apply competitive methods. The amount acquired by direct contracting methods was equivalent to nearly 53.% of all the registered purchases.*	
	(iii) Public access to complete, reliable and timely procurement information.	**D**		*Elements 2, 4 and 5 are not published. Regarding element 4, Most competitive tender awards are published but non-competitive purchases are not required to be published.*	
	(iv) Effectiveness of an independent administrative procurement complaint	**A**		*Based on the legal provisions of the current legislation, the evaluators' assessment of the existing complaints system in comparison with the requirements specified in the 2015*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	system			*methodology is that the 6 necessary elements are fulfilled.*	**actions that might help to correct the shortcomings identified through this indicator**.
PI-24: Effectiveness of internal controls for non-salary expenditure	(i) Segregation of duties.	**A**	**A**	*All functions related to financial processes are clearly defined in MAF and are implemented by budget entities because all e-SISTAFE operations require different levels of approvals and responsibilities for each transaction.*	With the steady expansion of the e-SISTAFE system, the quality of controls for non-salary expenditure has now reached a level consistent with good international practise. All that is required is for controls to continue to be effectively applied.
	(ii) Effectiveness of expenditure commitment controls.	**B**		*The level of commitments is limited in the e-SISTAFE by the level of budget allocations and the in-year credit limits. These controls work in the majority of cases but it is possible to make either premature or delayed commitments, which reduces the efficiency of these controls.*	
	(iii) Compliance with systems of control for making payments	**A**		*With the exception of projects implemented off-budget, only a small minority of transactions financed from own funds are processed outside e-SISTAFE, although these are subsequently regularized and recorded in the system. Moroever, over 90% of non-salary recurrent expenditures are paid from the CUT utlising the e-SISTAFE system.*	
PI-25: Effectiveness of internal audit	(i) Coverage of the internal audit function.	**A**	**C+**	*IGF is the entity responsible for internal audit in the whole public sector, excluding financial sector public enterprises. Audits are organised according to a risk-based methodology in which all central government institutions are subject to audit in a period of 3 years.*	IGF has steadily strengthened its capabilities and increased its effectiveness since the 2010 PEFA. Ongoing efforts to strengthen staff capabilities and to improve the range of internal audits need to be continued. **In addition, it is recommended that increased attention should be given to two specific areas:**
	(ii) Implementation of audits	**A**		*In 2014 IGF carried out 233 audit processes*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	and distribution of reports (percentages quoted refer to the average rate of completion of audit plans for all audited entities).			*from 255 planned (91,4%). Audit reports are submitted to the audited entities and MEF, as well as to the Tribunal Administrativo..*	- **firstly, the quality of follow to IGF recommendations both by the entities audited and by the IGF itself needs to be strengthened. An implementation rate of recommendations of only slightly more than 50 % is not adequate.** - **Secondly, as capabilities are built up within IGF the focus of audit attention needs to shift from specific components of internal control (e.g payroll management) to the assessment of the effectiveness within the entities audited of the internal control system as a whole.**
	(iii) Extent of management response to internal audit findings.	C		*IGF statistics shows that from 5357 recommendations issued on 2014, 2754 were implemented (51.4%)*	
	(iv) Nature of audit performed and adherence to professional standards	C		*IGF Internal Audit processes focus primarily on financial issues (salaries, procurement, pensions, taxes and customs). Internal controls are examined but the internal control system is not the primary focus.*	
PI-26: Accounts reconciliation and financial data integrity	(i) Regularity of bank reconciliation.	B	B	*CUT is reconciled daily, but other bank accounts are reported by the entities every 15th day of the month and reconciled monthly.*	The processes of reconciliation of bank accounts and of assurance of financial data integrity have been steadily improved as the development and roll-out of e-SISTAFE has proceeded. No additional reform actions appear to be needed in this area.
	(ii) Regularity of reconciliation and clearance of suspense accounts.	D		*Suspense accounts are cleared and reconciled annually, as part of the preparation of the CGE report in the first half of year. Some accounts linked to off-budget investment projects are not cleared.*	
	(iii) Regularity of reconciliation and clearance of advance accounts.	B		*Advance accounts are normally cleared on a monthly basis, but there are occasional delays, meaning that advances may remain uncleared for a full quarter.*	
	(iv) Processes supporting financial data integrity	A		*Data integrity of e-SISTAFE is high. There are rules restricting access to records and changes, and a systematic structure of automated controls.*	
PI-27: Quality	(i) Coverage and	A	C+	*Coverage and classification of reports allows*	In-year reporting through the quarterly REOs has been one

<table>
<tr><th>Indicator (2015 Methodology)</th><th>Dimension Assessed</th><th colspan="2">2015 Score</th><th>Justification for Scoring assigned</th><th>Potential implications for PFM Reforms</th></tr>
<tr><td rowspan="3">and timeliness of in-year budget reports</td><td>comparability of reports.</td><td></td><td rowspan="3"></td><td>direct comparison with the original budget including for deconcentrated units.</td><td rowspan="3">of the strong features of Mozambique's PFM system for a number of years.
With the development of e-SISTAFE and the gradual strengthening of financial management skills within central government, the Authorities are now in a position to make two changes to the REO system which would bring it up to the best international standards:
- firstly, the preparation of the REO should be accelerated so that reports are released 4 weeks after the end of the quarter rather than 6 weeks as at present;
- secondly, disaggregated reports on commitments by UGB and ideally by Programme, where relevant , should be included in the REOs.</td></tr>
<tr><td>(ii) Timeliness of the issue of reports.</td><td>C</td><td>Reports are prepared quarterly and issued 6 to 7 weeks (45 days) from the end of the reported period.</td></tr>
<tr><td>(iii) The quality of the information contained in the reports.</td><td>B</td><td>Information is consistent and of high quality but commitments are only covered at the aggregate level.</td></tr>
<tr><td rowspan="3">PI-28: Quality and timeliness of annual financial reports</td><td>(i) Completeness of the financial reports.</td><td>B</td><td rowspan="3">B</td><td>CGE do not provide full information of financial liabilities. Some minor revenues are not reported. Tax refunds are also not mentioned.</td><td rowspan="3">The quality of end-of-year financial reporting through the CGE has also improved steadily since the 2010 PEFA.

The on-going efforts to expand the coverage of the CGE and to raise accounting standards need to be continued, giving particular attention to improving the coverage of assets and liabilities within the CGE, in line with the steps to improve the monitoring of fiscal risks, which have been recommended above.</td></tr>
<tr><td>(ii) Timeliness of submission of the financial reports.</td><td>B</td><td>CGE is submitted to external audit at the end of May every year. (5 months after the close of the year)</td></tr>
<tr><td>(iii) Transparency, completeness and consistency of accounting standards applied</td><td>B</td><td>Accounting standards used in the CGE are consistent with those defined in SISTAFE regulations and more recently in the MAF. The accounting improvements and new standards which have been adopted since 2014 are close to IPSAS norms and could be considered comparable with those norms.</td></tr>
</table>

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
PI-29: SAI Independence and external audit of the government's annual financial reports.	(i) Coverage and auditing standards of audit performed.	C	D+	*External audits are undertaken according to ISSAI standards and on the bass of a simple risk assessment procedure. The coverage of total value of audited expenditure and revenue was above 50% on average in the last 3 FY.*	The processes of external audit and control managed by the Tribunal Administrativo have also steadily improved since the PEFA assessment of 2010. **It is recommended that the TA and the Government should give specific attention to introducing improvements in two areas:** - **strengthening the quality of follow-up by the TA of the recommendations made in its audits of government institutions through the introduction of new follow up procedures and through a more systematic monitoring of the implementation of recommendations; and** - **creating a funding and budgetary management framework for the TA, which would grant it budgetary independence from the Executive.**
	(ii) Timeliness of submission of audit reports to Legislature on the government's financial reports.	A		*Audit reports are submitted within 6 months from reception of the CGE from Executive.*	
	(iii) Evidence of follow up on audit recommendations or observations by the executive or audited entity.	D		*Although in a significant number of audits, follow up on implementation of TA recommendations is made by IGF or TA, there is no systematic process to ensure follow up by the Executive or the audited entity in all cases.*	
	(iv) Independence of the SAI and access to information	D		*TA has no budgetary independence, and this hinders significantly the TA performance.*	
PI-30: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	C	D+	*Scrutiny of audit reports regarding the annual accounts (CGE) has been completed by the Legislature between 3 and 6 months from the receipt of the TA reports on the CGE.*	The attention given by the Legislature to the CGE and to the Parecer of the TA on the CGE has always been less intense than the attention given to the Legislative review of the Executive's budget proposal. **Three simple measures could be taken by the Legislature to improve the quality of scrutiny of the TA's Parecer on the CGE:** - **firstly, in-depth public hearings should be undertaken involving MEF, the TA and other government bodies mentioned in the TA's parecer;** - **secondly, committee reports on these in-**
	(ii) Extent of hearings on key findings undertaken by the legislature.	D		*There is no evidence of in-depth public hearings about audit key findings that involves both the TA and the audited entity*	
	(iii) Issuance of recommended actions by the legislature and follow up of implementation.	B		*The Legislature issues recommendations to be implemented by the Executive and undertakes a follow up to these recommendations. However, this follow up process is not fully rigorous and systematic.*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score	Justification for Scoring assigned	Potential implications for PFM Reforms
	(iv) Transparency of the legislative scrutiny function	D	*Committee reports are not published on an official website.*	**depth hearings should be published on the web-site of the AR; and** - **thirdly, the committee should systematically monitor implementation by the Executive of its recommendations from the previous year, questioning MEF and other government entities on the implementation of these recommendations and reporting the results in its committee report.**

Matrix of PEFA Scores (applying 2015 methodology) and corresponding implications for PFM Reforms

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
PI-1: Aggregate Expenditure Outturn compared to original approved Budget	Out-turn of primary expenditure (total expenditure less debt servicing) as compared with original approved Budget	**B**		*Aggregate expenditure out-turn (without debt amortization but including interest on debts) was 104.3% in 2013 and 94.8% in 2014.*	In most years, the Authorities have managed to ensure that aggregate expenditure is close to the level initially approved in the Budget (OE). Minor problems have arisen in recent years in estimating the value and timing of receipts of Capital Gains Taxes but, overall, control of aggregate expenditure against Budget has been effective.
PI-2: Composition of expenditure out-turn compared to original approved budget	(i) Extent of the variance in expenditure composition during the last 3 years, excluding contingency items, and interest on the debt.	**D**	**D+**	*Variance in expenditure composition by Vote was 39.8%in 2012; 40.1%in 2013 and 58.1%in 2014.*	Mozambique has had consistent problems over several years in achieving accurate budgeting at the institutional/ agency level. This is a significant concern because when the composition of expenditure varies considerably from the original budget, the budget is no longer a useful statement of intent with regard to government spending. Moreover, frequent changes in budgets during the execution process undermine predictability, making the planning of procurements and other expenditures less effective, with negative effects on overall value for money. **This problem derives from inefficiencies in the budget formulation process at the institutional level, which in turn reflects weaknesses in medium term budgeting at the central level. Actions by MEF to strengthen the CFMP and to improve the scrutiny of the preliminary budget proposals prepared by ministries, departments and agencies should help to correct this problem.**
	(ii) Extent of the variance in expenditure composition by economic classification during the last three years including interest on the debt but excluding contingency items.	**C**		*Variance in expenditure composition by economic classification 12,1% in 2012; 18,7% in 2013 and 9,5% in 2014.*	
	(iii) The average amount of expenditure charged to a contingency vote over the last three years	**A**		*No expenditures have been charged directly to the contingency vote but rather to the budget lines, to which the contingency budget has been reallocated.*	
PI-3: Aggregate Revenue Out-	(i) Actual revenue compared to that provided for in the	**A**		*97 % in 2012; 117 % in 2013 and 102 % in 2014, thus the revenue out-turn was*	Despite some problems arising in recent years in the accurate forecasting of the value and timing of receipts of Capital

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
turn compared to original approved Budget	originally approved budget.			*between 97 & 106% in 2 out of the 3 years.*	Gains Taxes, the Authorities forecasts of revenue have been close to actual levels of revenue collection.
PI-4: Classification of the budget	(i) Extent to which the classification system used for formulation, execution and reporting of the central government's budget is consistent with international standards	C		*The economic classification presented in the budget and financial reports does not follow GFS, although it is compatible. Functional classification is only correctly applied for 10 functions but not for the 69 sub-functions of COFOG.*	Given the importance of externally funded projects within the investment budget and the difficulties of separating capital from recurrent items within these projects, the GoM's 'ad hoc' approach to the application of economic classifiers is a pragmatic response to this problem and there is no reason to change it. **The Authorities have rightfully placed emphasis on the development of Programmatic classifiers and it would be advisable to continue with this approach, focussing initially on a limited number of high priority ministries and institutions.**
PI-5: Comprehensiveness of information included in budget documentation	(i) Share of the above-listed information in the executive's annual budget proposals most recently issued by the central government	D		*Budget documentation does not include all 4 basic elements; in particular, data on past year expenditure and on current year estimates (elements 2 and 3) are not presented in the same format as the estimates in the budget proposal.* *An explicit Forecast of the fiscal deficit or surplus is not presented (element 1).*	It is important for purposes of accountability and transparency that the information presented in the Executive's Budget Proposal should be as comprehensive and clear as possible. **It is recommended that MEF should carefully analyse the existing formats and procedures for the presentation of Budget (OE) information to the Legislature so as to conform to the international norms incorporated in the PEFA methodology. This should be a high priority within the PFM Reform Programme, from which "quick wins" in the quality of PFM transparency can be achieved.**
PI-6: Extent of	(i) The level of extra-budgetary operations	B	C+	*Unreported EBOs are estimated to be 1-5 % of total expenditure, the most prominent items*	Ex-post reporting (in the CGE) of the extra-budgetary

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
reporting on extra-budgetary operations (EBOs).	(revenue and expenditure) which is unreported, i.e. not included in ex-ante and ex-post fiscal reports.			*being unreported expenditures from externally financed projects. However, the revenue & expenditure of the National Institute for Social Security is reported in the CGE and, in general, ex-post reporting on AGAs is good. There are also indications that reporting of expenditures from 'own revenues' is improving.*	operations of central government has improved significantly since 2010, particularly with regard to reporting of use of own revenues ('*receitas propias*') and expenditure by semi-autonomous government agencies. However, two significant gaps remain: firstly, reporting of spending by grant-financed externally funded projects is poor and, secondly, ex-ante reporting within the budget (OE) of anticipated extra-budgetary spending and reporting during budget execution (in the REO) are also deficient. **It is recommended that the focus of attention in this area should be on improving reporting within the OE and within the REOs. In this way, it becomes possible to plan extra-budgetary expenditure in an integrated manner with on-budget expenditure, so as to avoid duplication and ensure greater efficiency.**
	(ii) The details of income, expenditure and financing information on reported extra-budgetary operations (not applicable if EBOs constitute less than 1% of total budgetary expenditure)	**C**		*Ex-post reports in the CGE include reports of revenues and expenditures for most AGAs, as well as the National Institute for Social Security. Most loan funded projects and half of grant funded projects are either fully on budget or at least report ex-post. However, relatively few EBOs are reported upon ex-ante in budgetary documentation.*	
PI-7: Transparency of inter-governmental fiscal relations	(i) Transparent and rules-based systems in the horizontal allocation among SNGs of unconditional and conditional transfers from central government (both budgeted and actual allocations).	**A**	**B**	*The horizontal allocation of transfers for recurrent and investment expenditure from Central Government are fully defined by the "Lei das Financas Autarquicas". Only externally financed allocations fall outside of this framework.*	The mechanisms of financing of the Autarquias are transparent and this is not in general a "problem area" within the PFM system. However, a small change in the timing of MEF's communications to Autarquias regarding the anticipated value of annual transfers from central government would facilitate the process of budgeting at the local level. **Specifically, it is recommended that MEF should formally communicate with Autarquias the anticipated value of their transfers in <u>October</u> at the time when the Executive's budget proposal is tabled in Parliament. This would permit Autarquias to submit more accurate budgets to their local assemblies in November.**
	(ii) Timeliness of reliable information for budget planning to SNGs on their allocations from central government for the coming year	**C**		*The Central Government releases preliminary information in July, which provides the basis for budget preparation by the Autarquias. Updated information on transfers is included in the Executive's Budget Proposal tabled in mid-October before SNG budgets are voted in November. However, the definite amount to be*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				transferred is notified after the CG budget is approved in December. Many Autarquias therefore submit a revised budget to their assemblies in February.	(In the event that decisions by the Assembly of the Republic at the national level altered the level of transfers from the central government, then Autarquias could make budgetary adjustments in February as at present but recent history suggests that in most years this would not be necessary.)
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government	**B**		*The CGE (issued in May each year), provides consolidated information for all Autarquias. Own revenues are not reported, however. Thus 75 -90% of SNG expenditures are reported on a timely basis in a consolidated manner.*	
PI-8: Performance information for achieving efficiency in service delivery	(i) Disclosure, within budget documentation, of key performance indicators and targets for service delivery (coverage measured as percent of service delivery functions financed by central government).	**C**	**C**	*Targets are defined in the PES report which accompanies the Budget Proposal, and these cover education, health, infrastructure and other sectors which together comprise more than 50% of service delivery functions. However, there are inconsistencies in the format in which targets are presented (activities, outputs and outcomes are mixed) and a lack of clarity over measurement methods.*	Now that the mechanisms of budget execution and internal control have improved in Mozambique, it has become possible to place more emphasis on the links between planned expenditures and anticipated results in terms of the outputs and outcomes of service delivery. **It is recommended that a detailed medium-term strategy should be developed to strengthen planning and budgeting and to improve the focus on results. This would need to include a number of elements, which would impact on performance against several of the PEFA indicators, notably:** - **Strengthening of the process of development of the medium-term fiscal projections and the medium term; fiscal and expenditure strategy of the government.** - **Definition of precise output and outcome targets for the priority sectors, as part of the development of the sectoral CFMPs;** - **Improved guidance on the definition of**
	(ii) Disclosure, within budget documentation, year-end reports or other public documents, of data on the performance results achieved by service delivery functions (in the most recent, completed fiscal year).	**B**		*The Balance of the PES report describes twice a year the status of the implementation of the PES in a format which is comparable with original targets. The sectors covered are estimated to comprise 25-50% of service delivery functions.*	
	(iii) Monitoring of resources received by service delivery units	**D**		*Reports on expenditure by sector are provided at the district level but not at the level of service delivery units (schools, aid posts, etc.).*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
		C		*In addition, there are no reports seeking to combine data on financial resources received and in-kind resources received at this level (eg. medicines, text-books.)*	**Programme classifications, as a key aspect of the sectoral CFMPs for the priority sectors;** - **Improved definition of the output and outcome indicators to be included in the PES;** - **Improved definition of the sources of information on performance for inclusion in the *Balanço do PES*, and of the associated monitoring and evaluation processes.**
	(iv) Content and coverage of independent performance evaluations (assessing the design, efficiency and effectiveness of service delivery functions or programs)	**C**		*No programme evaluations are routinely undertaken but performance audits are undertaken by IGF and TA. Coverage is less than 25% of service delivery functions but performance audits do include recommendations to improve service delivery.*	
PI-9: Public access to key fiscal information	(i) Quality, timeliness and range of the documents for which public access is provided	**D**		*In-year reports (element 3) are published late (6-7 weeks after quarter end). The TA's audit report on the Annual Accounts is available only 15 months after the reference period. Thus 2 of 4 basic elements are fulfilled.*	It is recommended that steps should be taken to conform to the international standards on public access to information, which are the basis of this indicator. **Two measures would permit the achievement of "quick wins" in this area:** - **Accelerating the preparation of the REOs, so that they are released 4 weeks after the quarter rather than 6 weeks as at present.** - **Making available to the public the Parecer of the Tribunal Administrativo on the CGE at the same time as it is tabled before the Assembly of the Republic (11 months after the close of the fiscal year.)**
PI-10: Fiscal risk management	(i) Extent of central government monitoring of AGAs and PEs	**C**	**C+**	*Most but not all the AGAs and the PEs submit audited annual financial statements to the DNT of MoF or IGEPE. However, there is no consolidated annual report.*	The Authorities have made steady progress since 2010 in the quality of reporting by public enterprises. However, as reported by the IMF in the Fiscal Transparency Report of 2014, significant challenges remain for the identification and management of fiscal risks. Moreover, such risks will tend to
	(ii) Extent of central government monitoring of	**A**		*SNGs report on their revenues, expenditures and balances annually. Moreover, SNGs are*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	SNGs' fiscal position			*not allowed to borrow without MoF approval.*	<u>increase in the medium and long term</u> in line with the development of the Mozambican economy. **Therefore, it is important that the government develop a medium term strategy to strengthen the monitoring of fiscal risks. In the short term, the immediate objective must be to develop an annual <u>Consolidated Fiscal Risk Report</u>, and over the medium term to strengthen the organizational arrangements for the monitoring of fiscal risks by MEF, by the Legislature and by the Tribunal Administrativo. This would involve training and technical support (perhaps by the IMF), as part of a sequenced programme of development of capabilities in this area.**
	(iii) Extent of central government monitoring of explicit contingent liabilities from central government programs and projects	**D**		*Although details of PPPs are included in the CGE, contingent liabilities are not generally reported.*	
PI-11: Public investment management	(i) Objective economic analysis.	**C**	**D+**	*At least one major capital investment project in each of the five major investing UGBs is reviewed by Cabinet, based on economic analysis*	The need to meet the infrastructure needs of a growing economy will require Mozambique to manage a major programme of public investment over the next 10-15 years and this will in turn require the development of the institutional capacity to identify, formulate and implement projects effectively. The introduction of the Integrated Investment Plan (*Programa Integrado de Investimento* - PII) approved in September 2013 by the Council of Ministers has been a first step in this direction. **A medium term strategy is now needed to consolidate this development and strengthen the capabilities of MEF to guide the development of the PII and oversee the efficient implementation of projects. This will certainly involve training and external technical support, as part of a sequenced**
	(ii) Costing over the project life cycle.	**D**		*There is no evidence that the full life cycle costs of projects are discussed in the budgeting process.*	
	(iii) Project monitoring and reporting	**D**		*There is no monitoring database that provides both physical and financial information on major projects.*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
					development of capabilities in this area.
PI-12: Public asset management	(i) Quality of central government financial asset monitoring.	**C**	**C+**	*The registry of Financial Assets is substantially complete and updated. Annual Performance monitoring processes on state ownerships are in place, although the criteria for assessing financial performance are not well-established and reports are not publicly disclosed.*	The legislative and institutional framework for managing the registries of financial assets and of non-financial fixed assets is well established, and these registries have been produced annually since 2012. **Three relatively simple steps would help to strengthen asset management bringing some "quick wins" in this area:** - **the introduction of explicit annual norms for the financial performance (rates of return) of financial assets, (established perhaps as part of the wider process of improving the fiscal risks of the public sector);** - **the systematic disclosure of the annual accounts of all publicly owned financial assets;** - **the upgrading of the annual reporting procedures of DNPE in relation to non-financial fixed assets, so as to report comprehensively on asset operations such as rental or lease of public assets.**
	(ii) Quality of central government non-financial asset monitoring.	**B**		*A comprehensive and substantially complete registry of fixed assets has been produced annually since 2012 as Annex 7 of the CGE. An annual report on non-financial assets is produced by DNPE and is also publicly available. However, the report provides only limited detail on asset operations (rentals, leases, etc.)..*	
	(iii) Transparency in the sale of non-financial assets	**C**		*Procedures for transfer or sale of public assets are clearly defined within the legal framework. Transfers or sales must apply competitive and transparent procedures. However, it is not possible to assess the degree of compliance with these procedures.*	
PI-13: Management and reporting on debt and expenditure arrears	(i) Domestic and foreign debt data recording and reporting.	**A**	**B**	*Debt records are accurate, complete, updated and reconciled monthly with comprehensive reports produced on a quarterly basis, using the CS-DRMS system.*	The management of debt has generally been a relatively strong aspect of the PFM system in Mozambique. **However, there are two weaknesses, which should be corrected in order to bring practices up to the best international standards:** - **firstly, a systematic process should be introduced to track payment arrears during**
	(ii) Systems for contracting loans and issuance of guarantees	**C**		*By law, only the Ministry of Finance can contract loans for Central Government and only MoF can issue guarantees - within a limit set in the annual Budget Law. However, this*	

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				legislation was overruled in 2014, with the issue of a guarantee for EMATUM for a loan far in excess of the approved guarantee limit. Thus, we conclude that MoF guarantees do not always follow guidelines and given ceilings.	**budget execution and to formally document the value of outstanding payments at year end in the CGE;** - **secondly, in the wake of the EMATUM scandal procedures for the approval of loan guarantees by the central government should be tightened, so as to strengthen the oversight of the Executive's decisions on loan guarantees by either the Legislature or the Tribunal Administrativo.**
	(iii) Preparation of a debt management strategy	**A**		*There is a medium term debt strategy updated every three years and approved by the Minister of Finance. Annual Debt Sustainability Analyses are undertaken to assess the continued viability of the strategy, making annual amendments where necessary.*	
	(iv) Stock and monitoring of expenditure arrears	**D**		*A formal and regular arrears monitoring system does not exist and there is no evidence of ad-hoc analyses of arrears performed in recent years.*	
PI-14: Credible Fiscal Strategy	(i) Formulation of fiscal objectives and strategy.	**D**	**D**	*GFS 2001 specifies that the fiscal strategy should contain at least three core elements that are not present in the CFMP.*	Although the CFMP instrument has been in place for more than a decade, the low scores against this indicator show that there are major deficiencies in respect of the formulation and presentation of medium term fiscal and budget objectives as well as the quality of macroeconomic forecasting. **It is recommended that the Authorities take urgent steps to procure external technical support in order to strengthen the quality of the CFMP and to build up MEF's capabilities in macroeconomic forecasting. Such a programme is likely to include:** - **a review of the current structure of the CFMP, in order to define the steps needed to bring it up the standards specified in the IMF's GFSM 2001 Manual for the formulation and**
	(ii) Preparation and use of macroeconomic forecasts as a basis for annual and medium-term budgets.	**D**		*Macroeconomic assumptions are not explained, and the CFMP does not include risk to debt analysis.*	
	(iii) Difference between actual and the originally forecasted central government fiscal balance	**D**		*The difference between actual Central Government balance and forecast is higher than 2% in two of the last three years*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
					presentation of medium term Fiscal Strategies; - **an analysis of the existing models used for macroeconomic forecasting, with a view to introducing improvements;** - **an analysis of the organisational and institutional arrangements for the formulation, review and finalisation of the CFMP;** - **specification of a short to medium term programme of capacity building in this area.**
PI-15: Revenue budgeting	(i) Medium-term forecasting of revenues.	**D**	**D+**	*Assumptions about how revenue calculations are run are not explained in the CFMP.*	The weaknesses in Revenue Budgeting identified in this indicator derive from the same systemic weaknesses identified under PI-14. **The recommended actions to strengthen the quality of the CFMP and to build up MEF's capabilities in macroeconomic forecasting should also generate a positive impact on performance with respect to this indicator.**
	(ii) Assessment of the fiscal impact of proposed policy changes.	**D**		*Impacts of Policy changes and related assumptions are not described in any document (CFMP/ OE / PES)*	
	(iii) Variance in revenue composition during the last three years	**B**		*Variance in revenue composition was: 11,3%, 9,4% and 7.9% in 2012, 2013 and 2014 respectively. Thus, there is a deviation of less than 10% in two out of three fiscal years.*	
PI-16: Medium-term perspective in expenditure budgeting	(i) Coverage and content of sector strategies	**D**	**D**	*Sector strategies are not fully costed for most sectors/ institutions. When fully costed, there is not a clear link between these and the CFMP ceilings.*	Again, the weaknesses in medium-term expenditure budgeting identified in this indicator derive largely from the same systemic weaknesses identified under PI-14, although they also reflect the prevailing limitations in capacity for medium-term expenditure budgeting at the sectoral and institutional levels. **Improvements in this area will require in the short term a process of strengthening capabilities at the**
	(ii) Reconciliation of top-down and bottom-up approaches in the medium-term budget framework	**D**		*The total ceilings published in the CFMP 2014-2016 are not comprehensive (just for Goods and Services and Internally financed Capital Expenditure items). There is no documentation of how the process of*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				reconciliation is made.	**central level to formulate and monitor the CFMP, in line with the capacity-building strategy outlined above. As capabilities are built up at the central level, MEF will then need to roll out a programme to strengthen the sectoral and institutional inputs into the CFMP.**
	(iii) Links between medium-term framework and annual budgets	**D**		*Second year ceiling of CFMP at aggregate level varies significantly. Current Spending: 105%, Capital Spending: 127%, Domestic Revenue: 114%, Grants: 77%*	
PI-17: Orderliness and participation in the annual budget preparation process	(i) Existence of and adherence to a fixed budget calendar.	**A**	**B+**	*The Budget Calendar is fixed in advance, widely disseminated to all UGBs and it is fully respected for the budget formulation process.*	An orderly framework for the annual Budget formulation process has been in place for a number of years, follows good international practice and is well institutionalized. The only factor that has prevented this indicator from being scored an "A" overall is the fact that the 2015 Budget (OE) was passed only in April 2015, well after the start of the fiscal year. This was due to the fact that national elections were held in October-November 2014 and the process of formulation of the budget was postponed until the new Administration could be nominated.
	(ii) Clarity/ comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	**A**		*Budget ceilings are approved by Cabinet and there is a dissemination process that informs all UGBs in a timely and comprehensive manner of their ceilings through written guidelines and through ceilings incorporated in the formulation module (MEO) of e-SISTAFE.*	
	(iii) Timely submission of the annual budget proposal to the legislature or similarly mandated body (within the last three years).	**C**		*The Prime Minister submits the Budget proposal by September 30th (3 months before the beginning of the FY). This has been respected for two of the last three years, the exception being the fiscal year 2015, which followed national elections, when the budget proposal was submitted after the start of the fiscal year.*	
PI-18: Legislative scrutiny of the annual budget law	(i) Scope of the legislature's scrutiny.	**B**	**C+**	*The Legislature's review covers fiscal policy and aggregates for the coming year as well as details of expenditure and revenue but not a review of the medium term framework (CFMP).*	Procedures for the Legislative scrutiny of the Executives' Budget proposal are also well established and generally follow international good practice. **There is one significant area of weakness, which could**
	(ii) Extent to which the	**B**		*The process of Budget scrutiny is based on*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	legislature's procedures are well-established and respected.			*clearly defined and respected procedures, which are firmly established. However, no technical support is provided to the Parliamentary commissions.*	**be strengthened through simple procedural changes: the medium term revenue and expenditure framework (CFMP) does not formally fall within the requirements for the Legislature's review of budget document. International good practice suggests that it should be a formal part of this review process.** Such a measure would bring the additional advantage of giving greater prominence to the CFMP, and as a consequence to the efforts (which have been recommended above) to strengthen its formulation and management.
	(iii) Timeliness of budget proposal approval.	C		*The Legislature approved the annual budget before the start of the fiscal year in two out of three FY but not in FY2015, when approval was nearly 4 months after the start of the FY.*	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	B		*Budget Law allows the Executive to reallocate resources within the total budget limits approved by the Assembly. Although Executive discretion is high, rules governing amendments are clear and respected and all amendments are fully reported.*	
PI-19: Revenue administration compliance	(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government.	A	C+	*The ATM is the only entity managing revenues. Legal information on tax obligations and rights of taxpayers and on tax procedures are clear, comprehensive and easy to access.*	The ATM has been successful in steadily raising annual revenue collections in Mozambique and is certainly one of the more efficient revenue administrations in Sub-Saharan Africa. However, the PEFA methodology benchmarks performance against the best international standards and this PEFA assessment – in common with the recent diagnostic review following the TADAT methodology - has demonstrated that there remain a number of areas where operational improvements are needed. **We understand that the ATM are in the process of preparing a formal management response to the findings of the TADAT diagnostic. Among the actions proposed in the response of the ATM management should be:**
	(ii) Management of risks to revenue.	C		*The ATM has a risk analysis and risk management system, as well as fiscal intelligence processes implemented at national and provincial levels. However, some detail is lacking in terms of the analysis of specific risks for particular types of tax payers.*	
	(iii) Audit and fraud investigation practices (including penalties) to achieve planned outputs in	C		*The ATM Annual Report shows that a risk-based audit and investigation plan is developed each year covering the full range of revenue collection functions of the ATM.*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	terms of coverage and additional revenue.			*However, in one out of the last three years, the planned outputs of the audit plan were not achieved.*	- **measures to reduce the current level of revenue arrears and to prevent the build-up of arrears in future;** - **measures to improve the design of the risk analysis and risk management system;** - **measures to expand audit and investigation activity and to ensure that audit plans are completed as planned.**
	(iv) Management of revenue arrears	**D**		*At the end of 2014 the revenue arrears were Mt 3649 million, equivalent to 2.34 % of revenue collections (excluding windfall capital gains taxes). Moreover, over 75% of tax arrears were more than 12 months old.*	
PI-20: Accounting for revenues	(i) Coverage and timeliness of revenue information collected by the Ministry of Finance.	**A**	**B+**	*The revenues collected by the ATM are recorded into e-SISTAFE daily. Reconciliations with the DNT are monthly.*	The processes of accounting for revenues and for transferring revenue payments to the CUT work well and no significant improvements in this area appear to be needed.
	(ii) Effectiveness of transfer of revenue collections to the Treasury or other designated agencies.	**B**		*Revenue collections are transferred to the CUT daily but some small amounts collected in provinces are transferred weekly.*	
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears records and receipts by the Treasury or other designated agencies.	**A**		*The ATM reconcile every month at the beginning of the month: assessments, collections, arrears and transfers to the CUT.*	
PI-21: Predictability in the availability of funds to support service delivery	(i) Extent and frequency of consolidation of the central government's cash balances.	**C**	**B**	*CUT cash balances are consolidated daily, but consolidation with the other bank accounts are monthly (bank statements are received on the 15th of the month)*	The process of cash management and of commitment control works well and gives the UGBs a high level of predictability in the planning and management of expenditure. The major factor reducing the score against this indicator is the frequency of amendments to budget appropriations during the execution process. Although budget amendments are made transparently and in line with the prevailing
	(ii) Extent to which cash flows are forecast and monitored.	**A**		*Cash flow is prepared annually, revised monthly and updated weekly by the DNT.*	
	(iii) Reliability and horizon of periodic in-year information	**B**		*The annual Cash plan is prepared at the beginning of the year with details by month. It*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
	to MDAs on ceilings for expenditure commitment.			*includes quarterly commitment ceilings, which may be updated at the request of the MDAs subject to availability of cash and levels of accumulated commitments.*	legislation, frequent changes in budgets during the execution process undermine predictability, making the planning of procurements and other expenditures less effective, with negative effects on overall value for money.
	(iv) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	**C**		*Adjustments to budget allocations are frequent, but they are undertaken within the mandates of the relevant legislation and regulations and are undertaken in a fully transparent manner.*	**While the root cause of the problem almost certainly relates to weaknesses in budget formulation at the institutional level, consideration might be given by the Authorities to limiting the scope for making budget amendments in-year, as a way of creating an incentive to improve budget formulation**. (For example, the timing of budget amendments might be limited to two specific points in the year at the end of the second and third quarters.)
PI-22: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between approved staff lists, personnel records and payroll data.	**B**	**B**	*Approved staff list, personnel database and payroll are directly linked to ensure budget control, data consistency and monthly reconciliation. However, a minority of public servants are not yet on this system and manual systems must be used for verification of salary payments.*	The steady expansion of the coverage of e-CAFE and e-FOLHA has strengthened the effectiveness of payroll controls. In combination with the efforts made by IGF to undertake frequent payroll audits, this has served to generate a strong score against this indicator. **The only recommendation is simply to continue with the process of development of e-CAFE and e-FOLHA and to ensure that payroll audits continue to be undertaken regularly by IGF and that adequate follow-up to the recommendations of these audits is made by IGF and the institutions audited.**
	(ii) Timeliness of changes to personnel records and the payroll.	**B**		*The system requires the prior approval and processing of any changes to personnel records before payroll adjustments may be made. This process is normally completed in less than 3 months. There are a small number of retroactive payroll changes as a consequence.*	
	(iii) Internal controls of changes to personnel records and the payroll.	**B**		*Authority for changes is clearly defined and respected and ensures a high level of data integrity, although certain manual processes*	

Indicator (2015 Methodology)	Dimension Assessed	2015 Score		Justification for Scoring assigned	Potential implications for PFM Reforms
				may not generate a complete audit trail.	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	B		*Entity-specific payroll audits are conducted frequently by IGF. The coverage of central government entities is not complete in any single year but the data suggest that in a period of three years, the number of entity-specific audits is sufficient to cover all central government entities..*	
PI-23: Transparency, competition and complaint mechanisms in procurement	(i) Monitoring the efficiency and effectiveness of the procurement system.	D	D+	*Since 2013 procurement records are centralized through e-SISTAFE which records basic information, but not contract performance data. UFSA monitors the procurement system and produces general statistics on procurement but its coverage is not complete because authority for procurement is decentralised. Moreover, it does not monitor actual procurement processes against procurement plans.*	Despite the efforts made to reform the national procurement system and the genuine improvements that have resulted from these reforms, this remains one of the weaker aspects in the control of public expenditures. In particular, it remains the case that over 50% by value of public acquisitions are procured by direct bidding (*ajuste direto*). Moreover, several significant aspects of the process of public procurement are not fully open to the public, for example annual procurement plans are not all published and there is no requirement for publication of awards made by non-competitive procedures. It is not fully clear to the PEFA assessment team exactly why reforms are failing to impact on these areas. One potential problem is that with responsibilities for procurement decentralised, the UFSA team are unable to exercise control over some of these key areas. **We recommend a detailed review of the existing programme of procurement reforms to be undertaken by UFSA and DNPE with the support of CEDSIF, of external technical assistance and, if possible, of IGF. This should specifically identify**
	(ii) Use of competitive procurement methods.	D		*UFSA statistics show that in 2014 67.6.% of processes did not apply competitive methods. The amount acquired by direct contracting methods was equivalent to nearly 53.% of all the registered purchases.*	
	(iii) Public access to complete, reliable and timely procurement information.	D		*Elements 2, 4 and 5 are not published. Regarding element 4, Most competitive tender awards are published but non-competitive purchases are not required to be published.*	
	(iv) Effectiveness of an independent administrative procurement complaint	A		*Based on the legal provisions of the current legislation, the evaluators' assessment of the existing complaints system in comparison with the requirements specified in the 2015*	

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	system			*methodology is that the 6 necessary elements are fulfilled.*	**actions that might help to correct the shortcomings identified through this indicator**.
PI-24: Effectiveness of internal controls for non-salary expenditure	(i) Segregation of duties.	**A**	**A**	*All functions related to financial processes are clearly defined in MAF and are implemented by budget entities because all e-SISTAFE operations require different levels of approvals and responsibilities for each transaction.*	With the steady expansion of the e-SISTAFE system, the quality of controls for non-salary expenditure has now reached a level consistent with good international practise. All that is required is for controls to continue to be effectively applied.
	(ii) Effectiveness of expenditure commitment controls.	**B**		*The level of commitments is limited in the e-SISTAFE by the level of budget allocations and the in-year credit limits. These controls work in the majority of cases but it is possible to make either premature or delayed commitments, which reduces the efficiency of these controls.*	
	(iii) Compliance with systems of control for making payments	**A**		*With the exception of projects implemented off-budget, only a small minority of transactions financed from own funds are processed outside e-SISTAFE, although these are subsequently regularized and recorded in the system. Moroever, over 90% of non-salary recurrent expenditures are paid from the CUT utlising the e-SISTAFE system.*	
PI-25: Effectiveness of internal audit	(i) Coverage of the internal audit function.	**A**	**C+**	*IGF is the entity responsible for internal audit in the whole public sector, excluding financial sector public enterprises. Audits are organised according to a risk-based methodology in which all central government institutions are subject to audit in a period of 3 years.*	IGF has steadily strengthened its capabilities and increased its effectiveness since the 2010 PEFA. Ongoing efforts to strengthen staff capabilities and to improve the range of internal audits need to be continued. **In addition, it is recommended that increased attention should be given to two specific areas:**
	(ii) Implementation of audits	**A**		*In 2014 IGF carried out 233 audit processes*	

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	and distribution of reports (percentages quoted refer to the average rate of completion of audit plans for all audited entities).			*from 255 planned (91,4%). Audit reports are submitted to the audited entities and MEF, as well as to the Tribunal Administrativo..*	- **firstly, the quality of follow to IGF recommendations both by the entities audited and by the IGF itself needs to be strengthened. An implementation rate of recommendations of only slightly more than 50 % is not adequate.** - **Secondly, as capabilities are built up within IGF the focus of audit attention needs to shift from specific components of internal control (e.g payroll management) to the assessment of the effectiveness within the entities audited of the internal control system as a whole.**
	(iii) Extent of management response to internal audit findings.	C		*IGF statistics shows that from 5357 recommendations issued on 2014, 2754 were implemented (51.4%)*	
	(iv) Nature of audit performed and adherence to professional standards	C		*IGF Internal Audit processes focus primarily on financial issues (salaries, procurement, pensions, taxes and customs). Internal controls are examined but the internal control system is not the primary focus.*	
PI-26: Accounts reconciliation and financial data integrity	(i) Regularity of bank reconciliation.	B	B	*CUT is reconciled daily, but other bank accounts are reported by the entities every 15th day of the month and reconciled monthly.*	The processes of reconciliation of bank accounts and of assurance of financial data integrity have been steadily improved as the development and roll-out of e-SISTAFE has proceeded. No additional reform actions appear to be needed in this area.
	(ii) Regularity of reconciliation and clearance of suspense accounts.	D		*Suspense accounts are cleared and reconciled annually, as part of the preparation of the CGE report in the first half of year. Some accounts linked to off-budget investment projects are not cleared.*	
	(iii) Regularity of reconciliation and clearance of advance accounts.	B		*Advance accounts are normally cleared on a monthly basis, but there are occasional delays, meaning that advances may remain uncleared for a full quarter.*	
	(iv) Processes supporting financial data integrity	A		*Data integrity of e-SISTAFE is high. There are rules restricting access to records and changes, and a systematic structure of automated controls.*	
PI-27: Quality	(i) Coverage and	A	C+	*Coverage and classification of reports allows*	In-year reporting through the quarterly REOs has been one

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and timeliness of in-year budget reports	comparability of reports.			*direct comparison with the original budget including for deconcentrated units.*	of the strong features of Mozambique's PFM system for a number of years. With the development of e-SISTAFE and the gradual strengthening of financial management skills within central government, **the Authorities are now in a position to make two changes to the REO system which would bring it up to the best international standards:** - **firstly, the preparation of the REO should be accelerated so that reports are released 4 weeks after the end of the quarter rather than 6 weeks as at present;** - **secondly, disaggregated reports on commitments by UGB and ideally by Programme, where relevant , should be included in the REOs**.
	(ii) Timeliness of the issue of reports.	**C**		*Reports are prepared quarterly and issued 6 to 7 weeks (45 days) from the end of the reported period.*	
	(iii) The quality of the information contained in the reports.	**B**		*Information is consistent and of high quality but commitments are only covered at the aggregate level.*	
PI-28: Quality and timeliness of annual financial reports	(i) Completeness of the financial reports.	**B**	**B**	*CGE do not provide full information of financial liabilities. Some minor revenues are not reported. Tax refunds are also not mentioned.*	The quality of end-of-year financial reporting through the CGE has also improved steadily since the 2010 PEFA. **The on-going efforts to expand the coverage of the CGE and to raise accounting standards need to be continued, giving particular attention to improving the coverage of assets and liabilities within the CGE, in line with the steps to improve the monitoring of fiscal risks, which have been recommended above.**
	(ii) Timeliness of submission of the financial reports.	**B**		*CGE is submitted to external audit at the end of May every year. (5 months after the close of the year)*	
	(iii) Transparency, completeness and consistency of accounting standards applied	**B**		*Accounting standards used in the CGE are consistent with those defined in SISTAFE regulations and more recently in the MAF. The accounting improvements and new standards which have been adopted since 2014 are close to IPSAS norms and could be considered comparable with those norms.*	

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PI-29: SAI Independence and external audit of the government's annual financial reports.	(i) Coverage and auditing standards of audit performed.	C	D+	*External audits are undertaken according to ISSAI standards and on the bass of a simple risk assessment procedure. The coverage of total value of audited expenditure and revenue was above 50% on average in the last 3 FY.*	The processes of external audit and control managed by the Tribunal Administrativo have also steadily improved since the PEFA assessment of 2010. **It is recommended that the TA and the Government should give specific attention to introducing improvements in two areas:** - **strengthening the quality of follow-up by the TA of the recommendations made in its audits of government institutions through the introduction of new follow up procedures and through a more systematic monitoring of the implementation of recommendations; and** - **creating a funding and budgetary management framework for the TA, which would grant it budgetary independence from the Executive.**
	(ii) Timeliness of submission of audit reports to Legislature on the government's financial reports.	A		*Audit reports are submitted within 6 months from reception of the CGE from Executive.*	
	(iii) Evidence of follow up on audit recommendations or observations by the executive or audited entity.	D		*Although in a significant number of audits, follow up on implementation of TA recommendations is made by IGF or TA, there is no <u>systematic</u> process to ensure follow up by the Executive or the audited entity in <u>all</u> cases.*	
	(iv) Independence of the SAI and access to information	D		*TA has no budgetary independence, and this hinders significantly the TA performance.*	
PI-30: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	C	D+	*Scrutiny of audit reports regarding the annual accounts (CGE) has been completed by the Legislature between 3 and 6 months from the receipt of the TA reports on the CGE.*	The attention given by the Legislature to the CGE and to the Parecer of the TA on the CGE has always been less intense than the attention given to the Legislative review of the Executive's budget proposal. **Three simple measures could be taken by the Legislature to improve the quality of scrutiny of the TA's Parecer on the CGE:** - **firstly, in-depth public hearings should be undertaken involving MEF, the TA and other government bodies mentioned in the TA's parecer;** - **secondly, committee reports on these in-**
	(ii) Extent of hearings on key findings undertaken by the legislature.	D		*There is no evidence of in-depth public hearings about audit key findings that involves both the TA and the audited entity*	
	(iii) Issuance of recommended actions by the legislature and follow up of implementation.	B		*The Legislature issues recommendations to be implemented by the Executive and undertakes a follow up to these recommendations. However, this follow up process is not fully rigorous and systematic.*	

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	(iv) Transparency of the legislative scrutiny function	D		*Committee reports are not published on an official website.*	**depth hearings should be published on the web-site of the AR; and** - **thirdly, the committee should systematically monitor implementation by the Executive of its recommendations from the previous year, questioning MEF and other government entities on the implementation of these recommendations and reporting the results in its committee report.**