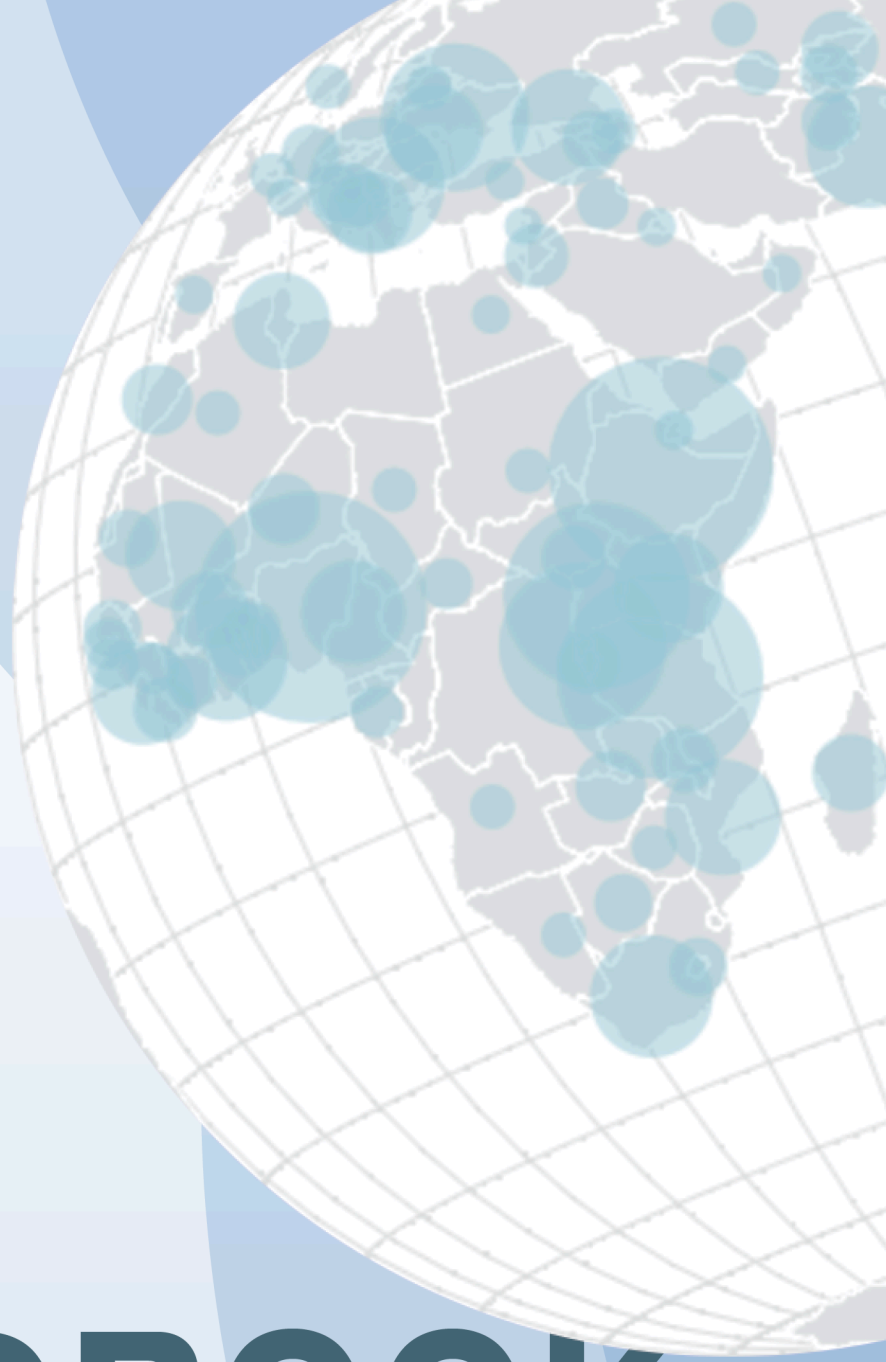




**PEFA**



# **PEFA HANDBOOK**

**Volume II**

**PEFA Assessment  
Fieldguide**



# PEFA Handbook

## Volume II: PEFA Assessment Fieldguide

Second edition  
December 2018

PEFA Secretariat  
Washington DC, USA



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# LIST OF ABBREVIATIONS AND ACRONYMS

<b>BCG</b>	budgetary central government
<b>CEO</b>	Chief Executive Officer
<b>CG</b>	Central government
<b>COFOG</b>	Classifications of Functions of Government
<b>DAC</b>	Development Assistance Committee of OECD
<b>DeMPA</b>	Debt Management Performance Assessment
<b>DMS</b>	debt management strategy
<b>EUR</b>	euro
<b>FAQs</b>	frequently asked questions
<b>FY</b>	fiscal year
<b>GDP</b>	gross domestic product
<b>GFS</b>	government financial statistics
<b>GG</b>	General government
<b>IAU</b>	Internal Audit Unit
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IFAC</b>	International Federation of Accountants
<b>IGF</b>	Inspection Générale des Finances
<b>IMF</b>	International Monetary Fund
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>IPSAS</b>	International Public Sector Accounting Standards (of IFAC)
<b>ISA</b>	International Standards on Auditing
<b>ISO</b>	International Standards Organization
<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>MoF</b>	Ministry of Finance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PC</b>	public corporation
<b>PFM</b>	public financial management
<b>PI</b>	PEFA indicator
<b>PPP</b>	public-private partnership
<b>SAI</b>	Supreme Audit Institution
<b>SNG</b>	subnational government
<b>TSA</b>	Treasury single account
<b>USD</b>	United States dollars

# PEFA ASSESSMENT HANDBOOK

## PREFACE

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM). A PEFA assessment incorporates a PFM performance report for the government at a given point in time but the methodology can be replicated in successive assessments, giving a summary of changes over time. The PEFA report includes an overview of the PFM system and evidence-based measurement of performance against 31 indicators. The report also includes an analysis of the findings with respect to the overall system performance and for the desirable budgetary and fiscal outcomes – aggregate fiscal discipline, strategic allocation of resources and efficient delivery of public services.

The PEFA methodology draws on PFM international standards and good practices as identified by experienced practitioners and academics and provides a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring. It is built around the principles of a ‘strengthened approach’ to PFM which centers on a country-led PFM reform program, reflecting country priorities implemented through government structures.

The PEFA program also provides support, monitoring, and analysis of PEFA assessments. A key task of the Secretariat is to also ensure the quality of PEFA reports which is done by in-depth reviews of draft reports and anchoring of the PEFA Check requirements. Please visit [www.pefa.org](http://www.pefa.org) for more information about the program and the PEFA Check requirements.

The purpose of the PEFA handbook is to provide users, including government officials, assessors, development partners and other interested stakeholders, with comprehensive guidance on planning, implementing, reporting and using PEFA 2016.

The handbook is presented in four separate volumes:

- *Volume I: The PEFA assessment process: planning, managing and using PEFA*, provides guidance to PEFA users and other stakeholders on the key phases and steps in the PEFA assessment process.
- *Volume II: PEFA assessment Fieldguide*, is a detailed technical guidance on scoring the 31 performance indicators and 94 dimensions of PEFA 2016, including data requirements and sources, calculation and definitions. The Fieldguide also includes a glossary of terms.
- *Volume III: Preparing the PEFA report*, contains advice on writing the report and a template and instructions for each section and annex of a standard PEFA report.
- *Volume IV: Using PEFA to support PFM reform* provides guidance on how to utilize PEFA assessments to support PFM reform initiatives.

Each volume of the handbook is intended to be a dynamic document that will be updated in response to common issues, good practices, suggestions and frequently-asked questions from PEFA users. Periodic updates to the handbook volumes are announced and published on the PEFA website ([www.pefa.org](http://www.pefa.org)).



# VOLUME II: PEFA 2016 ASSESSMENT FIELDGUIDE

## ABOUT VOLUME II

The purpose of Volume II of the PEFA Handbook (the Handbook), the PEFA Assessment Fieldguide (‘the Fieldguide’), is to provide PEFA users with expanded guidance on the application of PEFA 2016 following the public release of the Framework document on February 1, 2016.

The Fieldguide expands on the PEFA 2016 Framework document by providing supplementary guidance, clarifications, and definitions in relation to the assessment and scoring of each indicator and dimension. Importantly, with the exception of the section relating to the format and content of the PEFA report (which is covered in Volume III of the Handbook), the Fieldguide replicates ALL information contained in the PEFA 2016 Framework document. Accordingly, assessors undertaking field work only need to refer to the Fieldguide.

The Fieldguide is not intended to provide guidance on how to assess performance changes between previous versions of the framework and PEFA 2016. Separate guidance for measuring such changes is provided in the document Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 which is included in Volume III of the Handbook – the PEFA Report. The handbook and other supplementary guidance can also be found at the PEFA website [www.pefa.org](http://www.pefa.org).

The Fieldguide will be updated to reflect feedback from users and to incorporate references to good practices and useful case studies. Each new edition will include a summary of changes from the previous versions and will be dated at the time of release. Before commencing an assessment, and before completion, users should refer to the PEFA website to ensure that they are referring to the most current version of the Fieldguide.

# 1. PEFA OVERVIEW

## 1.1. Introduction

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be used in successive assessments, giving a summary of changes over time. The PEFA framework includes a report that provides an overview of the PFM system and evidence-based measurement against 31 performance indicators. It also provides an assessment of the implications for overall system performance and desirable public financial management outcomes. It provides a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring.

PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes. The PEFA methodology draws on international standards and good practices on crucial aspects of PFM, as identified by experienced practitioners. PEFA provides a PFM performance report for the subject government that presents evidence-based indicator scores and analyzes the results based on existing evidence. It emphasizes a country-led approach to performance improvement and the alignment of stakeholders around common goals.

PEFA reports outline the economic environment faced by the public sector, examine the nature of policy-based strategy and planning, and analyze how budget decisions are implemented. PEFA assessments examine the controls used by governments to ensure that resources are obtained and used as intended. PEFA provides a framework for assessment of transparency and accountability in terms of access to information, reporting and audit, and dialogue on PFM policies and actions. PEFA considers the institutions, laws, regulations, and standards used by governments in the PFM process. It also examines the results arising from the operation of PFM in key areas such as budget outturns, effectiveness of

controls, and timeliness of reporting and audit.

Governments use PEFA to obtain a snapshot of their own PFM performance. PEFA offers a common basis for examining PFM performance across national and subnational governments. In addition to governments, other users of PEFA include civil society organizations and international development institutions. PEFA scores and reports allow all users of the information to gain a quick overview of the strengths and weaknesses of a country's PFM system. Users also see the implications of the overall performance results for the key goals of fiscal discipline, strategic resource allocation, and efficient service delivery. The PEFA analysis thereby contributes to dialogue on the need and priorities for PFM reform.

In addition to guidance for analysis and reporting, the PEFA program provides support, monitoring, and analysis of PEFA assessments. The PEFA Secretariat offers free advice on the use of PEFA as one of many sources of information for examining and improving PFM performance. This PEFA 2016 Framework document provides an overview of the main features of the PEFA performance assessment framework, including scope of the framework, basic methodology for measuring PFM performance, and an outline for the content of PEFA reports.

## 1.2. Scope and coverage of the framework

### WHAT PEFA ASSESSES

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their objectives. An open and orderly PFM system is one of the enabling elements needed for desirable fiscal and budgetary outcomes:

- **Aggregate fiscal discipline** requires effective control of the total budget and management of fiscal risks.
- **Strategic allocation of resources** involves planning and executing the budget in line with government priorities aimed at achieving policy objectives.
- **Efficient service delivery** requires using budgeted revenues to achieve the best levels of public services within available resources.

PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving these objectives. The seven pillars thereby define the key elements of a PFM system. They also reflect what is desirable and feasible to measure. The pillars are as follows:

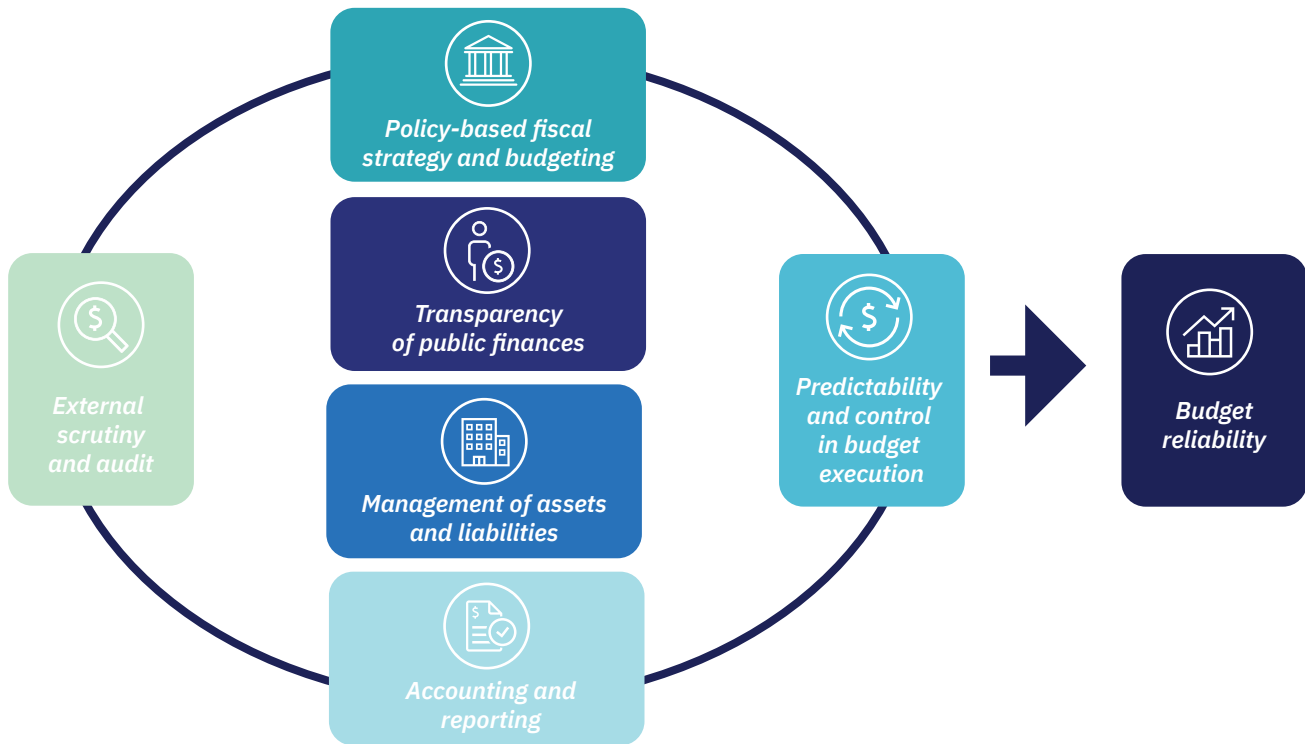
- **Budget reliability.** The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.
- **Transparency of public finances.** Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

- **Management of assets and liabilities.** Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.
- **Policy-based fiscal strategy and budgeting.** The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.
- **Predictability and control in budget execution.** The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.
- **Accounting and reporting.** Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.
- **External scrutiny and audit.** Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Figure 1 illustrates the interrelationship of the seven pillars of the PFM system.

Within the seven broad areas marked by these pillars, PEFA defines 31 specific indicators that focus on key measurable aspects of the PFM system. PEFA uses the results of the individual indicator calculations, which are based on available evidence, to provide an integrated assessment of the PFM system against the seven pillars of PFM performance. It then assesses the likely impact of PFM performance levels on the three desired budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

**Figure 1. PEFA Pillars and the budget cycle**



**WHAT INSTITUTIONS PEFA COVERS**

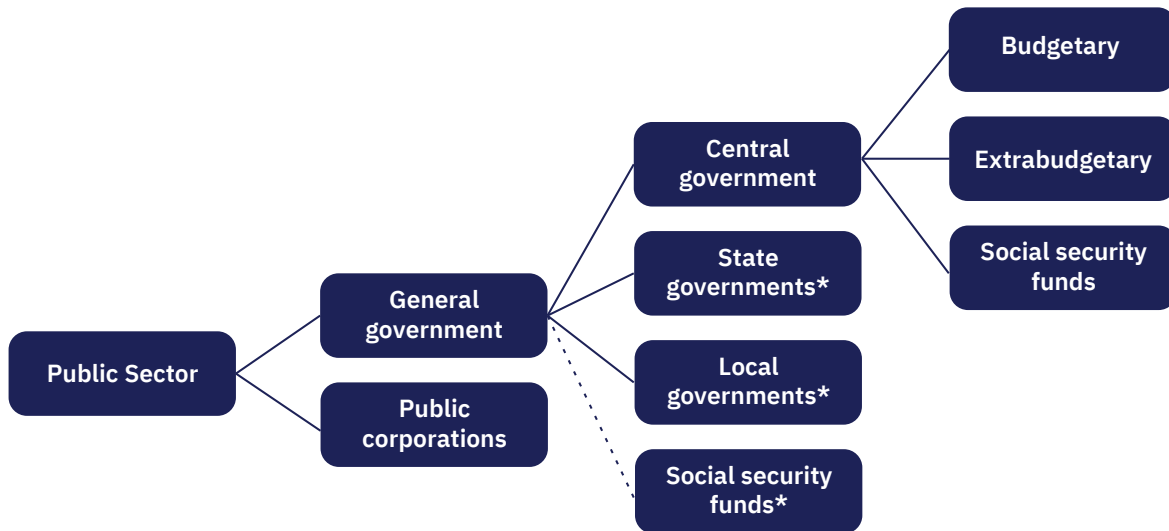
The core PEFA methodology was initially focused on central government, including related oversight and accountability institutions, such as the legislature and supreme audit institution. However, PEFA has increasingly been used in the assessment of subnational government PFM performance. The scope of the category of ‘central government’, as used in PEFA, is based on the classification structure developed by the International Monetary Fund (IMF) for Government Finance Statistics (GFS). PEFA methodology refers to the GFS terminology where possible to provide a standard basis of reference, but this does not imply that PEFA is only relevant where GFS methodology is used. PEFA is adaptable to situations where other classifications and standards are used.

Other parts of government, outside central government, that are identified in GFS include different administrative tiers with separate accountability mechanisms and their own PFM systems, such as budgets and accounting systems. These can include subnational governments such as

state, provincial, regional, and local governments, including districts and municipalities. An abbreviated summary of the public sector components, as defined in the GFS 2014 manual, is provided in figure 2.

The PEFA indicator set is focused on the financial operations of the entire level of government covered by the assessment. For instance, activities of central government implemented outside the budget are included in the coverage of a small number of indicators and are referred to as expenditure and revenue of extrabudgetary units and expenditure and revenue related to the extrabudgetary activities of budgetary units—for example, in PEFA indicator (PI)-6. Public corporations are referred to in PI-10. Subnational governments with a direct relationship to central government are referred to in PI-7 and PI10. The measurement guidance explains how each indicator relates to GFS categories, where relevant. PEFA examines operations outside of the government being assessed only to the extent that they have an impact on the fiscal performance of the central government.

**Figure 2. The public sector and its main components, as defined by GFS and referred to in PEFA**



Source: excerpt from IMF (2014), *Government Finance Statistics Manual 2014*, op. cit.

\* Budgetary units, extrabudgetary units and social security funds may also exist in state, provincial, and local governments.

# Social security funds can be combined into a separate subsector as shown in the box with dashed lines.

### WHAT PEFA DOES NOT INCLUDE

The PEFA indicators focus on the operational performance of key elements of the PFM system rather than on all the various inputs and capabilities that may enable the PFM system to reach a certain level of performance. PEFA thus does not measure every factor affecting PFM performance, such as the legal framework or human resource capacities within the government. These are matters that should be taken into account, however, in addition to PEFA, as part of a dialogue on PFM reform after the PEFA report has been finalized. Further analysis, including more detailed examination of specific areas, may be required in addition to PEFA to explore the underlying factors affecting performance.

PEFA also does not involve fiscal or expenditure policy analysis that would determine whether fiscal policy is sustainable. It does not evaluate whether expenditures incurred through the budget ultimately have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. A more detailed analysis of data, or utilization of country-specific indicators, would be required for such an assessment.

International organizations and research institutions have such tools at their disposal to perform more detailed analysis, such as public expenditure reviews (PER) performed by the World Bank. PEFA focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes.

PEFA does not provide recommendations for reforms or make assumptions about the potential impact of ongoing reforms on PFM performance. However, PEFA does acknowledge actions taken by governments to reform PFM systems by describing recent and ongoing measures. The PEFA report thus summarizes the government’s reform agenda but does not evaluate that agenda. Such considerations inform the actions to be taken after a PEFA assessment and form part of the dialogue between relevant stakeholders that contribute to the development of a new PFM improvement initiative.

For the purpose of a PEFA assessment elements of the defense, public order and safety function may not be included if information is not available. This pertains to many PEFA indicators, including PI-6, PI-12, PI-23 and PI-24.



### 1.3. The PEFA performance indicators

PEFA includes 31 performance indicators across the broad array of PFM activities performed by governments. The indicators are grouped under the seven pillars described in section 1.2:

- I. Budget reliability
- II. Transparency of public finances
- III. Management of assets and liabilities
- IV. Policy-based fiscal strategy and budgeting
- V. Predictability and control in budget execution
- VI. Accounting and reporting
- VII. External scrutiny and audit

Each pillar comprises a group of indicators that capture the performance of the key systems, processes, and institutions of government. Each indicator in turn includes one or more performance dimensions. A complete listing of the individual indicators and their constituent performance dimensions is provided in section 2.4.

Each dimension of the indicators measures performance against a four-point ordinal scale from A to D. Calibration of dimensions is based on the presence of important attributes relevant to different standards of performance.

The highest score is warranted for an individual dimension if the core PFM element meets an internationally recognized standard of good performance. Dimension-specific scores are aggregated to reach an overall score for each indicator using an appropriate method based on the degree of linkage between the individual dimensions.

Part 2 includes further information on the calibration and the scoring methodology with guidance for each of the indicators.

### 1.4. The PEFA report

The objective of the PEFA report is to provide an evidence-based assessment of PFM performance based on the indicator analysis and other crucial information in a concise and standardized manner. Information provided by the PEFA report should contribute to dialogue on systems reform.

The PEFA report includes the following:

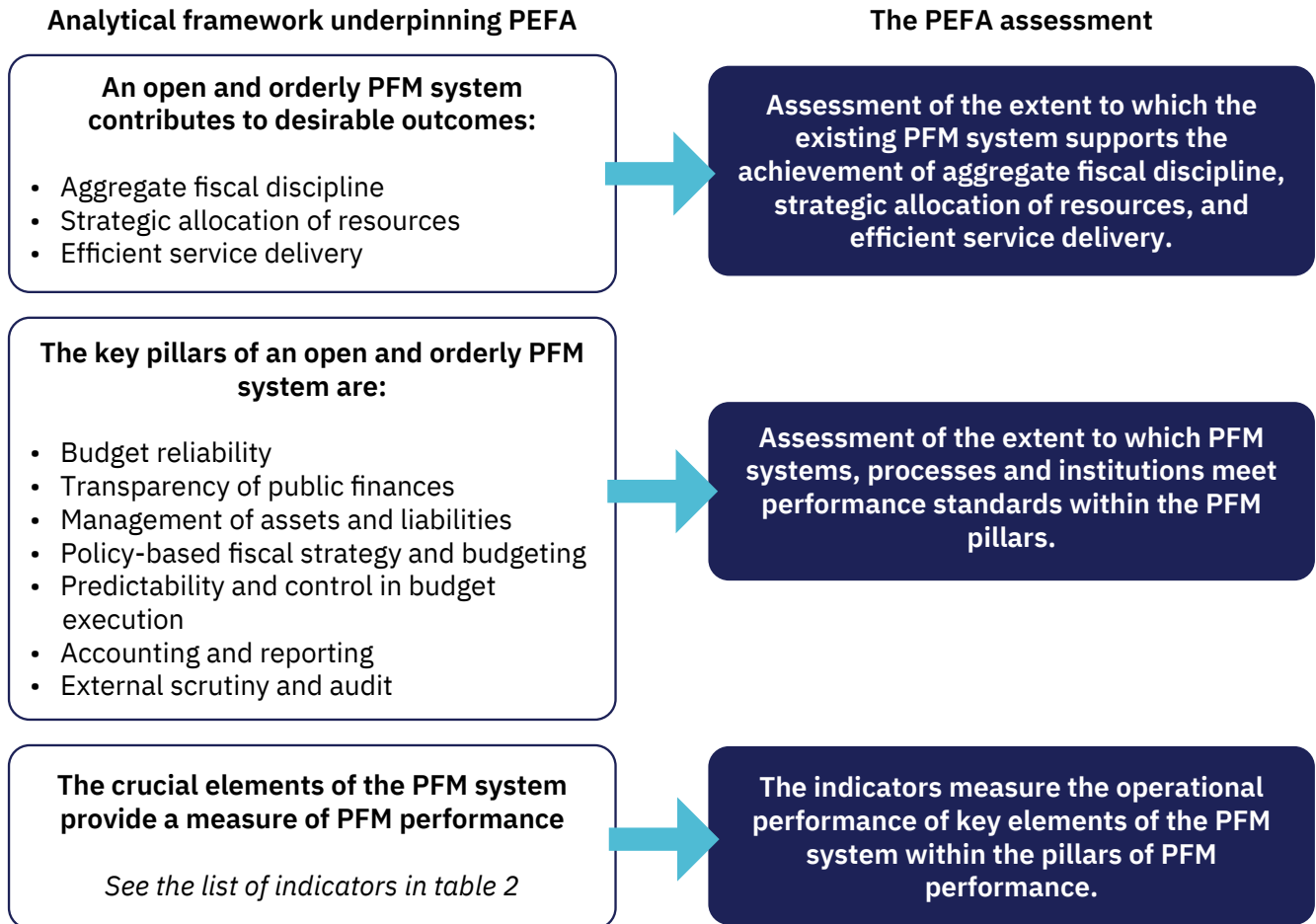
- **An executive summary** presenting a brief overview of the main findings on systems performance and their implications for the government's ability to deliver the intended fiscal and budgetary outcomes.
- **An introduction** explaining the context, purpose, and process of preparing the report, specifying the institutional coverage.
- **An overview of relevant country-related information** that provides the context underpinning the indicator results and the overall PFM performance. This section includes a brief review of the country's economic situation and describes the public sector structure, the budgetary outcomes as measured by other analyses, and the legal and institutional PFM framework.
- **An assessment of performance in terms of the seven pillars of the PFM system.** This section contains the analysis and measurement of results in terms of the 31 indicators of PFM performance.
- **Conclusions of the crosscutting analysis** using information throughout the report to provide an integrated assessment of the country's PFM system. This section assesses the likely impact of PFM strengths and weaknesses on the three main fiscal and budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.
- **An overview of government initiatives to improve PFM performance.** This section summarizes the overall approach to PFM reform, including the recent and ongoing actions taken by government. It assesses the institutional factors that are likely to impact the planning of reform and its implementation in the future.

Further guidance on preparing the PEFA report, including the PEFA report template, is presented in Part 3 of the PEFA 2016 Framework document and Volume III of the PEFA Handbook.

## 1.5. Overall structure of PEFA

The structure of PEFA is as follows:

**Figure3. Overall structure of PEFA**



# 2. GUIDANCE ON SCORING

## 2.1. General guidance on scoring

Scoring of the 31 performance indicators is the heart of the PEFA process. For each indicator, the score takes into account a number of dimensions, which are aggregated according to the methodology described in section 2.2. Each dimension is scored separately on a four-point ordinal scale: A, B, C, or D, according to precise criteria established for each dimension. In order to justify a particular score for a dimension, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met, the criteria are not satisfied and a lower score should be given that coincides with achievement of all requirements for the lower performance rating. A score of C reflects the basic level of performance for each indicator and dimension, consistent with good international practices. A score of D means that the feature being measured is present at less than the basic level of performance or is absent altogether, or that there is insufficient information to score the dimension.

### 2.1.1. DESIGNATION OF D SCORE FOR LACK OF SUFFICIENT INFORMATION

The **D score** indicates performance that falls below the basic level. ‘D’ is applied if the performance observed is less than required for any higher score. For this reason, a D score is warranted when sufficient information is not available to establish the actual level of performance. A score of D due to insufficient information is distinguished from D scores for low-level performance by the use of an asterisk—that is, D\*. The aggregation of multidimensional indicators containing D\* scores is no different from aggregation with other D scores. Aggregate indicator scores will not include an asterisk, and thus the insufficiency of information is only noted at the dimension level.

### 2.1.2. SCORING WHERE INDICATORS ARE NOT APPLICABLE OR NOT USED

There may be two situations in which no score can be allocated to an indicator or a dimension.

**Not applicable (NA).** In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases ‘NA’ is entered instead of a score. In cases where one or more dimensions of a multidimensional indicator are not applicable, the assessor proceeds as if the ‘not

applicable’ dimensions did not exist. In some cases, a D rating on an indicator or dimension can lead to NA on others. For example, if there is no internal audit function (PI-26.1), the other dimensions of PI-26 are NA because there will be nothing to assess for those dimensions in the absence of an internal audit function.

**Not used (NU).** In some cases, it may be decided for certain reasons that a particular indicator will not be used. For example, it may be the case that the PEFA assessment is going to be combined with another detailed assessment of the relevant indicator, using a different assessment tool. In all such cases ‘NU’ is entered instead of a score.

The use of NA and NU must be justified in the PEFA report. Assessments that score less than two-thirds (21) of the PEFA indicators should be referred to as ‘partial PEFA assessments,’ to distinguish the assessment from comprehensive applications of the PEFA methodology.

### 2.1.3. TIME HORIZONS

The requirements for a score can be assessed on the basis of different time horizons. These are set forth in the specifications for each indicator. As a general rule, the assessment is based on the situation at the time



of data collection, or in the case of periodic events, on the basis of the relevant and completed events during the most recent or ongoing budget period. Certain indicator dimensions require data for more than one fiscal year or budget period. In these cases, the relevant period on which a dimension should be assessed, and therefore for which evidence should be sought, is specified for the relevant indicator.

Various indicators require data for three consecutive years as a basis for assessment. In those cases, the data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years and it should be applied consistently in the dimensions where this is the case. A small number of indicators are based on the performance in two out of three years. In these cases, an allowance is made so that unusual circumstances in one abnormal year, such as external shocks or unanticipated domestic difficulties, do not affect the score.

#### **2.1.4. MATERIALITY, SIZE, AND SIGNIFICANCE**

The size and materiality of aspects of performance are important considerations in many PEFA dimensions. A standard approach to size and materiality has been adopted throughout the indicator set, unless otherwise stated, as follows:

- **All** refers to 90 percent or more (by value).
- **Most** refers to 75 percent or more (by value).
- **Majority** refers to 50 percent or more (by value).
- **Some** refers to 25 percent or more (by value).
- **A Few** refers to less than 25 percent and more than 10 percent (by value).

There are many indicators that use these standards. In each case the words used above are italicized to emphasize the use of a standard term.

#### **2.1.5. USE OF SAMPLING WHERE COMPLETE INFORMATION ON GOVERNMENT IS IMPRACTICAL TO COLLECT**

PEFA indicators generally require assessors to measure performance for the entire central government (CG), budgetary central government

(BCG), or general government (GG). This may be impractical in situations where responsibilities are highly decentralized or cases involving large numbers of significant entities. Several indicators provide directions on the selection of specific matters to be assessed—for example, PI-11. In other indicators, sampling techniques are suggested—for example, PI-23 and 24. Where no specific sampling techniques are proposed but a complete set of information is impractical to collect, assessors may use a statistically sound sampling methodology. Assessors should explain the reason for the use of sampling and justify the sampling approach they adopt. It would be preferable that assessors and government agree on the sampling approach. In case of disagreement, differences of views can be accommodated in an annex as explained in the framework document under Part 3: The PEFA Report, paragraph 4.

#### **2.1.6. ISSUES OF NATIONAL SECURITY AND COMMERCIAL CONFIDENTIALITY**

As noted in Section 1.2, information on aspects of defense, public order, and safety functions may be unavailable for reasons of national security. Similarly, information on certain projects or separate costs may be unavailable or unpublished to maintain commercial confidentiality. In these situations, assessors should note the limitations in the introduction of the report, at the relevant point in the report, or in both locations (Refer to Part 3 of this document: Introduction, section 1.3.). The measurement guidance for certain indicators presents alternatives for scoring where information is not published due to commercial confidentiality. Nonetheless, wherever practical, assessors should ensure that the reasons for lack of published information are adequately justified.

#### **2.1.7. FISCAL YEAR**

The following terminology is used in PEFA 2016 to describe the budget or fiscal year:

Current fiscal year (T) is the fiscal year in which the budget proposals are being prepared and usually presented.

Next year (T+1) is the budget year or fiscal year for

which the annual budget proposals are made.

Previous year (T-1) is the last fiscal year completed.

Outer years, or following fiscal years, (T+2, T+3, and so on) are the fiscal years beyond the year for which the annual budget proposals are made. Outer years are relevant for the medium-term budget perspective in PI-14, PI-15, and PI-16.

### 2.1.8. PUBLIC ACCESS AND PUBLICATION

A number of indicators and/or dimension refer to public access or publication of public financial management information.

The terms ‘public access’, ‘made available to the public’, ‘publicly reported’ and ‘publicized’ means that a document is available without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific country circumstances. Justification provided by government for limits on access, where applicable, should be noted in the report.

‘Publication’ and ‘published’ means that the document has been made available to the public either in print or in readable form on a publicly accessible website. Publication also involves an expectation that users are made aware of the document’s availability and how they can access it.

Timeframes with respect to the above terms are specified in the relevant indicators.

## 2.2. Scoring of indicators with multiple dimensions

Most indicators have a number of separate dimensions, each of which must be assessed separately. The overall score for an indicator is based on the scores for the individual dimensions. The scores for multiple dimensions are combined into the overall score for the indicator using either the Weakest Link (WL) method or the Averaging (AV) method. Each indicator specifies the method to be used.

**1. Weakest link method: M1 (WL).** This method is used for multidimensional indicators where poor

performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. In other words, this method is applied where there is a ‘weakest link’ in the connected dimensions of the indicator. The steps in determining the aggregate indicator score are as follows:

- Each dimension is initially assessed separately and given a score on the four-point calibration scale.
- The aggregate score for the indicator is the lowest score given for any dimension.
- Where any of the other dimensions score higher, a ‘+’ is added to the indicator score. Note: It is NOT acceptable to choose the score for one of the higher-scoring dimensions and add a ‘-’ for any lower scoring dimensions.

**2. Averaging method: M2 (AV).** The aggregate indicator score awarded using this method is based on an approximate average of the scores for the individual dimensions of an indicator, as specified in a conversion table (table 1). Use of this method is prescribed for selected multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though all dimensions of an indicator fall within the same area of the PFM system, in certain areas progress on some individual dimensions can be independent of the others. The steps in determining the aggregate indicator score are as follows:

- Each dimension is initially assessed separately and given a score on the four-point calibration scale.
- Refer to the **conversion table for indicator scores using the averaging method** (table 1) and find the appropriate section of the table—that is, whether there are two, three, or four dimensions for the indicator.
- Identify the row in the table that matches the scores for each dimension of the indicator; the ordering of the dimension scores does not matter.

**Table 1. Conversion table for indicator scores using the averaging method M2 (AV)**

Dimension scores			Overall M2 (AV) score	Dimension scores				Overall M2 (AV) score	
<b>2-DIMENSIONAL INDICATORS</b>				<b>4-DIMENSIONAL INDICATORS</b>					
D	D		D	D	D	D	D	D	
D	C		D+	D	D	D	C	D	
D	B		C	D	D	D	B	D+	
D	A		C+	D	D	D	A	D+	
C	C		C	D	D	C	C	D+	
C	B		C+	D	D	C	B	D+	
C	A		B	D	D	C	A	C	
B	B		B	D	D	B	B	C	
B	A		B+	D	D	B	A	C+	
A	A		A	D	D	A	A	C+	
<b>3-DIMENSIONAL INDICATORS</b>				D	C	C	C	D+	
D	D	D	D	D	C	C	C	B	C
D	D	C	D+	D	C	C	A	C+	
D	D	B	D+	D	C	B	B	C+	
D	D	A	C	D	C	B	A	C+	
D	C	C	D+	D	C	A	A	B	
D	C	B	C	D	B	B	B	C+	
D	C	A	C+	D	B	B	A	B	
D	B	B	C+	D	B	A	A	B	
D	B	A	B	D	A	A	A	B+	
D	A	A	B	C	C	C	C	C	
C	C	C	C	C	C	C	B	C+	
C	C	B	C+	C	C	C	A	C+	
C	C	A	B	C	C	B	B	C+	
C	B	B	B	C	C	B	A	B	
C	B	A	B	C	C	A	A	B	
C	A	A	B+	C	B	B	B	B	
B	B	B	B	C	B	B	A	B	
B	B	A	B+	C	B	A	A	B+	
B	A	A	A	C	A	A	A	B+	
A	A	A	A	B	B	B	B	B	
NOTE: Dimension scores can be counted in any order. It is only the quantities of each score that are important for aggregation.				B	B	B	A	B+	
				B	B	A	A	B+	
				B	A	A	A	A	
				A	A	A	A	A	

Table 1 MUST NOT be applied to indicators using the M1 (WL) scoring method.

- Enter the corresponding overall score for the indicator.

The conversion table applies to indicators using M2 (AV) scoring methodology only. Using it for indicators designated for M1 (WL) will result in an incorrect score. The conversion table is intended for use on individual indicators only and is not suitable for aggregating scores across the full set, or subsets, of indicators. No standard methodology has been developed for aggregation across indicators because each indicator measures a different subject and has no standard, quantitative relationship with other indicators.



## 2.3. Definitions



Definitions of commonly used terms are underlined and included in the Glossary. Key definitions related to specific indicators and dimensions are included in the relevant measurement guidance.

## 2.4. Composition of PEFA pillars indicators and dimensions



Table 2 presents a summary of the PEFA pillars, indicators and dimensions. Further detailed technical guidance on the scoring of each indicators is presented in section 3 below.

**Table 2. Composition of PEFA pillars, indicators, and dimensions**

PILLARS	INDICATORS	DIMENSIONS
<b>I. Budget reliability</b> 	1. Aggregate expenditure outturn	1.1 Aggregate expenditure outturn
	2. Expenditure composition outturn	2.1 Expenditure composition outturn by function
		2.2 Expenditure composition outturn by economic type
		2.3 Expenditure from contingency reserves
	3. Revenue outturn	3.1 Aggregate revenue outturn
		3.2 Revenue composition outturn
<b>II. Transparency of public finances</b> 	4. Budget classification	4.1 Budget classification
	5. Budget documentation	5.1 Budget documentation
	6. Central government operations outside financial reports	6.1 Expenditure outside financial reports
		6.2 Revenue outside financial reports
		6.3 Financial reports of extrabudgetary units
	7. Transfers to subnational governments	7.1 System for allocating transfers
		7.2 Timeliness of information on transfers
	8. Performance information for service delivery	8.1 Performance plans for service delivery
		8.2 Performance achieved for service delivery
8.3 Resources received by service delivery units		
8.4 Performance evaluation for service delivery		
9. Public access to fiscal information	9.1 Public access to fiscal information	

PILLARS	INDICATORS	DIMENSIONS	
<b>III. Management of assets and liabilities</b>	10. Fiscal risk reporting	10.1 Monitoring of public corporations	
		10.2 Monitoring of subnational governments	
		10.3 Contingent liabilities and other fiscal risks	
		11. Public investment management	11.1 Economic analysis of investment proposals
			11.2 Investment project selection
			11.3 Investment project costing
			11.4 Investment project monitoring
		12. Public asset management	12.1 Financial asset monitoring
			12.2 Nonfinancial asset monitoring
			12.3 Transparency of asset disposal
		13. Debt management	13.1 Recording and reporting of debt and guarantees
			13.2 Approval of debt and guarantees
			13.3 Debt management strategy
<b>IV. Policy-based fiscal strategy and budgeting</b>		14. Macroeconomic and fiscal forecasting	14.1 Macroeconomic forecasts
			14.2 Fiscal forecasts
			14.3 Macroeconomic sensitivity analysis
		15. Fiscal strategy	15.1 Fiscal impact of policy proposals
			15.2 Fiscal strategy adoption
		16. Medium-term perspective in expenditure budgeting	16.1 Medium-term expenditure estimates
			16.2 Medium-term expenditure ceilings
			16.3 Alignment of strategic plans and medium-term budgets
			16.4 Consistency of budgets with previous year's estimates
		17. Budget preparation process	17.1 Budget calendar
			17.2 Guidance on budget preparation
			17.3 Budget submission to the legislature
		18. Legislative scrutiny of budgets	18.1 Scope of budget scrutiny
			18.2 Legislative procedures for budget scrutiny
			18.3 Timing of budget approval
			18.4 Rules for budget adjustment by the executive

PILLARS	INDICATORS	DIMENSIONS
<b>V. Predictability and control in budget execution</b>  	19. Revenue administration	19.1 Rights and obligations for revenue measures
		19.2 Revenue risk management
		19.3 Revenue audit and investigation
		19.4 Revenue arrears monitoring
	20. Accounting for revenue	20.1 Information on revenue collections
		20.2 Transfer of revenue collections
		20.3 Revenue accounts reconciliation
	21. Predictability of in-year resource allocation	21.1 Consolidation of cash balances
		21.2 Cash forecasting and monitoring
		21.3 Information on commitment ceilings
		21.4 Significance of in-year budget adjustments
	22. Expenditure arrears	22.1 Stock of expenditure arrears
	23. Payroll controls	22.2 Expenditure arrears monitoring
		23.1 Integration of payroll and personnel records
		23.2 Management of payroll changes
		23.3 Internal control of payroll
		23.4 Payroll audit
	24. Procurement	24.1 Procurement monitoring
		24.2 Procurement methods
		24.3 Public access to procurement information
		24.4 Procurement complaints management
	25. Internal controls on nonsalary expenditure	25.1 Segregation of duties
		25.2 Effectiveness of expenditure commitment controls
		25.3 Compliance with payment rules and procedures
	26. Internal audit	26.1 Coverage of internal audit
		26.2 Nature of audits and standards applied
	26.3 Implementation of internal audits and reporting	
	26.4 Response to internal audits	
	26.5 Coverage of internal audit	

PILLARS	INDICATORS	DIMENSIONS	
<b>VI. Accounting and reporting</b>  	27. Financial data integrity	27.1 Bank account reconciliation 27.2 Suspense accounts 27.3 Advance accounts 27.4 Financial data integrity processes	
	28. In-year budget reports	28.1 Coverage and comparability of reports 28.2 Timing of in-year budget reports 28.3 Accuracy of in-year budget reports	
	29. Annual financial reports	29.1 Completeness of annual financial reports 29.2 Submission of reports for external audit 29.3 Accounting standards	
	<b>VII. External scrutiny and audit</b>  	30. External audit	30.1 Audit coverage and standards 30.2 Submission of audit reports to the legislature 30.3 External audit follow-up 30.4 Supreme Audit Institution independence
		31. Legislative scrutiny of audit reports	31.1 Timing of audit report scrutiny 31.2 Hearings on audit findings 31.3 Recommendations on audit by the legislature 31.4 Transparency of legislative scrutiny of audit reports

# 3. MEASURING PERFORMANCE INDICATORS AND DIMENSIONS

This section provides detailed technical guidance on the scoring of each indicator and dimension. The section duplicates and supplements information on performance indicators from the PEFA 2016 framework document. There is no need to cross-reference with the PEFA 2016 Framework document.

This technical guidance includes a description of each indicator, how the indicator is likely to impact on budgetary outcomes, scoring requirements and calibration, measurement guidance, and data requirements, sources and method of aggregation for dimensions where relevant. Terms defined in the glossary are underlined.

PEFA indicators generally require assessors to measure performance for the entire central government (CG), budgetary central government (BCG), or general government (GG). The budgetary central government is a sub-set of the central government that encompasses the fundamental activities of the national executive, legislative, and judiciary powers, which are funded from the budget approved by the legislature. The budgetary central government's revenue and expense are typically regulated and controlled by a ministry of finance (MoF), or its functional equivalent, by means of a budget approved by the legislature.





## PILLAR ONE: BUDGET RELIABILITY

Pillar I assesses whether the government budget is realistic and implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Realistic and reliable budgets underpin good fiscal management and are essential for long term fiscal sustainability.

Pillar I has three indicators:

- PI-1. Aggregate budget outturn
- PI-2. Expenditure composition outturn
- PI-3. Revenue outturn

If the government budget is to be a reliable basis for policy implementation, it should be implemented as authorized by the legislature.

Factors that can affect budget reliability include:

- Policy initiatives or other post-budget spending decisions outside the annual budget process;
- Major reallocations between ministries and programs;
- Over-optimistic or otherwise unreliable revenue estimates;
- Allocation of grants and other budgetary support by development partners outside the annual budget cycle;
- External shocks such as natural disasters or adverse global or regional economic conditions.

# PI-1. AGGREGATE EXPENDITURE OUTTURN

## ABOUT THE INDICATOR

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator – dimension 1.1. Aggregate expenditure outturn.

## IMPACT ON BUDGETARY OUTCOMES

Actual aggregate expenditure that deviates significantly from the original, approved budget undermines fiscal discipline and the ability of governments to control the total budget and, subsequently, to manage risk. It also affects governments’ ability to effectively and predictably allocate resources to strategic policy priorities. Service delivery may also be affected where large deviations from planned expenditure result in the contraction of services, limitations on essential expenditures for key inputs, or the suspension of certain services. It should be noted that aggregate fiscal discipline may also be affected by extrabudgetary expenditure, ref. indicator PI-6.

## Dimension 1.1. Aggregate expenditure outturn

### DIMENSION MEASUREMENT GUIDANCE

1.1:1. Aggregate expenditure includes planned expenditures and those incurred as a result of

exceptional events—for example, armed conflicts or natural disasters. Expenditures on such events may be met from contingency votes. Expenditures financed by windfall revenues, including privatization, should be included and noted in the supporting fiscal tables and narrative. Expenditures financed externally by loans or grants should be included, if reported in the budget, along with contingency vote(s) and interest on debt. Expenditure assigned to suspense accounts is not included in the aggregate. However, if amounts are held in suspense accounts at the end of any year that could affect the scores if included in the calculations, they can be included. In such cases the reason(s) for inclusion must be clearly stated in the PEFA report.

1.1:2. Actual expenditure outturns can deviate from the originally approved budget for reasons unrelated to the accuracy of forecasts—for example, as a result of a major macroeconomic shock.

1.1:3. The calibration of this indicator accommodates one unusual or ‘outlier’ year and focuses on deviations from the forecast which occur in two of the three years covered by the assessment. An ‘outlier’ year is characterized by higher deviation than other years or lack of data. It is of no importance for the indicator assessment what the reason for the ‘outlier’ may be, and could include political crisis or poor budget discipline.

1.1:4. The methodology for calculating this dimension is provided in a spreadsheet on the PEFA website [www.pefa.org](http://www.pefa.org). Calculations for the dimension should be included in the assessment report as an Annex.

1.1:5. Approved aggregate budgeted expenditure is the

## Dimension 1.1. Scoring

Score	Minimum requirements for scores
A	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.
B	Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.
C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years.
D	Performance is less than required for a C score.

budget on which budgetary units base their annual expenditure plans at the commencement of the fiscal year. Failure of the legislature to approve the budget within the time specified in the constitution may result in significant delays in budget approval well into the fiscal year. When, owing to such delays, there is, in effect, no originally approved budget, the deviation between budget and outturn cannot be calculated, and that particular fiscal year should be considered an ‘outlier,’ as explained above. Note, it is the originally approved budget not supplementary budget that should be used for calculation.

1.1:6. The dimension can be calculated using either cash-based accounting or accrual-based accounting. The basis chosen should be noted and used consistently in all indicator assessments. In a cash-based accounting system data on payments is required for rating even with a modified cash accounting system. If payment data is not available, the PEFA report narrative will need to elaborate on the reasons why, and on the most relevant data to be used instead.

1.1:7. Expenditures include transfers and subsidies of any kind, including to other levels of government. In the case of variances between budgeted and actual transfers to sub-national governments, reporting against PI-7 would supplement the information for this dimension. Expenditures also include interest and other costs related to debt but not repayment of the principal.

1.1:8. It is normal that the scoring of quantitative indicators should be based on unaudited accounts, since the accounts of the most recent year(s) may still be awaiting audit. The unaudited accounts may be used with reasonable assurance if they do not differ significantly from previously audited accounts. In the absence of such assurance (because accounts have not been audited for several years, or because nonsystematic and significant differences exist between audited and unaudited accounts), it is recommended that the unaudited data be used. In such cases the assessment should be considered preliminary and should be updated after accounts have been audited. In Jurisdictional Court System, as there are rarely audited financial accounts, certified accounts or judged accounts could be used.

1.1:9. For the purpose of calculating the budget reliability, transfers to entities outside of BCG, but still part of the originally approved budget need to be included.

1.1:10. Assessors are encouraged to provide information explaining the causes of the differences between the executed budget and the approved budget. Explanations could include the accuracy of the original fiscal forecasts, external factors that may have impacted on revenues and expenditures after the budget was approved, and/or post-budget spending and revenue policy decisions, etc. Assessors are encouraged to specify whether these explanations come from the government or their own assessment.

## Dimension 1.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	Budgetary central government (BCG).	<p>Data requirements</p> <ul style="list-style-type: none"> <li>The aggregate expenditure outturn and the approved aggregate budget expenditure for each of the last three completed fiscal years.</li> </ul> <p>Calculation</p> <ul style="list-style-type: none"> <li>For calculation of this indicator, assessors should use the electronic spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget law/ documentation / estimates approved by the legislature.</li> <li>Annual budget execution report or Comparative Statement of Budget and Actual Results.</li> </ul>

## PI-2. EXPENDITURE COMPOSITION OUTTURN

### ABOUT THE INDICATOR

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains the following three dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

- Dimension 2.1. Expenditure composition outturn by function
- Dimension 2.2. Expenditure composition outturn by economic type
- Dimension 2.3. Expenditure from contingency reserves

### IMPACT ON BUDGETARY OUTCOMES

Variations in expenditure composition may indicate an inability to spend resources in accordance with the government's plans, as expressed in the originally approved budget. The variations may also reflect in-year adjustments in response to unanticipated events, some of which may have been outside the government's control or may have been difficult to predict. Such variations may affect functional allocations or expenditure composition. The larger the deviations in expenditure composition, the greater the effects are likely to be on allocative efficiency and service delivery.

### INDICATOR MEASUREMENT GUIDANCE

2:1. Functional or program comparisons provide the most useful basis for assessment of policy intent. However, budgets are usually adopted and managed on the basis of an administrative classification (ministry/department/agency) and economic classification. The same basis should be used for comparison between appropriation and execution.

2:2. Actual expenditure outturns can deviate from the originally approved budget for reasons unrelated to the accuracy of forecasts—for example, a major macroeconomic shock. The calibration

accommodates one unusual or 'outlier' year and focuses on deviations from the forecast that occur in two or more of the three years covered by the assessment for dimensions 2.1 and 2.2. Dimension 2.3 uses data from all three of the last completed fiscal years.

2:3. If there are amounts in suspense accounts at the end of the financial year that could affect the scoring of this indicator if included, it should be noted in the PEFA report narrative. Assessors will need to decide whether the amounts in suspense accounts are sufficient to result in misleading scores based on the amounts allocated to expenditure categories used for this indicator. If the score is likely to be misleading—for example, if the unallocated expenses exceed 10 percent of total annual expenditure—dimensions 2.1 and 2.2, and therefore PI-2 as a whole, should be scored D.

2:4. If there is no contingency vote identified as a budget line item, but contingency budgets are embedded within budget lines, these contingency budgets should not be subtracted from the budget lines for the purposes of calculation of PI-2.1 and PI-2.2. Contingency items should only include clearly defined items which are unallocated at budget preparation time but used to cover excesses in spending in any budget unit during execution. Hence, for dimension PI-2.3, one should consider that there is no contingency vote which leads to a score A (see below – PI-2.3).

### Dimension 2.1. Expenditure composition outturn by function

#### DIMENSION MEASUREMENT GUIDANCE

2.1:1 This dimension measures the difference between the originally approved budget and end-of-year outturn in expenditure composition, by functional classification, during the last three years, excluding contingency items, and interest on debt. Other expenditures should be included—for example, expenditures incurred as a result of exceptional events such as armed conflict or natural disasters, expenditures financed by windfall revenues including

privatization, central government subsidies, transfers, and donor funds reported in the budget.

2.1:2. At the administrative level, differences should be calculated for the main budgetary heads (votes) of budgetary units that are included in the originally approved budget. If a functional classification based on GFS/COFOG is used, differences should be based on the ten main functions. Where a functional classification not based on GFS/COFOG is used, the measurement of difference should be based on the main heads approved by the legislature. If a program basis is used, the program-based categories should be rated at the same level at which they were voted by the legislature.

2.1:3. The calculations for this indicator include an adjustment to remove the effects of changes in aggregate expenditure. This is achieved by adjusting the budget outturn for each category used by the proportional difference between the total original, approved budget expenditure and the total expenditure outturn. The remaining deviation within each category is based entirely on the absolute value of changes that occurred in and between categories, net of any change assumed to have resulted from aggregate expenditure shifts.

2.1:4. While functional or program classification may provide a more useful basis for comparison of policy intent than would administrative classification, budgets are often adopted and managed on the basis of an administrative (ministry/department/agency) classification only. The same basis should be used for comparing the originally approved budget and the budget outturn.

2.1:5. The methodology for calculating this dimension is provided in a spreadsheet on the PEFA website [www.pefa.org](http://www.pefa.org). Calculations for the indicator should be included in the assessment report as an Annex.

2.1:6. Assessors are encouraged to provide information explaining the causes of the differences between the composition of the executed budget and the composition of the approved budget. Explanations can include the accuracy of the original fiscal forecasts, external factors that may have impacted on revenues and expenditures after the budget was approved, and/or post-budget spending and revenue policy decisions, etc. Assessors are encouraged to specify whether these explanations come from the government or their own assessment.

## Dimension 2.1. Scoring

Score	Minimum requirements for scores
A	Variance in expenditure composition by program, administrative or functional classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.
C	Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.

## Dimension 2.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	BCG.	<p>Data requirements</p> <ul style="list-style-type: none"> <li>The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main functional classifications or for each of the 20 largest budget heads in the administrative classification.</li> <li>Should the number of main budget heads exceed 20, the composition variance should be assessed against the largest heads that together make up 75% of the budget (a minimum of 20 heads if an administrative classification), with the residual heads (excluding contingency items) aggregated into one line.</li> <li>Data are needed for each of the last three completed fiscal years.</li> </ul> <p>Calculations</p> <ul style="list-style-type: none"> <li>For calculation of this dimension, assessors should use the electronic spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget law/ documentation /estimates approved by the legislature.</li> <li>Annual budget execution report or annual financial statements.</li> </ul> <p>(The above information should be available from the MoF.)</p>

## Dimension 2.2. Expenditure composition outturn by economic type

### DIMENSION MEASUREMENT GUIDANCE

2.2:1. This dimension measures the difference between the original approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items.

2.2:2. The composition of the budget by economic classification is important for showing the movements between different categories of inputs—for example, capital and recurrent expenditures. The categories of expenditure are the same as for dimension 2.1, with the addition of interest on

debt, as this is one of the categories of economic classification. The calculation should use the second level of the GFS classification (2 digits) or similar. If a different classification is used, the level of aggregation should be comparable to the 2-digit GFS.

2.2:3. As with dimension 2.1, the effects of changes in aggregate expenditure between the original approved budget and outturn are adjusted in the calculations.

2.2:4. The methodology for calculating this dimension is provided in a spreadsheet on the PEFA website [www.pefa.org](http://www.pefa.org). Calculations for the indicator should be included in the assessment report as an Annex.

2.2:5. Assessors are encouraged to provide information explaining the causes of the differences between the composition of the executed budget



and the composition of the approved budget. Explanations can include the accuracy of the original fiscal forecasts, external factors that may have impacted on revenues and expenditures after the budget was approved, and/or post-budget spending and revenue policy decisions, etc. Assessors are encouraged to specify whether these explanations come from the government or their own assessment.

## Dimension 2.2. Scoring

Score	Minimum requirements for scores
A	Variance in expenditure composition by economic classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by economic classification was less than 10% in at least two of the last three years.
C	Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.

## Dimension 2.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	BCG.	<p>Data requirements</p> <ul style="list-style-type: none"> <li>The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main economic classifications for each of the last three completed fiscal years.</li> </ul> <p>Calculations</p> <ul style="list-style-type: none"> <li>The calculation of variance should use the second (two-digit) level of the GFS classification or a similar system. If a different classification is used, the level of aggregation should be comparable to the two-digit GFS classification.</li> <li>For calculation of this dimension, assessors should use the electronic spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget law/ documentation /estimates approved by the legislature.</li> <li>Annual budget execution report or annual financial statements.</li> </ul> <p>(The above information should be available from the MoF.)</p>

## Dimension 2.3. Expenditure from contingency reserves

### DIMENSION MEASUREMENT GUIDANCE

2.3:1. This dimension measures the average amount of expenditure actually charged to a contingency vote over the last three years. This dimension recognizes that it is prudent to include an amount to allow for unforeseen events in the form of a contingency vote, although this should not be so large as to undermine the credibility of the budget. There may be more than one contingency vote. Assessors should discuss the budgeting and accounting treatment of contingency items in the report narrative. The calibration for this dimension is based on the volume of expenditure recorded against contingency votes, except for transfers to a Disaster Fund or similar reserves, as this represents a deviation from policy-based allocation.

2.3:2. Where part of the budget is protected from spending cuts for either policy reasons (for example, poverty reduction spending) or regulatory reasons (for example, compulsory welfare payments), this will show up as a composition variance. Assessors are requested to report on the purpose and extent of protected spending in the narrative.

2.3:3. A simple average across the relevant years is sufficient for calculating the average actual expenditure charged to a contingency vote, e.g., if the percentages of actual expenditure charged to a contingency vote on the original total budget were 2 percent, 4 percent, and 6 percent, the average would be 4 percent.

2.3:4. If there are no contingency funds in the budget, no accounting for or official reference to contingency expenditures this would meet the requirements for an A score as there is no expenditure charged to a contingency.

2.3:5. In some countries, contingency votes may be referred to as ‘reserves’ or ‘unallocated appropriations.’ In cases where the contingency allocation is transferred from the contingency vote to another vote, the funds should be included as actual expenditure in the destination vote, and not as expenditure on the contingency vote.

2.3:6. The spreadsheet provided on the PEFA website for dimension 2.1 can also be used to assist with calculations for this dimension.

### Dimension 2.3. Scoring

Score	Minimum requirements for scores
A	Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.
B	Actual expenditure charged to a contingency vote was on average more than 3% but less than 6% of the original budget.
C	Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.
D	Performance is less than required for a C score.



### Dimension 2.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	BCG.	<p>Data requirements</p> <ul style="list-style-type: none"> <li>The actual expenditure charged to a contingency heading (either as a separate vote, or as a subvote under the MoF, with a clearly marked title such as ‘contingency reserves’) for each of the last three completed fiscal years.</li> </ul> <p>Calculations:</p> <ul style="list-style-type: none"> <li>The spreadsheet provided on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>) for dimension 2.1 can also be used to assist with the calculations for this dimension.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget law/documentation/ estimates approved by the legislature.</li> <li>Annual budget execution report or audited annual financial statements.</li> </ul> <p>(The above information should be available from the MoF.)</p>

## PI-3. REVENUE OUTFURN

### ABOUT THE INDICATOR

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains the following two dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 3.1. Aggregate revenue outturn
- Dimension 3.2. Revenue composition outturn

### IMPACT ON BUDGETARY OUTCOMES

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Overly optimistic revenue forecasts can lead to unjustifiably large expenditure allocations that will eventually require either a potentially disruptive in-year reduction in spending or an unplanned increase in borrowing to sustain the spending level. On the other hand, undue pessimism in the forecast can result in the proceeds of an over-realization of revenue being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of revenue under-realization may be more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing an over-realization.

### INDICATOR MEASUREMENT GUIDANCE

3:1. Government revenue usually falls into four categories: (i) compulsory levies in the form of taxes and certain types of social contributions; (ii) property income derived from ownership of assets; (iii) sales of goods and services; and (iv) other transfers receivable from other units. The indicator focuses on both domestic and external revenue, which comprises taxes, social contributions, grants, and other revenues including those from natural resources, which may include transfers from a revenue stabilization fund or a sovereign wealth fund where these are included in the budget. External financing through borrowing is not included in the assessment of this indicator. This means that grants from development partners will be

included in the revenue data used for the indicator rating but borrowing on concessionary terms from development partners will not.

3:2. Revenue outturn can deviate from the originally approved budget for reasons unrelated to the accuracy of forecasts, such as a major macroeconomic shock. For this reason, the scoring calibration allows for one outlier year to be excluded. The focus is on significant deviations from the forecast that occur in two or more of the three years covered by the assessment.

3:3. Accurate revenue forecasts are a key input in the preparation of a credible budget. National governments forecast revenues from different sources in the course of budget preparation. Revenue forecasts may be revised on one or more occasions over a budget period. Generally, the first step in revenue forecasting is to prepare a macroeconomic forecast. In many countries, this will cover macro-economic parameters such as GDP, inflation, exchange rate, important commodity prices, consumer spending, etc. The results of the macroeconomic forecast will be crucial inputs to the forecast of revenues. Revenue forecasting may thus be seen as a two-stage process consisting of: (i) a macroeconomic forecast; and (ii) forecast of the main sources of revenues, i.e. tax revenue forecast, that is conditional on the results of that macro forecast (see PI-14).

3:4. The narrative for this indicator should describe the sources of data used and note any concerns about their suitability, reliability, and accuracy. The PEFA report should provide background information on the institutional arrangements for forecasting revenue and on any special factor that may affect the revenue forecast and performance, such as dependence on revenue from natural resources, sources of economic and revenue volatility, significant tax policy and administrative reforms, unanticipated macroeconomic developments, and 'windfall' incomes (including revenues from privatization). The narrative for PI-19 and PI-20 should cross-reference this indicator with respect to entities collecting government revenue.

3:5. As with PI-1, it is crucial that the originally approved budget is the budget on which budget units base their annual expenditure plans and implementation at the commencement of the fiscal year. Failure of the legislature to approve the budget within the time specified in the constitution may result in significant delays in budget approval well into the fiscal year. When, owing to such delays, there is, in effect, no originally approved budget, the deviation between budget and outturn cannot be calculated, and that particular fiscal year should be considered an ‘outlier,’ as discussed in PI-1. The original approved budget, not supplementary budget, should be used for calculation.

3:6. The indicator can be calculated using either cash-based or accrual-based accounting. The basis chosen should be noted and used consistently in all indicator assessments. PI-3 covers all revenue, whether current or capital, irrespective of which version of the GFS manual is used (i.e., 1986, 2001, or 2014), and regardless of the method used to calculate the deficit. Thus, it includes capital receipts from the sale of assets and privatization proceeds.

3:7. If some revenues are extrabudgetary, and are thus not reported nor fully covered by the main BCG budget, they should be estimated in the assessment of dimension PI-6.2, and the narrative under PI-3 should cross-reference this.

3:8. Shared revenues that pass through the central government budget should be included in the central government assessment. However, if revenues are ‘shared’ before they reach central government accounts or funds, then they should be excluded, since the budget will not reflect the estimated revenue—or any spending from the subnational government share of the revenue. The subnational share of the revenue will be covered by the subnational government assessment.

3:9. It is normal that the scoring of quantitative indicators should be based on unaudited accounts, since the accounts of the most recent year(s) may still be awaiting audit. The unaudited accounts

can be used with reasonable assurance if they do not differ significantly from previously audited accounts. In the absence of such assurance (because accounts have not been audited for several years, or because nonsystematic and significant differences exist between audited and unaudited accounts), it is recommended that the unaudited data be used. In such cases the assessment should be considered preliminary and should be updated after accounts have been audited. In Jurisdictional Court System, as there are rarely audited financial accounts, certified accounts or judged accounts could be used.

3:10. Grants from development partners should be included in the revenue data used for this indicator but borrowing on concessional terms from development partners should not.

3:11. Calculations of the deviations between approved budgets and outturns for each dimension should be performed using the spreadsheet provided on the PEFA website [www.pefa.org](http://www.pefa.org). Calculations for the indicator should be included in the assessment report as an Annex.

## **Dimension 3.1. Aggregate revenue outturn**

### **DIMENSION MEASUREMENT GUIDANCE**

3.1:1. This dimension measures the extent to which revenue outturns deviate from the originally approved budget. Use spreadsheets provided on the PEFA website to calculate the score for this indicator. Calculations for the dimension should be included in the assessment report as an Annex.

3.1:2. Assessors are encouraged to provide information explaining the causes of the differences between the executed budget and the approved budget. Explanations may include the accuracy of the original fiscal forecasts, external factors that may have impacted on revenues and expenditures after the budget was approved, and/or post-budget spending and revenue policy decisions, etc. Assessors are encouraged to specify whether these explanations come from the government or their own assessment.

## Dimension 3.1. Scoring

Score	Minimum requirements for scores
A	Actual revenue was between 97% and 106% of budgeted revenue in at least two of the last three years.
B	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.
C	Actual revenue was between 92% and 116% of budgeted revenue in at least two of the last three years.
D	Performance is less than required for a C score.

## Dimension 3.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	BCG.	<p>Data requirements</p> <ul style="list-style-type: none"> <li>The actual end-of-year revenue and the originally budgeted revenue, for each of the last three completed fiscal years.</li> </ul> <p>Calculation</p> <ul style="list-style-type: none"> <li>For calculation of this dimension, assessors should use the electronic spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget law/documentation/estimates approved by the legislature.</li> <li>Annual budget execution report or audited annual financial statements.</li> <li>Information on revenue outturn for the most recent completed fiscal year may also be presented in the budget estimates document. The budget originally approved by the legislature on which budgetary units base their annual expenditure plans at the commencement of the fiscal year.</li> </ul> <p>(The above information should be available from the MoF. Information on the main sources of revenue may also be available from the revenue authorities, although they may not be responsible for some sources of revenue about which data are required.)</p>

## Dimension 3.2. Revenue composition outturn

### DIMENSION MEASUREMENT GUIDANCE

3.2:1. This dimension measures the variance in revenue composition during the last three years. It includes actual revenue by category compared to the originally approved budget using level three [3 digits] of GFS 2014 classification or a classification that can produce consistent documentation according to comparable hierarchical levels and coverage. It includes disaggregation of tax revenue by the main tax types, nontax revenues, and grants. This dimension attempts to capture the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended.

3.2:2. Assessors are encouraged to provide any information explaining the causes of the differences between the composition of the executed budget and the composition of the approved budget. Explanations may include the accuracy of the original fiscal forecasts, external factors that may have impacted on revenues and expenditures after the budget was approved, and/or post-budget spending and revenue policy decisions, etc. Assessors are encouraged to specify whether these explanations come from the government or their own assessment.

## Dimension 3.2. Scoring

Score	Minimum requirements for scores
A	Variance in revenue composition was less than 5% in two of the last three years.
B	Variance in revenue composition was less than 10% in two of the last three years.
C	Variance in revenue composition was less than 15% in two of the last three years.
D	Performance is less than required for a C score.

## Dimension 3.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	BCG.	<p>Data requirements</p> <ul style="list-style-type: none"> <li>The value of revenue in the original approved budget, by category at the GFS three-digit level, or comparable classification, and the end-of-year outturn for the same categories for each of the last three completed fiscal years.</li> </ul> <p>Calculation</p> <ul style="list-style-type: none"> <li>For calculation of this dimension, assessors should use the electronic spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget law/documentation/estimates approved by the legislature.</li> <li>Annual budget execution report or audited annual financial statements.</li> <li>Information on revenue outturn for the most recent completed fiscal year may also be presented in the budget estimates document.</li> </ul> <p>(The above information should be available from the MoF. Information on the main sources of revenue may also be available from the revenue authorities, although they may not be responsible for some sources of revenue about which data are required.)</p>



## PILLAR TWO: TRANSPARENCY OF PUBLIC FINANCES

Pillar II assesses whether information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, the transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

Transparency of information on public finances is necessary to ensure that government activities and operations are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important feature that enables the external scrutiny of government policies and programs and their implementation.

Improved transparency supports the achievement of desirable budget outcomes by giving the legislature and civil society the information they need to hold the executive accountable for budget policy decisions and for the management of public funds more generally. Greater transparency enables stakeholders to examine fiscal strategy and to consider whether public resources are being allocated to the country's important social and development priorities, and whether they are being used efficiently.

Comprehensive information is necessary to provide a complete and accurate picture of public finances, enabling decision makers and other stakeholders to make balanced and well-informed judgments. If some important information is not made available, it could lead to biased and not well-informed decisions.

Pillar II has six indicators:

- PI-4. Budget classification
- PI-5. Budget documentation
- PI-6. Central government operations outside financial reports
- PI-7. Transfers to subnational government
- PI-8. Performance information for service delivery
- PI-9. Public access to fiscal information

# PI-4. BUDGET CLASSIFICATION

## ABOUT THE INDICATOR

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator – dimension 4.1. Budget classification.

## IMPACT ON BUDGET OUTCOMES

A robust classification system allows transactions to be tracked throughout the budget’s formulation, execution, and reporting cycle according to administrative unit, economic category, function/ subfunction, or program. This is essential for allocating and monitoring expenditure to support aggregate fiscal discipline, the allocation of resources to strategic priorities, and efficient service delivery.

## Dimension 4.1. Budget classification

### DIMENSION MEASUREMENT GUIDANCE

4.1:1. The budget should be presented in a format that reflects the most important classifications. The classification should be embedded in the government’s chart of accounts (the accounting classification) to ensure that every transaction can be reported in accordance with any of the classifications used. The budget and accounting classifications should be reliable and consistently applied, providing users with confidence that information recorded against one classification will be reflected in reports under the other classification.

4.1:2. The GFS classification<sup>1</sup> provides a recognized international framework for the economic and functional classification<sup>2</sup> of transactions: revenues and expenditures are broken down into four and three classification levels, respectively. Although no international standard for programmatic classification exists, this type of classification

## Dimension 4.1. Scoring

Score	Minimum requirements for scores
A	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards. Program classification may substitute for subfunctional classification if it is applied with a level of detail at least corresponding to subfunctional classification.
B	Budget formulation, execution, and reporting are based on administrative, economic (at least ‘Group’ level of the GFS standard—3 digits), and functional/subfunctional classification, using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards.
C	Budget formulation, execution, and reporting are based on administrative and economic classification using GFS standards (at least level 2 of the GFS standard—2 digits) or a classification that can produce consistent documentation comparable with those standards.
D	Performance is less than required for a C score.

<sup>1</sup> The GFS Manual 2014 defines the concept of and describes the manner in which revenue and expenditures are classified in chapter 5 (page 84) and chapter 6 (page 114). Appendix 8 (page 385) provides all of the classification codes used in the GFS.

<sup>2</sup> ‘Classification of expenditure according to the functions of the Government’ (GFS Manual 2014, page 142), describes the classification of expenditures according to the functions of the government, including classification codes.



can be an important tool in budget formulation, management, and reporting. The way it is applied should be explained in the report narrative if the highest score is assigned on this basis. If the GFS classification is not applied, it is essential that the classification that is applied has comparable characteristics of clarity, consistency, robustness, and comprehensiveness that are features of GFS. Assessors will have to make a judgment about the qualities of the classification scheme used. Ideally, the latest version of GFS should be used, but if an earlier version is used, the assessor will have to make a judgment about whether it is satisfactory for the purpose. The assessor should mention the reasons for this judgment in the narrative for this indicator in the report.

4.1:3. Every part of the government’s annual budget, including current and capital items, should be covered by this indicator, whether they are integrated or use separate budget and accounting processes. In the latter case, the requirements for a score should be fulfilled for each process. To achieve an ‘A’ score, budget formulation, execution, and reporting should be based on the administrative classification, and every level of administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce consistent documentation comparable with those standards.

4.1:4. For countries rich in natural resources, the government’s revenue classification system should identify and report these revenues (whether taxes, royalties, bonuses, dividends, the government’s share of profits and the main sector(s) from which the revenues originate). The narrative of the assessment should identify whether such a classification exists and if it is linked to budget classification and the chart of accounts.

4.1:5. Consistent documentation comparable with those standards implies that comprehensiveness, consistency, reliability over time and across entities, and clarity of principles and explanatory notes (covering matters such as economic substance over legal form) are comparable to GFS standards, with fully documented methodology and procedures. It should thus be possible to convert the budget data into GFS-compatible reports. This may be done using a standard bridge table comparing the classification in use and the GFS system. If the other classification is not directly based on the GFS standard, the IMF may assess the conversion process to ascertain its ability to produce consistent GFS-compatible statistical reports. If conversion to GFS involves splitting accounting entries under the country’s classification and redistributing amounts across different codes in the GFS system, this may indicate a risk of inconsistency.

## Dimension 4.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Information on the content and application of classifications applied and evidence that the classification is actually used in the budget documents and the chart of accounts.</li> <li>Where the classification differs from the GFS system, information on bridging methodologies and examples of statistics produced using the bridging methodologies should be requested, if such conversions are made.</li> </ul>	<ul style="list-style-type: none"> <li>Relevant legislation and regulations identifying the application of the classification.</li> <li>Annual budget document provided by the MoF for the last completed fiscal year.</li> <li>Copy of the chart of accounts used for the last completed fiscal year.</li> </ul>



# PI-5. BUDGET DOCUMENTATION

## ABOUT THE INDICATOR

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is one dimension for this indicator – dimension 5.1. Budget documentation.

## IMPACT ON BUDGET OUTCOMES

Annual budget documentation refers to the executive's budget proposals for the next fiscal year with supporting documents, as submitted to the legislature for scrutiny and approval. The set of documents provided by the executive should allow a complete picture of central government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years.<sup>3</sup>

## Dimension 5.1. Budget documentation

### DIMENSION MEASUREMENT GUIDANCE

5.1:1. Comprehensive data on expenditure and revenue estimates and outturns, as well as other fiscal aggregates (such as the level of deficit and debt), are essential for well-informed decisions on fiscal sustainability and resource allocation. Information on the budgetary implications of new policy initiatives and capital investments supports the government in prioritizing budget allocations.

5.1:2. The dimension scoring requirements refer to the number of elements that are included in the last annual budget proposals submitted to the legislature by the central government. The full specification of the information benchmark must be met to be counted in the score. The indicator relates to documentation provided to the legislature as part of the annual budget information, or in advance of the executive's budget submission.

5.1:3. The assessment includes four basic elements of fiscal information that are considered the most important to enable the legislature and other budget decision makers to understand the government's fiscal position. Eight additional elements of budget documentation are considered to be good practice. The elements captured by this indicator are as follows:

#### *Basic elements*

1. Forecast of the fiscal deficit or surplus or accrual operating result.
2. Previous year's budget outturn, presented in the same format as the budget proposal. In this element, 'same format as the budget proposal' means that figures should be presented and comparable at the same aggregate level or the same level of relevant detail as in the budget proposal.
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates. (Budget classification is covered in PI-4.)

#### *Additional elements*

5. Deficit financing, describing its anticipated composition.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.

<sup>3</sup> The following terminology is used: Current fiscal year (T) is the fiscal year in which the budget proposals are being prepared and usually presented. Next year (T+1) is the budget year or fiscal year for which the annual budget proposals are made. Previous year (T-1) is the last fiscal year completed. Outer years (T+2, T+3, and so on) are the fiscal years beyond the year for which the annual budget proposals are made. Outer years are relevant for the medium-term budget perspective in PI-14, PI-15, and PI-16.

## Dimension 5.1. Scoring

Score	Minimum requirements for scores
A	Budget documentation fulfills 10 elements, including every basic element (1–4).
B	Budget documentation fulfills 7 elements, including at least 3 basic elements (1–4).
C	Budget documentation fulfills at least 3 basic elements (1–4).
D	Performance is less than required for a C score.

8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.
10. 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 programs. In this element, for all major revenue policy changes and/or major new public investments, assessors may cross check references with indicators PI-15 and PI-11.
11. Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium-term forecast should include as a minimum medium term projections of expenditure, revenue, and fiscal balance.
12. Quantification of tax expenditures. In this element, tax expenditure refers to revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.
  - 5.1:4. It is important that all documentation should be available to the legislature at the time the budget proposal is reviewed. For example, if summary information on fiscal risks (element 9) is not included in the budget documentation but has been made available to the legislature through another official report earlier in the year, this would fulfill the element's requirements, provided that all relevant details are included in that official report (e.g., the 'summary information of fiscal risks' must cover contingent liabilities such as guarantees and contingent obligations such as public-private partnerships (PPPs)).
  - 5.1:5. For element 4, both aggregate data by main head of classification and detailed disaggregated information on revenue and expenditure is required. For element 10, new policy initiatives are those that have been approved by Government and included in the annual budget proposal.

### Dimension 5.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last budget submitted to the legislature.	BCG.	<ul style="list-style-type: none"> <li>Evidence that the 12 data elements listed are included in the annual budget proposal and supporting documentation has been submitted to the legislature for scrutiny and approval.</li> <li>If the documents are not provided with the budget proposal, evidence is needed that a) they were provided in advance to the legislature; and b) fulfill the elements provided that all details required for that element are included; so they are sufficiently relevant to support decisions on the budget.</li> </ul>	<ul style="list-style-type: none"> <li>Last annual budget proposal submitted to the legislature.</li> <li>Supporting documentation for the budget.</li> <li>Additional documentation relating to the budget submitted to the legislature prior to the budget proposal.</li> </ul>

# PI-6. CENTRAL GOVERNMENT OPERATIONS OUTSIDE FINANCIAL REPORTS

## ABOUT THE INDICATOR

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. It contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 6.1. Expenditure outside financial reports
- Dimension 6.2. Revenue outside financial reports
- Dimension 6.3. Financial reports of extrabudgetary units

## IMPACT ON BUDGETARY OUTCOMES

Ex-post financial reports available to the government should cover *all* budgetary and extrabudgetary activities of central government to allow a complete picture of revenue and expenditures across every category. This will be the case if expenditure and revenue of extrabudgetary units and expenditure and revenue related to extrabudgetary activities of budgetary units are insignificant or if such revenues and expenditures are included in central government ex post financial reports.

A complete picture of revenues and expenditure is essential for aggregate fiscal discipline. A complete picture also helps ensure that resources not covered in financial reports are adequately managed in a manner consistent with government policies and procedures. It is also relevant to service delivery, where operations outside financial reports may affect the quality and quantity of services provided on behalf of government.

## INDICATOR MEASUREMENT GUIDANCE

6:1. Entities with individual budgets not fully covered by the main budget are considered extrabudgetary in accordance with the IMF's GFS Manual 2014.

These entities are separate units that operate under the authority or control of a central government (or in the case of a subnational government assessment, the state or local government). They may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, extrabudgetary units have discretion over the volume and composition of their spending. Such entities may be established to carry out specific government functions, such as road construction, or the nonmarket production of health or education services. Budgetary arrangements vary widely across countries, and various terms are used to describe these entities, but they are often referred to as 'extrabudgetary funds' or 'decentralized agencies' (GFS Manual 2014, chapter 2, section 2.82)

6:2. Extrabudgetary units may also include certain public enterprises that have been legally established as public corporations but that do not meet the statistical requirement of a 'public corporation' because they do not charge economically significant prices (see PI-10.1). Government-owned enterprises, such as a central bank, post office, or railroad—which are often referred to as public corporations, state-owned enterprises, or parastatals in a legal sense—may be part of the general government or public sector, depending on the nature of their business and ownership (GFS Manual 2014, chapter 2, sections 2.1, 2.64, 2.65, 2.88). Sometimes such entities exist as unincorporated enterprises within government ministries. When these unincorporated enterprises produce goods and services for the market at economically significant prices and have separate sets of accounts, they are quasi-corporations and classified as public corporations (GFS Manual 2014, section 2.33). However, unincorporated enterprises owned by government units that are not quasi-corporations remain integral parts of the ministries under which they are organized and, therefore, must be included in the general government sector (GFS Manual 2014, section 2.59).

6:3. Whether an entity is classified as budgetary, extrabudgetary, or a public corporation depends on

the specific circumstances. Factors that need to be considered include whether the entity is part of the central government or broader public sector and whether the entity engages in market or nonmarket activities. For example, depending on the country, the post office may be a government department, an extrabudgetary unit, or public corporation (or even a private corporation subject to a PPP), depending on the nature of its business processes and the level of government control.

6:4. A separate indicator PI-29 assesses the extent to which budgetary central government units submit financial reports for audit.

6:5. Implicit expenditures such as quasi-fiscal operations, donor grants-in-kind, and tax expenditures are not included in the coverage of the indicator. (Quasi-fiscal operations are government operations carried out by institutional units other than general government units. They are part of the public sector (GFS Manual 2014, section 2.4).

6:6. Assessors should refer to the GFS Manual for further guidance on which institutions, revenues, and expenditures are considered extrabudgetary when assessing this indicator.

## Dimension 6.1. Expenditure outside financial reports

### DIMENSION MEASUREMENT GUIDANCE

6.1:1. This dimension assesses the magnitude of expenditures incurred by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports. Such expenditures may include expenditures from fees and charges collected and retained by budgetary and extrabudgetary units outside the approved budget, as well as expenditures on externally funded projects and activities where these are not reported in central government financial reports.

## Dimension 6.1. Scoring

Score	Minimum requirements for scores
A	Expenditure outside government financial reports is less than 1% of total BCG expenditure.
B	Expenditure outside government financial reports is less than 5% of total BCG expenditure.
C	Expenditure outside government financial reports is less than 10% of total BCG expenditure.
D	Performance is less than required for a C score.

## Dimension 6.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>Evidence of expenditure not recorded in ex post government financial reports.</li> <li>The total of such expenditure to be calculated as a percentage of total BCG expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>Information from the MoF, central bank, SAI, and others about government bank accounts that are not managed by the Treasury.</li> <li>Financial records of ministries and extrabudgetary units not reported in central government financial reports (e.g., bookkeeping and/or petty cash records, invoices, bank statements, etc.).</li> </ul> <p>(Note: Assessors will have to identify the operations/ accounts before they can collect records on them.)</p>

## Dimension 6.2. Revenue outside financial reports

### DIMENSION MEASUREMENT GUIDANCE

6.2:1. This dimension assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports. Such revenues may include those received by extrabudgetary units from budgetary transfers or other revenues, revenue from donor-funded projects, and fees and charges outside the type or amounts approved by the budget, where any of these are not reported in central government financial reports.

### SUPPLEMENTARY GUIDANCE FOR DIMENSIONS 6.1 AND 6.2

6.2:2. For PI-6.1 and PI-6.2, it is recommended that the PEFA report includes a table that identifies known revenues and expenditures not recorded in government financial reports (see table 6.1). By definition, assessors may not be able to capture the full extent of unreported revenues and expenditures if proper accounting records are not maintained, i.e., where the amounts are unknown.

6.2:3. Assessors should review those institutions that provide services to the public and for which fees (with or without legal basis) are charged and retained by the institution. Where it is not possible to calculate the amounts of revenue collected and/or expenditure incurred, either because either records do not exist or have not been made available, this should be noted in the report even if it is clear that such charges are imposed.

6.2:4. The materiality of such charges should also be noted. In this regard, it may be possible to estimate the extent of charging based on sampling.

6.2:5. It should be noted that the magnitude of revenue and expenditure outside financial reports may be significantly different in a given year, due to the accumulation or reduction of financial assets and liabilities outside budgetary operations.

6.2:6. Differences in the extent to which extrabudgetary units affect the ratings of PI-6.1 and PI-6.2, respectively, may also come about if, for example, a unit reports all revenue received but not how the funds have been spent.

## Dimension 6.2. Scoring

Score	Minimum requirements for scores
A	Revenue outside government financial reports is less than 1% of total BCG revenue.
B	Revenue outside government financial reports is less than 5% of total BCG revenue.
C	Revenue outside government financial reports is less than 10% of total BCG revenue.
D	Performance is less than required for a C score.

## Dimension 6.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>Evidence of revenue not recorded in ex-post government financial reports.</li> <li>The total of such revenue to be calculated as a percentage of total BCG revenue.</li> </ul>	<ul style="list-style-type: none"> <li>Information from the MoF, central bank, SAI and others about government bank accounts which are not Treasury managed.</li> <li>Financial records of ministries and extrabudgetary units not reported in central government financial reports (e.g. bookkeeping and/or petty cash records, invoices, bank statements etc.).</li> </ul>



6.2:7. Calculation of the percentage of expenditure by extrabudgetary units outside government financial reports should include expenditure for which the final use of grants/subsidies has not been specified, using the same classification as for budgetary operations.

**Table 6.1 EXAMPLE of revenues and expenditures outside the government’s financial reports (*Actual entities and other details will vary between countries*)**

Entity	Type of revenue outside government financial reports	Estimated amount of revenue reported outside government financial reports	Type of expenditure reported outside government financial reports	Estimated amount of expenditure reported outside government financial reports	Evidence and reporting
<b>Extrabudgetary Units</b>					
<b>Health Authority</b>	Medical registration fees	\$	Minor office equipment; Vehicles; Meal allowances	\$	Revenues from registering medical professionals are retained by authority and not recorded in FMIS.  Authority maintains separate bookkeeping accounts for retained revenue.
<b>University</b>	Student facility fees	\$	Sports equipment, library acquisitions, computer hardware and software etc.		Supplementary fee (\$100 per student per year) imposed to supplement official tuition fee.
<b>Natural Resource Fund</b>	License fees and royalties from extraction. Returns from investment of fund balances.	\$	Fund administration charges.		Annual reports from Natural Resource Fund operations. All transfers to the budget are reported.
<b>National Trust</b>	Entrance fees to historic buildings	\$			
<b>Etc.</b>					



Entity	Type of revenue outside government financial reports	Estimated amount of revenue reported outside government financial reports	Type of expenditure reported outside government financial reports	Estimated amount of expenditure reported outside government financial reports	Evidence and reporting
<b>Operations of Budgetary Units outside central government financial reports</b>					
<b>Ministry of Transport</b>	Direct grant for transport modernisation project funded by development partner	\$			MoU between ministry and development partner.  Separate budgetary unit bank a/c. Quarterly report to development partner.
<b>Ministry of Education</b>	Voluntary school fees collected from parents and encouraged by institutions. No legal basis	\$			School bookkeeping only. No fiscal reports. Quantity unknown.
<b>Ministry of Health</b>	Co-payments collected/retained by primary medical facilities. Not recorded in FMIS.	\$			Separate accounts/bookkeeping records maintained.
<b>TOTAL</b>		\$			

## Dimension 6.3. Financial reports of extrabudgetary units

### DIMENSION MEASUREMENT GUIDANCE

6.3:1. This dimension assesses the extent to which ex-post financial reports of extrabudgetary units are provided to central government. Annual financial reports should be comprehensive and provided in a timely manner consistent with budgetary central government reporting requirements (see PI-29). Information should include details of actual revenue and expenditure, assets and liabilities, and guarantees and long-term obligations. A separate indicator (PI-

29) assesses the extent to which budgetary central government units submit financial reports for audit.

6.3:2. The PEFA report, Section 2, table 2.6: *Financial structure of central government—budget estimates, and table 2.7: Financial structure of central government—actual expenditure*, present the financial structure of government on aggregate reported government expenditures of budget and extrabudgetary units, including social security funds.

6.3:3. Where extrabudgetary units submit separate annual financial reports, these need to be sufficiently detailed (for example, by providing expenditure by

## Dimension 6.3. Scoring

Score	Minimum requirements for scores
A	Detailed financial reports of <b>all</b> extrabudgetary units are submitted to government annually within three months of the end of the fiscal year.
B	Detailed financial reports of <b>most</b> extrabudgetary units are submitted to government annually within six months of the end of the fiscal year.
C	Detailed financial reports of the <b>majority</b> of extrabudgetary units are submitted to government annually within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.

economic classification) and timely to yield a full picture of government financial operations when combined with the government's annual financial reports for the budgetary central government (as in PI-29).

6.3:4. For this dimension materiality is assessed on the aggregate expenditure of the extrabudgetary units for which financial reports are provided.

6.3:5. Where extrabudgetary units have different fiscal years from the CG, the scoring should be based on respective FYs of the extrabudgetary units, not the CG FY.

6.3:6. Where extrabudgetary units have different reporting times, the times may be averaged by weighting the respective expenditures of the reporting extrabudgetary units.

6.3:7. In the PEFA report, assessors may wish to prepare a table that provides details of extrabudgetary units financial reports (see table 6.2 below) to assist with scoring. Preparation of the table should take into account the materiality requirements of the

indicator based on expenditure, i.e., it is not intended to list all extrabudgetary units.

6.3:8. 'Submitted to government' under PI-6.3 means that the report has been submitted to a relevant central government agency responsible for whole of government or sector budget planning, preparation and execution (eg ministry of finance for whole of government; ministry of education, ministry of health etc. for sector).

6.3:9. Depending on the cut-off date of the assessments, some scores might be impossible to evidence. For example, if the cut-off date of the PEFA assessment is in April, within 4 months after the end of the last completed fiscal years, and the financial reports of extrabudgetary units are still to be produced, assessors will be able to preclude an A score but they will not be able to evidence a B, a C or a D score. Therefore, depending on the cut-off date and the score to be evidenced, assessors can score the previous year's report, in accordance to the following table:

Cut-Off date	Score to be evidenced
Within 3 months after the end of the fiscal year	To evidence A, B, C, and D scores
Within 6 months after the end of the fiscal year	To evidence B, C, and D scores
Within 9 months after the end of the fiscal year	To evidence C, and D scores

**Table 6.2: Financial reports of extrabudgetary units**

Name of extrabudgetary unit	Date of annual financial report completed	Date of annual financial report received by CG	Content of annual financial report (Y/N):			Expenditure as a percentage of total extrabudgetary unit expenditure (estimated)
			Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	

**Dimension 6.3. Timing, coverage and data requirements**

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>Evidence of the submission of financial reports by extrabudgetary units to central government.</li> <li>Date of submission of financial reports by extrabudgetary units to central government.</li> </ul>	<ul style="list-style-type: none"> <li>Annual financial reports of extrabudgetary units.</li> <li>Correspondence with central agency regarding financial reports.</li> </ul>

# PI-7. TRANSFERS TO SUBNATIONAL GOVERNMENTS

## ABOUT THE INDICATOR

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. It contains the following two dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 7.1. System for allocating transfers
- Dimension 7.2. Timeliness of information on transfers

## IMPACT ON BUDGETARY OUTCOMES

Transfers to subnational governments can have an impact on a central government’s ability to achieve and maintain aggregate fiscal discipline because they affect the way in which available resources are used. Transfers may also be targeted to specific policy priorities of the central government and thereby affect resource allocation. If transfers to subnational governments do not follow transparent and orderly systems, there can be unpredictable and potentially significant pressures to access funds needed to deliver services that rely on transfers or that are affected

when funds are diverted to subnational governments and away from other possible uses. (Performance information on services delivered by subnational governments on behalf of central government is captured in PI-8.)

## INDICATOR MEASUREMENT GUIDANCE

7:1. The indicator examines the arrangements for providing transfers from central government to subnational governments<sup>4</sup> and the timeliness of information on those transfers. Financial reporting by subnational governments and fiscal risks to central government from subnational governments are addressed in PI 10.

### Dimension 7.1. System for allocating transfers

#### DIMENSION MEASUREMENT GUIDANCE

7:1:1. This dimension assesses the extent to which transparent, rulebased systems are applied to budgeting and the actual allocation of conditional and unconditional transfers. Transfers to support subnational government’s expenditure can be made in the form of unconditional grants, where their final use is determined by the subnational governments through their budgets, or through conditional (earmarked) grants to subnational governments to implement selected service delivery and expenditure responsibilities—for example, by function or program, typically in accordance with an agreed-upon regulatory or policy standard. The overall level of

## Dimension 7.1. Scoring

Score	Minimum requirements for scores
<b>A</b>	The horizontal allocation of <b>all</b> transfers to subnational governments from central government is determined by transparent, rulebased systems.
<b>B</b>	The horizontal allocation of <b>most</b> transfers to subnational governments from central government is determined by transparent, rulebased systems.
<b>C</b>	The horizontal allocation of <b>some</b> transfers to subnational governments from central government is determined by transparent, rulebased systems.
<b>D</b>	Performance is less than required for a C score.

<sup>4</sup> Refer to the GFS Manual 2014, chapter 2, for an explanation of the distinction between a subnational government and a central government unit.

grants (that is, the vertical allocation) will usually be determined by policy decisions at the central government’s discretion or as part of constitutional negotiation processes, and is not assessed by this indicator. However, clear criteria for the distribution of grants among subnational governments—for example, formulae for the horizontal allocation of funds—are needed to ensure allocative transparency and medium-term predictability of funds available for planning and budgeting of expenditure programs by subnational governments. Every fiscal transfer from central government to the relevant subnational governments should be taken into consideration. If different formulae or criteria are used for different elements of transfer, the overall assessment may be made on a value-based weighted average.

7.1:2. If the out-turn amounts actually transferred are different from the approved budgeted transfers, as long as the basis for which the actual funds are

determined is rulebased and transparent, then the dimension is scored according to the materiality of those transfers. For example, if allocations are reduced to all subnational governments as a result of revenue shortfalls, any reduction in allocation compared to budget is in accordance with applicable rules and transparently applied. When transfers are approved in the budget but not disbursed at all, assessors will have to determine whether there was transparency in the rules applied to explain the lack of disbursement, and score accordingly. The score would be D in case there was no transparency. If there was transparency, the score could range from A to D depending on transparency and rules in place for budgeting.

7.1:3. Transfers from one level of SNG to lower levels of SNGs are not included in the assessment of this indicator for central government PEFA assessments.

## Dimension 7.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG and the sub-national governments with direct financial relationships with CG.	<ul style="list-style-type: none"> <li>Horizontal rulebased system or other arrangements for determining the horizontal allocation of transfers to subnational governments for each type of transfer.</li> <li>Calculate proportion (weighted average by value of transfers) for which horizontal allocations among subnational governments are determined by transparent rules and rulebased system as a percentage of all transfers from CG to the relevant subnational government(s).</li> </ul>	<ul style="list-style-type: none"> <li>Legislation or rules governing transfers from CG to SNG.</li> <li>Annual budget documents.</li> <li>MoF, or specific entity in charge of subnational matters such as Minister of Local Government or Decentralization.</li> <li>Triangulation with representatives of SNG, either at selected subnational entities or subnational associations.</li> </ul>

## Dimension 7.2. Timeliness of information on transfers

### DIMENSION MEASUREMENT GUIDANCE

7.2:1. This dimension assesses the timeliness of reliable information provided to subnational governments on their allocations from central government for the coming year. It is crucial for subnational governments to receive information on annual allocations from central government well in advance of the completion (and preferably before commencement) of their own budget preparation processes. Information on transfers to subnational governments’ budgets should be regulated by the central government’s annual budget calendar, which should provide for reliable information on allocations early in the cycle.

7.2:2. The expression ‘generally adhered to’ means that the calendar is respected for the most part of the actions and their related timing. While a delay of a couple of days in a given date(s) may be acceptable, assessors need to identify whether at least the majority of the stages (actions) and timing in the budget calendar were met or nearly met while keeping in mind the requirement of at least six weeks (score A) and four weeks (score B) for SNGs to meaningfully complete their budget planning. Equally important, is to determine whether the key actions (stages) of the process and corresponding timing are

followed. SNGs may have their own budget calendar but the indicator is assessed in accordance with the central government’s budget calendar.

7.2:3 The expression ‘clear and sufficiently detailed information’ means that the subnational governments should be provided with the total amount of the annual transfers, amount of each allocation, and planned disbursement schedule for each allocation.

7.2:4. Transfers from CG to SNGs may be composed of multiple allocations, e.g., separate allocations for recurrent and capital expenditures or general (e.g. block grants) and earmarked grants. If information is transmitted at different times for the different types of allocation, assessors should use the date on which information on the final allocation was transmitted except if the corresponding allocation is not significant (less than 10% of the total amount of transfers).

7.2:5. SNGs may receive multiple notifications of the planned transfers at different stages of the budget process, e.g., indicative transfer ceilings at the beginning of the budget process and final ceilings later following Cabinet consideration of the draft budget. The date to be taken into account for scoring this dimension shall be the date on which the notification is received of the final approved allocation (or an amount within 10% above or below the final approved allocation).

## Dimension 7.2. Scoring

Score	Minimum requirements for scores
A	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which is generally adhered to and provides clear and sufficiently detailed information for subnational governments to allow at least six weeks to complete their budget planning on time.
B	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which provides clear and sufficiently detailed information for subnational governments to allow at least four weeks to complete their budget planning on time.
C	Substantial delays may be experienced in implementation of the budget procedures. Information on annual transfers to subnational governments is issued before the start of the subnational governments’ fiscal year, which could be after budget plans are decided.
D	Performance is less than required for a C score.

## Dimension 7.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG and the sub-national governments with direct financial relationships to CG.	<ul style="list-style-type: none"> <li>The content of information provided to SNG on their annual transfers (to determine whether it is sufficiently clear and detailed).</li> <li>The date on which subnational government administrators are provided formal information on the transfers from central government.</li> <li>The date on which the subnational government administrations must submit their budget proposals for final approval.</li> <li>Calculation of period between the two dates for A and B ratings.</li> </ul>	<ul style="list-style-type: none"> <li>Legislation or rules governing transfers from CG to SNG.</li> <li>Annual budget documents to be obtained from the MoF, or specific entity in charge of subnational matters such as Minister of Local Government or Decentralization.</li> <li>Triangulation with representatives of SNG, either at selected SNG entities or SNG association.</li> </ul>



# PI-8. PERFORMANCE INFORMATION FOR SERVICE DELIVERY

## ABOUT THE INDICATOR

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation and in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 8.1. Performance plans for service delivery
- Dimension 8.2. Performance achieved for service delivery
- Dimension 8.3. Resources received by service delivery units
- Dimension 8.4. Performance evaluation for service delivery

## IMPACT ON BUDGETARY OUTCOMES

The indicator focuses on the availability, coverage, and timeliness of performance information on the delivery of public services and on the extent to which such information is likely to promote improvements in the effectiveness and operational efficiency of those services. It is also important for the legislature, government officials, and the general public to know whether budget resources reach service delivery units as planned.

Promoting operational efficiency in public service delivery is a core objective of the PFM system. The inclusion of performance information within budgetary documentation is considered to be international good practice. It strengthens the accountability of the executive for the planned and achieved outputs and outcomes of government programs and services. Increasingly, legislatures

demand to see such performance information as part of their consideration of the executive's budget proposal, although the legislature may not be required to approve planned performance.

## INDICATOR MEASUREMENT GUIDANCE

8:1. Service delivery for this indicator refers to programs or services that are provided either to the general public or to specifically targeted groups of citizens, either fully or partially using government resources. This includes services such as education and training, health care, social and community support, policing, road construction and maintenance, agricultural support, water and sanitation, and other services. It excludes those services provided on a commercial basis through public corporations. It also excludes policy functions, internal administration, and purely regulatory functions undertaken by the government, although performance data for these activities may be captured for internal management purposes. It also excludes defense and national security.

8:2. Service delivery unit is defined as the unit that is delivering frontline services directly to citizens and businesses such as schools, health care clinics and hospitals, local police departments, and agricultural extension units.

8:3. Performance information refers to output and outcome indicators and planned or achieved results against those indicators. An output is the actual quantity of products or services produced or delivered by the relevant service (program or function). An outcome is the measurable effect, consequence or impact of the service (or program or function) and its outputs. Activities are specific tasks or functions of service delivery or program.

8:4. Key performance indicators are the means for measuring planned outputs and outcomes. Output indicators measure the quantity of outputs produced or services delivered or planned. Outcome indicators measure the effects, consequences, impact of the services, and their outputs. More advanced performance measurement systems may also seek to assess the gender responsiveness of budget resources through collecting and analyzing gender

disaggregated data on outputs and outcomes, as well as other indicators relating to poverty, development, ethnicity, regional impact, and so on.

8:5. Ministries have been selected as the government unit for publication of performance information in this indicator. This includes related entities for which the ministry has responsibility, such as extrabudgetary units, deconcentrated units, contracted services, and programs delivered by other levels of government using tied or conditional grants provided through a ministry. Different organizational units may be substituted for ministries if performance information is published solely by other units—for example, individual budgetary and institutional units, or a combination of ministries and other units.

8:6. Countries that have not adopted formal program, performance or results-based budget systems may not include performance information in budget documents but may publish other reports containing such information. Assessors should identify whether any information on planned and actual performance is presented separately with the budget submission or as part of annual reporting cycle and/or whether ministries with service delivery responsibilities include performance information in their annual reports or other public document.

8:7. The ministries or other government units referred to in this indicator are those that have expenditure devoted to service delivery, including any expenditures by related entities, or services delivered from tied or conditional grants under a ministry's responsibility. When calculating the proportion of ministries for scoring requirements in this indicator, assessors should make the calculations based on an estimate of the value of expenditure devoted to service delivery in each ministry (i.e., 'most' equals 75% or more of the total expenditure of ministries that is allocated to service delivery programs and 'majority' is greater than 50% (and less than 75%) of the total expenditure of ministries that is allocated to service delivery programs. It would be preferable that assessors and government agree on the list of ministries and service delivery programs covered by this indicator prior to the commencement of the assessment field work.

8:8. For ministries such as education and health, assessors may consider 100% of the budget allocated to service delivery programs. In addition, for many countries a large proportion of service delivery will be accounted for by the ministries of health and education.

8:9. Where information is not easily accessible through a central database (such as budget documents) or where the ministry or other organization unit chosen is highly disaggregated, assessors may wish to consider the use of sampling. If sampling is used, the basis for the sample should be clearly explained and agreed with government prior to the commencement of the fieldwork. The same sample should be applied for dimensions 8.1., 8.2., and 8.4.

8:10. In the case of disagreement either on the list of ministries and services chosen, or proposed sample of ministries, differences of views can be accommodated in an annex as explained in the Framework under Part 3: The PEFA report, paragraph 4.

## **Dimension 8.1. Performance plans for service delivery**

### **DIMENSION MEASUREMENT GUIDANCE**

8.1:1. This dimension assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal or related documentation, at the function, program or entity level.

8.1:2. Performance information may be included with the annual budget documents, presented as a supplementary document or documents, or be published separately by each line ministry. Performance information should be presented by ministry or responsible entity and disaggregated on the same basis as the budget estimates for the next fiscal year, i.e., by program, function or administrative classification as appropriate.

8.1:3. For each ministry listed, and within the determined sample when relevant, the assessor will examine whether policy or program objectives, planned outputs, outcomes or activities are specified

for each program, service or function. Output and outcome indicators must clearly relate to the services provided and/or measure progress against the program objectives. Planned outputs and planned outcomes must be specified for each indicator and should be measurable. For a ministry to meet the requirement for this dimension, performance information must be provided for all of its service delivery programs. Table 8.1 below summarizes the requirements for each score.

8.1:4. The total budget allocation corresponding to the programs or services that meet the above

requirements would then be compared to the aggregate budget allocation for all service delivery programs as set out in the list of service delivery programs agreed by the government and the assessment team as described in paragraph 8:9.

8.1:5. The systems assessed under PI-8.1 are critical for providing citizens the information they need to measure whether PFM is achieving the strategic priorities and operational efficiency essential for good budgetary and fiscal outcomes. There is no standard approach to reporting performance on service delivery; instead, countries use various systems and

## Dimension 8.1. Scoring

Score	Minimum requirements for scores
A	Information is published annually on policy or program objectives, key performance indicators, outputs to be produced, <u>and</u> the outcomes planned for <b>most</b> ministries, disaggregated by program or function.
B	Information is published annually on policy or program objectives, key performance indicators, <u>and</u> outputs to be produced <u>or</u> the outcomes planned for <b>most</b> ministries.
C	Information is published annually on the activities to be performed under the policies or programs for the <b>majority</b> of ministries <u>or</u> a framework of performance indicators relating to the outputs or outcomes of the <b>majority</b> of ministries is in place.
D	Performance is less than required for a C score.

**Table 8.1: Scoring requirements dimension 8.1 (for program, service or function)**

Score	Program objectives	Key performance indicators		Planned outputs (quantity)	Planned outcomes (measurable)	Activities	Materiality (no. of ministries)
		Output indicators	Outcome indicators				
A	Y	Y	Y	Y	Y	NA	Most (>75%)
B	Y	Y	Y	Y	N	NA	Most (>75%)
<b>or</b>							
B	Y	Y	Y	N	Y	NA	Most (>75%)
C	N	N	Y	N	N	N	Majority (>50%)
<b>Or</b>							
C	N	Y	N	N	N	N	Majority (>50%)
<b>Or</b>							
C	N	N	N	N	N	Y	Majority (>50%)

reporting mechanisms. Assessors may find it useful to summarize the information obtained on planned serviced delivery in the form of table as set out in table 8.2 below. The table uses sample data to assess country performance against dimension PI-8.1.

8.1:6. The explanation of this dimension in the PEFA report should comment on the quality and range of performance indicators, whether these are consistent

with the planned outputs and outcomes and whether methods of calculation and sources of data are explained, in particular whether the planned outputs and outcomes are consistent with the level of budget resources. In addition, assessors might also want to comment whether the performance information is relevant and useful to management.

**Table 8.2: Performance data on planned service delivery (example only; actual entities and other details will vary by country)**

Ministry	Budget allocation		Performance data for service delivery (SD) programs (Yes: existence of data for all SD programs of the ministry ; No: non-existence of data or data not covering all the SD programs of the ministry)					
	Total	Service delivery (SD) programs	No. of SD programs	SD program objectives	Performance indicators	Planned performance		
						Outputs	Outcomes	Activities
Education	250.0	250.0	6	Yes	Yes	Yes	Yes	Yes
Health	200.0	200.0	4	Yes	Yes	Yes	No	Yes
Community Services	120.0	120.0	4	Yes	Yes	No	No	Yes
Agriculture	150.0	100.0	2	Yes	Yes	Yes	No	Yes
Justice	30.0	20.0	1	Yes	Yes	Yes	No	Yes
Planning	80.0	0.0	0	N/A	N/A	N/A	N/A	N/A
Energy	50.0	0.0	0	N/A	N/A	N/A	N/A	N/A
Administration	80.0	0.0	0	N/A	N/A	N/A	N/A	N/A
Finance	20.0	0.0	0	N/A	N/A	N/A	N/A	N/A
Office of Prime Minister	50.0	20.0	1	Yes	No	No	No	Yes
<b>Total</b>	1030.0	710.0						
<b>Percentage of SD ministries by value compliant</b>				100%	96% (690/710)	80% (570/710)	35% (250/710)	100%

**Data source:** e.g., annual budget documents, ministry annual reports.

**Scoring based on the above data**

<b>Materiality</b>	All SD ministries (i.e., > 90% by value of SD ministries)	All SD ministries (i.e., > 90%)	Most (>75%)	Some (>25%)	Majority (>50%)
<b>Score based on the above example:</b>	<b>Dimension 8.1:B</b>				
<b>Explanation:</b>	Information is published annually on program objectives, key performance indicators, and the outputs to be produced for most ministries.				

### Dimension 8.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Performance indicators and planned outputs and outcomes for the next FY.	CG.*	<ul style="list-style-type: none"> <li>Published information on measurable performance indicators of outputs and outcomes for service delivery for each ministry that devotes expenditure to service delivery for the budget year.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document and/or supporting budget documentation.</li> <li>Ministry budget statements and/or performance plans.</li> <li>Other documents on ministry service delivery plans containing performance information.</li> </ul>

*\*Services managed and financed by other tiers of government should be included if the CG significantly finances such services through reimbursements or earmarked grants, or uses other tiers of government as implementing agents.*

### Dimension 8.2. Performance achieved for service delivery

Dimension measurement guidance

8.2:1. This dimension examines the extent to which performance results for outputs and outcomes are presented either in the executive’s budget proposal or in an annual report or other public document, in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget. As with dimension 8.1, actual outputs and outcomes may be reported in annual budget documents, as a supplementary document, or separately by each ministry.

8.2:2. For each ministry listed, and within the determined sample when relevant, the assessor will examine whether each program specifies the quantity of actual outputs produced and outcomes achieved for the most recent completed year for each program, service or function. For a ministry to meet the requirement for this dimension, the relevant performance information must be provided for all of its service delivery programs. Table 8.3 summarizes the requirements for each score.

8.2:3. As with dimension 8.1 assessors may find it useful to summarize the information obtained on actual performance achieved in the form of table as set out in the example provided in table 8.4.

### Dimension 8.2. Scoring

Score	Minimum requirements for scores
A	Information is published annually on the quantity of outputs produced <u>and</u> outcomes achieved for <b>most</b> ministries disaggregated by program or function.
B	Information is published annually on the quantity of outputs produced <u>or</u> the outcomes achieved for <b>most</b> ministries.
C	Information is published annually on the activities performed for the <b>majority</b> of ministries.
D	Performance is less than required for a C score.

**Table 8.3: Scoring requirements dimension 8.2 (for program, service or function)**

Score	Outputs produced (quantity)	Outcomes achieved (measurable)	Planned outcomes (measurable)	Activities
<b>A</b>	Y	Y	NA	Most (>75%)
<b>B</b>	Y	N	NA	Most (>75%)
<b>Or</b>				
<b>B</b>	N	Y	NA	Most (>75%)
<b>C</b>	N	N	Y	Majority (>50%)

**Table 8.4: Performance data on service delivery (example only; actual entities and other details will vary by country)**

Ministry	Budget allocation		Actual performance: (Yes: existence of data for all SD programs of the ministry ; No: non-existence of data or data not covering all the SD programs of the ministry)			
	Total	Service delivery (SD) programs	No. of SD programs	Outputs	Outcomes	Activities
Education	250.0	250.0	6	Yes	Yes	6
Health	200.0	200.0	4	Yes	No	6
Community Services	120.0	120.0	4	Yes	No	4
Agriculture	150.0	100.0	2	No	0	2
Justice	30.0	20.0	1	Yes	Yes	2
Planning	80.0	0.0	0	N/A	N/A	N/A
Energy	50.0	0.0	0	N/A	N/A	N/A
Administration	80.0	0.0	0	N/A	N/A	N/A
Finance	20.0	0.0	0	N/A	N/A	N/A
Office of Prime Minister	50.0	20.0	1	No	No	1
<b>Total</b>	1030.0	710.0				
<b>Percentage of SD ministries by value compliant</b>				83% (590/710)	38% (270/710)	100%

**Data source:** e.g., annual budget documents, ministry annual reports.

**Scoring based on the above data**

<b>Materiality</b>	All SD ministries (i.e., > 90%)	Most (>75%)	Some (>25%)	Majority (>50%)
<b>Score based on the above example:</b>	<b>Dimension 8.2: B</b>			
<b>Explanation:</b>	Information is published annually on the quantity of outputs produced achieved for most ministries.			



## Dimension 8.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Outputs and outcomes of the last completed fiscal year.	CG.*	<ul style="list-style-type: none"> <li>Published information on actual quantity of outputs produced or delivered, and evidence of measurable progress on outcomes, associated with the programs or services delivered by each ministry for the last completed fiscal year.</li> <li>Published information on activities performed in relation to service delivery that are undertaken by each ministry for the last completed fiscal year.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/s and/or supporting budget documentation.</li> <li>Ministry budget statements or annual reports.</li> <li>Other documents on ministry service delivery plans containing performance information.</li> </ul>

*\*Services managed and financed by other tiers of government should be included if the CG significantly finances such services through reimbursements or earmarked grants, or uses other tiers of government as implementing agents.*

8.2:4. The narrative of the PEFA report should address whether performance results are directly linked to the performance objectives stated in annual budget documents. The narrative should also note whether the actual results are consistent with the planned outputs and outcomes, and whether any deviation in actual performance is explained.

8.2:5. An assessment may occur in a country implementing performance planning and monitoring. If the assessment takes place in the first year when the performance indicators for the next fiscal years are in place, but outputs and outcomes of the last completed year are not yet reported, 'NA' may be considered for dimension PI-8.2 to allow an assessment on the same basis (i.e., the indicators defined for a specific budget year are reported against at the end of that same budget year). If however, such data is available but not published then the dimension would be scored D.

## Dimension 8.3. Resources received by service delivery units

### DIMENSION MEASUREMENT GUIDANCE

8.3:1. This dimension measures the extent to which information is available on the level of resources actually received by service delivery units of at least two large ministries (such as schools and primary health clinics) and the sources of those funds. The information captured by ministries on resources should support the comparison of service performance with the actual resources received. The reasons for selecting the ministries for this dimension should be explained in the PEFA report narrative. For the purpose of this dimension, 'large' is determined by the total amount represented by the service delivery functions within those ministries.

8.3:2. Regarding information sources, assessors may find that information on resources received by service delivery units is presented within a consolidated budget management system or accounting system, or within alternative stand-alone systems managed by the service delivery unit.



## Dimension 8.3. Scoring

Score	Minimum requirements for scores
A	Information on resources received by frontline service delivery units is collected and recorded for at least two large ministries, disaggregated by source of funds. A report compiling the information is prepared at least annually.
B	Information on resources received by frontline service delivery units is collected and recorded for at least one large ministry. A report compiling the information is prepared at least annually.
C	A survey carried out in one of the last three years provides estimates of the resources received by service delivery units for at least one large ministry.
D	Performance is less than required for a C score.

8.3:3. The reports on service delivery considered for this dimension should capture all resources received in cash and in kind by service delivery units including budget resources, own source revenues (i.e., fees and charges collected directly by the service delivery unit, whether these are transferred to the Treasury or retained), and funds received from external resources (e.g., international organizations and other donors). Assessors should identify the level of appropriation of resources (e.g., program, individual unit). For resources allocated by program, the report should indicate whether the resources are devolved further to the individual service delivery unit.

8.3:4. For reasons of operational efficiency, the budgets and operations of some service delivery

units may be managed by ministries centrally on behalf of service delivery units. This may be the case in small countries with centralized purchasing and recruitment processes or where resources and competencies are insufficient to devolve the funding of service delivery units. Assessors should identify where such arrangements exist and consider the reasons provided by the authorities and whether there are other means of tracking funds through the FMIS, e.g., location codes.

8.3:5. Assessors are encouraged to mention whether and where the report, or other elements on information, on resources received by service delivery units is published.

## Dimension 8.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.*	<ul style="list-style-type: none"> <li>Resources received by the service delivery units of at least two large ministries.</li> <li>Reports compiling information on resources received by source of funding for the relevant ministries.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget documents.</li> <li>Annual financial statements.</li> <li>In-year budget execution reports.</li> <li>Financial reports or statements of donor organizations.</li> <li>Budget management system or accounting system.</li> </ul>

*\*Services managed and financed by other tiers of government should be included if the CG significantly finances such services through reimbursements or earmarked grants, or uses other tiers of government as implementing agents.*

## Dimension 8.4. Performance evaluation for service delivery

### DIMENSION MEASUREMENT GUIDANCE

8.4:1. This dimension considers the extent to which the design of public services and the appropriateness, efficiency, and effectiveness of those services is assessed in a systematic way through program or performance evaluations. The evaluations are considered within the scope of this dimension if they cover **all** or a material part of service delivery or if they are cross-functional and incorporate service delivery functions. Independent evaluations in this context are those undertaken by a body that is separate from, and not subordinate to, the body that delivers the service. It could be a part of

the same unit that has a separate reporting line to the CEO, or a senior management committee. For example, it could be a department with specific responsibilities for independent evaluation or review across the unit, including an internal audit department. Such evaluations may also be undertaken by the government’s external auditor and may be called ‘performance audits.’ Performance audits are included in this dimension and are not covered in PI-30: External audit.

8.4:2. Assessors may find it useful to prepare a summary by ministry as set out in table 8.5 below. For an A or B score on PI-8.4, the evaluations must cover both the efficiency and effectiveness of service delivery. For a C score the evaluations may cover efficiency OR effectiveness.

### Dimension 8.4. Scoring

Score	Minimum requirements for scores
A	Independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published for <b>most</b> ministries at least once within the last three years.
B	Evaluations of the efficiency and effectiveness of service delivery have been carried out and published for the <b>majority</b> of ministries at least once within the last three years.
C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for <b>some</b> ministries at least once within the last three years.
D	Performance is less than required for a C score.

**Table 8.5: Independent evaluation reports or reviews prepared**

Ministry	Program or service evaluated	Date of evaluation report	Evaluation of		Report author (e.g., independent assessor, ministry, IAU, SAI)	Service delivery expenditure covered by evaluation (amount or %)
			Efficiency (Y or N)	Effectiveness (Y or N)		

### Dimension 8.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.*	For each ministry devoting expenditure on service delivery, information on the number and coverage of: <ul style="list-style-type: none"> <li>• Evaluation reports</li> <li>• Performance audit reports</li> <li>• Functional reviews</li> <li>• Internal audit reports</li> </ul>	<ul style="list-style-type: none"> <li>• Line ministries and departments.</li> <li>• SAI.</li> <li>• Internal audit department.</li> <li>• MoF.</li> </ul>

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*\*Services managed and financed by other tiers of government should be included if the CG significantly finances such services through reimbursements or earmarked grants, or uses other tiers of government as implementing agents.*

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# PI-9. PUBLIC ACCESS TO FISCAL INFORMATION

## ABOUT THE INDICATOR

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. There is one dimension for this indicator – dimension 9.1. Public access to information.

## IMPACT ON BUDGET OUTCOMES

Fiscal transparency depends on whether information on government fiscal plans, positions, and performance is easily accessible to the general public. Similar to PI-5. Budget documentation, the range and relevance of information available to the public affects their ability to engage with government and understand how public resources are being used. It can contribute to better resource allocation by strengthening dialogue between government and interested stakeholders and can also lead to improvements in service delivery. If the public is more aware of the trade-offs being made by government in allocating scarce public resources, it can reduce pressure on the government to adopt unrealistic and unsustainable fiscal policy options.

## INDICATOR MEASUREMENT GUIDANCE

9.1. The indicator is assessed based on public access to information which is considered critical to effective understanding of the budget. Public access is defined as availability without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific country circumstances. Justification provided by government for limits on access, where applicable, should be noted in the report.

9.2. The assessment includes five basic elements of fiscal information that are considered the most important to enable the public to understand fiscal

position and four additional elements that are considered to be good practice.

## Dimension 9.1. Public access to fiscal information

### DIMENSION MEASUREMENT GUIDANCE

9.1:1. The elements are as follows:

#### *Basic elements*

1. **Annual executive budget proposal documentation.** A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the legislature.
2. **Enacted budget.** The annual budget law approved by the legislature is publicized within two weeks of passage of the law.
3. **In-year budget execution reports.** The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28<sup>5</sup>.
4. **Annual budget execution report.** The report is made available to the public within six months of the fiscal year's end.
5. **Audited annual financial report, incorporating or accompanied by the external auditor's report.** The reports are made available to the public within twelve months of the fiscal year's end.

#### *Additional elements*

6. **Prebudget statement.** The broad parameters for the executive budget proposal regarding planned expenditure, revenue, and debt is made available to the public at least four months before the start of the fiscal year.
7. **Other external audit reports. All** nonconfidential reports on central government consolidated operations<sup>6</sup> are made available to the public within six months of submission.

<sup>5</sup> The 2016 Framework incorrectly refers to PI-27.

<sup>6</sup> Also, includes performance audits, compliance audits, etc.

## Dimension 9.1. Scoring

Score	Minimum requirements for scores
A	The government makes available to the public eight elements, including all five basic elements, in accordance with the specified time frames.
B	The government makes available to the public six elements, including at least four basic elements, in accordance with the specified time frames.
C	The government makes available to the public four basic elements in accordance with the specified time frames.
D	Performance is less than required for a C score.

8. **Summary of the budget proposal.** A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a ‘citizens’ budget,’ and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval.

9. **Macroeconomic forecasts.** The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.

9.1:2. The narrative of the assessment should also comment on the quality of information made available to the public, focusing on areas such as the accessibility of language and structure; the appropriateness of the layout; the availability of summaries for large documents; and the means used to facilitate public access, such as websites, the press, and notice boards for locally relevant information.

9.1:3. Elements 1 to 9 constitute the scoring requirements. The full specification of the information benchmark must be met to be counted in the score, i.e., the specified time frame should be fully met.

9.1:4. To meet the requirements of element 4, budget execution reports should include a narrative analysis of budget execution.

9.1:5. In circumstances where there is no consolidated audited financial report, the requirements of element 5 can still be met if the individual audited financial statements of all budgetary and extrabudgetary units are made available within the specified timeframe.

9.1:6. Submission to the legislature does not in itself count as public access. It needs to be available to the public without restriction, within a reasonable time and free of charge.

9.1:7. Element 7 also includes performance and compliance audit.

9.1:8 For element 8, two documents can be considered as a Summary of the budget proposal: (i) a clear, simple summary of the executive budget proposal is publicly available within two weeks of the executive budget proposal’s submission to the legislature, or (ii) the enacted budget understandable by the nonbudget experts, often referred to as a ‘citizens’ budget,’ and where appropriate translated into the most commonly spoken local language(s), is publicly available within one month of the budget’s approval.

### Dimension 9.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>The five basic and four additional data elements listed in the dimension measurement guidance that are available to the public.</li> <li>The timeframe compared with the requirements specified in the list of elements.</li> </ul>	<ul style="list-style-type: none"> <li>Listed documents may be accessible from the MoF, Supreme Audit Institution, and procurement authority.</li> <li>Access should be, corroborated through availability at government bookshops, websites, public library, notice boards, and public interest groups as governance NGOs, chamber of commerce, development partner’s country offices.</li> <li>Date of posting information on a website is not necessarily given on the website, so may have to be obtained from the website owner and corroborated by website users.</li> </ul>



## PILLAR THREE: MANAGEMENT OF ASSETS AND LIABILITIES

Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

Pillar Three has four indicators:

- PI-10. Fiscal risk reporting
- PI-11. Public investment management
- PI-12. Public asset management
- PI-13. Debt management



# PI-10. FISCAL RISK REPORTING

## ABOUT THE INDICATOR

This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government’s own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. This indicator contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 10.1. Monitoring of public corporations
- Dimension 10.2. Monitoring of subnational governments
- Dimension 10.3. Contingent liabilities and other fiscal risks

## IMPACT ON BUDGETARY OUTCOMES

Central government usually has a formal oversight role in relation to units in other parts of the public sector and should be aware of, monitor, and manage at a central level any fiscal risks posed by those units. In addition, central government may be obliged, for political reasons, to assume responsibility for a financial default of other entities, such as the banking sector, even when no formal oversight role

or legal obligation exists, thus adequate procedures to monitor those risks at the level of the whole of the public sector should be in place. Such risks can undermine fiscal discipline.

## INDICATOR MEASUREMENT GUIDANCE

10:1. Fiscal risks associated with the operations of public corporations and subnational governments, as well as other contingent liabilities of government can have a significant potential impact on central government operations and public financial management. Such risks need to be closely monitored, reported and where possible quantified.

### Dimension 10.1. Monitoring of public corporations

#### DIMENSION MEASUREMENT GUIDANCE

10.1:1. This dimension assesses the extent to which information on the financial performance and associated fiscal risks of the central government’s public corporations is available through audited annual financial statements. It also assesses the extent to which the central government publishes a consolidated report on the financial performance of the public corporation sector annually.

10.1:2. Fiscal risks created by public corporations and other structured financing instruments (such as PPPs) can take the form of debt service defaults from sovereign guarantees. These should be identified as part of the central government’s contingent liabilities and reported in annual financial statements. The risks of public corporations defaulting on the debt

## Dimension 10.1. Scoring

Score	Minimum requirements for scores
A	Audited annual financial statements for <b>all</b> public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by central government annually.
B	Audited annual financial statements are published for <b>most</b> public corporations within six months of the end of the fiscal year.
C	Government receives financial reports from <b>most</b> public corporations within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.

without guarantees issued by central government should be reported as well. Fiscal risks can also relate to operational losses caused by unfunded quasi-fiscal operations such as a central bank, large expenditure payment arrears, unfunded community service obligations of public corporations, and unfunded pension obligations. Significant fiscal risks are those that are potentially large enough to result in an urgent need to respond with resources allocated to other purposes, or that require governments to increase borrowing to fund actions to address the consequences of a risk-related event.

10.1:3 Public corporations are resident corporations controlled by government units or by other public corporations that are potential sources of financial gains or losses to the government units that own or control them. Public corporations are recognized by law as separate legal entities from their owners, and are set up for purposes of engaging in market production. In some cases, the corporation issues shares, and thus the financial gain or loss is clearly allocated to the shareholders. In other cases, no shares are issued, but it is clear that a specific government unit controls the corporation’s activities and is financially responsible for them (ref GFS Manual 2014 Ch 2, s2.31, s2.48).

10.1:4. Public corporations may be created to: generate profits for general government; protect key resources; provide competition where barriers to entry may be large; and provide basic services where costs are prohibitive. These public corporations are often large and/or numerous, and may have a

significant economic impact (ref GFS Manual 2014, Ch 2, s2.105).

10.1:5. Public corporations may be involved in quasi-fiscal operations (i.e., they carry out government operations at the behest of the government units that control them). As such, public corporations may exist to serve as instruments of public (or fiscal) policy for government. Most directly, a public corporation can engage in specific transactions to carry out a government operation, such as lending to particular parties at a lower-than-market interest rate or selling their product, such as electric power, to selected customers at reduced rates. More generally, however, a public corporation can carry out fiscal policy by employing more staff than required, purchasing extra inputs, paying above-market prices for inputs, or selling a large share of its output for prices that are less than what the market price would be if only private producers were involved (ref GFS Manual 2014, Ch 2, s2.104). Assessors should determine whether the public corporation engages in market or non-market activities and should refer to the GFS manual 2014 for further guidance and explanation.

10.1:6. It is possible that certain institutional units that are legally constituted as corporations may not be classified as corporations for statistical purposes if they do not charge economically significant prices. Government-owned enterprises, such as the central bank, post office, or railroad, which are often referred to as public corporations, state-owned enterprises, or parastatals in a legal sense, may be part of the general government or public sector depending on

**Table 10.1: Financial reports of public corporations**

Public corporation	Year covered by the financial report	Financial statement audited? (Y or N)	Date of reception of the report	Total expenditure	As a % of total expenditure of public corporations	Are contingent liabilities of the public corporation included in the financial report? (Y/N)
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the nature of their business and ownership (ref GFS Manual 2014, Ch 2, s2.1, 2.64, 2.65, 2.88). Although a Central Bank may be legally established as a public corporation, if it receives subventions from the government to support its operations, it would statistically be considered as an extrabudgetary unit in accordance with GFSM 2014. The fiscal risks of central banks supported in this way should be covered under dimension 10.3 together with other implicit fiscal risk associated with central bank operations. In addition, financial reports should be covered under PI-6.3.

10.1:7. The audited financial statements of public corporations should include full information on revenue, expenditure, financial and non-financial assets, liabilities, guarantees and long-term obligations.

10.1:8. The consolidated report required for an ‘A’ score may be a stand-alone document covering only public corporations or it may be part of a consolidated ‘whole of government’ financial report that includes public corporations along with other public sector organizations.

10.1:9. To meet the requirements of a score of A and B for this dimension, only audited financial reports that are published are considered. For a score of C unaudited financial reports received by central government may be considered. However, the latter should include the same level of information regarding revenue, expenditure, financial and non-financial assets, liabilities, guarantees, and long-term obligations as audited financial statements. Table 10.1 may assist assessors to review compliance with this dimension.

10.1:10. Depending on the cut-off date of the assessments, some scores might be impossible to evidence. For example, if the cut-off date of the PEFA assessment is in July, within 7 months after the end of the last completed fiscal years, and the financial reports of public corporations are still to be submitted, assessors will be able to preclude A and B scores but they will not be able to evidence a B, a C or a D score. Therefore, depending on the cut-off date and the score to be evidenced, assessors can score the previous year’s report, in accordance to the following table:

Cut-Off date	Score to be evidenced
Within 6 months after the end of the fiscal year	To evidence A, B, C, and D scores
Within 9 months after the end of the fiscal year	To evidence C, and D scores

## Dimension 10.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG-controlled public corporations.	<ul style="list-style-type: none"> <li>Date of submission to supervising government ministry and date of publication of the annual financial statements of each public corporation for the most recent fiscal year completed (including information on whether each one is audited).</li> <li>Consolidated fiscal reports of public corporations or whole of government consolidated fiscal reports.</li> </ul>	<ul style="list-style-type: none"> <li>A list of public corporations, and data on dates of submission, publication and audit should be compiled by the MoF or SAI.</li> </ul>

## Dimension 10.2. Monitoring of subnational governments

### DIMENSION MEASUREMENT GUIDANCE

10.2:1. This dimension assesses the extent to which information on financial performance, including the central government's potential exposure to fiscal risks, is available through the audited annual financial statements of subnational governments. It also assesses whether the central government publishes a consolidated report on the financial performance of the subnational government sector annually. Fiscal risks created by subnational governments can take the form of debt service defaults with or without guarantees issued by the central government, operational losses caused by unfunded subnational governments' quasi-fiscal operations, expenditure payment arrears, and unfunded pension obligations. The net fiscal position of subnational governments that have direct fiscal relations with the central government should be monitored, at least on an annual basis, with essential information on fiscal risks reported to the central government official responsible for subnational government oversight.

10.2:2. Direct fiscal relations, for the purposes of this dimension, include transfers from central government to a subnational government and revenue-sharing arrangements between central and subnational levels, including revenues collected by the central government and shared with a subnational government and vice versa. The term also includes arrangements in which the central government underwrites or guarantees fiscal support, including loans, loan guarantees, and pension obligations.

10.2:3. The consolidated report may be a stand-alone document covering only subnational governments or it may be part of a consolidated 'whole of government' financial report that includes subnational governments along with other public sector organizations.

10.2:4. INTOSAI standards recognize that SAIs and their local branches may have a jurisdictional form known as 'audit courts'. Jurisdictional control is one of the four types of audit assessed in the SAI

Performance measurement framework. In many countries where external PFM audit is performed by audit courts, jurisdictional control applies at local government level for legal reasons. In those systems, in most cases, the general accountant is responsible for a fully autonomous control system of budget execution and personally liable to audit courts. Annual financial statements are officially endorsed by the general accountant and submitted to audit courts. Such a system, if well applied, ensures that accounts and their transactions are complete, accurate and comply with the national rules. Thus, assessors shall take into account these specific settings when assessing dimension 10.2. Therefore, in such cases, assessors should make sure that:

- Local government's accounts are publicly available within the required period,
- Central government issues a consolidated report on those accounts,
- The jurisdictional control's function works effectively.

10.2:5. An effective jurisdictional control function needs that the SAI sets rules ensuring that:

- The jurisdictional control of all the accounts under the SAI authority is carried out within a reasonable time period,
- The judgment of all the accounts by the SAI occur within a reasonable time period,
- The inventory of accounts awaiting judgment by the SAI remains stable or is reduced,
- The financial amount of these accounts, considering current inflation and increase in public expenditure, awaiting judgment by the SAI is stable,
- The periods of prescription, if existing, are properly implemented.

10.2:6. An SAI may not have the internal resources and capacities to conduct, every year, a jurisdictional control of every entity under its authority. In this case, the SAI must program its jurisdictional control in such a way that, within a relevant time period, all the entities are subject to its control.

10.2:7. If the assessment is conducted within less than 9 months after the end of the last completed fiscal year, assessors might not be able to assess the different requirements of the dimension. In this case, they can base their assessment on the subnational reports of the previous year.

## Dimension 10.2. Scoring

Score	Minimum requirements for scores
A	Audited annual financial statements for <b>all</b> subnational governments are published within nine months of the end of the fiscal year. A consolidated report on the financial position of <b>all</b> subnational governments is published at least annually.
B	Audited annual financial statements for <b>most</b> subnational governments are published at least annually within nine months of the end of the fiscal year.
C	Unaudited reports on the financial position and performance of the <b>majority</b> of subnational governments are published at least annually within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.

## Dimension 10.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	Subnational government entities that have direct fiscal relations with the CG.	<ul style="list-style-type: none"> <li>Date of submission to supervising CG ministry and date of publication of the annual financial statements or reports of each subnational government, including whether they are audited.</li> <li>Consolidated fiscal reports of subnational governments and frequency of publication based on the last report published.</li> </ul>	<ul style="list-style-type: none"> <li>MoF.</li> <li>Ministry of Local Government or similar.</li> <li>Triangulation with information from selected subnational governments.</li> </ul>

## Dimension 10.3. Contingent liabilities and other fiscal risks

### DIMENSION MEASUREMENT GUIDANCE

10.3:1. This dimension assesses monitoring and reporting of the central government's explicit contingent liabilities from its own programs and projects, including those of extrabudgetary units. Explicit contingent liabilities include umbrella state guarantees for various types of loans—for example, mortgage loans, student loans, agriculture loans, and

small business loans. Explicit contingent liabilities also include state insurance schemes, such as deposit insurance, private pension fund insurance, and crop insurance. The financial implications of ongoing litigation and court cases should be included, although these are often difficult to quantify. State guarantees for nonsovereign borrowing by private sector enterprises and guarantees on private investments of different types, including special financing instruments such as public-private partnerships (PPPs), should be reported. In many

countries, governments have entered into PPPs in order to finance services to communities. While not explicitly guaranteed, such arrangements almost always generate a contingent liability for the government, should the commercial terms in the contract not be satisfied. For example, the forecast level of tolls generated from a road constructed and operated by the private sector may not be realized. Such contingencies may result in a significant and quantifiable financial risk for government and should be included in the assessment of this indicator.

10.3:2. Significant contingent liabilities are defined as those with a potential cost in excess of 0.5 percent of total BCG expenditure and for which an additional appropriation by the legislature would be required. Dimension 10.3 does not assess explicit contingent liabilities arising from public corporations or

subnational governments as they are assessed under dimensions 10.1 and 10.2 respectively. To list the significant contingent liabilities, assessors should first identify the legal framework covering contingent liabilities arising from government programs and any entity responsible, if any, for monitoring and reporting such liabilities. Then, they should select the significant ones (see above for definition).

10.3:3. Implicit contingent liabilities such as bailouts, the failure of nonguaranteed pension funds, natural disasters, armed conflicts, and other possible events pose significant risks as well. They are not legally binding and are difficult to quantify. Nevertheless, the extent of any qualitative assessment of such risks should be reported as part of the narrative for this dimension.

### Dimension 10.3. Scoring

Score	Minimum requirements for scores
A	A report is published by central government annually that quantifies and consolidates information on <b>all</b> significant contingent liabilities and other fiscal risks of central government.
B	Central government entities and agencies quantify <b>most</b> significant contingent liabilities in their financial reports.
C	Central government entities and agencies quantify <b>some</b> significant contingent liabilities in their financial reports.
D	Performance is less than required for a C score.

### Dimension 10.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>• Reports on contingent liabilities by CG and by individual CG entities.</li> <li>• Consolidated report on contingent liabilities and information on the frequency of publication.</li> </ul>	<ul style="list-style-type: none"> <li>• Annual financial statements.</li> <li>• Financial or other reports of budgetary units.</li> <li>• MoF.</li> </ul>



# PI-11. PUBLIC INVESTMENT MANAGEMENT

## ABOUT THE INDICATOR

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The indicator contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 11.1. Economic analysis of investment projects
- Dimension 11.2. Investment project selection
- Dimension 11.3. Investment project costing
- Dimension 11.4. Investment project monitoring

## IMPACT ON BUDGETARY OUTCOMES

Public investments can serve as a key driver for economic growth. However, the effectiveness and efficiency of public investment is also a key determinant in maximizing its impact and helping to support government's social and economic development objectives. Efficient management of public investment resources requires careful analysis to prioritize investments within sustainable fiscal limits to ensure that approved projects are implemented as planned. This can be achieved through rigorous economic analysis, meticulous project selection, effective management of investment expenditure, and monitoring of timely completion.

## INDICATOR MEASUREMENT GUIDANCE

11:1. There is a variety of national approaches to public investment management. However, there are common features in terms of the functions they carry out. This indicator attempts to distill the four most critical dimensions: appraisal, selection, costing, and monitoring.

11:2. The indicator spans every type of PFM system, including those with separate recurrent and capital budget management processes and institutions.

11:3. For the purpose of this indicator, major investment projects are defined as projects meeting both of the following criteria:

- The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and
- The project is among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units' investment project expenditure.

11:4. The magnitude of both the total annual budget expenditure and the unit's investment project expenditure refers to the current year's budgeted expenditure, whereas the 10 largest projects included in the current year's budget(s) are determined by the total investment cost of each project, irrespective of how much of the total investment is budgeted for the current year.

11:5. The term major investment project also includes investments implemented through structured financing instruments such as PPPs. If the government has a different definition of major investment projects that would at least meet these criteria and that would simplify collection of information, the assessor may use the government's definition to identify major investment projects, but scoring should still be done using the definition in this guide.

11:6. Assessors should first identify which major investment projects are included in the assessment, i.e., which investment projects qualify as major in accordance with the definition for this indicator.

11:7. In order to assess the dimensions of this indicator, assessors should investigate whether a country's public investment management function is centralized or decentralized. In a decentralized setting, assessors should seek information from the government agencies responsible for implementing most of the investments (e.g., the 10 largest projects



or agencies). In a centralized setting, most of the data could be obtained from the central body responsible for oversight of public investment, such as an Investment Agency, a Ministry of Economy, Planning, or Finance and subsequently verified with the relevant spending agency(ies).

11:8. Assessors should aim to provide information on whether externally funded investment projects and investments implemented through structured financing instruments, such as PPPs, are included in the budget documentation, whether most investment spending is undertaken through the budget, and which parts are not included in the budget.

11:9. Assessors may want to obtain audit reports (both external and internal) on public investments or on programs that contain public investments. These reports may provide useful insights and evidence on the functioning of the public investment management system.

11:10. Certain important issues for public investment management are not treated explicitly by this indicator but are covered by other indicators.<sup>7</sup> For example: (a) questions of whether investment projects are consistent with national or sector policy objectives is addressed by PI-16; (b) the quality of the procurement process—the extent to which a reliable, comprehensive procurement plan is prepared ex-

ante—is covered by PI-24; and (c) whether a well-maintained asset register that records accurate values exists, which is examined in PI-12.

### Dimension 11.1. Economic analysis of investment proposals

#### DIMENSION MEASUREMENT GUIDANCE

11.1:1. This dimension assesses the extent to which robust appraisal methods, based on economic analysis are used to conduct feasibility or prefeasibility studies for major investment projects on the basis of an analysis of its economic, financial, and other effects; whether the results of analyses are published, and whether the analyses are reviewed by an entity other than the sponsoring entity.

11.1:2. There are different types of economic analyses with different coverage and areas of emphasis. Regardless of the approach to economic analysis, the objective should be to scrutinize and analyze the projects and ensure that selected projects are compatible with the available resource envelope and offer value for money.

11.1:3. Appraisals based on economic analysis should include analysis of economic externalities—sometimes referred to as social or economic costs and policy benefits—and health and environmental

### Dimension 11.1. Scoring

Score	Minimum requirements for scores
A	Economic analyses are conducted, as established in national guidelines, to assess <b>all</b> major investment projects and the results are published. The analyses are reviewed by an entity other than the sponsoring entity.
B	Economic analyses are conducted, as established in national guidelines, to assess <b>most</b> major investment projects, and <b>some</b> results are published. The analyses are reviewed by an entity other than the sponsoring entity.
C	Economic analyses are conducted to assess <b>some</b> major investment projects.
D	Performance is less than required for a C score.

<sup>7</sup> In fact, there are many elements of the broader public sector context that will affect project implementation. These include project implementation capacity, total project cost management (which relies on an accounting system that can capture and report project costs), facilities-operation arrangements, and ex-post evaluation rules and procedures.

impacts. Social or economic costs refer to the total costs to society of an economic activity and the benefits refer to the total increase in the welfare of society from an economic action. Environmental impact refers to considering the effect of investment projects on, for example, air and water quality; while the health considerations can include analysis of the impact of major investment projects on, for example, workplace or poor housing conditions.

11.1:4. Economic analysis frequently involves the application of specific techniques such as cost-benefit analysis, cost-effectiveness analysis, and multicriteria analysis. Cost-benefit analysis, which is often used in performing economic analysis, seeks to quantify in monetary terms as many of the costs and benefits of a project proposal as feasible, including items for which the market does not provide a satisfactory measure of economic value. Cost-effectiveness analysis compares alternative approaches that have different impacts and calculates cost-effectiveness ratios.

11.1:5. The economic analyses used to inform decisions on project proposals should be current enough to be meaningful. Outdated analyses, such as those for which market conditions have shifted

considerably, are not likely to form a useful base for decision making.

11.1:6. An approved set of national guidelines for carrying out economic analyses helps ensure that a standard methodology for the project appraisal process is in place and is used systematically across major investment projects. The guidelines should also include a requirement for the results of the appraisal process for major investment projects to be published.

11.1:7. To ensure objectivity, the appraisal should be reviewed by an entity other than the sponsoring entity. Typically, major investment projects would also be reviewed by the Ministry of Finance to check the robustness of the economic analysis and the affordability of the proposal.

11.1:8. For countries to score A or B on this dimension the results of economic analyses of major investment projects, or at least a summary of key findings, need to be published. The definition of published includes users' awareness of the documents' availability and how they can access them, as presented in section 2.1.8. of the Fieldguide.

## Dimension 11.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>List of approved/ongoing investment projects with relevant data to identify them as 'major' as per PEFA criteria.</li> <li>National guidelines to conduct economic analysis.</li> <li>Economic analysis documentation of approved/ongoing major investment projects.</li> <li>Documentation of the economic analyses review process by an agency other than the sponsoring agency.</li> <li>Documented publication of economic analyses results.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of finance/planning.</li> <li>Line ministries and agencies.</li> <li>Agency in charge of public investments, if any.</li> <li>National guidelines to conduct economic analysis.</li> <li>Economic analysis of investment projects.</li> <li>Supreme Audit Institution</li> <li>Development partners when there are major investment projects financed by external funds</li> </ul>

## Dimension 11.2. Investment project selection

### DIMENSION MEASUREMENT GUIDANCE

11.2:1. This dimension assesses the extent to which the project selection process prioritizes investment projects against clearly defined criteria to ensure that selected projects are aligned with government priorities. Rigorous and transparent arrangements for the selection of investment projects aim to strengthen the efficiency and productivity of public investments. The dimension requires that institutions are in place to guide the project selection processes, including a centralized review of major investment project appraisals before projects are included in budget submissions to the legislature. It also requires that governments publish and adhere to standard criteria for project selection.

11.2:2. Standard criteria are a set of formal procedures adopted by government and used for every project

or group of related major investment projects with common characteristics within and across central governmental units. For the purpose of this dimension, prioritization of major investment projects should be performed in accordance with the standard criteria; and for score A, standard criteria need to be publicly available.

11.2:3. The central review of major investment projects is typically carried out by the MoF staff, although in some countries it may be performed by a Ministry of Economy or Planning. The review may also, but not necessarily, include inputs from other experts, before decisions are taken on whether to include projects in the budget. The central review of major investment projects is performed to ensure that major investment projects have been scrutinized in accordance with standard criteria and are affordable as defined by available budgetary resources.

### Dimension 11.2. Scoring

Score	Minimum requirements for scores
A	Prior to their inclusion in the budget, <b>all</b> major investment projects are prioritized by a central entity on the basis of published standard criteria for project selection.
B	Prior to their inclusion in the budget, <b>most</b> major investment projects are prioritized by a central entity on the basis of standard criteria for project selection.
C	Prior to their inclusion in the budget, <b>some</b> of the major investment projects are prioritized by a central entity.
D	Performance is less than required for a C score.

### Dimension 11.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>List of approved/ongoing investment projects with relevant data to identify them as 'major' as per PEFA criteria.</li> <li>Documentation of government's central review of major investment projects before inclusion of projects in the budget.</li> <li>Documentation on publication and adherence to standard criteria for project selection.</li> <li>Details of standard criteria for project selection.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of finance/planning.</li> <li>Line ministries and agencies.</li> <li>Agency in charge of public investments, if any.</li> <li>Supreme Audit Institution.</li> <li>Development partners when there are major investment projects financed by external funds.</li> </ul>

## Dimension 11.3. Investment project costing

### DIMENSION MEASUREMENT GUIDANCE

11.3:1. This dimension evaluates whether the budget documentation includes medium-term projections of investment projects on a full-cost basis and whether the budget process for capital and recurrent spending is fully integrated. Sound budget management requires the preparation of comprehensive and forward-looking project budget plans for capital and recurrent costs over the life of the investment. Projections of recurrent cost implications from projects are needed to plan and incorporate these costs into budgets going forward. Solid budget and cash-flow management, as well as cost-benefit analysis, depend on comprehensive financial analysis of investment projects.

11.3:2. Life cycle or total or full costs of major investment projects should include design, development, implementation, operation, maintenance, and disposal costs over the full life cycle of the investment, broken down annually. The

dimension does not require the calculation of net present value. Life cycle costs refer to the sum of all the costs of a major investment project, including consumption of fixed capital, overheads, and the costs of activities related to the project but performed by entities other than the entity responsible for the project.

11.3:3. Capital costs refer to expenditure incurred for the acquisition of land and other physical assets, intangible assets, government stocks, and non-military, non-financial assets, of more than a minimum value, with an expected lifetime of more than one year. The costs of major investment projects should include (i) projects that are implemented and/or budgeted over several phases, and (ii) projects that involve a single program over time but that have different groups of activities at different times.

### Dimension 11.3. Scoring

Score	Minimum requirements for scores
A	Projections of the total life-cycle cost of major investment projects, including both capital and recurrent costs together with a year-by-year breakdown of the costs for at least the next three years, are included in the budget documents.
B	Projections of the total capital cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years, are included in the budget documents.
C	Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents.
D	Performance is less than required for a C score.

### Dimension 11.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>List of approved/ongoing investment projects with relevant data to identify them as ‘major’ as per PEFA criteria.</li> <li>Budget projections for investment projects, supported by a cash flow forecast, financing plan, and maintenance costs over the full life of the investment.</li> <li>Medium-term budget data on project implementation (recurrent costs, maintenance costs).</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of finance/planning.</li> <li>Line ministries and agencies.</li> <li>Agency in charge of public investments, if any.</li> <li>Legislation on public investment.</li> <li>Annual budget documentation.</li> <li>Medium-term expenditure framework, if available.</li> <li>Supreme Audit Institution.</li> <li>Development partners when there are major investment projects financed by external funds.</li> </ul>

### Dimension 11.4. Investment project monitoring

#### DIMENSION MEASUREMENT GUIDANCE

11.4:1. This dimension assesses the extent to which prudent project monitoring and reporting arrangements are in place to ensure value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and produce periodic project-monitoring reports. Monitoring should cover projects from the point of approval and throughout implementation. The system should allow supplier payments to be linked to evidence of physical progress. The system should also identify deviations from plans and allow for identification of appropriate actions in response.

11.4:2. B and C scores are given for this dimension if at least some of the major investment projects are included in the information monitored and reported or prepared, respectively.

11.4:3. Standard procedures and rules refer to a set of formal guidelines adopted by government that are used in the implementation of every project or

group of related major investment projects with common characteristics within and across central governmental units.

11.4:4. Total cost refers to the costs identified in dimension PI-11.3. Monitoring reports should highlight any deviations from the original cost estimates and the reasons for the deviation. Assessors should highlight any patterns of systemic cost underestimation or overestimation.

11.4:5. Physical progress relates to the production and implementation steps and milestones in the project plan, for example, the length of road laid, components of assembly for products and machinery, stage of building construction.

11.4:6. A high level of compliance implies the application of established procedures. A high score thus requires evidence that procedures have been followed during implementation. This could be determined through a review of audit documentation or the existence—and satisfactory results—of quality assurance checks.

## Dimension 11.4. Scoring

Score	Minimum requirements for scores
<b>A</b>	The total cost and physical progress of major investment projects are monitored during implementation by the implementing government unit. There is a high level of compliance with the standard procedures and rules for project implementation that have been put in place. Information on the implementation of major investment projects is published in the budget documents or in other reports annually.
<b>B</b>	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on implementation of major investment projects is published annually.
<b>C</b>	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually.
<b>D</b>	Performance is less than required for a C score.

## Dimension 11.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>List of approved/ongoing investment projects with relevant data to identify them as ‘major’ as per PEFA criteria.</li> <li>A comparison of projections with data on the actual execution of major investment projects at different stages (time, amount spent, physical progress, etc.), published in budget documentation or elsewhere.</li> <li>Evidence of the existence of, and compliance with, implementation procedures in the form of audit findings or quality assurance reports.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of finance/planning.</li> <li>Line ministries and agencies.</li> <li>Agency in charge of public investments, if any.</li> <li>Guidelines on monitoring public investments.</li> <li>Databases.</li> <li>Project monitoring reports.</li> <li>Supreme Audit Institution.</li> </ul>



## PI-12. PUBLIC ASSET MANAGEMENT

### ABOUT THE INDICATOR

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. It contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 12.1. Financial asset monitoring
- Dimension 12.2. Nonfinancial asset monitoring
- Dimension 12.3. Transparency of asset disposal

### IMPACT ON BUDGETARY OUTCOMES

The effective management of assets supports aggregate fiscal discipline by ensuring that resources owned and controlled by government are used efficiently and effectively in the implementation of policy objectives. If governments do not have sufficient knowledge of the existence and application of assets, it is possible that the assets are not being used effectively and may not be properly applied. Governments also need to be aware of assets that are not needed, or not fully utilized, so that they can make timely decisions on whether the assets should be transferred to other users or exchanged for different assets of greater value for service delivery or other policy implementation.

### INDICATOR MEASUREMENT GUIDANCE

12:1. Assets are resources controlled by a government entity as a result of past events from which future economic benefits are expected to flow.

12:2. Assets are classified under GFS 2014 and other classifications as either financial or nonfinancial. Financial assets can be very diverse, including cash, securities, loans, and receivables owned by the government. They may also include foreign reserves and long-term funds such as sovereign wealth

funds and equity in state-owned and private sector institutions. Financial assets can also consist of financial claims and gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability (GFS Manual 2014, page 403). It is important that a country has systems for managing, monitoring, and reporting on financial assets, including robust risk management frameworks where necessary, and appropriate governance and transparency arrangements.

12:3. Every economic asset other than financial assets is classified as a nonfinancial asset (GFS Manual 2014, page 409). Recognizing nonfinancial asset values and economic potential is important for a variety of PFM processes, including assessing the financial position of government, determining the requirement for future capital investment, maximizing the return on investments, and ensuring efficient utilization of resources.

12:4. Nonfinancial assets may arise as outputs of a production process, may occur naturally, or may be constructs of society. Nonfinancial assets usually provide benefits either through their use in the production of goods and services or in the form of property income. The most valuable nonfinancial assets of many countries are subsoil mineral resources such as oil, gas, diamonds, or precious or industrial metals. Non-financial assets are further subdivided into those that are produced (fixed assets, inventories, and valuables) and those that are non-produced (land, mineral and energy resources, other naturally occurring assets, and intangible non-produced assets) (GFS Manual 2014, para 3.50).



# Dimension 12.1. Financial asset monitoring

## DIMENSION MEASUREMENT GUIDANCE

12.1:1. This dimension assesses the nature of financial asset monitoring, which is critical to identifying and effectively managing the key financial exposures and risks to overall fiscal management. The rating criteria use the term ‘performance’ to refer to the return on invested capital in the form of dividends, interest, and capital appreciation or loss, rather than any specific target.

12.1:2. Information on financial assets, for the purposes of this indicator should be cross-checked against government financial reports as assessed in PI-29. Annual financial reports and the reporting of public corporations in PI-10. Fiscal risk reporting. Financial assets categories include<sup>8</sup>:

- (i) cash, securities, loans, and receivables owned by the government;
- (ii) foreign reserves and long-term funds such as sovereign wealth funds and equity in state-owned and private sector institutions; and
- (iii) financial claims and gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability.

12.1:3. Market or fair value refers to the amount at which an asset could be exchanged between willing parties at the current time. Acquisition value refers to the amount paid for the assets when they were purchased.

12.1:4. If financial asset management involves a large number of significant entities or is highly decentralized, complete information on the government’s financial assets may be impractical to collect. Assessors may consider using a sampling methodology. If sampling is used, they should then explain the reason and justify the sampling approach adopted. It would be preferable that assessors and government agree on the sampling approach. In case of disagreement, differences of views can be accommodated in an annex as explained in the Framework under Part 3: The PEFA report, paragraph 4.

12.1:5. When foreign reserves and assets pertaining to category (ii) above described are held and owned by the central bank and the central bank complies with the PEFA definition of a public corporation, they are not covered by this dimension. In such cases, narrative should explain it and describe how the central bank reports to the CG.

## Dimension 12.1. Scoring

Score	Minimum requirements for scores
A	The government maintains a record of its holdings in <b>all</b> categories of financial assets, which are recognized at fair or market value, in line with international accounting standards. Information on the performance of the portfolio of financial assets is published annually.
B	The government maintains a record of its holdings in major categories of financial assets, which are recognized at their acquisition cost or fair value. Information on the performance of the major categories of financial assets is published annually.
C	The government maintains a record of its holdings in major categories of financial assets.
D	Performance is less than required for a C score.

<sup>8</sup> GFS Manual 2014, page 403.

## Dimension 12.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>Value of financial assets under each class and information on the method(s) of valuation used.</li> <li>Published document or set of documents covering the performance of the portfolio of financial assets and information on the frequency of publication.</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated financial statements, including notes relating to the holdings of financial assets.</li> <li>Asset management agency, if any.</li> <li>Budget and extrabudgetary units holding financial assets.</li> <li>MoF, Treasury.</li> <li>Internal audit units.</li> <li>SAI.</li> </ul>

## Dimension 12.2. Nonfinancial asset monitoring

### DIMENSION MEASUREMENT GUIDANCE

12.2:1. This dimension assesses the features of nonfinancial asset monitoring for BCG. Reporting on nonfinancial assets should identify the assets and their use. Maintaining a register of fixed assets is a basic requirement; up-to-date registers allow government to better utilize assets such as infrastructure and to plan investment programs and maintenance. Registers of subsoil assets are only required if the assets owned by BCG are significant relative to total BCG assets. If there are significant nonfinancial assets held by public corporations, this should be reported in the narrative for this dimension. The dimension does not require valuation for nonfinancial assets.

12.2:2. A list of categories of nonfinancial assets is provided in table 12.2 below to guide the assessment of dimension 12.2. The assessment should be clear about which categories are included for the purposes of this indicator and the reasons for any exclusions. It should include comments on the mechanisms used to capture information. The narrative should also comment on the completeness of the data inserted in the table and should indicate which entities own or administer the assets.

12.2:3. Assessors are advised to use table 12.2 to help the scoring of the dimensions concerning non-financial assets. The ‘where captured’ column should explain if the asset class is captured in registers and to what extent, i.e., how complete the information is. The ‘comments’ column is meant to provide information on (1) who owns/administers the assets (2) how information is captured and how frequently

## Dimension 12.2. Scoring

Score	Minimum requirements for scores
A	The government maintains a register of its holdings of fixed assets, land, and (where relevant) subsoil assets, including information on their usage and age, which is published at least annually.
B	The government maintains a register of its holdings of fixed assets, including information on their usage and age, which is published. A register of land, and (where relevant) subsoil assets is also maintained.
C	The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.
D	Performance is less than required for a C score.

it is updated and (3) whether the assets have a valuation or are registered only as physical quantities.

12.2:4. Assessors should determine whether the registers are complete and current. Scores above D should only be given where the registers are considered to be complete and current for all material assets covered by the requirements.

12.2:5. If nonfinancial asset management involves a large number of significant entities or is highly decentralized, complete information on the

government's nonfinancial assets may be impractical to collect. Assessors may consider using a sampling methodology. If sampling is used, they should then explain the reason why and justify the sampling approach adopted. It would be preferable that assessors and government agree on the sampling approach. In case of disagreement, differences of views can be accommodated in an annex as explained in the Framework under Part 3: The PEFA report, paragraph 4.

**Table 12.1. Categories of nonfinancial assets**

Categories	Subcategories	Where captured	Comments
Fixed assets	Buildings and structures		
	Machinery and equipment		
	Other fixed assets		
Inventories	—		
Valuables	—		
Nonproduced assets	Land		
	Mineral and energy resources		
	Other naturally occurring assets		
	Intangible nonproduced assets		

*Note: The categories in the table are based on the GFS Manual 2014, but different categories applied by the government may be used.*

## Dimension 12.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Register(s) of fixed assets, possibly with information on their usage and age.</li> <li>Published document or set of documents related to one or more nonfinancial asset categories above mentioned.</li> </ul>	<ul style="list-style-type: none"> <li>Asset management agency, if any.</li> <li>Budget units holding nonfinancial assets.</li> <li>MoF.</li> <li>Treasury.</li> <li>Internal audit units.</li> <li>SAI.</li> </ul>

## Dimension 12.3. Transparency of asset disposal

### DIMENSION MEASUREMENT GUIDANCE

12.3:1. This dimension assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures. It examines whether information is provided to the legislature or the public on transfers and disposals. Transfer of assets includes transfer of usage rights where ownership is retained by the government.

12.3:2. Procedures and rules for transfer and disposal of assets include formal directions or regulations relating to the authority and responsibility for taking such action, and the methods to be used for transfer or disposal, recording or publication of the

results. These are considered to be established when the procedures and rules are formally recorded in laws, regulations or directions from appropriate authorities.

12.3:3. For an A and B score, complete information on transfers and disposals should be included in budget documents, financial reports or other reports. Complete information includes that relating to original cost, disposal value, date of acquisition, and date of disposal. For a C score, partial information should include at least the original purchase cost and disposal value.

12.3:4. When there is no disposal or transfer of assets, the second requirement for an A and a B score would be fulfilled if the absence of disposal (or transfers) is acknowledged. If there is no such acknowledgment, the score could be C.

### Dimension 12.3. Scoring

Score	Minimum requirements for scores
A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the legislature for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.
B	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.
C	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.
D	Performance is less than required for a C score.

### Dimension 12.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG for financial assets and BCG for nonfinancial assets.	<ul style="list-style-type: none"> <li>Rules and regulations related to transfer or disposal of financial and nonfinancial assets.</li> <li>Set of documents submitted to the legislature for information or approval.</li> <li>Reports containing details of transfers and disposal of assets.</li> </ul>	<ul style="list-style-type: none"> <li>Asset management agency, if any.</li> <li>Budget and extrabudgetary units.</li> <li>MoF.</li> <li>Treasury.</li> <li>Internal audit units.</li> <li>SAI.</li> </ul>

## PI-13. DEBT MANAGEMENT

### ABOUT THE INDICATOR

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. It contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimensions scores:

- Dimension 13.1. Recording and reporting of debt and guarantees
- Dimension 13.2. Approval of debt and guarantees
- Dimension 13.3. Debt management strategy

### IMPACT ON BUDGET OUTCOMES

The size and management of debt and guarantee obligations can have a substantial impact on a country's capacity to maintain fiscal discipline. Effective management is necessary to ensure that the cost of such obligations is minimized in the long term and that the country has the capacity to meet all obligations when they are due. Governments that fail to monitor the financial liabilities that arise from domestic, foreign, and guaranteed debt or from payment arrears, including salaries, may create unnecessarily high debt service costs and are unlikely to be able to deliver planned services. For the purpose of this indicator, debt refers to central government

debt—both domestic and external. Monitoring of debt contracted by subnational governments and public enterprises is considered under PI-10. Fiscal risk reporting.

### Dimension 13.1. Recording and reporting of debt and guarantees

#### DIMENSION MEASUREMENT GUIDANCE

13.1:1. This dimension assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting. A system to monitor and report regularly on the main features of the debt portfolio is critical for ensuring data integrity and effective management, such as accurate debt service budgeting, making timely debt service payments, and ensuring well-planned debt rollovers. Regular reporting enables the government to monitor the implementation of its debt management strategy and address any deviations that arise.

13.1:2. Assessors need to identify where debt data are recorded, what system is in place for recording and managing debt (e.g., specialized software; software used for recording both foreign and domestic debt and the government guarantees), whether it captures all debt management transactions for direct debt and guarantees; what is the time lapse between a disbursement transaction and its record in the debt system. In addition, they need to determine how the debt registry system operates, i.e., if records are reconciled and the frequency of such reconciliation.

### Dimension 13.1. Scoring

Score	Minimum requirements for scores
A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least quarterly.
B	Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. <b>Most</b> information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.
C	Domestic and foreign debt and guaranteed debt records are updated annually. Reconciliations are performed annually. Areas where reconciliation requires additional information to be complete are acknowledged as part of documentation of records.
D	Performance is less than required for a C score.

## Dimension 13.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>• Reports to identify how complete and updated the records are and evidence that debt records are reconciled along with information on how frequently.</li> <li>• The most recent management and statistical reports and information on how frequently they are issued.</li> </ul>	<ul style="list-style-type: none"> <li>• MoF.</li> <li>• Treasury.</li> <li>• Debt management office.</li> <li>• Debt management entities.</li> <li>• Central bank</li> <li>• Line ministries, when necessary.</li> </ul>

13.1:3. For this dimension it is necessary to determine types of management and statistical reports produced and the frequency of their production. The reports should cover debt service, debt stock, and operations. Assessors should mention in the narrative whether management and statistical reports are publicly available and whether the reports contain explanations of the statistical tables and give rationale for operations.

13.1:4. ‘Most information’ means that at least 75% of the value of the debt recorded by the government is reconciled with the creditor institutions records on a quarterly basis. ‘At time of assessment’ means the last 12 months at time of assessment of this dimension. For instance, to rate B, assessors should verify the production of at least one debt management and statistical report during the last 12 months.

13.1:5. Complete government debt records means that debt data cover all material domestic and foreign debt and credit guarantees of the central government. Reconciliation of debt records is undertaken to ensure that the same amounts are recorded in the government’s debt records and the creditor’s institutional records, irrespective of whether the reconciliation process is conducted by the central bank, the MoF, or any other government institution that maintains government debt records.

13.1:6. If there is no domestic and foreign debt and guaranteed debt at the time of assessment, the dimension is NA.

## Dimension 13.2. Approval of debt and guarantees

### DIMENSION MEASUREMENT GUIDANCE

13.2:1. This dimension assesses the arrangements for the approval and control of the government’s contracting of loans and issuing of guarantees, which is crucial to proper debt management performance. This includes the approval of loans and guarantees against adequate and transparent criteria by government entities as established in the primary legislation. In addition, documented policies and procedures should provide guidance for undertaking debt-related transactions. The narrative discussion on this dimension should present any evidence of compliance with the legislation and procedures and whether debt approvals and loan guarantees are consistent with the debt management strategy covered by dimension 13.3. Monitoring of liabilities arising from guarantees issued is covered under fiscal risk oversight in PI-10.

13.2:2. Assessors need to identify if the primary legislation clearly grants authorization to borrow and issue guarantees (including loan signature powers) and to whom, and the degree of compliance. In addition, they need to determine whether the secondary legislation provides guidance on debt-related transactions and loan guarantees issuance; who is responsible for debt management activities, if this is a single entity or several entities (since various central government entities may be allowed to undertake debt management activities); how



different debt management entities report to a single debt management entity and how this single entity monitors the debt management entities' activities.

13.2:3. Assessors should obtain evidence of approval of annual borrowing either by government or by legislature during the last fiscal year. Assessors should also evaluate the existence of and compliance with the listed requirements.

13.2:4. For this dimension debt-related transactions are transactions in the market (e.g., swaps) that seek to change the risk profile of the debt portfolio, and debt buybacks of illiquid debt securities.

### Dimension 13.2. Scoring

Score	Minimum requirements for scores
A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.
B	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity. Annual borrowing must be approved by the government or legislature.
C	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity.
D	Performance is less than required for a C score.

### Dimension 13.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>Primary and secondary legislation for government debt management, including provisions for approving loans; issuing loan guarantees and undertaking debt related transactions and documented policies; operational procedures and guidelines for approval, management, monitoring and reporting of these transactions and annual borrowing provisions.</li> <li>Documented procedures for undertaking debt management transactions.</li> <li>Evidence of approval by government or the legislature for annual borrowing plans.</li> </ul>	<ul style="list-style-type: none"> <li>MoF.</li> <li>Debt management office.</li> <li>Debt management entities.</li> <li>Central bank.</li> </ul>



## 13.3. Debt management strategy

### DIMENSION MEASUREMENT GUIDANCE

13.3:1. This dimension assesses whether the government has prepared a debt management strategy (DMS) with the long-term objective of contracting debt within robust cost-risk trade-offs. Such a DMS should cover at least the medium term (three to five years), and it should include a description of the existing debt portfolio's composition and evolution over time. The DMS should consider the market risks being managed—particularly the interest rate, exchange rate, and refinancing/rollover risks—and the future environment for debt management in terms of fiscal and debt projection. For example, this consideration may be based on a fiscal strategy as assessed in PI-15 and on assumptions made and constraints related to portfolio choice. Crucially, the DMS should indicate strategic objectives in terms of the intended direction of or quantitative targets for the major indicators of risk.

13.3:2. The DMS should reflect the current debt situation and should be reviewed periodically, preferably yearly, as part of the budget preparation process. The DMS should be publicly available.

13.3:3. Assessors will need to identify if there is a written and approved medium-term DMS, how it was undertaken, which requirements it includes and who approved it. The frequency of DMS updates is also needed. In addition, it is essential to establish if and when the DMS is publicly available (in printed, electronic, and/or other sources). It is also necessary to establish whether annual reporting of the DMS implementation and comparison with DMS objectives is undertaken and to whom it is provided. These annual reports are required to be provided to the legislature, not to be publicly available.

13.3:4. Assessors will need to obtain evidence that the annual borrowing plan is consistent with the approved DMS: the DMS should be part of the budget preparation process, and the sources of financing in the budget document should be in line with the analysis provided in the DMS. Further guidance on key elements of the DMS, the indicators likely to be assessed, and the DMS performance criteria are available in the Debt Management Performance Assessment (DeMPA) methodology 2015.

13.3:5. For the purposes of this dimension, the terms publicly reported and publicly available mean that DMS is published. For an A rating, implementation of the DMS is reported as part of the annual reporting criteria.

### Dimension 13.3. Scoring

Score	Minimum requirements for scores
A	A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.
B	A current medium-term debt management strategy, covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks.
C	A current medium-term debt management strategy covering existing and projected government debt is publicly available. The strategy indicates at least the preferred evolution of risk indicators such as interest rates and refinancing, and foreign currency risks.
D	Performance is less than required for a C score.

### Dimension 13.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment, with reference to the last three completed fiscal years.	CG, except in federal states.	<ul style="list-style-type: none"> <li>The most recent Debt Management Strategy (DMS); the most recent report on DMS implementation.</li> <li>Information on the process of DMS formulation and approval.</li> <li>Legal requirements for publication of the annual report on debt management.</li> </ul>	<ul style="list-style-type: none"> <li>MoF.</li> <li>Treasury.</li> <li>Debt management office.</li> <li>Debt management entities.</li> <li>Central bank.</li> </ul>



## PILLAR FOUR: POLICY BASED FISCAL STRATEGY AND BUDGETING

This pillar is about whether the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy.

Macroeconomic forecasts and fiscal policies are vital components of aggregate fiscal discipline. They provide the foundation for decisions on the level and composition of revenue and expenditure needed to achieve the government's fiscal objectives, and are the first step in making choices about how the required revenues should be obtained and how expenditure priorities can be managed within the limits that are imposed by fiscal constraints and responsible management. Strategic planning and fiscal projections provide a valuable mechanism for determining the most effective composition of revenue and expenditure for maximizing the achievement of complex and often conflicting sets of policy objectives.

Pillar IV has four indicators:

- PI-14. Macroeconomic and fiscal forecasting
- PI-15. Fiscal strategy
- PI-16. Medium term perspective in expenditure budgeting
- PI-17. Budget preparation process
- PI-18. Legislative scrutiny of budgets

# PI-14. MACROECONOMIC AND FISCAL FORECASTING

## ABOUT THE INDICATOR

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government’s capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains the following three dimensions and uses **M2 (AV)** for aggregating dimension scores.

- Dimension 14.1. Macroeconomic forecasts
- Dimension 14.2. Fiscal forecasts
- Dimension 14.3. Macrofiscal sensitivity analysis

## IMPACT ON BUDGETARY OUTCOMES

Robust and verifiable macroeconomic and fiscal projections are essential to support the development of a predictable and sustainable fiscal strategy that supports aggregate fiscal discipline.

## INDICATOR MEASUREMENT GUIDANCE

Preparing economic forecasts and estimating future revenue flows should be a transparent and formalized process. Underlying assumptions should be clearly explained and verifiable.

## Dimension 14.1. Macroeconomic forecasts

### DIMENSION MEASUREMENT GUIDANCE

14.1:1. This dimension assesses the extent to which comprehensive medium-term macroeconomic forecasts and underlying assumptions are prepared for the purpose of informing the fiscal and budget-planning processes and are submitted to the legislature as part of the annual budget process. Forecasts should be updated at least annually during the budget process.

14.1:2. To be consistent with PI-5, element 6, forecasts must include at least estimates of GDP growth, inflation, interest rates, and the exchange rate. The assessors should also analyze the extent to which macroeconomic forecasts and assumptions have been reviewed by an entity other than the preparing entity, for example a fiscal council. For an A, the official macroeconomic forecasts must be prepared by a BCG agency. For B and C scores the official macroeconomic forecasts may be prepared by the central bank. Assessors should also examine whether the main economic parameters and hypotheses used in the projections are clearly stated and defined.

14.1:3. Preparation of the macroeconomic forecasts by a committee of separate institutions also meets the criterion of review by an entity other than the preparing entity if the process involves substantive review. This may be difficult for the assessor to

## Dimension 14.1. Scoring

Score	Minimum requirements for scores
A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity.
B	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts cover the budget year and the two following fiscal years.
C	The government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.
D	Performance is less than required for a C score.

## Dimension 14.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	Whole economy.	<ul style="list-style-type: none"> <li>Forecasts of key macroeconomic indicators to include at least GDP growth, inflation, interest rates, and the exchange rate.</li> <li>Clear explanation of assumptions used to prepare forecasts.</li> <li>Evidence that the forecasts cover the budget year and the two following fiscal years, and are updated at least annually.</li> <li>Evidence of review of forecasts and assumptions by an entity other than preparing entity.</li> <li>Information about the authority of the reviewing entity, for example, legal, regulatory or procedural documents.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget documents.</li> <li>Annual budget circular.</li> <li>Policy and analytical advice to government.</li> <li>MoF working papers.</li> <li>The reviewing entity.</li> <li>The unit preparing the initial forecasts.</li> </ul>

determine, but it is important to seek information on how the process is conducted and what happens if there are differences of view between the participating bodies.

14.1:4. For this dimension it does not make a difference if the responsibility is legally assigned to MoF because the government is ultimately responsible for acceptance of the forecasts. It is, however, important for assigning responsibility and accountability for forecast preparation and administrative efficiency for there to be clear and explicit responsibility for the task.

## Dimension 14.2. Fiscal forecasts

### DIMENSION MEASUREMENT GUIDANCE

14.2:1. This dimension assesses whether the government has prepared a fiscal forecast for the budget year and the two following fiscal years based on updated macroeconomic projections and that reflects government-approved expenditure

and revenue policy settings. The updated revenue projections should be presented by revenue type and should clearly identify underlying assumptions (including rates, coverage, and projected growth).

14.2:2. The updated expenditure estimates should be based on the post-budget year estimates of the preceding approved budget, adjusted to take into account the budget and medium-term fiscal impact of any post-budget expenditure policy decisions (including approved adjustments for inflation and public service wages). Variations between the final approved fiscal forecast and the projections included in the previous year's approved budget should be explained and published as part of the annual budget process.

14.2:3. Table 14.2 provides an example of how such variations can be presented. This dimension complements PI-5 by examining in more detail the information that the government produces on fiscal forecasts.

## Dimension 14.2. Scoring

Score	Minimum requirements for scores
A	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and an explanation of the main differences from the forecasts made in the previous year's budget, are included in budget documentation submitted to the legislature.
B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to the legislature.
C	The government prepares forecasts of revenue, expenditure and the budget balance for the budget year and the two following fiscal years.
D	Performance is less than required for a C score.

**Table 14.1. Variations between approved fiscal forecast and the projections included in the previous year's approved budget (Example)**

	2016	2017	2018	2019	2020
	<b>Budget Process 2015</b>				
<b>Approved aggregate expenditure estimates 2016</b>	100	90	90		
	<b>Budget Process 2017</b>				
+ Forward year impact of 2016 supplementary estimates		2	2	2	
+ Approved wage and price increases		3	3	3	
+ Net impact of expenditure policy decisions		5	7	7	
<b>Approved aggregated expenditure estimates 2017</b>		<b>100</b>	<b>102</b>	<b>102</b>	
	<b>Budget Process 2018</b>				
+ Forward year impact of 2017 supplementary estimates			0	0	0
+ Approved wage and price increases			2	2	2
+ Net impact of expenditure policy decisions			3	4	4
<b>Approved aggregated expenditure estimates 2018</b>			<b>107</b>	<b>108</b>	<b>108</b>

### Dimension 14.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>• Medium term fiscal forecasts.</li> <li>• Underlying assumptions and basis of calculation of fiscal forecasts.</li> <li>• Evidence that the information is provided as part of budget documentation submitted to the legislature.</li> </ul>	<ul style="list-style-type: none"> <li>• Annual budget documents.</li> <li>• MoF.</li> <li>• Records of legislative proceedings.</li> </ul>

### Dimension 14.3. Macrifiscal sensitivity analysis

#### DIMENSION MEASUREMENT GUIDANCE

14.3:1. This dimension assesses the capacity of governments to develop and publish alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors that have a potential impact on revenue, expenditure, and debt. Such analyses would typically involve an analysis of debt sustainability.

14.3:2. The fiscal forecast scenarios should present fiscal projections and underlying assumptions in

the same format as the approved fiscal forecasts. Scenarios should be based on potential changes to macroeconomic forecasts (e.g., pessimistic or optimistic scenarios) as a result of external risks or other factors (e.g., impact of changes in global growth, commodity prices, exchange rates, etc.). They should be prepared at the same time as the baseline scenario used for fiscal and budget policy processes and reports.

14.3:3. If there are no macroeconomic forecasts, PI-14.1 would be rated D and PI-14.3 as well.

### Dimension 14.3. Scoring

Score	Minimum requirements for scores
A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.
B	The government prepares for internal use—a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The budget documents include discussion of forecast sensitivities.
C	The macrofiscal forecasts prepared by the government include a qualitative assessment of the impact of alternative macroeconomic assumptions.
D	Performance is less than required for a C score.

### Dimension 14.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>• Evidence of alternative fiscal scenarios in the same format as the medium-term fiscal forecasts.</li> </ul>	<ul style="list-style-type: none"> <li>• MoF.</li> </ul>



## PI-15. FISCAL STRATEGY

### ABOUT THE INDICATOR

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. It contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 15.1. Fiscal impact of policy proposals
- Dimension 15.2. Fiscal strategy adoption
- Dimension 15.3. Reporting on fiscal outcomes

### IMPACT ON BUDGETARY OUTCOMES

A fiscal strategy enables government to clearly articulate to central government units, the legislature, and the public its fiscal policy objectives, including specific quantitative and qualitative fiscal targets and constraints. It provides a framework against which the fiscal impact of revenue and expenditure policy proposals can be assessed during the annual budget preparation process. This ensures that budget policy decisions align with fiscal targets thereby supporting aggregate fiscal discipline and the strategic allocation of resources to policy priorities.

## Dimension 15.1. Fiscal impact of policy proposals

### DIMENSION MEASUREMENT GUIDANCE

15.1:1. This dimension assesses the capacity of the government to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation. The assessment of the fiscal implications of policy changes is critical to ensure that policies are affordable and sustainable. A failure to accurately estimate the fiscal implication of policies may result in a shortfall in revenues or higher expenditures, leading to unintended deficits and increased debt, undermining the ability of the government to deliver services to its citizens.

15.1:2. The fiscal impact of policy proposals should be documented and prepared by the ministry of finance (or equivalent central government entity) or consolidated by the ministry of finance in cases where individual budgetary units prepare the estimates for their respective policy areas. With regard to revenue policy, assessors should focus on proposals with significant and direct impact on revenue, including, for example, changes to the rates and coverage of corporate income tax, value added tax, personal income tax, customs and excise taxes, and taxes on natural resources. Revenue policy proposals should specify the estimated revenue impact for the budget year and the two following fiscal years. Similarly, for

## Dimension 15.1. Scoring

Score	Minimum requirements for scores
A	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years, which are submitted to the legislature.
B	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years.
C	The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.
D	Performance is less than required for a C score.

expenditure policy proposals, the focus should be on ensuring that significant proposals are fully costed for the budget year and the two following fiscal years, and that they include the recurrent costs associated with capital investment projects. For policy proposals that are expected to have only a limited effect on aggregate revenue or expenditure, such as minor changes to fees and charges or minor adjustments to line item allocations, it is sufficient for the ministry of finance to prepare an estimate of the total fiscal impact of such adjustments for revenue and expenditure.

15.1:3. Details of the costs and assumptions of policy proposals approved by government should be included in the budget documentation, submitted to the legislature for an A score. Typically, this would include a breakdown of expenditure by major economic classification – current (by category) and capital – and an explanation of any variable factors that affect the cost estimates, such as number of recipients, average amount of payment or grant, major purchases of capital equipment, etc. It should also include the fiscal impact of policy proposals related to social security funds (e.g., increases in social security contributions and/or benefits), extrabudgetary units and other aspects of CG that may not be covered by the annual budget law.

15.1:4. Assessors should mention in the narrative if the significant fiscal implications of actions taken outside

the budget process are also estimated, submitted to the legislature, and published. This would include expenditure policy decisions after the budget has been approved. The fiscal implications of such decisions should include the costs (and assumptions) of both the current budget year and the following two fiscal years. The size and frequency of actions taken outside the budget process should be noted in this dimension. This information also has implications for the budget reliability pillar and PI-16, PI-17 and PI-21.

15.1:5. Information on fiscal impact of policy proposals under this dimension should be checked for consistency with information on element 10 under PI-5 (Budget documentation), i.e., 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 programs.

15.1:6. When there are proposed changes with estimates of the fiscal impact submitted to the legislature during budget preparation, assessors may consider them as their basis for assessment. When there are no estimates at all submitted to the legislature, assessors will need to check whether those estimates are prepared or not. Table 15.1 below presents the various cases that may occur.

15.1:7. A suggested process for assessing information on the fiscal impact of revenue and expenditure

**Table 15.1. Proposed changes with estimates submitted to the legislature during budget preparation**

Proposed changes with estimates submitted to the legislature during budget preparation				Proposed changes with estimates not submitted to the legislature during budget preparation				
				Estimates prepared by the government but not submitted			Estimates not prepared	
All		Not all		All		Not all		
For T, T+1 and T+2 for all three FY under review	At least T for all three FY under review	If two FY only		For T, T+1 and T+2 for all three FY under review	At least T for all three FY under review	If two FY only		
<b>A</b>	<b>C</b>	<b>D</b>	<b>D</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>D</b>	<b>D</b>

policy is as follows:

(i) The assessors may start with the documents submitted to the legislature during the budget process for the last three completed years. The documents submitted usually present the revenue and expenditure policy initiatives.

(ii) If there is a limited number of proposed changes, assessors may consider them all. They will then check whether the estimates of the fiscal impact for 90% in value have been prepared for the budget year and the following two fiscal years.

(iii) If there are many proposed changes, assessors may establish a sample: they would need to focus on proposals with the most significant and direct impact on revenue or expenditure. They will then proceed as described under (ii).

(iv) Documents submitted to the legislature may also summarize all changes in revenue and expenditure policy that were made since the last budget submission. Note that assessors are not expected to include those changes in the assessment, only to comment on them.

(v) When there are no estimates of revenue or expenditure policy changes submitted to the legislature, assessors will need to check whether policy proposals were developed and

if so whether estimates of the fiscal impact of those proposals were prepared or not. When estimates are prepared by the government but not transmitted to the legislature, the assessors will proceed as described under (ii) and (iii). The main sources of information would be the Ministry of Finance when they prepare the fiscal impact of policy proposals or consolidate when individual budgetary units prepare their estimates for their respective policy areas.

15.1:8. Assessors may refer to documents presenting the medium-term budget estimates as described under PI-16 and the projections of the total life-cycle cost of major projects as described under PI-11.

15.1:9. The materiality ‘all’ would need to be met for both revenue and expenditure in each of the last three years to score A, B or C. In addition, data should be available for T, T+1, and T+2 for both revenue and expenditure to score A or B.

15.1:10. If no policy changes have been proposed (both revenue and expenditure), then this dimension should be rated NA.

15.1:11. Assessors may wish to prepare a check-list (see table 15.2 for an example) and/or review a sample based on the largest ministries.

**Table 15.2: Fiscal impact of policy proposals submitted during budget preparation**

Ministry	Name of proposal	Fiscal impact (\$)	Revenue/Cost information
Revenue policy proposals			Do the proposals present total revenues to be collected for all budget years
<b>Sub-total</b>			
Expenditure policy proposals			Do the proposals present full costs (including current costs of capital projects) for all budget years
<b>Sub-total</b>			
<b>TOTAL</b>			

## Dimension 15.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>• Policy proposals submitted by ministries during annual budget process.</li> <li>• Policy proposals submitted by ministries outside the budget process.</li> <li>• Evidence that policy proposals are fully costed and include the recurrent costs of capital investment projects for the budget year and the following two fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>• MoF.</li> </ul>

## Dimension 15.2. Fiscal strategy adoption

### DIMENSION MEASUREMENT GUIDANCE

15.2:1. This dimension assesses the extent to which government prepares a fiscal strategy that sets out fiscal objectives for at least the budget year and the two following fiscal years. A well-formulated fiscal strategy includes numerical objectives, targets or policy parameters (such as the level of fiscal balance), aggregate central government expenditures or revenues, and changes in the stock of financial assets and liabilities.

15.2:2. A fiscal strategy may be presented as a formal statement or plan, specified as targets within the annual budget documentation, or as fiscal rules established through legislation.

15.2:3. If fiscal rules are established in legislation they are considered to be current, regardless of when they were introduced, as long as they are taken into consideration by government and the legislature. If the rules are ignored when setting fiscal policy and budgets, it is not reasonable to treat them as reflecting current fiscal strategy.

15.2:4. Where a fiscal strategy is not produced, or the fiscal strategy does not cover the whole of central government, then this dimension should be rated D.

## Dimension 15.2. Scoring

Score	Minimum requirements for scores
A	The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years.
B	The government has adopted and submitted to the legislature a current fiscal strategy that includes quantitative or qualitative fiscal objectives for at least the budget year and the following two fiscal years.
C	The government has prepared for its internal use a current fiscal strategy that includes qualitative objectives for fiscal policy.
D	Performance is less than required for a C score.

## Dimension 15.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>• Evidence of a fiscal strategy, either in a stand-alone document, statement of fiscal rules, or specified targets within the annual budget documentation.</li> </ul>	<ul style="list-style-type: none"> <li>• MoF.</li> <li>• Office of the prime minister/president.</li> </ul>

## Dimension 15.3. Reporting on fiscal outcomes

### DIMENSION MEASUREMENT GUIDANCE

15.3:1. This dimension assesses the extent to which the government makes available—as part of the annual budget documentation submitted to the legislature—an assessment of its achievements against its stated fiscal objectives and targets. The assessment should also include an explanation of any deviations from the approved objectives and targets as well as proposed corrective actions. Actions should refer to specific initiatives that directly link to improvements in fiscal outcomes.

15.3:2. If a fiscal strategy has not been developed, then this dimension should be rated NA.

### Dimension 15.3. Scoring

Score	Minimum requirements for scores
A	The government has submitted to the legislature and published with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the government to address any deviations, as prescribed in legislation.
B	The government has submitted to the legislature along with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set.
C	The government prepares an internal report on the progress made against its fiscal strategy. Such a report has been prepared for at least the last completed fiscal year.
D	Performance is less than required for a C score.

### Dimension 15.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>A report of progress against the fiscal strategy, rules or targets sets out in the annual budget document.</li> </ul>	<ul style="list-style-type: none"> <li>MoF.</li> </ul>

# PI-16. MEDIUM-TERM PERSPECTIVE IN EXPENDITURE BUDGETING

## ABOUT THE INDICATOR

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 16.1. Medium-term expenditure estimates
- Dimension 16.2. Medium-term expenditure ceilings
- Dimension 16.3. Alignment of strategic plans and medium-term budgets
- Dimension 16.4. Consistency of budgets with previous year's estimates

## IMPACT ON BUDGETARY OUTCOMES

A medium-term perspective on budgeting supports aggregate fiscal discipline by establishing forward year estimates that provide the baseline for future budget allocations. This promotes greater predictability in budget allocations and expenditure planning and prioritization and enables the government, parliament and public to track expenditure policy decisions. The implications of policies often extend well beyond the current budget year and a medium-term perspective allows the effects on future years to be more apparent. A medium-term perspective can also provide a more useful framework for managing incremental changes in resource allocation.

## INDICATOR MEASUREMENT GUIDANCE

16:1. Expenditure policy decisions have multiyear implications and should be aligned with the availability of resources in the medium-term perspective. The resulting expenditure estimates

must be consistent with the fiscal aggregates determined through a fiscal strategy (considered in PI-15. Fiscal strategy). They also need to be consistent with revenue projections and ongoing expenditure policy budgetary requirements (considered in PI-14. Macroeconomic and fiscal forecasting).

16:2. The estimates for the years following the budget year in a medium-term budget should provide a fiscal constraint in accordance with the fiscal strategy, as well as providing the basis for the future year's budget allocations at an aggregate and ministry level. The medium-term budget estimates should be updated annually, building on the previous year's budget and estimates, through a process that is transparent and predictable. Expenditure policy proposals submitted to the government should be aligned with the policy objectives set out in approved and costed strategic plans.

## Dimension 16.1. Medium-term expenditure estimates

### DIMENSION MEASUREMENT GUIDANCE

16.1:1. This dimension assesses the extent to which medium-term expenditure estimates are prepared and updated as part of the annual budget process. The preparation of medium-term estimates is intended to strengthen fiscal discipline and improve predictability of budget allocations. Medium-term estimates should be disaggregated by high-level administrative, economic, and program or functional classification. The administrative classification should identify the relevant budget head of appropriation—for example, the ministry or department. To provide ministries and program managers with the flexibility to manage and respond to budgetary pressures within their expenditure ceilings, disaggregation by economic type may be at the 2-digit GFS (equivalent) classification only (as applied under PI-2.2 Expenditure composition outturn by economic type).

16.1:2. The presentation of estimates of expenditure for the budget year and the two following fiscal years at the first level of the functional classification is sufficient for an A score (with other requirements met).



### Dimension 16.1. Scoring

Score	Minimum requirements for scores
A	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification.
B	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification.
C	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative or economic classification.
D	Performance is less than required for a C score.

### Dimension 16.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last budget submitted to the legislature.	BCG.	<ul style="list-style-type: none"> <li>Medium-term budget estimates for the budget year and the two following fiscal years disaggregated by administrative, economic, and program or functional classification.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget estimates.</li> </ul>

### Dimension 16.2. Medium-term expenditure ceilings

#### DIMENSION MEASUREMENT GUIDANCE

16.2:1 This dimension assesses whether medium-term expenditure ceilings are applied to the estimates produced by ministries to ensure that expenditure beyond the budget year is consistent with government fiscal policy and budgetary objectives.

Such ceilings should be issued to ministries before the distribution of the first budget circular at the commencement of the annual budget preparation cycle. This dimension is distinct from dimension PI-17.2. Guidance on budget preparation because it considers only medium-term budget ceilings, whereas PI-17.2 allows for either annual or medium-term expenditure budget ceilings.

### Dimension 16.2. Scoring

Score	Minimum requirements for scores
A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.
B	Aggregate expenditure ceilings for the budget year and the two following fiscal years and ministry-level ceilings for the budget year are approved by government before the first budget circular is issued.
C	Aggregate expenditure ceilings for the budget year and the two following fiscal years are approved by the government before the first budget circular is issued.
D	Performance is less than required for a C score.



### Dimension 16.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last budget submitted to the legislature.	BCG.	<ul style="list-style-type: none"> <li>• Date of approved budget ceilings.</li> <li>• Details of the coverage and timeframe for budget ceilings.</li> <li>• Date of issuing the first budget circular to ministries, departments and agencies.</li> </ul>	<ul style="list-style-type: none"> <li>• Formal directions or instructions on ceilings to ministries.</li> <li>• Budget circular.</li> </ul>

### Dimension 16.3. Alignment of strategic plans and medium-term budgets

#### DIMENSION MEASUREMENT GUIDANCE

16.3:1. This dimension measures the extent to which approved expenditure policy proposals align with costed ministry strategic plans or sector strategies. Strategic plans should identify resources required to achieve medium- to long-term objectives and planned outputs and outcomes. PI-8. Performance information for service delivery addresses reporting on outputs and outcomes. The plans should identify the cost implications of current policy commitments, including any funding gaps, as well as prioritize new expenditure policy proposals consistent with government policy objectives. Cost information should include recurring expenditures, capital costs, and future recurrent cost implications of investment

commitments, as well as every source of funding. While sector plans tend to be aspirational, cost implications should be realistic. They should take into account the government’s fiscal policy objectives and the fiscal constraints these objectives impose on expenditure decision making. Alignment between strategic plans and budget estimates will occur when they cover the same or similar policy objectives, initiatives, activities, or programs.

16.3:2. Countries that have introduced multiannual program or performance-based budgeting may use different terminology and methods for developing, costing, and implementing medium-term plans. Therefore, assessors should substitute references to medium-term programs, or other performance-based budget categories, in place of strategic and sectors plans in this indicator, where appropriate.

### Dimension 16.3. Scoring

Score	Minimum requirements for scores
A	Medium-term strategic plans are prepared and costed for <b>most</b> ministries. <b>Most</b> expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
B	Medium-term strategic plans are prepared for the <b>majority</b> of ministries, and include cost information. The <b>majority</b> of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
C	Medium-term strategic plans are prepared for <b>some</b> ministries. <b>Some</b> expenditure policy proposals in the annual budget estimates align with the strategic plans.
D	Performance is less than required for a C score.

## Dimension 16.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last budget submitted to the legislature.	BCG.	<ul style="list-style-type: none"> <li>Strategic plans or sector strategies.</li> <li>Budget proposals.</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of finance/ planning (or equivalent entity).</li> <li>Large sector ministries.</li> </ul>

## Dimension 16.4. Consistency of budgets with previous year's estimates

### DIMENSION MEASUREMENT GUIDANCE

16.4:1. This dimension assesses the extent to which the expenditure estimates in the last medium-term budget establish the basis for the current medium-term budget. This will be the case if every expenditure variation between the corresponding years in each medium-term budget can be fully explained and quantified. If it is possible to reconcile and explain the differences, this shows that medium-term budgeting is operating as a dynamic process, with each subsequent budget building on its predecessor. It indicates that medium term planning is embedded in the preparation of budgets and provides a means to strengthen fiscal discipline beyond a single year. Explanations of changes from the previous year's medium-term budget may include references to changes in macroeconomic conditions, revision of

important variables and coefficients, and changes to government policy and expenditure priorities.

16.4:2. Regarding the format to present changes, such information could be presented in the form of a table that highlights and explains the various changes between the forward years presented in the previous budget and the final budget submitted to the legislature including any changes in assumptions, economic parameters and major policy changes and adjustments. Such a table would be similar to that presented in table 14.1.

16.4:3. Further issues regarding the disclosure and approval of the medium-term framework are covered by other indicators such as the content of budget documentation, covered in PI-5, fiscal impact of policy changes in PI-15.1, approval by the legislature in PI-18, and public information on the budget in PI-9.

## Dimension 16.4. Scoring

Score	Minimum requirements for scores
A	The budget documents provide an explanation of <b>all</b> changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level.
B	The budget documents provide an explanation of <b>most</b> changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the ministry level.
C	The budget documents provide an explanation of <b>some</b> of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.
D	Performance is less than required for a C score.

### Dimension 16.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
The 'last medium-term budget' and 'the current medium-term budget'.	BCG.	<ul style="list-style-type: none"> <li>Budget proposals.</li> <li>Explanation of variations between the last medium-term budget and the current medium-term budget.</li> </ul>	<ul style="list-style-type: none"> <li>MoF.</li> <li>Annual budget documents.</li> <li>Large sector ministries.</li> </ul>

*For 16.4 the 'last medium-term budget' relates to the budget approved by the legislature for last completed fiscal year and 'the current medium-term budget' relates to the budget approved by the legislature for the current fiscal year.*

# PI-17. BUDGET PREPARATION PROCESS

## ABOUT THE INDICATOR

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 17.1. Budget calendar
- Dimension 17.2. Guidance on budget preparation
- Dimension 17.3. Budget submission to the legislature

## IMPACT ON BUDGET OUTCOMES

An orderly budget process ensures that adequate time and information on procedures and assumptions are provided to allow budget proposals to be developed taking into account all important factors. This increases the likelihood that the process will support fiscal discipline, efficient resource allocation, and efficient service delivery. If there is insufficient information in advance of preparing budget proposals, or inadequate time to produce fully considered submissions, the chances of weak and ill-considered proposals increases, thereby undermining the potential results for budget outcomes.

## INDICATOR MEASUREMENT GUIDANCE

17:1. While the MoF (or equivalent central government entity) is usually responsible for the annual budget preparation process, effective participation by other ministries or budgetary units as well as by the leadership of the executive, such as the cabinet (or an equivalent body), affects the extent to

which the budget reflects macroeconomic, fiscal, and expenditure and revenue policy priorities. Effective participation requires an integrated top-down and bottom-up budgeting process, involving engagement from every party in an orderly and timely manner, in accordance with a predetermined budget preparation calendar. The wider scope of participation of the legislature and citizens in the budgeting process is not covered here, but the legislature's participation in the budgeting process—as representatives of the citizenry—is assessed in PI-18.

17:2. For the purpose of this indicator, budgetary units are those that are directly charged with responsibility for implementing the budget, in line with expenditure policies, and that directly receive funds or authorization to spend from the legislature. Government units that report to and receive budgetary funds through a parent ministry should not be included in the assessment.

17:3. Every part of the budgetary central government's annual budget is covered by this indicator, whether it is integrated or uses separate processes. Ideally this is ensured through a single or unified budget process and related circular(s) covering total government revenue, recurrent expenditure, capital expenditure, transfers, specific financing, and so on. In cases where the process is split into different parts, as may happen with recurrent and capital budgets, the scoring requirements should be met for each of the separate processes.

17:4. 'Participation is orderly and timely' means that the relevant stakeholder participation in the budget preparation process is planned, structured, and implemented with sufficient advance notice for required actions to be performed within a realistic time frame—i.e., without delays that may affect the preparation of the budgetary units' detailed estimates.

## Dimension 17.1 Budget calendar

### DIMENSION MEASUREMENT GUIDANCE

17.1:1. This dimension assesses whether a fixed budget calendar exists and the extent to which it is adhered to. Budgetary units may, in practice, start work on the preparation of budget estimates much earlier than the start of the budget calendar, but it is important that they are given sufficient time to prepare their detailed budget proposals in compliance with the guidance, including budget expenditure ceilings, of the budget circular(s), if issued. Delays in the process and the passing of the budget may create uncertainty about approved expenditures and lead to delays in certain government activities, potentially including major contracts.

17.1:2. Assessors need to determine if there is a (recent) budget law (or budget regulations), which sets the basic principles of the budget process, including key actions and time frames and the budget calendar. In some countries the budget preparation calendar is issued annually as part of the initial circular.

17.1:3. ‘Generally and largely adhered to’ means that the majority of actions are taken within recommended time frames. While a delay of a couple of days from a given date may be acceptable, assessors need to identify whether at least the majority of the

parameters set in the budget calendar for the relevant year were respected. For an A score, budgetary units must be given at least six weeks to complete their detailed estimates; for a B score, four weeks. This is to ensure that the estimates have real value and are given priority. If budgetary units complete their detailed estimates with a delay of a couple of days but after the calendar’s deadline but have had at least 6 weeks to complete their estimate, score is A if other requirements are fulfilled (B for a 4 weeks completion time). In the context of this dimension, ‘generally and largely adhered to’ should not be treated as distinct.

17.1:4. A ‘clear annual budget calendar’ implies that the key parameters of the process and corresponding timing are set up without any doubts and are followed.

17.1:5. Where there is more than one budget circular (e.g., an initial circular calls for proposals for increases and/or decreases in expenditure in accordance with government policy), and a second calls for detailed estimates once proposed increases or decreases in expenditure have been considered by government and approved), the time allotted to the preparation of detailed budget estimates should be based on that afforded by all relevant circulars.

17.1:6. An A score is given for this dimension if *all* budgetary units are able to complete their detailed estimates on time.

## Dimension 17.1. Scoring

Score	Minimum requirements for scores
<b>A</b>	A clear annual budget calendar exists, is generally adhered to, and allows <i>all</i> budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
<b>B</b>	A clear annual budget calendar exists and is largely adhered to. The calendar allows budgetary units at least four weeks from receipt of the budget circular. <i>Most</i> budgetary units are able to complete their detailed estimates on time.
<b>C</b>	An annual budget calendar exists and <i>some</i> budgetary units comply with it and meet the deadlines for completing estimates.
<b>D</b>	Performance is less than required for a C score.

## Dimension 17.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last budget submitted to the legislature.	BCG.	<ul style="list-style-type: none"> <li>Budget calendar.</li> <li>Number of weeks budgetary units are allotted to complete their detailed estimates.</li> <li>Actual dates (timing) of the stages (actions) in the budget preparation process, compared to the original dates in the budget calendar.</li> <li>Content of the circulars relating to the preparation of detailed estimates.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (budget department), corroborated by finance officers of large spending budgetary units.</li> </ul>

## Dimension 17.2 Guidance on budget preparation

### DIMENSION MEASUREMENT GUIDANCE

17.2:1. This dimension assesses the clarity and comprehensiveness of top-down guidance on the preparation of budget submissions. It examines the budget circular(s), or equivalent, to determine whether clear guidance on the budget process is provided, including whether expenditure ceilings or other allocation limits are set for ministries or other budgetary units or functional areas. The budget for the entire upcoming fiscal year (and relevant subsequent years for medium-term budget systems) should be covered in the guidance provided by the circular(s).

17.2:2. In order to avoid last-minute changes to budget proposals, it is important that political leadership is actively involved in setting aggregate allocations on expenditure priorities from an early stage of the budget preparation process. This should be initiated through review and approval of the ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate ceilings—for example, in a budget outlook paper or approved medium-term fiscal outlook or framework. This dimension differs from PI-

16.2, which considers only whether medium-term expenditure ceilings are set by the government. This dimension does not require medium-term expenditure ceilings for medium-term budgets, but assesses only whether annual or medium-term expenditure ceilings have been set.

17.2:4. Ceilings refers to the indicative maximum budget allocations issued to budgetary units early in the budget preparation process as the basis for preparing detailed budget proposals. The final budget allocations to individual budgetary units may subsequently be adjusted on the basis of the quality and justification of their detailed proposals. Ceilings constitute an essential element in a disciplined budget preparation process. Assessors need to determine whether the budget circular includes ceilings pre-approved by cabinet. If not, it is important to determine whether the ceilings are notified in time to budgetary units to amend their budget estimates.

17.2:5. The ceilings refer to total ministry budgets, including both capital and recurrent. It is not unusual for amounts under ceilings to move during the budget process, but the important feature examined by this indicator is the application of approved ceilings before the budget circular is issued.

## Dimension 17.2. Scoring

Score	Minimum requirements for scores
<b>A</b>	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings approved by the cabinet (or equivalent) prior to the circular's distribution to budgetary units.
<b>B</b>	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings submitted to the cabinet (or equivalent). The approval of ceilings by the cabinet may take place after the circular's distribution to budgetary units but before budgetary units have completed their submission.
<b>C</b>	A budget circular or circulars are issued to budgetary units, including ceilings for administrative or functional areas. Total budget expenditure is covered for the full fiscal year. The budget estimates are reviewed and approved by cabinet after they have been completed in every detail by budgetary units.
<b>D</b>	Performance is less than required for a C score.

## Dimension 17.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last budget submitted to the legislature.	BCG.	<ul style="list-style-type: none"> <li>Budget circular.</li> <li>Date of cabinet approval of budget circular compared to the date the MoF issues the budget circular to budgetary units.</li> <li>Date of cabinet approval of ceilings when they are not approved with the budget circular.</li> <li>Date of MoF transmission of ceilings to budgetary units when they are not approved with the budget circular.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (budget department), corroborated by the cabinet (e.g., memoranda) and large spending budgetary units.</li> </ul>



# Dimension 17.3 Budget submission to the legislature

## DIMENSION MEASUREMENT GUIDANCE

17.3:1. This dimension assesses the timeliness of submission of the annual budget proposal to the legislature or similarly mandated body so that the legislature has adequate time for its budget review and the budget proposal can be approved before the start of the fiscal year.

### Dimension 17.3. Scoring

Score	Minimum requirements for scores
A	The executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year in each of the last three years.
B	The executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year in two of the last three years and submitted it before the start of the fiscal year in the third year.
C	The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in two of the last three years.
D	Performance is less than required for a C score.

### Dimension 17.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	BCG.	<ul style="list-style-type: none"> <li>Specific dates of submission to the legislature of the annual budget proposals in the last three fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (budget department), corroborated by the legislature (budget/finance commission).</li> </ul>

# PI-18. LEGISLATIVE SCRUTINY OF BUDGETS

## ABOUT THE INDICATOR

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. The indicator contains the following four dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

- Dimension 18.1. Scope of budget scrutiny
- Dimension 18.2. Legislative procedures for budget scrutiny
- Dimension 18.3. Timing of budget approval
- Dimension 18.4. Rules for budget adjustments by the executive

## IMPACT ON BUDGETARY OUTCOMES

In most countries, the government’s authority to spend is awarded by the legislature, through its passage of the annual budget law. If the legislature does not rigorously examine and debate the law, its power is not being effectively exercised, and the government’s accountability to the electorate for its fiscal strategy and strategic budget allocation

decisions is undermined. Assessment of legislative scrutiny and debate of the annual budget law is informed by the consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate, and the time allowed for that process.

## Dimension 18.1. Scope of budget scrutiny

### DIMENSION MEASUREMENT GUIDANCE

18.1:1. This dimension assesses the scope of legislative scrutiny. Such scrutiny should cover review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as the specific details of expenditure and revenue estimates. In certain jurisdictions, the review may be undertaken in two or more stages, possibly involving a gap between review of medium-term aspects and review of the details of estimates for the next fiscal year. In the absence of a legislature that performs legislative scrutiny functions, this dimension would score a D because the requirements of a C would not be met.

18.1:2. The relevant narrative of the PEFA report should include information on whether a functioning legislature exists, and provide a quick overview of its role in the budget process, including what documents it reviews. The report should also highlight the extent of review by the legislature, i.e., whether the documents are actively scrutinized, debated, and commented on or are simply noted. For an explanation of medium-term fiscal forecasts refer to PI-14.2.

## Dimension 18.1. Scoring

Score	Minimum requirements for scores
A	The legislature’s review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.
B	The legislature’s review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue.
C	The legislature’s review covers details of expenditure and revenue.
D	Performance is less than required for a C score.

### Dimension 18.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Budget documents reviewed by legislature.</li> <li>Details of matters covered by the legislature’s review, such as records of meetings, findings and committee reports.</li> </ul>	<ul style="list-style-type: none"> <li>Budget director, secretary or chair of budget committee(s) of legislature, corroborated by advocacy, civil society, and interest groups.</li> </ul>

### Dimension 18.2. Legislative procedures for budget scrutiny

**DIMENSION MEASUREMENT GUIDANCE**

18.2:1. This dimension assesses the extent to which review procedures are established and adhered to. This includes public consultation arrangements as well as internal organizational arrangements, such as legislature committees, technical support, and negotiation procedures. The existence and timing of relevant procedures should be verifiable by reference to records of legislative sessions and decisions. Procedures may be approved for each budget or may be based on standing arrangements that apply for each term of the legislature unless explicitly changed. Either approach is acceptable for the scoring of this

dimension. Adequacy of the budget documentation made available to the legislature is covered by PI-5. 18.2:2. The relevant section of the PEFA report should focus on adherence to procedures for the legislative review of budget proposals, and should note whether they are established and mandated by legislation. Assessors should also provide information on the timeliness and comprehensiveness of the legislative review. While the legal framework outlining the legislature’s role and powers in the budget process varies from country to country, many countries identify the relative powers of the legislative branch with respect to public finances in a constitution, organic law, and/or financial regulations that do not require annual reenactment.

### Dimension 18.2. Scoring

Score	Minimum requirements for scores
A	The legislature’s procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. They also include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.
B	The legislature’s procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures.
C	The legislature’s procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to.
D	Performance is less than required for a C score.

## Dimension 18.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Records of legislative sessions and decisions.</li> <li>Content of legislative procedures for reviewing budget proposals.</li> <li>How and when the procedures were approved/ issued.</li> <li>Confirmation that procedures were adhered to, or information on non-adherence.</li> </ul>	<ul style="list-style-type: none"> <li>Legislature committees, corroborated by advocacy, civil society, and interest groups.</li> </ul>

## Dimension 18.3. Timing of budget approval

### DIMENSION MEASUREMENT GUIDANCE

18.3:1. This dimension assesses the timeliness of the scrutiny process in terms of the legislature’s ability to approve the budget before the start of the new fiscal year. The deadline is important so that budgetary units know at the beginning of the fiscal year what resources they will have at their disposal for service delivery. The time available for scrutiny is largely determined by the timing of the submission of the executive’s budget proposals to the legislature, as assessed in PI-17. Budget preparation process.

18.3:2. The PEFA report narrative for this dimension should clearly specify the actual time that the legislature has spent in reviewing the budget proposal, as well as the exact timing of the budget’s approval each year. The report should focus on the last three fiscal years to ascertain whether the budget

was approved before the start of the fiscal year, and may explain the reason for delay, if relevant.

18.3:3. If at the beginning of the year the legislature approved an interim budget covering less than the full year (due to, for example, political crisis or a stalemate in the budget negotiations between the executive and the legislature), the approval process will, for the purpose of this dimension, nonetheless be considered as delayed until a budget has been specifically approved for the entire new fiscal year.

18.3:4. The approval process will also be considered as delayed when the law states that, in absence of legislative approval of the budget by the end of the preceding year, the previous year’s budget comes into effect. An automatic extension of the last year’s budget is not perceived as ‘orderly’ and will be reflected in the score for this dimension.

18.3:5. Regarding special dispensation by a senior political figure, if the president (or equivalent

## Dimension 18.3. Scoring

Score	Minimum requirements for scores
A	The legislature has approved the annual budget before the start of the year in each of the last three fiscal years.
B	The legislature has approved the annual budget before the start of the year in two of the last three fiscal years, with a delay of up to one month in the third year.
C	The legislature has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years.
D	Performance is less than required for a C score.

## Dimension 18.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Date of budget approval by the legislature in each of the last three fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (budget department), corroborated by the legislature (budget/finance commissions).</li> </ul>

very senior political figure, e.g., prescribed in the constitution or public finance management legislation) is legally permitted to provide special dispensation (e.g., a special warrant) to allow execution of the draft budget to commence at the outset of the new financial year in the event of the legislature not having yet approved the draft budget, this does not constitute approval of the draft budget. Formal approval of the draft budget is usually performed through approval by the legislature of a draft bill (often known as the Appropriations Bill in Anglophone countries). The enactment of the bill allows the new budget to be financed through withdrawals of monies from the government's central fund (commonly known as the Consolidated Fund in Anglophone countries). The public finance management legislation (and perhaps also the constitution) may contain a provision that only the legislature may approve withdrawals of public monies from the government's central fund. Special dispensation provided by law for the president to approve continued funding of public services pending legislative approval of the draft budget is not the same thing as legislative approval and the dispensation will typically only allow continued funding at last year's levels.

18.3:6. In some country systems, the legislature may have the right to propose amendments to the draft budget presented to it by the executive and the executive (or perhaps the president) may have a right to veto the amendment. The legislature may have the right to counter the veto. Whatever the case, vetoes only result in delayed approval and this will be reflected in the scoring for this dimension.

## Dimension 18.4. Rules for budget adjustments by the executive

### DIMENSION MEASUREMENT GUIDANCE

18.4:1. This dimension assesses arrangements made to consider in-year budget amendments that do not require legislative ex-ante approval. Such amendments constitute a common feature of annual budget processes. To avoid undermining the credibility of the original budget, any authorization of amendments by the executive must adhere to clearly defined rules. The rules may be part of annual budget legislation or part of ongoing legislative provisions such as an organic budget law or part of the powers defined in a constitution.

18.4:2. The PEFA report narrative for this dimension needs to provide an overview of legal and procedural rules that govern in-year amendments by the executive, and may comment on how clear the rules are. The report should also comment on whether the rules allow extensive administrative reallocations and expansion of total expenditure, or set strict limits on the extent and nature of amendments.

18.4:3. With regard to the clarity of rules for in-year adjustments, in order not to undermine the significance of the original budget, the authorization of amendments that can be done by the executive must be clearly defined and follow the rules which should indicate the scope and procedures for:

- (i) adjustments to budgetary units' own budget ceilings that do not require prior MoF approval;
- (ii) adjustments that require prior MoF but not cabinet or legislative approval;
- (iii) adjustments that

require cabinet but not legislative approval; and (iv) adjustments that require prior legislative approval. There should also be clearly defined rules limiting the executive’s discretion to present amendments to budget appropriations for retroactive approval by the legislature (also refer to PI-21.4). There must also be evidence that the rules are being complied with.

18.4:4. Cases where the executive fails to execute the budget in a manner consistent with the approved budget, as voted by the legislature, should be considered as in-year amendments to the approved budget, and would warrant a D rating for this dimension.

18.4:5. For an A score, ‘strict limits on the nature of amendments’ are rules or regulations that, either allow certain types of reallocation (e.g., transfers within the same program, transfers to capital investments, etc.), prohibit certain types of reallocation (e.g., transfers from capital investment, transfers to salary expenditure, transfers between budgetary units or programs for prohibited reallocations, etc.), and/or set limits for the magnitude of reallocations. The significance of these reallocations is assessed in relation to the percentages specified in the PI-2 rating criteria. A prohibition of the expansion of total expenditure is not sufficient to comply with this requirement.

## Dimension 18.4. Scoring

Score	Minimum requirements for scores
A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in <b>all</b> instances.
B	Clear rules exist for in-year budget adjustments by the executive, and are adhered to in <b>most</b> instances. Extensive administrative reallocations may be permitted.
C	Clear rules exist which may be adhered to in <b>some</b> instances or they may allow extensive administrative reallocation as well as expansion of total expenditure.
D	Performance is less than required for a C score.

## Dimension 18.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Procedures and rules for in-year budget amendments by the executive.</li> <li>Confirmation that procedures were adhered to, or information on non-adherence.</li> </ul>	<ul style="list-style-type: none"> <li>Legislature committees, corroborated by advocacy, civil society, and interest groups.</li> <li>Internal and/or external audit reports.</li> </ul>



## PILLAR FIVE: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Predictable and controlled budget execution is necessary to ensure that revenue is collected and resources are allocated and used as intended by government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control ensures that policies, regulations, and laws are complied with during the process of budget execution.

Pillar V has eight indicators:

- PI-19. Revenue administration
- PI-20. Accounting for revenue
- PI-21. Predictability of in-year resource allocation
- PI-22. Expenditure arrears
- PI-23. Payroll controls
- PI-24. Procurement management
- PI-25. Internal controls on nonsalary expenditure
- PI-26. Internal audit



# PI-19. REVENUE ADMINISTRATION

## ABOUT THE INDICATOR

The indicator assesses the procedures used to collect and monitor central government revenues. It relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public enterprises that operate as regulators and holding companies for government interests. In such cases the assessment will require information to be collected from entities outside the government sector. The indicator contains the following four dimensions and uses **M2 (AV)** method for aggregating dimension scores:

- Dimension 19.1. Rights and obligations for revenue measures
- Dimension 19.2. Revenue risk management
- Dimension 19.3. Revenue audit and investigation
- Dimension 19.4. Revenue arrears monitoring

## IMPACT ON BUDGETARY OUTCOMES

A government's ability to collect revenue is an essential component of any PFM system. It is also an area where there is direct interaction between individuals and enterprises on the one hand and the state on the other. The government must provide those responsible for providing revenues with a clear understanding of their rights and obligations as well as the procedures to be followed in seeking redress, while ensuring that mechanisms are in place to enforce compliance.

Taxes and other revenue measures provide the funds to allow governments to achieve reallocation and expenditure policy objectives. They achieve their maximum contribution to better budgetary outcomes when they are collected efficiently and to the extent authorized by laws and regulations.

Revenue payers need to know their obligations so that they can comply with laws and regulations, and are discouraged from evading or delaying revenue contributions that apply to them. If revenue measures are not administered well, collections can be lower than intended, which results in fewer resources for reallocation and less capacity for the provision of services.

## INDICATOR MEASUREMENT GUIDANCE

19:1. The indicator covers the administration of all types of tax and nontax government revenue for central government. It does not cover grants from development partners. A summary of revenue types is provided in the indicator description for PI-3. In the case of a resource-rich country, it should indicate the level of dependence on natural resource revenue. Assessors should cross-reference PI-3 and PI-20.

19:2. The PEFA assessment report narrative should also identify which entities administer *most or the majority* of central government revenues—and in the case of resource-rich countries, which agencies administer natural resource revenue. For countries with a high level of dependence on natural resources, the PEFA report narrative should describe the current framework for natural resource administration—across organizations and state entities, including their roles, functions, and responsibilities—with a special focus on the aspects to be measured by this indicator. In this regard, natural resource fiscal regimes typically involve the choice to tax several bases through a combination of tax and nontax instruments, in an effort to address the main features of the natural resource sector and their impact on revenue administration.

19:3. There are variations in the natural resources fiscal regimes across countries as well as in the way countries organize natural resources administration across different agencies, including:

- (i) administration of all natural resources revenues by the tax administration, which is less common for petroleum than mining, and more common in countries with higher administrative capacity and more centralized governance structures;
- (ii) fragmentation of natural resources revenue

**Table 19.1: Collected revenues by entity and category of revenue (example only; actual entities and other details will vary by country)**

Collecting entities	Category of revenue	Collected Revenue	
		Amount	% of total
<b>National tax office</b>		<b>1170</b>	<b>49%</b>
	Income tax	540	23%
	Value added tax	390	16%
	Corporate tax	200	8%
	Other taxes	40	2%
<b>Custom authority</b>		<b>500</b>	<b>21%</b>
	Import duties	350	15%
	Export taxes	150	6%
<b>Energy and mines agency</b>		<b>540</b>	<b>23%</b>
	Oil royalties	380	16%
	Extraction fees	160	7%
<b>Department of Land and Home Affairs</b>		<b>170</b>	<b>7%</b>
	National part of property tax	120	5%
	Property income	50	2%
<b>Total</b>		<b>2380</b>	<b>100%</b>

administration among different agencies, which is common in lower capacity countries, particularly for petroleum; and (iii) administration of all natural resources revenues by a dedicated natural resource department, which may be rare, but may apply in petroleum production sharing regimes. In the case of a fragmented organizational framework, assessors should comment in the PEFA assessment report on the extent to which the organizations and state entities involved communicate and exchange information to ensure the effective and efficient administration of natural resources.

19:4. To evidence the materiality used to assess dimensions 19.1, 19.2, 19.3, and all dimensions of PI-20, assessors are encouraged to prepare a table containing information on collected revenue broken down by collecting entities and categories of revenue.

## Dimension 19.1. Rights and obligations for revenue measures

### DIMENSION MEASUREMENT GUIDANCE

19.1:1. This dimension assesses the extent to which individuals and enterprises have access to information about their rights and obligations, and also to administrative procedures and processes that allow redress, such as a fair and independent body outside of the general legal system (ideally a ‘tax court’) that is able to consider appeals.

19.1:2. The PEFA report narrative should provide information on the policies of each revenue agency regarding the dissemination of information. In this regard assessors should focus on the entities that administer *most* or the *majority* of central government revenue. The report should also describe the means by which taxpayers obtain information about their rights and obligations, and advice from revenue authorities, and whether the information is publicly available and in what form (e.g., online or

## Dimension 19.1. Scoring

Score	Minimum requirements for scores
A	Entities collecting <b>most</b> revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
B	Entities collecting the <b>majority</b> of revenues provide payers with access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
C	Entities collecting the <b>majority</b> of revenues provide payers with access to information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
D	Performance is less than required for a C score.

printed guides, brochures, bulletins, practice notes, FAQs, etc.). Such information should include the main revenue obligation areas (i.e., registration, timely filing of declarations, payment of liabilities on time, and complete and accurate reporting of information in declaration as well as the current redress system in place for payers to appeal revenue administrators' decisions). This dimension is NOT intended to assess the effectiveness of the redress system, but only the extent to which payers are informed as a minimum on redress processes and procedures.

19.1:3. Where information is publicly available the assessment should indicate the extent to which it is customized and tailored to meet the specific needs of key payer segments and whether such information includes government announcements regarding intended changes to the tax and sector laws, mining and petroleum codes, etc. It should also note the procedures consistently applied in practice, through for example, triangulation with taxpayer associations, chambers of commerce or other important private sector and civil society organizations.

19.1:4. For this dimension:

'Comprehensive' refers to the range of information available to payers to explain, in clear terms, what their obligations and rights are in respect to the main revenue obligation areas. The four main revenue obligation areas are:

(i) Registration;

- (ii) Timely filing of declarations;
- (iii) Payment of liabilities on time; and
- (iv) Complete and accurate reporting of information in declarations.

'Rights' refer to the extent to which payers are informed about the legal rights as well as review processes and procedures available to them to dispute an assessment.

'Redress' refers to compensation for wrongful treatment and may include acknowledgement, apology, financial compensation, reinstatement of status, and/or correction of errors.

'Easy access' is the ease by which individuals and payers can obtain information and advice from revenue administration, including considerations such as timeliness, cost and time spent finding the information. For countries with widespread public use of the Internet, 'ease' of acquiring information will be assessed largely by reference to the range of self-help information available on line, and the ease by which individuals and enterprises (payers) can navigate the website(s) of the entity collecting government revenues (tax administration, customs, social security contribution agencies, line ministries/agencies dealing with natural resources, privatization, etc.) to get the information they need. On the other hand, where a very low percentage of a country's population use computers and the internet, 'ease' will be assessed by reference to accessibility of other service delivery channels such as walk-in and telephone enquiry centers.

## Dimension 19.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>Information provided to payers on most revenue obligation areas, and rights, including at a minimum redress processes and procedures.</li> <li>Notes on whether the information provided to payers is comprehensive, up to date, and easy to access.</li> <li>The means by which information is provided.</li> </ul>	<ul style="list-style-type: none"> <li>Tax code and other revenue legislation. In resource-rich countries, additional legislation may include relevant information as part of natural resource management arrangements.</li> <li>Revenue agency websites and publications, with information on key obligations and rights.</li> <li>Customized information products tailored to the needs of key payer segments.</li> <li>Documented procedures (of the entities collecting most or majority of the central government revenue).</li> <li>(The best information sources are the revenue authorities, and investment and promotion agencies. Information should also be triangulated with taxpayer and business associations, chamber/s of commerce, etc. Some countries have one-stop shops, government service centers, or e-government portals that perform some or all of the client service involved in revenue administration.)</li> </ul>

‘Up-to-date’ is the degree to which information is current in terms of the laws and administrative procedures.

## Dimension 19.2. Revenue risk management

### DIMENSION MEASUREMENT GUIDANCE

19.2:1. This dimension assesses the extent to which a comprehensive, structured and systematic approach is used within the revenue entities for assessing and prioritizing compliance risks. Modern revenue administration relies increasingly on self-assessment and uses risk-based processes to ensure compliance. Resource constraints are likely to dictate that revenue administration processes are focused on identifying payers and transactions with the largest potential risk of noncompliance. An efficient risk management process contributes to minimizing evasion and

irregularities in revenue administration as well as lowering the cost of collection for revenue collecting agencies and cost of compliance for payers. The assessors should consider the use of risk management process in registration, filing, payment, and refunds of tax, customs, and social security payments. They should comment on the efficiency of these processes. The assessment should also look into the mitigation measures in place such as audits, investigations, transfer pricing controls, and outreach activities/ communication.

19.2:2. The PEFA report narrative should comment on whether the approach used covers all categories of revenue; key payer segments (such as, at a minimum, medium and large revenue payers); and the four main revenue obligation areas. It should note any differences in revenue authorities’ approaches to assessing and prioritizing compliance risks and mitigation measures. The focus is on those entities

that administer most or the majority of the central government revenues. The existence of a compliance risk register should be noted in the PEFA report narrative for this dimension.

19.2:3. Examples of the compliance risk observed among large payers include those associated with the transfer pricing and other profit-shifting arrangements of multinational enterprises operating in a given country while conducting extensive cross-border transactions. In resource-rich countries, companies involved in the extractive industries sector, given their size and function, typically belong in the large payer segment. Shifting profits through transfer pricing presents a major risk associated with the taxation of natural resource revenue. The report

should also identify any risk-mitigation measures applied by revenue authorities, such as audits, investigations, transfer pricing controls, and outreach activities and communication.

19.2:4. For this dimension ‘comprehensive’ refers to the coverage of all categories of revenue. A ‘structured and systematic approach’ means an approach which has clearly documented procedures and steps, is methodical and regularly repeatable. ‘Compliance risks’ relates to revenue that may be lost if payers fail to meet the four main revenue obligations areas, including: (i) registration; (ii) timely filing of declarations; (iii) payment of liabilities on time; and (iv) complete and accurate reporting of information in declarations.

## Dimension 19.2. Scoring

Score	Minimum requirements for scores
A	Entities collecting <b>most</b> revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for <b>all</b> categories of revenue and, as a minimum for their large and medium revenue payers.
B	Entities collecting the <b>majority</b> of revenues use a structured and systematic approach for assessing and prioritizing compliance risks for <b>some</b> categories of revenue and, as a minimum, for their large revenue payers.
C	Entities collecting the <b>majority</b> of revenues use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for <b>some</b> revenue streams.
D	Performance is less than required for a C score.

## Dimension 19.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>Information on the procedures and approach used by entities collecting central government revenues to assess and prioritize compliance risks; and whether it covers (i) all categories of revenue; (ii) key payer segments (at a minimum, medium and large revenue payers); and (iii) payers’ four main obligations.</li> </ul>	<ul style="list-style-type: none"> <li>Documented risk management approach used by revenue authorities to assess and prioritize compliance risks.</li> <li>A register of identified compliance risks for each payer segment (and for large- and medium-sized payers at a minimum).</li> </ul> <p>(The best information sources are the entities collecting most or the majority of central government revenue.)</p>



## Dimension 19.3. Revenue audit and investigation

### DIMENSION MEASUREMENT GUIDANCE

19.3:1. This dimension assesses whether sufficient controls are in place to deter evasion and ensure that instances of noncompliance are revealed. Sound audit and fraud investigation systems managed and reported on according to a documented compliance improvement plan must be in place to ensure that once risks have been identified, there is follow-up to minimize revenue leakage. More serious issues of noncompliance involve deliberate attempts at payment evasion and fraud. This may involve collusion with representatives within a revenue administration. The ability of the revenue administration to identify, investigate, successfully prosecute, and impose penalties in major evasion and fraud cases on a regular basis is essential for ensuring that payers comply with their obligations. This dimension assesses use of audits and fraud investigations managed and reported on according to a documented compliance improvement plan. Dimension 19.2 assesses the extent to which a comprehensive, structured and systematic approach is used within the revenue entities for assessing and prioritizing risks.

19.3:2. The PEFA report narrative should note whether the revenue authorities have a compliance improvement plan to mitigate identified compliance risks. If a plan exists, the narrative should note whether the compliance improvement plan includes planned mitigation measures in respect of: (i) most or the majority of revenue; (ii) key payer segments; and (iii) risks associated with the four main obligation areas.

19.3:3. The PEFA report narrative should identify to what extent the compliance improvement plan for the most recent completed fiscal year is actually implemented as planned. It should also explain whether the information on execution of the planned audits and investigations is easily accessible to government or the public (including completion rates: planned versus conducted), and whether the outcomes on investigation, prosecution and decisions on penalties are available.

19.3:4. A compliance improvement plan is a high-level plan that describes in a single document the most significant compliance risks identified in the revenue system and the actions the revenue administration intends to take to mitigate those risks. Compliance improvement plans (also known as compliance management plans or programs) are commonly structured around major sources of revenue and payer segments.

### Dimension 19.3. Scoring

Score	Minimum requirements for scores
A	Entities collecting <b>most</b> revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete <b>all</b> planned audits and investigations.
B	Entities collecting the <b>majority</b> of revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete <b>all</b> planned audits and investigations.
C	Entities collecting the <b>majority</b> of government revenue undertake audits and fraud investigations using a compliance improvement plan and complete the <b>majority</b> of planned audits and investigations.
D	Performance is less than required for a C score.

## Dimension 19.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>The existence of a compliance improvement plan for each revenue-collecting authority or major revenue measure.</li> <li>Data on the extent to which audit and fraud investigations are managed and reported on according to a documented compliance improvement plan.</li> <li>The completion rate of audit and fraud investigations (i.e., a comparison of those planned and those conducted).</li> </ul>	<ul style="list-style-type: none"> <li>Documented compliance improvement plan.</li> <li>Status reports on progress in the implementation of planned risk-mitigation activities and audit and fraud investigations.</li> </ul> <p>(The best information sources are the entities collecting most or the majority of central government revenue.)</p>

## Dimension 19.4. Revenue arrears monitoring

### DIMENSION MEASUREMENT GUIDANCE

19.4:1. This dimension assesses the extent of proper management of arrears within the revenue entities by focusing on the level and age of revenue arrears. Revenue administrations need to have a critical focus on the management of arrears to ensure that debts owed to the government are managed actively and that appropriate processes are adopted focusing on expediting the payment of collectable debt. This will ensure that revenue administrations maximize the collection of arrears before they become uncollectable. In order for the arrears management process to be considered comprehensive, it should allow for capturing information on revenue arrears and facilitate collection of those arrears in the year they occur.

19.4:2. The assessment narrative should note whether there is a clear definition of revenue arrears, and whether this is disaggregated by the main revenue sources. It should also note whether the information

provided is reliable, meaning that the ending balance of receivable after considering new assessments, payments under dispute, or to be refunded, can be classified into current or in arrears, and their age if in arrears. This would mean that payments should be clear as to what period of assessment they are being applied. Additionally, the report should identify whether there is a comprehensive document available that establishes rules and procedures for the management of revenue arrears, as well as the existence of any report on the outcomes of managing revenue arrears.

19.4:3. Arrears in the payment of refunds or the processing of revenue offsets to revenue payers by revenue authorities are not included in the measurement of this dimension. However, where there is a significant backlog or outstanding liability for the payment of refunds or processing of offsets, assessors should note this in the PEFA report narrative. Where possible, assessors should also note the approximate size of such liabilities in terms of value or share of total revenue.



### Dimension 19.4. Scoring

Score	Minimum requirements for scores
A	The stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection for the year, and the revenue arrears older than 12 months are less than 25 percent of total revenue arrears for the year.
B	The stock of revenue arrears at the end of the last completed fiscal year is below 20 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of total revenue arrears for the year.
C	The stock of revenue arrears at the end of the last completed fiscal year is below 40 percent of the total revenue collection for the year and the revenue arrears older than 12 months are less than 75 percent of total revenue arrears for the year.
D	Performance is less than required for a C score.

### Dimension 19.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>The stock of revenue arrears at the end of the last completed fiscal year.</li> <li>The total revenue collection for the same year.</li> <li>The revenue arrears older than 12 months at the end of the last completed fiscal year.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue collection authority records such as a documented report on (i) the stock of revenue arrears; and (ii) revenue arrears older than 12 months.</li> </ul>

19.4:4. For this dimension revenue arrears are the total amount, including interest and payment, that is overdue from revenue payers, i.e., that has not been paid to the revenue-collecting entity or other authorized body by the statutory due date for payment. The total amount of arrears excludes late payments of withholding taxes or presumptive taxes that are paid in advance of the final tax assessment.

19.4:5. Assessors should note in the narrative the extent to which arrears include amounts that are considered by the government to be ‘not collectible’ but not yet written off as well as arrears of collections awaiting adjudication (from appeals of tax assessments).

# PI-20. ACCOUNTING FOR REVENUE

## ABOUT THE INDICATOR

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government. This indicator contains the following three dimensions and uses **M1 (WL)** for aggregating dimension scores:

- Dimension 20.1. Information on revenue collections
- Dimension 20.2. Transfer of revenue collections
- Dimension 20.3. Revenue accounts reconciliation

## IMPACT ON BUDGETARY OUTCOMES

Accurate recording and reporting of tax and nontax revenue collections is important to ensure all revenue is collected in accordance with relevant laws. Compliance with tax laws strengthens both aggregate fiscal discipline and administrative capacity to allocate budget resources to strategic priorities. Timely and accurate information on revenue helps the government monitor budget implementation and the management of cash, debt, and investments. This helps to keep down transaction costs and ensure that

funds are used most effectively in achieving allocation and service delivery objectives.

## INDICATOR MEASUREMENT GUIDANCE

20:1. This indicator complements information in PI-3, PI-14, PI-15, PI-16, and PI-19, in particular to provide a general impression of the way in which revenues are administered in the country.

20:2. In order to evidence the materiality used to assess all dimensions of PI-20, assessors may find it useful to prepare a table containing information on collected revenue broken down by collecting entities and categories of revenue, as suggested in Table 19.1.

20:3. Indicator PI-20 does not cover grants from development partners.

## Dimension 20.1. Information on revenue collections

### DIMENSION MEASUREMENT GUIDANCE

20.1:1. This dimension assesses the extent to which a central ministry, i.e., MoF or a body with similar responsibilities, coordinates revenue administration activities and collects, accounts for, and reports timely information on collected revenue.

20.1:2. The report should indicate (i) whether all revenue types are covered and the data are complete, (ii) the extent to which data are broken down by revenue type and period of collection, and (iii) whether data on collected revenue are consolidated into a report.

## Dimension 20.1. Scoring

Score	Minimum requirements for scores
<b>A</b>	A central agency obtains revenue data at least monthly from entities collecting <b>all</b> central government revenue. This information is broken down by revenue type and is consolidated into a report.
<b>B</b>	A central agency obtains revenue data at least monthly from entities collecting <b>most</b> central government revenue. This information is broken down by revenue type and is consolidated into a report.
<b>C</b>	A central agency obtains revenue data at least monthly from entities collecting the <b>majority</b> of central government revenue and consolidates the data.
<b>D</b>	Performance is less than required for a C score.

## Dimension 20.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
At the time of the assessment.	CG.	<ul style="list-style-type: none"> <li>Evidence that information is received on all revenue by a central agency, through systems or separate reports.</li> <li>Reports on revenue are organized by the central agency that receives information from collecting entities.</li> </ul>	<ul style="list-style-type: none"> <li>Entities/revenue authorities collecting CG revenue.</li> <li>Treasury or other designated revenue recipients.</li> <li>Central bank.</li> </ul>

20.1:3. Information on revenue received through a treasury single account or similar central reporting system would satisfy the requirements for A and B scores on this dimension if it can be demonstrated that the information is identifiable by source and revenue type.

## Dimension 20.2. Transfer of revenue collections

### DIMENSION MEASUREMENT GUIDANCE

20.2:1. This dimension assesses the promptness of transfers to the Treasury or other designated agencies of revenue collected. The Treasury is expected to identify whether itself or any other legally designated recipient is the appropriate focus of this indicator. It is essential to ensure that funds are available as soon as possible to support cash management and, ultimately, spending. This may involve either a system that obliges payments to be made directly

into accounts controlled by the Treasury (possibly managed by a bank). Alternatively, where the responsible agency maintains its own collection accounts, by frequent and full transfers from those accounts to Treasury controlled accounts. (Time periods mentioned do not include delays in the banking system.) Transfers of revenue collections to the Treasury should be effective and should ensure that any revenue float or residual account balance is minimized. Ideally, every revenue amount should be transferred to the Treasury, but other agencies could be legally designated to receive earmarked revenues directly from the collecting entity, for example, autonomous extrabudgetary funds. Transfers to such designated agencies will be assessed in the same way as transfers to the Treasury.

20.2:2. The report should identify where individuals, enterprises, importers, or any other debtors pay their revenue obligations (directly to entities/ revenue authorities collecting central government

## Dimension 20.2. Scoring

Score	Minimum requirements for scores
A	Entities collecting <b>most</b> central government revenue transfer the collections directly into accounts controlled by the Treasury, or transfer the collections daily to the Treasury and other designated agencies.
B	Entities collecting <b>most</b> central government revenue transfer the collections to the Treasury and other designated agencies at least weekly.
C	Entities collecting <b>most</b> central government revenue transfer the collections to the Treasury and other designated agencies at least every two weeks.
D	Performance is less than required for a C score.

## Dimension 20.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
At the time of the assessment.	CG.	<ul style="list-style-type: none"> <li>Information on the approach(es) to transferring revenue collections to the Treasury and other designated agencies.</li> <li>The promptness of transfers to the Treasury or other designated agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Entities/revenue authorities collecting CG revenue, the Treasury or other designated revenue recipients, and the central bank.</li> </ul>

revenue, commercial banks, central Bank, post office, etc.). It should also indicate how tax, duties, or any other revenue payment reach the Treasury or other designated agencies, to what extent payments are made directly into accounts controlled by the Treasury, and the time gap between revenue collection and transfer to the Treasury or other designated agencies.

### Dimension 20.3. Revenue accounts reconciliation

#### DIMENSION MEASUREMENT GUIDANCE

20.3:1. This dimension assesses the extent to which aggregate amounts related to assessments/charges, collections, arrears, and transfers to (and receipts by) the Treasury or designated other agencies take place regularly and are reconciled in a timely manner. This will ensure that the collection and transfer system functions as intended and that the level of arrears and revenue float are monitored and minimized. It is important that any difference between amounts assessed or levied by responsible entities and amounts received by the Treasury or other designated agencies can be explained. (N.B. this does not assume or imply an accrual based accounting system: the data and reports used for assessing this indicator are based on cash accounting.) The responsible entity should normally keep records in its accounting system on aggregate amounts levied and on transfers to the Treasury. The responsible entity should also keep

records reflecting amounts levied and paid by each payer, but this may be done in other data systems. The responsible entity should be able to aggregate such information, so that it can report how much of amounts levied is (a) not yet due, (b) in arrears (the difference between what is due and what has been paid in) and (c) collected by the responsible entity but not yet transferred to the Treasury. For revenues from extractive industries, the Extractive Industries Transparency Initiative has developed standards for the disclosure and reconciliation of what companies pay and what governments receive<sup>9</sup>.

20.3:2. The PEFA report narrative should note whether the reconciliation of revenue assessment, collections, arrears and transfers to the Treasury or other designated agencies has been carried out by entities collecting most central government revenue, and if so, how often, and how long it takes to complete the reconciliation after the period under consideration.

20.3:3. The criteria for rating this dimension clearly establish that the reconciliations of assessments, collections, arrears, and transfers to treasury accounts have to be done between the revenue collection entities and Treasury. It is important that these are done because differences can arise between Treasury receipts and revenue collection entities. This can be a particular problem if Treasury account codes are not identical to revenue collection entity codes (usually recording receipts at a higher level)

<sup>9</sup> Refer to <https://eiti.org/> for more information.

and where transfers to the Treasury from revenue collection entity accounts to the Treasury are not automatic when funds are deposited, for example if they are transferred daily or weekly. These differences can mean that funds are not properly accounted for in the Treasury system, leading to deviations in reporting. Large fluctuations in deposits, and consequent deviations in when transactions are recorded, could have a material effect on reporting.

### Dimension 20.3. Scoring

Score	Minimum requirements for scores
A	Entities collecting <b>most</b> central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury and other designated agencies at least quarterly within four weeks of the end of quarter.
B	Entities collecting <b>most</b> central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury and other designated agencies at least half-yearly within eight weeks of the end of the half-year.
C	Entities collecting <b>most</b> central government revenue undertake complete reconciliation of collections and transfers to Treasury and other designated agencies at least annually within 2 months of the end of the year.
D	Performance is less than required for a C score.

### Dimension 20.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/ calculation	Data sources
At the time of the assessment.	CG.	<ul style="list-style-type: none"> <li>Comprehensiveness, frequency, and timeliness of reconciliation undertaken by each major revenue-collection entity(ies). It relates to aggregate amounts of assessments/charges, collections, arrears, and transfers to (and receipts by) the Treasury or other designated agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Entities/revenue authorities collecting CG revenue.</li> <li>Treasury or other designated revenue recipients.</li> <li>Central bank.</li> </ul>

# PI-21. PREDICTABILITY OF IN-YEAR RESOURCE ALLOCATION

## ABOUT THE INDICATOR

21:1. This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 21.1. Consolidation of cash balances
- Dimension 21.2. Cash forecasting and monitoring
- Dimension 21.3. Information on commitment ceilings
- Dimension 21.4. Significance of in-year budget adjustments

## IMPACT ON BUDGETARY OUTCOMES

Effective service delivery and execution of the budget in accordance with work plans requires that budgetary units receive reliable information on the availability of funds so that they can control commitments and make payments for nonfinancial assets, goods, and services.

Fiscal discipline requires that resources owned by the government are used effectively to achieve fiscal objectives. Cash should be available to meet obligations when they fall due and, when not required for other priorities, should be used to minimize

debt management costs or increase investment returns. This requires an effective cash management system and detailed information on the amount and timing of all receipts and payments. Budgetary units need to be sure that the approved budget will be available when it is needed, so there must be good communication between budgetary units and the custodians of resources on cash requirements and commitment limits. If there are adjustments in budgets during the year, they are likely to have less impact on the efficiency of service delivery if the size and timing of the adjustments are known sufficiently in advance to allow adjustments to be made by service providers to accommodate more or less resources than originally anticipated.

## Dimension 21.1. Consolidation of cash balances

### DIMENSION MEASUREMENT GUIDANCE

21.1:1. This dimension assesses the extent to which the MoF, or other similar entity, can identify and consolidate cash balances as a basis for informing the release of funds. Use of a treasury single account (TSA), or accounts that are centralized at a single bank, usually the central bank, facilitates the consolidation of bank accounts. A TSA is a bank account or a set of linked accounts through which the government transacts every receipt and payment. The control and reporting on individual transactions should be achieved through the accounting system, allowing the Treasury to delink management of cash from control of individual transactions. Achieving regular consolidation of multiple bank accounts not held centrally will generally require making timely

## Dimension 21.1. Scoring

Score	Minimum requirements for scores
A	<b>All</b> bank and cash balances are consolidated on a daily basis.
B	<b>All</b> bank and cash balances are consolidated on a weekly basis.
C	<b>Most</b> cash balances are consolidated on a monthly basis.
D	Performance is less than required for a C score.



### Dimension 21.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At the time of the assessment.	BCG.	<ul style="list-style-type: none"> <li>Number of bank accounts managed by the Treasury and other budgetary units, and their balance.</li> <li>Number of accounts included in the TSA for which balances are calculated and consolidated by the Treasury.</li> <li>Frequency of the consolidation of bank account balances.</li> </ul>	<ul style="list-style-type: none"> <li>Treasury.</li> <li>Budgetary units.</li> <li>Central bank.</li> </ul>

electronic clearing and payment arrangements with the government’s bankers. The narrative of the report should include a discussion of the arrangements used in the assessed jurisdiction.

21.1:2. Assessors should indicate whether there is a TSA and whether all government accounts are centralized and/or consolidated. They should also specify the nature and number of bank accounts that are not directly controlled by the Treasury. For such accounts they should state (i) whether records of balances are calculated, and how frequently this occurs, and (ii) whether balances from the accounts are ‘swept’ into a central or consolidated account, and how often (e.g., daily, weekly, monthly).

21.1:3. Consolidation of cash balances exists when the government has information on the total of its cash and bank balances and can switch unused balances to meet overdrawn balances and minimize its borrowing costs. This requires that all balances are held centrally, e.g. by the central bank (which may treat all government accounts as sub-accounts of one consolidated account and only apply interest charges and overdraft limits to the consolidated account balance), or that balances in outlying banks, such as commercial banks, are subject to electronic clearing and payment arrangements.

### Dimension 21.2. Cash forecasting and monitoring

#### DIMENSION MEASUREMENT GUIDANCE

21.2:1. This dimension assesses the extent to which budgetary unit commitments and cash flows are forecast and monitored by the MoF. Effective cash flow planning, monitoring, and management by the Treasury facilitates the predictability of the availability of funds for budgetary units. This will require reliable forecasts of cash inflows and outflows, both routine and nonroutine that are linked to the budget implementation and commitment plans of individual budgetary units. Nonroutine outflows are expenditures that do not take place on a regular monthly or annual basis, such as the cost of holding elections or discrete capital investments.

21.2:2. The cash flow forecast referred to in this dimension relates to a consolidated forecast prepared by the relevant central entity, such as a Treasury department. The forecast would normally be expected to be based on information supplied by budgetary units at least once for the year, in addition to analysis performed by the central Treasury. Assessors should report whether cash flow forecasts are prepared at the start of the fiscal year, and the frequency with which cash flow forecasts are updated during the year (e.g., monthly, quarterly, half-yearly).

21.2:3. A cash flow update is an update of the cash flow forecast that requires reestimation/rescheduling of future cash flows.



## Dimension 21.2. Scoring

Score	Minimum requirements for scores
A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
B	A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.
C	A cash flow forecast is prepared for the fiscal year.
D	Performance is less than required for a C score.

## Dimension 21.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Evidence of the preparation of cash flow forecasts by a central entity and frequency of updates.</li> </ul>	<ul style="list-style-type: none"> <li>MoF and/or Treasury.</li> <li>Budgetary units.</li> </ul>

## Dimension 21.3. Information on commitment ceilings

### DIMENSION MEASUREMENT GUIDANCE

21.3:1. This dimension assesses the reliability of in-year information available to budgetary units on ceilings for expenditure commitment for specific periods. Predictability for budgetary units as to the availability of funds for commitment is necessary to facilitate planning of activities and procurement of inputs for effective service delivery and to avoid disruption of the implementation of these plans once they are under way. In certain systems, funds are released by the MoF to budgetary units in stages throughout the budget year. In others, the passing of the annual budget law grants the full authority to commit and spend from the beginning of the year. However, the MoF, Treasury, or other central agency, may in practice impose constraints on budgetary units in incurring new commitments and making related payments, when cash flow problems arise. For commitments to be considered reliable, the amount of funds for commitment or spending made available

to an entity for a specific period should not be reduced during that period. Adherence of budgetary units to ceilings for expenditure commitment and payments is not assessed here, but is covered by PI-25 on internal controls. PI-22 on expenditure arrears management is also relevant because it has implications for the effectiveness of commitment controls.

21.3:2. The PEFA report should note whether budgetary units are provided with reliable information on the actual resources available for commitments, and how far in advance such information is made available (e.g., 1, 2, 3, 6, or 12 months). The assessment should also indicate whether budgetary units are able to plan and commit expenditures in accordance with budget appropriations and whether the Treasury utilizes non-transparent control mechanisms when experiencing cash flow problems (e.g., delaying the printing or issue of checks or electronic funds transfers to suppliers, or delaying the transfer of funds to budget entity accounts for which checks have already been written by the budget entity).

### Dimension 21.3. Scoring

Score	Minimum requirements for scores
A	Budgetary units are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.
B	Budgetary units are provided reliable information on commitment ceilings at least quarterly in advance.
C	Budgetary units are provided reliable information on commitment ceilings at least one month in advance.
D	Performance is less than required for a C score.

### Dimension 21.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Evidence of the existence, and frequency of issue, of commitment ceilings for budgetary units.</li> </ul>	<ul style="list-style-type: none"> <li>Treasury.</li> <li>Budgetary units.</li> </ul>

### Dimension 21.4. Significance of in-year budget adjustments

#### DIMENSION MEASUREMENT GUIDANCE

21.4:1. This dimension assesses the frequency and transparency of adjustments to budget allocations. Governments may need to make in-year adjustments to allocations in the light of unanticipated events that affect revenues or expenditures. Specifying in advance a mechanism that relates such adjustments to budget priorities in a systematic and transparent manner minimizes the impact of adjustments on predictability and on the integrity of original budget allocations. For example, particular votes or budget lines that are declared to be high priority or poverty related may be specified as protected from adjustment. In contrast, in some systems adjustments may take place without clear rules or guidelines, or may be undertaken informally, for example, through imposition of delays on new commitments. While some budget adjustments could take place administratively with little impact on expenditure composition outturn at higher levels of aggregation in the administrative, functional and economic budget classifications, other more significant changes may alter the actual composition at such aggregated

classification levels. The significance of these adjustments is assessed in relation to the percentages specified in the PI-2 rating criteria. Rules for when the legislature should be involved in such in-year budget amendments are assessed in PI-18 and are not covered here.

21.4:2. The PEFA report narrative for this dimension should cross-reference the legislative and procedural rules for making adjustments to original budget appropriations, as covered by PI-18.4 (e.g., supplementary estimates, virements), including limits imposed on the executive—above which legislative approval is required—and whether these rules are respected. The report should provide an indication of the size of the budget adjustments in the last fiscal year, and the frequency of those adjustments.

21.4:3. The adjustments to be considered for this dimension are only those that are instigated by the MoF—or central agency with a corresponding mandate, such as the ministry of planning for capital investments—and not the virements within approved limits (in accordance with arrangements established as per PI-18) between budget lines for a single budget entity (instigated by the entity itself and typically of insignificant value).

21.4:4. To be considered as ‘partially transparent’ the significant in-year budget adjustments to budget allocations must be done in compliance with documented procedures (which should be in place governing requests for virements, reallocations and changes in MDA spending ceilings). ‘Fairly transparent’ means that the adjustments must be consistent with the government’s stated priorities. Assessors might base their assessment on the extent to which the budgetary units are informed of the adjustment to budget allocations and involved in the process. ‘Predictable way’ means there are clearly defined rules and evidence that rules are being complied with.

## Dimension 21.4. Scoring

Score	Minimum requirements for scores
A	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a transparent and predictable way.
B	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a fairly transparent way.
C	Significant in-year budget adjustments to budget allocations are frequent, and are partially transparent.
D	Performance is less than required for a C score.

## Dimension 21.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>• Requests and approvals of significant budget adjustments (e.g. supplementary estimates and virements between budget entities).</li> <li>• Timing and communication on adjustments from central units to other budgetary units.</li> <li>• Fiscal impact of budget adjustments.</li> </ul>	<ul style="list-style-type: none"> <li>• MoF.</li> <li>• Budgetary units.</li> </ul>

## PI-22. EXPENDITURE ARREARS

### ABOUT THE INDICATOR

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains the following two dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

- Dimension 22.1. Stock of expenditure arrears
- Dimension 22.2. Expenditure arrears monitoring

### IMPACT ON BUDGETARY OUTCOMES

Arrears can cause increased costs to government: creditors may adjust prices to compensate for late payment; or delayed supply of inputs may affect service delivery. A large volume of arrears may indicate a number of different problems, such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items, and lack of information.

Arrears can have a significant impact on fiscal discipline because they constitute a failure in controlling commitments and making payments when obligations are due. If arrears are allowed to occur and grow, they can place a burden on future budgets to meet the unauthorized or excessive obligations of the past. Arrears can also indicate an unintended expansion of expenditures that could distort the allocation of resources. They can be an indication that more resources are needed to achieve the service levels expected, levels that cannot be attained without incurring unauthorized additional expenditures. Arrears can also be an indication that cash is not being provided to meet obligations when needed, implying that cash allocation arrangements are not fully effective.

### INDICATOR MEASUREMENT GUIDANCE

22:1. Arrears are overdue debts, liabilities, or obligations. They constitute a form of nontransparent financing. Expenditure payment arrears are

expenditure obligations that have been incurred by government, for which payment to the employee, retiree, supplier, contractor or loan creditor is overdue.

22:2. Government payment deadlines are usually established in contractual obligations such as procurement or contractual grant agreements, or in debt service or other legal obligations such as payroll, pension, welfare payments, or noncontractual grants. An unpaid claim or obligation becomes an arrear when it has not been paid at the date stipulated in the contract or in the corresponding law or financial regulation. Even inadmissible or incomplete payment claims can become arrears if the beneficiaries are not notified of the defect before the payment deadline is met.

22:3. Assessors should confirm that the government's data recording and reporting system analyzes payments, legal and contractual payment deadlines, and invoices, including suspensions and rejections, so that arrears can be and are calculated.

22:4. Delays in payments or transfers between government entities are not covered by this indicator.

### Dimension 22.1. Stock of expenditure arrears

#### DIMENSION MEASUREMENT GUIDANCE

22.1:1. This dimension assesses the extent to which there is a stock of arrears. The stock is preferably identified at the end of the fiscal year and compared to total expenditure for the considered fiscal year. Assessors should comment on any recent change in the stock over the period under consideration. The PEFA report narrative for this dimension should mention any known significant stocks of arrears within central government units outside BCG and any significant stocks of unprocessed VAT refunds or extensive delays in payment of those obligations, even though none of them is included in the stock to be assessed for scoring.

22.1:2. The PEFA report narrative should explain how expenditure arrears are defined and through what means this definition has legal status (e.g., legislation, tender documents, contracts, court decisions).

## Dimension 22.1. Scoring

Score	Minimum requirements for scores
A	The stock of expenditure arrears is no more than 2% of total expenditure in at least two of the last three completed fiscal years.
B	The stock of expenditure arrears is no more than 6% of total expenditure in at least two of the last three completed fiscal years.
C	The stock of expenditure arrears is no more than 10% of total expenditure in at least two of the last three completed fiscal years.
D	Performance is less than required for a C score.

22.1:3. The PEFA framework allows local definitions and local practices in the calculation of payment arrears. If there are no local regulations or locally widely accepted practices, the default for the assessment would be internationally accepted business practices according to which a claim will be considered in arrears, i.e., if payment has not been made within 30 days from the government's receipt of supplier's invoice/claim (for supplies, services or works delivered) unless the supplier has been notified within the same period that the invoice is incorrect or in other ways unacceptable. If the payment deadline used in the country exceeds 30 days, this should be noted in the PEFA report narrative along with a comment that good international practice provides for payment deadlines of 30 days or less.

22.1:4. If a payment claim is inadmissible because it does not meet the terms of the contract or law, it should be rejected and the beneficiary informed of the reason. The payment period starts when a valid payment claim is received. If the payment request is admissible but incomplete, or some corrections or clarifications are required, the payment request must be registered and the payment deadline must be suspended from the date the beneficiary is informed, and until those corrections or clarifications are received. The PEFA report narrative should highlight any systematic attempts by budgetary units to create such payment delays, where evidence suggests that this is happening. Assessors should triangulate information to ensure that no stock of arrears are held outside the system.

22.1:5. Failure to make staff payroll payments, pension, transfer or meet a deadline for payment of interest on debt immediately results in a payment being in arrears. Arrears on goods/services, salaries, pensions and debt service may be reported using various systems. The indicator is assessed on the weighted average of all such systems and should highlight if all types of expenditure are covered by systems appropriate for monitoring arrears.

22.1:6. Arrears also occur when the central bank or commercial banks hold on to checks or transfers corresponding to payment requests from budgetary central government, due to lack of cash available in bank accounts, resulting in a float of unpaid checks<sup>10</sup>.

<sup>10</sup> <https://www.imf.org/external/pubs/ft/tnm/2014/tnm1403.pdf>

## Dimension 22.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	BCG.	<ul style="list-style-type: none"> <li>Level of expenditure arrears (at end of each fiscal year).</li> <li>Total BCG expenditures (for each fiscal year).</li> </ul>	<ul style="list-style-type: none"> <li>Treasury.</li> <li>Budget directorate.</li> <li>Government accounting office.</li> <li>Budgetary units.</li> <li>Debt management office.</li> <li>Chamber of commerce/Industry and other private sector representatives for triangulation.</li> </ul>

## Dimension 22.2. Expenditure arrears monitoring

### DIMENSION MEASUREMENT GUIDANCE

22.2:1. This dimension assesses the extent to which any expenditure arrears are identified and monitored. It focuses on which aspects of arrears are monitored and how frequently and quickly the information is generated.

22.2:2. The stock of arrears refers to the total value of arrears. The age of arrears refers to the length of time between when the arrears were incurred and the date

of their recording. The composition of arrears refers to the segregation of arrears by responsible entity and type of arrears, such as arrears for goods and services, salary payments, pension payments, statutory transfers, court judgements etc.

22.2:3. If there are no arrears, an A rating would be justified as long as it can be reasonably demonstrated that the commitment and payment control systems are complete and functional, and that reliable and complete information is available to suggest that the amount of arrears is nil.

## Dimension 22.2. Scoring

Score	Minimum requirements for scores
<b>A</b>	Data on the stock, age, and composition of expenditure arrears is generated quarterly within four weeks of the end of each quarter.
<b>B</b>	Data on the stock and composition of expenditure arrears is generated quarterly within eight weeks of the end of each quarter.
<b>C</b>	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year.
<b>D</b>	Performance is less than required for a C score.

## Dimension 22.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At the time of assessment.	BCG.	<ul style="list-style-type: none"> <li>Information on how expenditure arrears are defined and through what means (legislation, tender documents, contracts, court decisions).</li> <li>Recent data report(s) on expenditure arrears that indicate stock, composition and age profiles.</li> <li>Frequency and delay of generating such reports during the past twelve months.</li> </ul>	<ul style="list-style-type: none"> <li>Treasury.</li> <li>Budget directorate.</li> <li>Budgetary units.</li> <li>Government accounting office.</li> <li>Debt management office.</li> </ul>



## PI-23. PAYROLL CONTROLS

### ABOUT THE INDICATOR

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of nonsalary internal controls, PI-25. This indicator contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

- Dimension 23.1. Integration of payroll and personnel records
- Dimension 23.2. Management of payroll changes
- Dimension 23.3. Internal control of payroll
- Dimension 23.4. Payroll audit

### IMPACT ON BUDGETARY OUTCOMES

The wage bill is usually one of the biggest items of government expenditure. It may be susceptible to weak controls and hence corruption. Payroll controls affect fiscal discipline by ensuring that the expenditures on payroll are contained in accordance with the laws and authorized allocations established by the country. Weak payroll controls can result in unintended expansion of payroll costs or unmet obligations to employees. These in turn result in lower allocative efficiency and demotivation of staff with wider implications for the quality of services

and incentives for unauthorized behaviors by staff to compensate for weaknesses in the payroll system.

### INDICATOR MEASUREMENT GUIDANCE

23:1. For the purpose of this indicator, the payroll for civil servants covers both permanent and nonpermanent staff. Assessors should note that different segments of the public service may be covered by different payrolls. Every important payroll should be mentioned in the PEFA report narrative and assessed in the scoring of this indicator.

23:2. If payroll management involves a large number of significant entities or is highly decentralized, complete information on government's payroll controls may be impractical to collect. Assessors may consider using a sampling methodology. Assessors should then explain the reason for the use of sampling and justify the sampling approach they adopt. It would be preferable that assessors and government agree on the sampling approach. In case of disagreement, differences of views can be accommodated in an annex as explained in the Framework under Part 3: The PEFA report, paragraph 4.

### Dimension 23.1. Integration of payroll and personnel records

#### DIMENSION MEASUREMENT GUIDANCE

23:1:1. This dimension assesses the degree of integration between personnel, payroll, and budget data. The payroll should be underpinned by a personnel database that provides a list of staff to be

### Dimension 23.1. Scoring

Score	Minimum requirements for scores
A	Approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.
B	The payroll is supported by full documentation for <b>all</b> changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
C	Reconciliation of the payroll with personnel records takes place at least every six months. Staff hiring and promotion is checked against the approved budget prior to authorization.
D	Performance is less than required for a C score.

## Dimension 23.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At the time of assessment.	CG.	<ul style="list-style-type: none"> <li>Documentation of payroll changes and corresponding personnel records.</li> <li>Documentation of the procedures applied and demonstration of the process for dealing with changes to personnel records and reconciliation of payroll and personnel records.</li> <li>Information on the timing of reconciliations.</li> </ul>	<ul style="list-style-type: none"> <li>Public service commission.</li> <li>Personnel management directorate or department.</li> <li>Accountant general.</li> <li>Finance officers of budgetary units and agencies.</li> <li>SAI to triangulate information.</li> </ul>

paid every pay period. This list should be verified against the approved establishment list, or other approved staff list on which budget allocations are based, as well as against individual personnel records or staff files. Controls should also ensure that staff employment and promotion is undertaken within approved personnel budget allocations.

23.1:2. For the purpose of this dimension, directly linked means that for any change in the personnel database affecting the payroll status of an employee, a corresponding change is automatically made in the payroll, without human intervention.

## Dimension 23.2. Management of payroll changes

### DIMENSION MEASUREMENT GUIDANCE

23.2:1. This dimension assesses the timeliness of changes to personnel and payroll data. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail.

23.2:2. Retroactive adjustments refer to changes in the payroll following relevant changes in personnel status, or as a result of errors, and that require supplementary compensation or clawback of payments that the employee is not entitled to. Lacking timeliness of changes to the payroll will lead to payment arrears to staff, ref. PI-22.

## Dimension 23.2. Scoring

Score	Minimum requirements for scores
A	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare. If reliable data exists, it shows corrections in a maximum of 3% of salary payments.
B	Personnel records and payroll are updated at least quarterly and require <b>a few</b> retroactive adjustments.
C	Personnel records and payroll are updated at least quarterly and require <b>some</b> retroactive adjustments.
D	Performance is less than required for a C score.

## Dimension 23.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At the time of assessment.	CG.	<ul style="list-style-type: none"> <li>Frequency and timing of updating of personnel records and payroll data.</li> <li>Information on the number and size of retroactive adjustments.</li> <li>Delay in the number of days from change in personnel status to personnel records and payroll data are updated.</li> </ul>	<ul style="list-style-type: none"> <li>Public service commission.</li> <li>Personnel management directorate or department.</li> <li>Accountant general.</li> <li>Finance officers of budgetary units and agencies.</li> <li>SAI to triangulate information.</li> <li>Staff union to triangulate information.</li> </ul>

## Dimension 23.3. Internal control of payroll

### DIMENSION MEASUREMENT GUIDANCE

23.3:1. This dimension assesses the controls that are applied to the making of changes to personnel and payroll data. Effective internal controls should: (i) restrict the authority to change records and

payroll; (ii) require separate verification; and (iii) require production of an audit trail that is adequate to maintain a permanent history of transactions together with details of the authorizing officers.

23.3:2. The PEFA report narrative should include commentary on whether the internal controls are applied, and highlight any weakness in their application. Full integrity of data means that

## Dimension 23.3. Scoring

Score	Minimum requirements for scores
A	Authority to change records and payroll is restricted, results in an audit trail, and is adequate to ensure full integrity of data.
B	Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data.
C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
D	Performance is less than required for a C score.

## Dimension 23.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At the time of assessment.	CG.	<ul style="list-style-type: none"> <li>Procedures establishing roles and responsibilities.</li> <li>Evidence that procedures are applied.</li> <li>HRMS log queries.</li> </ul>	<ul style="list-style-type: none"> <li>Public service commission.</li> <li>Personnel management directorate or department.</li> <li>Accountant general.</li> <li>Finance officers of budgetary units and agencies.</li> <li>SAI to triangulate information.</li> <li>Audit units to triangulate information.</li> </ul>

processes ensure that *all* data is considered accurate. High integrity means that processes ensure that *most* data is considered accurate.

23.3:3. An audit trail enables checks to be made on individual accountability, intrusion detection, and problem analysis. Good audit trails are meant to provide information on who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated.

## Dimension 23.4. Payroll audit

### DIMENSION MEASUREMENT GUIDANCE

23.4:1. This dimension assesses the degree of integrity of the payroll. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps, and identify control weaknesses.

23.4:2. A payroll audit should include both a documentation check, to ensure that everyone on the payroll is appropriately documented and authorized to receive a particular amount of pay, and a physical verification that payees exist and are identified before payment.

23.4:3. The PEFA report narrative should explain which auditors have undertaken payroll audits, and the coverage (in terms of institutions and personnel) and scope of these audits (e.g., whether they included on-site physical verification, were based on national citizen identification systems, or had a more limited scope).

23.4:4. A ‘strong’ audit system – as required for an A rating – implies that payroll audits are conducted regularly and appropriate action has been taken by the audited entities to address the weaknesses identified by the auditors.

## Dimension 23.4. Scoring

Score	Minimum requirements for scores
A	A strong system of annual payroll audits exists to expose control weaknesses and identify ghost workers.
B	A payroll audit covering <b>all</b> central government entities has been conducted at least once in the last three completed fiscal years (whether in stages or as one single exercise).
C	Partial payroll audits or staff surveys have been undertaken within the last three completed fiscal years.
D	Performance is less than required for a C score.

## Dimension 23.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>Dates of payroll audit events during the last three fiscal years.</li> <li>Coverage, scope and auditors of each event.</li> <li>Action taken on audit findings.</li> </ul>	<ul style="list-style-type: none"> <li>Public service commission.</li> <li>Personnel management directorate or department.</li> <li>Accountant general.</li> <li>Finance officers of budgetary units and agencies.</li> <li>SAI to triangulate information.</li> <li>Audit units to triangulate information.</li> </ul>

## PI-24. PROCUREMENT

### ABOUT THE INDICATOR

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 24.1. Procurement monitoring
- Dimension 24.2. Procurement methods
- Dimension 24.3. Public access to procurement information
- Dimension 24.4. Procurement complaints management

### IMPACT ON BUDGET OUTCOMES

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively in acquiring inputs for, and achieving value for money in, the delivery of programs and services by a government. The principles of a well-functioning system need to be stated in a well-defined and transparent legal framework that clearly establishes appropriate policy, procedures, accountability, and controls. The description of the legal framework for PFM is included in the PEFA report narrative in section 2.3. Key procurement principles include the use of transparency and competition as means to obtain fair and reasonable prices and overall value for money.

### INDICATOR MEASUREMENT GUIDANCE

24:1. The scope of the indicator covers every procurement of goods, services, civil works, and major equipment investments, whether classified as recurrent or capital investment expenditure.

24:2. In decentralized procurement systems this indicator can be assessed using the five central

government units with the highest value of procurement commenced in the last completed fiscal year. If data to identify the central government units with the highest value of procurement are not easily obtained by the assessors, then assessors should choose the central government units with the largest annual gross expenditure that perform a substantial value of procurements. Assessors may be guided by the government in identifying the most relevant central government units, but will make the final decision on which central government units to include in the assessment. The basis of choosing the central government units included in the assessment should be noted in the narrative discussion of this indicator. In other words, the data collection approach should be decided at the country level; assessors should consider issues such as sampling size, qualitative versus quantitative data, and cost-effectiveness. Details of the approach should be disclosed in the assessment report.

### Dimension 24.1. Procurement monitoring

#### DIMENSION MEASUREMENT GUIDANCE

24.1:1. This dimension assesses the extent to which prudent monitoring and reporting systems are in place within government to ensure value for money and promote fiduciary integrity. *Completeness* refers to the information on contracts awarded. The accuracy and completeness of information can be assessed by reference to audit reports.

24.1:2. For this dimension, the expression ‘data are accurate and complete’ means ‘as identified’ by third party assurance, e.g., auditors, including SAIs, procurement directorate, firms, etc.

24.1:3. If there is a lack of external reports to evidence the accuracy and completeness of databases, assessors may rely on a sample as guided in paragraph 24:2 above.

## Dimension 24.1. Scoring

Score	Minimum requirements for scores
A	Databases or records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for <b>all</b> procurement methods for goods, services and works.
B	Databases or records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for <b>most</b> procurement methods for goods, services and works.
C	Databases or records are maintained for contracts including data on what has been procured, value of procurement, and who has been awarded contracts. The data are accurate and complete for the <b>majority</b> of procurement methods for goods, services and works.
D	Performance is less than required for a C score.

## Dimension 24.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>Data bases with information on what has been procured, the value of procurement, and who has been awarded the contracts.</li> <li>Information on the accuracy and completeness of data.</li> </ul>	<ul style="list-style-type: none"> <li>MoF or entities where procurement monitoring has been centralized. In decentralized systems, see the five CG units with the highest value of procurement.</li> </ul>

## Dimension 24.2. Procurement methods

### DIMENSION MEASUREMENT GUIDANCE

24.2:1. This dimension analyzes the percentage of the total value of contracts awarded with and without competition. A good procurement system ensures that procurement uses competitive methods, except low-value procurement under an established and appropriate threshold. This includes situations in which other methods are effectively restricted by regulations or where the provisions to apply other methods are used sparingly.

24.2:2. For this dimension, the focus is to assess the actual use of competitive methods (interalia

methods that promote open participation of potential providers). Assessors need to identify (i) the extent of use of competitive methods, (ii) whether there is a threshold, and, if so, (iii) the threshold above which open competition is the default method. In addition, assessors need to identify concerns, if any, regarding the reliability of data on procurement methods and the value of contracts (e.g., statements on data completeness and accuracy by internal or external auditors), as assessed under dimension 24.1. The assessors are encouraged to mention in the narrative the percentage of the total value of contracts carried out under the set threshold.



## Dimension 24.2. Scoring

Score	Minimum requirements for scores
The total value of contracts awarded through competitive methods in the last completed fiscal year represents:	
A	80% or more of total value of contracts
B	70% or more of total value of contracts
C	60% or more of total value of contracts
D	Less than required for a C score

## Dimension 24.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>Data bases with information on contracts awarded through competitive and non-competitive methods and value.</li> </ul>	<ul style="list-style-type: none"> <li>MoF or entities where the procurement monitoring has been centralized. In decentralized systems, see the five CG units with the highest value of procurement.</li> </ul>

## Dimension 24.3. Public access to procurement information

### DIMENSION MEASUREMENT GUIDANCE

24.3:1. This dimension reviews the level of public access to complete, reliable, and timely procurement information. Public dissemination of information on procurement processes and their outcomes are also key elements of transparency. In order to generate timely and reliable data, a good information system will capture data on procurement transactions and will be secure. Information should be accessible without restriction, without requirement to register, and free of charge. Public access to procurement information is defined as posting on official websites unless otherwise justified by country circumstances.

24.3:2. For this dimension the expression ‘complete and reliable’ means as identified by third-party assurance—i.e., auditors such as SAIs, the procurement directorate, firms, etc. The expression

‘in a timely manner’ means that procurement information has been made available (and remains so) within a time frame useful to the people most likely to use it, and in accordance with business practices set out in the country under review.

24.3:3. Assessors need to identify concerns, if any, about the detail and reliability of information made available on procurement, as covered by this dimension (e.g., at the level of internal or external audit). In addition, assessors need to determine if the means used to make information available are effective (e.g., an effectively functioning website, accessible paper documentation, etc.), whether the information is in one place (one website, one consolidated document) or several, and if access is free of charge. Finally, assessors should establish if procurement statistics are available, in which format, and how frequently (the minimum requirement is annual).



## Dimension 24.3. Scoring

### Score Minimum requirements for scores

Key procurement information to be made available to the public comprises:

- (1) legal and regulatory framework for procurement
- (2) government procurement plans
- (3) bidding opportunities
- (4) contract awards (purpose, contractor and value)
- (5) data on resolution of procurement complaints
- (6) annual procurement statistics

<b>A</b>	Every key procurement information element is complete and reliable for government units representing <b>all</b> procurement operations and is made available to the public in a timely manner.
<b>B</b>	At least four of the key procurement information elements are complete and reliable for government units representing <b>most</b> procurement operations and are made available to the public in a timely manner.
<b>C</b>	At least three of the key procurement information elements are complete and reliable for government units representing the <b>majority</b> of procurement operations and are made available to the public.
<b>D</b>	Performance is less than required for a C score.

## Dimension 24.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>• Legal and regulatory framework for procurement.</li> <li>• Information on government procurement plans, bidding opportunities, contract awards, resolution of procurement complaints, and annual procurement statistics.</li> </ul>	<ul style="list-style-type: none"> <li>• As in dimension 24.1, plus procurement data publicly available in official websites.</li> <li>• Corroborations from civil society or business associations (e.g., chambers of commerce).</li> </ul>

## Dimension 24.4. Procurement complaints management

### DIMENSION MEASUREMENT GUIDANCE

24.4:1. This dimension assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism. A good procurement system offers stakeholders access to such a mechanism as part of the control system, usually in addition to the general court system. To be

effective, submission and resolution of complaints must be processed in a fair, transparent, independent, and timely manner. The timely resolution of complaints is necessary to allow contract awards to be effectively reversed where required. It sets limits on remedies tied to profit/loss and costs associated with bid or proposal preparation after contract signatures. A good process also includes the ability to refer the resolution of the complaints to an external higher authority for appeal. The

narrative discussion of this indicator should include the evidence required for rating the dimension and a discussion of qualitative aspects of the performance of the system, such as the independence of the complaints mechanism and the protection afforded to complainants.

24.4:2. The reviewing body responsible for complaint resolution need not be separate from the procurement authority, but it must operate independently from procurement operations and not

be subject to the influence of procurement managers. Assessors should examine the legal, regulatory, and governance arrangements for the body to ensure that it has adequate independent authority to allow confidence that its decisions are not unduly influenced by procurement entities. The reviewing body may charge fees which are country specific and should be treated as such.

## Dimension 24.4. Scoring

### Score Minimum requirements for scores

Complaints are reviewed by a body that:

- (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 every party (without precluding subsequent access to an external higher authority)

<b>A</b>	The procurement complaint system meets every criterion.
<b>B</b>	The procurement complaint system meets criterion (1), and three of the other criteria.
<b>C</b>	The procurement complaint system meets criterion (1), and one of the other criteria.
<b>D</b>	Performance is less than required for a C score.

## Dimension 24.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	CG.	<ul style="list-style-type: none"> <li>• Legal and regulatory framework of the complaint body addressing the requirements of the dimension 24.4.</li> <li>• Data with number of complaints received and resolved (settled in favor of complainants and procuring entities respectively).</li> <li>• Fees charged, if any (refer criterion 2).</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement complaints body, SAI, civil society or business associations (e.g., chamber of commerce).</li> <li>• Internal and external audit reports.</li> <li>• Meetings with civil society and private sector.</li> </ul>

## PI-25. INTERNAL CONTROLS ON NONSALARY EXPENDITURE

### ABOUT THE INDICATOR

This indicator measures the effectiveness of general internal controls for nonsalary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The present indicator contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 25.1. Segregation of duties
- Dimension 25.2. Effectiveness of expenditure commitment controls
- Dimension 25.3. Compliance with payment rules and procedures

### IMPACT ON BUDGETARY OUTCOMES

Internal controls provide assurance that transactions are performed as intended and resources are used only where appropriate authority has been verified. This process ensures that fiscal discipline is maintained at the micro- as well as the macro-level. It also ensures that resources are allocated as intended and properly authorized and that service delivery has access to and uses the resources provided under legal and regulatory authority and are used only for those purposes.

### INDICATOR MEASUREMENT GUIDANCE

25:1. This indicator focuses on nonsalary expenditure and covers expenditure commitments and payments for goods and services, casual labor wages, and discretionary staff allowances. It includes a wide range of processes and types of payment across central government including segregation of duties, commitment controls and payment controls. This broad range of processes, with the many types of

expenditure and the number of different people involved, increases the risk of incorrect and/or inconsistent application or circumvention of any procedures and controls that may be in place. This makes it particularly important for assessors to establish whether or not effective controls exist.

25:2. Evidence of the effectiveness of the internal control system could come from discussions with government financial controllers and other senior managers, or from reports prepared by the external and internal audit or the minutes of audit committee meetings (where such committees exist). Minutes of management meetings and regular financial reports prepared for management may also be useful in establishing the extent to which nonsalary expenditure is controlled. Where specific reviews or surveys relating to procurement and accounting systems have been prepared at the request of management, these can provide a useful source of information as well.

25:3. The existence of procedure manuals, instructions, etc. should also be verified wherever possible. Routine and one-off accounting reports – e.g., reports of invoices paid and outstanding, reports of error and rejection rates for financial procedures such as invoice payments, inventory checks, etc. – may also assist in rating this dimension, as may meetings held with managers and staff to demonstrate the level of awareness and understanding of internal control. Organizations in which employees understand what controls are and why they are needed are more likely to have better, more effective systems of internal control in place.

25:4. Repeated policy exceptions or overrides may indicate potential fraudulent activity or a need to reassess current policies and procedures. Any unusual situations identified should be investigated by the appropriate party and should include corrective action if necessary.

## Dimension 25.1. Segregation of duties

### DIMENSION MEASUREMENT GUIDANCE

25.1:1 This dimension assesses the existence of the segregation of duties, which is a fundamental element of internal control to prevent an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. The main incompatible responsibilities to be segregated are: (a) authorization; (b) recording; (c) custody of assets; and (d) reconciliation or audit. For example:

- The staff preparing procurement tenders should not be the same evaluating bids.
- The person who signs a contract should not be the same recording it in the system.

- The person authorizing the payment should not be the one paying.

25.1:2. For countries with systems derived from Napoleonic heritage, the existence of segregation of duties between authorizing officer and accountant general as usually defined in national regulations (e.g., ‘Code de comptabilité publique’ in francophone countries) is not enough to justify an A rating. This type of regulation defines general principles that are part of the assessment scope, but for instance does not handle the segregation of duties within the services of the authorizing officer (e.g., what about the segregation between legal commitment and budget commitment?).

### Dimension 25.1. Scoring

Score	Minimum requirements for scores
A	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down.
B	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for <b>most</b> key steps while further details may be needed in a few areas.
C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
D	Performance is less than required for a C score.

### Dimension 25.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>• Prescribed rules, regulations or procedures establishing segregation of duties.</li> <li>• Evidence that rules are complied with.</li> </ul>	<ul style="list-style-type: none"> <li>• Budget directorate.</li> <li>• Accounting directorate.</li> <li>• Treasury.</li> <li>• Supreme Audit Institution.</li> <li>• Internal audit.</li> <li>• Regulations and guidance on accounting and payment processing.</li> </ul>

## Dimension 25.2. Effectiveness of expenditure commitment controls

### DIMENSION MEASUREMENT GUIDANCE

25.2:1. This dimension assesses the effectiveness of expenditure commitment controls. This process is singled out as a separate dimension of this indicator due the importance of such controls for ensuring that the government’s payment obligations remain within the limits of annual budget allocations (as revised) and within projected cash availability, thereby avoiding creation of expenditure arrears (refer to PI-22). Governments with comprehensive fiscal rules and access to well-developed debt markets may face no constraints in financing cash flow fluctuations and so may limit commitments only in relation to annual budget appropriations, whereas governments operating in different environments may need to issue commitment limits to spending agencies for

much shorter periods, based on actual cash available and robust short term forecasts, ref. PI-21.2 and 21.3.

25.2:2. Assessors need to establish if government entities have different systems of commitment control (e.g., where government is extensively decentralized) and different types of expenditure (e.g., for one-off contracts, indefinite contracts such as rent and utilities, ad hoc staff compensation/allowances, etc.). Assessors should determine the extent to which expenditure is covered by commitment controls that effectively limit commitments to projected cash availability and approved budget allocations.

25.2:3. Comprehensive commitment controls exist when all CG entities are prevented from incurring unauthorized commitments through system controls, regulations and procedures, additional pre-commitment checking arrangements, and audit or review arrangements that ensure compliance.

### Dimension 25.2. Scoring

Score	Minimum requirements for scores
A	Comprehensive expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations.
B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for <b>most</b> types of expenditure.
C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
D	Performance is less than required for a C score.

### Dimension 25.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>Information on commitment controls and associated compliance and assurance arrangements.</li> <li>Error rates or rejection rates in routine financial transactions as reported by government financial controllers and / or internal or external audit bodies.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (internal audit).</li> <li>Treasury.</li> <li>Accountant general.</li> <li>Heads and finance officers of major budgetary units.</li> <li>SAI.</li> </ul>

## Dimension 25.3. Compliance with payment rules and procedures

### DIMENSION MEASUREMENT GUIDANCE

25.3:1. This dimension assesses the extent of compliance with the payment control rules and procedures based on available evidence. To evaluate this dimension, the assessors should refer to the information management system, the Treasury department records, or any other records of the MoF or line ministries. A sampling approach can be applied, using the five major budgetary units

as measured by gross expenditure in the last completed fiscal year. If the data is not available or is decentralized, assessors could rely on internal or external audit reports or any other studies which could provide the best available estimates.

25.3:2. The best sources of information are (i) the information system used for internal control and (ii) the reports on internal control. Internal audit reports and external audit findings may not provide percentages, but they can contain useful information about the effectiveness of payment control systems.

### Dimension 25.3. Scoring

Score	Minimum requirements for scores
A	<b>All</b> payments are compliant with regular payment procedures. <b>All</b> exceptions are properly authorized in advance and justified.
B	<b>Most</b> payments are compliant with regular payment procedures. The <b>majority</b> of exceptions are properly authorized and justified.
C	The <b>majority</b> of payments are compliant with regular payment procedures. The <b>majority</b> of exceptions are properly authorized and justified.
D	Performance is less than required for a C score.

### Dimension 25.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>Prescribed procedures, regulations or rules establishing the segregation of duties and payment procedures.</li> <li>Evidence that procedures are complied with.</li> </ul>	<ul style="list-style-type: none"> <li>Budget directorate.</li> <li>Accounting directorate.</li> <li>Treasury.</li> <li>Supreme Audit Institution.</li> <li>Internal audit.</li> <li>Regulations and guidance on accounting and payment processing.</li> <li>Information system.</li> <li>Transparency International Corruption Perception Index</li> </ul>



## PI-26. INTERNAL AUDIT

### ABOUT THE INDICATOR

This indicator assesses the standards and procedures applied in internal audit. It contains the following four dimensions and uses the **M1 (WL)** method for aggregating dimension score:

- Dimension 26.1. Coverage of internal audit
- Dimension 26.2. Nature of audits and standards applied
- Dimension 26.3. Implementation of internal audits and reporting
- Dimension 26.4. Response to internal audits

### IMPACT ON BUDGETARY OUTCOMES

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). Such a function should use a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In the public sector, the function is primarily focused on assuring the adequacy and effectiveness of internal controls: the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations and programs; the safeguarding of assets; and compliance with laws, regulations, and contracts. Effectiveness of risk management, control, and governance processes should be evaluated by following professional standards such as the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors. These include: (a) appropriate structure particularly with regard to organizational independence; (b) sufficient breadth of mandate, access to information; and power to report; and (c) use of professional audit methods, including risk assessment techniques.

Internal audit provides assurance that systems are operating to achieve government objectives efficiently and effectively. They contribute to

budgetary outcomes by providing oversight and assurance and by timely recommendations to management regarding corrective action necessary when weaknesses are identified.

### INDICATOR MEASUREMENT GUIDANCE

26:1. The internal audit function may be undertaken by an organization with a mandate across entities of the central government or by separate internal audit functions for individual government entities. The combined effectiveness of such audit organizations is the basis for rating this indicator.

26:2. It is important to differentiate audit and control: this indicator is concerned with internal audit and not as it often occurs (particularly in francophone African countries) with control activities, sometimes referred to as pre-audit. Internal audit functions concerned only with pre-audit of transactions, which is here considered part of the internal control system, are assessed in PI-25.

26:3. In decentralized systems, or where complete information is not available, a sampling approach should be applied, using the five major budgetary units or institutional units as measured by gross expenditure in the last completed fiscal year. For an A score, every one of the five units need to meet the requirements. For B and C scores four and three entities, respectively, need to meet the requirements. It would be preferable that assessors and government agree on the sampling approach. In case of disagreement, differences of views can be accommodated in an annex as explained in the Framework under Part 3: The PEFA report, paragraph 4 (see PEFA framework).

26:4. If there is no internal audit function, the score for dimension 26.1 would be D. NA would be entered for dimensions 26.2, 26.3, and 26.4. The aggregate indicator score in this case would be D.

26:5. If information is only available for internal audit within BCG, assessors should determine the weight of BCG when scoring as the materiality for BCG may meet the requirements for an A, B or a C score. If the weight cannot be ascertained, the score would be D\*.



## Dimension 26.1. Coverage of internal audit

### DIMENSION MEASUREMENT GUIDANCE

26.1:1. This dimension assesses the extent to which government entities are subject to internal audit. This is measured as the proportion of total planned expenditure or revenue collection of the entities covered by annual audit activities, whether or not substantive audit work (including audit reports) is carried out. Typical features of an operational audit function are the existence of laws, regulations and/or procedures, and the existence of audit work programs, audit documentation, reporting, and follow-up activities leading to the achievement of the internal audit objectives, as described in international standards. The exact nature of audit in each country may vary. The assessor will need to make a judgment about whether the arrangements and activities occurring constitute sufficient evidence of operational audit.

26.1:2. For this dimension, materiality is assessed by the relative weight (expenditure and revenue) of

central government entities where an internal audit function is operational. If for instance, an internal audit function is operational in only the Ministry of Finance, the Ministry of Health, and the Ministry of Agriculture. These three ministries collect 95% of total revenue but represent 81% of expenditure, the dimension will be scored B as an internal audit is operational in entities representing **all** revenue and **most** expenditure.

26.1:3. Assessment reports in francophone countries often refer to inspection units acting as internal audit units, when there is no dedicated audit function within a ministry. In addition to national laws and regulations, the report needs to provide clear evidence that inspection units fulfill all other features to be considered as an operational audit function, i.e., the existence of audit work programs, audit documentation, reporting, and follow-up activities leading to the achievement of the internal audit objectives, as described in international standards.

26.1:4. If there is no internal audit function, dimension 26.1 is scored D.

## Dimension 26.1. Scoring

Score	Minimum requirements for scores
A	Internal audit is operational for <b>all</b> central government entities.
B	Internal audit is operational for central government entities representing <b>most</b> of total budgeted expenditures and for central government entities collecting <b>most</b> of budgeted government revenue.
C	Internal audit is operational for central government entities representing the <b>majority</b> of budgeted expenditures and for central government entities collecting the <b>majority</b> of budgeted government revenue.
D	Performance is less than required for a C score.

## Dimension 26.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>Regulations, laws and procedures relating to internal audit.</li> <li>Internal audit reports of budgetary and extrabudgetary units.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (internal audit).</li> <li>Accountant general.</li> <li>Heads and finance officers of major budgetary units.</li> <li>SAI for triangulation of information.</li> </ul>

## Dimension 26.2. Nature of audits and standards applied

### DIMENSION MEASUREMENT GUIDANCE

26.2:1. This dimension assesses the nature of audits performed and the extent of adherence to professional standards. When audit activities focus only on financial compliance (reliability and integrity of financial information and compliance with rules and procedures) the internal audit function provides limited assurance of the adequacy and effectiveness of internal controls. A wider approach as well as evidence of a quality assurance process is required to show adherence to professional standards.

26.2:2. Evaluation of the adequacy and effectiveness of internal controls requires analysis of the impact of controls, whether their impact is consistent with policy and operational objectives, and whether the controls are sufficient and most suitable to meet the intended objectives.

26.2:3. If there is no internal audit function, dimension 26.2 is NA.

## Dimension 26.2. Scoring

Score	Minimum requirements for scores
A	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function and audit activities meet professional standards, including focus on high risk areas.
B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls.
C	Internal audit activities are primarily focused on financial compliance.
D	Performance is less than required for a C score.

## Dimension 26.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>Documented rules regulations and procedures on internal audit.</li> <li>Evidence of internal audits focused on the evaluation of adequacy and effectiveness.</li> <li>Evidence of internal audit standards being applied.</li> <li>Quality assurance procedures for internal audit.</li> <li>Comparison of actual audit functions and activities with professional standards.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (internal audit).</li> <li>Accountant general.</li> <li>Heads and finance officers of major budgetary units.</li> <li>SAI for triangulation of information.</li> </ul>

## Dimension 26.3. Implementation of internal audits and reporting

### DIMENSION MEASUREMENT GUIDANCE

26.3:1. This dimension assesses specific evidence of an effective internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports.

26.3:2. The expression ‘appropriate parties’ includes the audited entity and any other parties to whom the internal auditors are required to submit their reports, as set out in laws, regulations, etc. Such parties may include the MoF and the SAI.

26.3:3. If there is no internal audit function, or the internal audit function has started too recently to assess the dimension, dimension 26.3 is NA.

### Dimension 26.3. Scoring

Score	Minimum requirements for scores
A	Annual audit programs exist. <b>All</b> programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
B	Annual audit programs exist. <b>Most</b> programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
C	Annual audit programs exist. The <b>majority</b> of programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
D	Performance is less than required for a C score.

### Dimension 26.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year	CG.	<ul style="list-style-type: none"> <li>Documentary evidence of an annual internal audit program (e.g., plan) and completed internal audits.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (Internal audit).</li> <li>Accountant general.</li> <li>Heads and finance officers of major budgetary units.</li> <li>SAI for triangulation of information.</li> </ul>

## Dimension 26.4. Response to internal audits

### DIMENSION MEASUREMENT GUIDANCE

26.4:1. This dimension assesses the extent to which action is taken by management on internal audit findings. This is of critical importance since lack of action on findings undermines the rationale for the internal audit function. Response means that management provides comments on the auditors' recommendations and takes appropriate action to implement them where necessary. Internal audit validates whether the response provided is appropriate, i.e., 'full'.

26.4:2 If there is no internal audit function, or the internal audit function has started too recently to assess the dimension, dimension 26.4 is NA.

### Dimension 26.4. Scoring

Score	Minimum requirements for scores
A	Management provides a full response to audit recommendations for <b>all</b> entities audited within twelve months of the report being produced.
B	Management provides a partial response to audit recommendations for <b>most</b> entities audited within twelve months of the report being produced.
C	Management provides a partial response to audit recommendations for the <b>majority</b> of entities audited.
D	Performance is less than required for a C score.

### Dimension 26.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Audit reports used for the assessment should have been issued in the last three fiscal years.	CG.	<ul style="list-style-type: none"> <li>Documentary evidence of management response to internal audit recommendations and information on timing of the response.</li> </ul>	<ul style="list-style-type: none"> <li>MoF (internal audit).</li> <li>Accountant general.</li> <li>Heads and finance officers of major budgetary units.</li> <li>SAI for triangulation of information.</li> </ul>



## PILLAR SIX: ACCOUNTING AND REPORTING

This pillar assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Timely, relevant, and reliable financial information is required to support fiscal and budget management and decision-making processes.

Pillar VI has three indicators:

- PI-27. Financial data integrity
- PI-28. In-year budget reports
- PI 29. Annual financial reports

# PI-27. FINANCIAL DATA INTEGRITY

## ABOUT THE INDICATOR

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 27.1. Bank account reconciliation
- Dimension 27.2. Suspense accounts
- Dimension 27.3. Advance accounts
- Dimension 27.4. Financial data integrity processes

## IMPACT ON BUDGETARY OUTCOMES

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. This is an important part of internal control and a foundation for good information for management and for external reports that underpin aggregate fiscal discipline, strategic allocation of resources, and the efficiency of service delivery.

## INDICATOR MEASUREMENT GUIDANCE

27:1. The indicator covers three critical types of reconciliation: bank accounts, suspense accounts, and advance accounts. It also incorporates assessment of an important control function to ensure records are accurate and appropriately verified.

## Dimension 27.1. Bank account reconciliation

### DIMENSION MEASUREMENT GUIDANCE

27.1:1. This dimension assesses the regularity of bank reconciliation. There should be regular and timely comparisons between government bank account (central or commercial) transaction data and government cash books. The results of the comparisons should be reported and action should be taken to reconcile any differences. Such reconciliation is fundamental to the integrity of the accounting records and the financial statements.

27.1:2. For this dimension, ‘central government bank accounts’ means the bank accounts of budgetary units and extrabudgetary units. In this regard, some extrabudgetary units may have substantial “own source revenues” that are effectively government resources that they can use for their own purposes. These agencies should perform regular bank reconciliations. Equally, although the MoF may not have the power to perform reconciliations on social funds, fund manager should be required to perform regular reconciliations themselves, that can be scrutinized by the auditor and/or MoF/line ministry concerned.

27.1:3. ‘Reconciliation’ includes the identification of all mismatches and their amount (and their nature) between the government’s records of the accounting data held on its books and the government’s bank account data held by banks. The subsequent clearance could be a long process, which falls outside the scope of the time benchmarks indicated under this dimension in the Framework Document.

## Dimension 27.1. Scoring

Score	Minimum requirements for scores
A	Bank reconciliation for <b>all</b> active central government bank accounts takes place at least weekly at aggregate and detailed levels, usually within one week from the end of each week.
B	Bank reconciliation for <b>all</b> active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
C	Bank reconciliation for <b>all</b> active central government bank accounts takes place at least quarterly, usually within 8 weeks from the end of each quarter.
D	Performance is less than required for a C score.

## Dimension 27.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment, covering the preceding fiscal year.	*CG.	<ul style="list-style-type: none"> <li>Frequency of reconciliation of Treasury managed bank accounts.</li> <li>Number of days from end of reconciled period to the date reconciliation is completed for Treasury managed bank accounts.</li> <li>Frequency of reconciliation of government bank accounts not managed by Treasury.</li> <li>Number of days from end of reconciled period to the date reconciliation is completed for government bank accounts not managed by the Treasury.</li> </ul>	<ul style="list-style-type: none"> <li>Treasury.</li> <li>Accountant general.</li> <li>SAI.</li> <li>Central bank.</li> </ul>

*\*Note, the coverage for this dimension in the PEFA 2016 Framework document should be CG.*

Reconciliations are required on active accounts only, provided that the inactive accounts were reconciled while they were still active.

27.1:4. Reconciliation ‘at aggregate level’ means that the aggregate cash position of the government across all its accounts is reconciled with the central bank’s corresponding records.

27.1:5. While a Treasury single account facilitates the reconciliation process, a TSA is not required in order to score A on this indicator.

27.1:6: The coverage for this dimension is CG. In the first edition of the PEFA 2016 Framework document, the coverage is incorrectly mentioned as BCG.

## Dimension 27.2. Suspense accounts

### DIMENSION MEASUREMENT GUIDANCE

27.2:1. This dimension assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis and cleared in a timely way. Failure to clear suspense accounts can distort financial reports and provide an opportunity for fraudulent or corrupt behaviors.

27.2:2. When there are no suspense accounts, this dimension is NA.

## Dimension 27.2. Scoring

Score	Minimum requirements for scores
A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
B	Reconciliation of suspense accounts takes place at least quarterly, within two months from the end of each quarter. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
C	Reconciliation of suspense accounts takes place annually, within two months from the end of the year. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
D	Performance is less than required for a C score.



## Dimension 27.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment, covering the preceding fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Frequency of reconciliation of suspense accounts.</li> <li>Number of days from end of reconciled period to date of reconciliation is completed for suspense accounts.</li> </ul>	<ul style="list-style-type: none"> <li>Treasury.</li> <li>Accountant general.</li> <li>SAI.</li> <li>Central Bank.</li> </ul>

## Dimension 27.3. Advance accounts

### DIMENSION MEASUREMENT GUIDANCE

27.3:1. This dimension assesses the extent to which advance accounts are reconciled and cleared.

Advances cover amounts paid to vendors under public procurement contracts as well as travel advances and operational imprests. In the case of public procurement contracts, clearing timelines will be compliant with contractual arrangements. Other clearing processes will follow national regulations.

27.3:2. Operational imprests include transfers for de-concentrated operations to decentralized agencies, extrabudgetary units, and subnational governments for expenditure undertaken on behalf of BCG and subject to detailed accounting and reporting to BCG

but not block grants/subsidies.

27.3:3. This dimension does not cover intergovernmental transfers even though these may be called ‘advances’. Transfers to subnational governments are dealt with under PI-7.

27.3:4. Complete, accurate, reliable, and timely information is essential to support the internal controls system. Information relevant to assessment of this dimension is produced by many information systems, encompassing people, processes, data, and IT. Those elements are dealt with under PI-23 for payroll and PI-25 for commitments and payments of non-salary expenditure.

27.3:5. When there are no advance accounts, this dimension is NA.

## Dimension 27.3. Scoring

Score	Minimum requirements for scores
A	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month. <b>All</b> advance accounts are cleared in a timely way.
B	Reconciliation of advance accounts takes place at least quarterly within two months from the end of each quarter. <b>Most</b> advance accounts are cleared in a timely way.
C	Reconciliation of advance accounts takes place annually, within two months from the end of the year. Advance accounts may frequently be cleared with delay.
D	Performance is less than required for a C score.

## Dimension 27.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment, covering the preceding fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Nature of advance accounts.</li> <li>Frequency and timeliness of reconciliation of advance accounts.</li> <li>Timeliness of clearance of advances.</li> </ul>	<ul style="list-style-type: none"> <li>Treasury.</li> <li>Accountant general.</li> <li>SAI.</li> <li>Central bank.</li> </ul>

## Dimension 27.4. Financial data integrity processes

### DIMENSION MEASUREMENT GUIDANCE

27.4:1. This dimension assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness of data (ISO/IEC, International Standard, 2014). While acknowledging that other processes are also essential to ensure data integrity, this dimension assesses two key aspects: access to information, including read-only, and changes to records by creation and modification; and existence of a body, unit or team in charge of verifying data integrity.

27.4:2. Audit trails enable individual accountability, intrusion detection, and problem analysis. Good

audit trails are meant to provide information on who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated.

27.4:3. This dimension is focused on the integrity of financial data only. Separate systems for other types of data may exist and be linked to or overlap with financial data systems, e.g., personnel and payroll data (ref. PI-23) and procurement data (ref. PI-24). Assessors should as far as possible ensure that such data systems are assessed separately under the respective indicators, and highlight potential overlaps where such separation is not practical.

## Dimension 27.4. Scoring

Score	Minimum requirements for scores
A	Access and changes to records is restricted and recorded, and results in an audit trail. There is an operational body, unit or team in charge of verifying financial data integrity.
B	Access and changes to records is restricted and recorded, and results in an audit trail.
C	Access and changes to records is restricted and recorded.
D	Performance is less than required for a C score.

## Dimension 27.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	BCG.	<ul style="list-style-type: none"> <li>Documentary evidence of rules, regulations or procedures access to and recording of changes to records.</li> <li>Evidence of the existence of a unit in charge of verifying financial data integrity. It can be an internal audit unit if it's evidenced that it verifies fiscal data</li> </ul>	<ul style="list-style-type: none"> <li>Budget directorate.</li> <li>Accounting directorate.</li> <li>Treasury.</li> <li>SAI.</li> <li>Internal audit.</li> </ul>

# PI-28. IN-YEAR BUDGET REPORTS

## ABOUT THIS INDICATOR

This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains the following three dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

- Dimension 28.1. Coverage and comparability of reports
- Dimension 28.2. Timing of in-year budget reports
- Dimension 28.3. Accuracy of in-year budget reports

## IMPACT ON BUDGETARY OUTCOMES

Information on budget execution that includes revenue and expenditure data is required to facilitate performance monitoring and, where necessary, to help identify action needed to maintain or adjust planned budget outturns. Regular reporting is part of an effective monitoring and control system to ensure that budgets are executed as intended, and that deviations from plans, if any, are highlighted for consideration by decision makers adjusting budget execution to better meet objectives and achieve desired outcomes.

## INDICATOR MEASUREMENT GUIDANCE

28:1. This indicator focuses on the preparation of comprehensive budget execution reports for the government's internal use, i.e., do they provide an overview of execution and support well-informed management decisions. Information made available in separate reports from budget entities would meet the requirements for this indicator only to the extent that such information is complete and can be consolidated to provide a full overview.

28:2. For the purpose of scoring of this indicator the same type of reports should be examined in every dimension of this indicator. Timing, accuracy, coverage, and comparability would thus be assessed for the same set of reports.

28:3. With regard to cross referencing this indicator with other indicators, note that PI-28 calls for information about commitments and payments. It does not demand information on arrears (PI-22) – information on arrears, in particular, requires the registration of unpaid invoices for which payment is due, a step covered neither by commitment information nor by payment records – or address the publication of in-year budget reports (PI-9).

## Dimension 28.1. Coverage and comparability of reports

### DIMENSION MEASUREMENT GUIDANCE

28.1:1. This dimension assesses the extent to which information is presented in in-year reports and in a form that is easily comparable to the original budget (i.e., with the same coverage, basis of accounting, and presentation). The division of responsibility between the MoF and line ministries in the preparation of the reports will depend on the type of accounting and payment system in operation (centralized, deconcentrated, or devolved). In each case the role of the MoF will vary between:

- Centralized capture and processing of budgetary unit transactions along with production and distribution of various types of budgetary unit specific and aggregated/consolidated reports;
- Production and dissemination of budgetary unit specific and aggregated/consolidated reports based on budgetary unit capture and processing of transactions;
- Consolidation/aggregation of reports provided by budgetary units (and where applicable, from deconcentrated units) from their accounting records.

28.1:2. The reference to deconcentrated units of central government is made because some governments implement large shares of their services and related expenditure through deconcentrated local administrations or extrabudgetary units. If only transfers to entities and not the actual expenditure of such entities are included in budget execution reports, these reports will not give a true and useful picture of the progress and status of budget execution.

28.1:3. Information must include all items of the original budget. It means that in year reports must be presented at the same level of disaggregation as the budget. A few items could be presented at a more aggregate level than the budget, provided their amount represents less than 10% of the total expenditure.

28.1:4. ‘Partial aggregation’ means any situation between score A requirement and a C requirement (presentation limited to the main administrative headings).

## Dimension 28.1. Scoring

Score	Minimum requirements for scores
<b>A</b>	Coverage and classification of data allows direct comparison to the original budget. Information includes <b>all</b> items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
<b>B</b>	Coverage and classification of data allows direct comparison to the original budget with partial aggregation. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
<b>C</b>	Coverage and classification of data allows direct comparison to the original budget for the main administrative headings.
<b>D</b>	Performance is less than required for a C score.

## Dimension 28.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Budget execution reports compared with authorized budgets, including transfers and activities of deconcentrated units.</li> </ul>	<ul style="list-style-type: none"> <li>Accountant general corroborated by SAI or internal audit.</li> <li>Treasury or MoF.</li> </ul>

## Dimension 28.2. Timing of in-year budget reports

### DIMENSION MEASUREMENT GUIDANCE

28.2:1. This dimension assesses whether in-year budget reports are submitted in a timely manner and accompanied by an analysis and commentary on budget execution.

28.2:2. A, B, and C ratings depend on reports actually being prepared and distributed to those responsible for budget execution, not merely being potentially available from a computerized information system. If

it is proven that the officials responsible for budget execution themselves access automated information systems and routinely generate the reports, this also counts as prepared.

28.2:3. This dimension focuses on the preparation of comprehensive budget execution reports for a government's internal use, i.e., providing an overview of execution and supporting well-informed management decisions. Whether the information is actually used, or correctly used, is outside the scope of this indicator.

## Dimension 28.2. Scoring

Score	Minimum requirements for scores
A	Budget execution reports are prepared monthly, and issued within two weeks from the end of each month.
B	Budget execution reports are prepared quarterly, and issued within four weeks from the end of each quarter.
C	Budget execution reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks from the end of each quarter.
D	Performance is less than required for a C score.

## Dimension 28.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Frequency of in-year budget execution reports.</li> <li>Number of days following end of period that budget report is disseminated within the government.</li> <li>Availability of reports or ability to generate reports.</li> </ul>	<ul style="list-style-type: none"> <li>Accountant general corroborated by SAI or internal audit.</li> <li>Treasury or MoF.</li> </ul>

## Dimension 28.3. Accuracy of in-year budget reports

### DIMENSION MEASUREMENT GUIDANCE

28.3:1. This dimension assesses the accuracy of the information submitted in in-year budget reports, including whether expenditure for both the commitment and the payment stage is provided. This is important for monitoring budget implementation and utilization of funds released. Accounting for

expenditure made from transfers to deconcentrated units within central government should be also included.

28.3:2. Assessors should describe the nature and comprehensiveness of the analysis provided in the execution reports, as well as the issues raised concerning data accuracy with cross-reference to PI-27.

## Dimension 28.3. Scoring

Score	Minimum requirements for scores
A	There are no material concerns regarding data accuracy. An analysis of budget execution is provided by whatever budget classifications are in use. Information on expenditure is covered at both commitment and payment stages.
B	There may be concerns regarding data accuracy. Data issues are highlighted in the report and the data is consistent and useful for analysis of budget execution. An analysis of the budget execution is provided on at least a half-yearly basis. Expenditure is captured at least at payment stage.
C	There may be concerns regarding data accuracy. Data is useful for analysis of budget execution. Expenditure is captured at least at payment stage.
D	Performance is less than required for a C score.

## Dimension 28.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	<ul style="list-style-type: none"> <li>Budget execution reports including details of how reports are compiled.</li> <li>Identification of information on payments and commitments in reports.</li> <li>Information on revisions and adjustments made after reports have been finalized.</li> </ul>	<ul style="list-style-type: none"> <li>Accountant general corroborated by SAI or internal audit.</li> </ul>

# PI-29. ANNUAL FINANCIAL REPORTS

## ABOUT THE INDICATOR

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains the following three dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

- Dimension 29.1. Completeness of annual financial reports
- Dimension 29.2. Submission of reports for external audit
- Dimension 29.3. Accounting standards

## IMPACT ON BUDGETARY OUTCOMES

Annual budgetary central government financial reports are critical for accountability and transparency in the PFM system. Such reports support governments in achieving aggregate fiscal discipline and ensuring that resources are allocated to strategic priorities. They provide a record of how resources were obtained and used, as a basis for comparison with plans and for accountability

regarding the use of resources. Data from annual financial reports also provide vital input in assessing the efficiency of service delivery.

## INDICATOR MEASUREMENT GUIDANCE

29.1. While certain countries have their own public sector financial reporting standards, set by government or another authorized body, in many cases, national accounting standards for the private sector, regional standards, or international standards such as IPSAS are applied. In any event, the outcome should be a set of financial reports that are both complete and consistent with generally accepted accounting principles and standards. For the purpose of this indicator, the annual financial statements or the budget execution reports produced by the government may be treated as financial reports and used for scoring.

### Dimension 29.1. Completeness of annual financial reports

#### DIMENSION MEASUREMENT GUIDANCE

29.1:1. This dimension assesses the completeness of financial reports. Annual financial reports should include an analysis providing for a comparison of the outturn with the initial government budget. Financial reports should include full information on revenue, expenditure, assets<sup>11</sup>, liabilities, guarantees, and

## Dimension 29.1. Scoring

Score	Minimum requirements for scores
<b>A</b>	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and are supported by a reconciled cash flow statement.
<b>B</b>	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations.
<b>C</b>	Financial reports for budgetary central government are prepared annually, and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.
<b>D</b>	Performance is less than required for a C score.

<sup>11</sup> Score A requires full information on financial and tangible assets whereas score B requires information only on financial assets. A list of tangible assets is provided in the table 12.2 under PI 12-2 above.



long-term obligations. This information can be either incorporated into financial reports in a modified cash or accrual-based system, or presented by way of notes or ad hoc reports, as is often done in a cash-based system. The usefulness of reports depends on whether they are compiled after the clearance of any suspense accounts and after advance and bank account reconciliation, as assessed in PI-27.

29.1:2. Budgetary units' reports could be considered for this dimension provided that a comparison with the approved budget is feasible (i.e., in details and for at least 90% of BCG expenditure) and they contain the required information.

29.1:3. In some countries, consolidation goes beyond the budgetary central government, but this would not detract from the performance rating even if there is no separate report for only the budgetary

central government. An important question is the report's comparability with the approved budget. If information in the central government report does not permit such a comparison, then it does not meet the requirements for a C score.

29.1:4. 'Compte de gestion', 'compte administratif' and 'compte général des administrations financières'. Names and forms of financial reports depend on what the countries use. To be considered as financial reports for this dimension, these reports must fulfill the requirements of comparability and coverage of the set of data required for each score.

29.1:5. In the PEFA report, assessors may wish to prepare a table that provides details of BCG financial reports (see table 29.1 below) to assist with scoring of dimensions 29.1 and 29.2.

**Table 29.1: Financial reports of BCG**

Financial report*	Date annual report submitted for external audit	Content of annual financial report (Y/N):			Reconciled cash flow statement (Y/N)
		Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	

*\*This may be a consolidated financial report or a list of financial reports from all individual BCG units.*

**Dimension 29.1. Timing, coverage and data requirements**

Time period	Coverage	Data requirements/calculation	Data sources
Last completed fiscal year.	BCG.	• Annual financial reports compared with the approved budget.	• Accountant general corroborated by SAI.

## Dimension 29.2. Submission of reports for external audit

### DIMENSION MEASUREMENT GUIDANCE

29.2:1. This dimension assesses the timeliness of submission of reconciled year-end financial reports for external audit as a key indicator of the effectiveness of the accounting and financial reporting system. In certain systems, individual ministries, departments, and deconcentrated units and other public entities within the central government issue reports that are subsequently consolidated by the MoF. In more centralized systems, every detail or part of the information for the report is held by the MoF. The actual date of submission is the date on which the external auditor considers the report complete and available for audit.

29.2:2. In accordance with specific laws or rules, an external audit is performed by an external auditor that is independent of the entity being audited. Users of the audited entity’s financial information—such as parliaments, government agencies, and the general public—rely on the external auditor to present an unbiased and independent audit report and to provide assurance that the reports are accurate and free from material errors.

29.2:3. If the government’s financial report is completed but not submitted to an external auditor, then the score for this dimension is D. When there is no external audit, the government’s annual financial statements should be submitted directly to the legislature (which may then choose to seek an external audit, see PI-31). The same time benchmarks apply, as indicated in the Framework document. If

the government does not submit its statements to the legislature, then the score for this dimension is D. The score for PI-30 is also D.

29.2:4. To be considered as a financial report, the report must include at least information on expenditure, revenue, and cash balances and be comparable to the budget.

29.2:5. Submission of individual BCG units’ reports could meet the criteria if their content complies (see 29.2.4) and they cover *all* BCG activities (i.e., at least 90% of expenditure).

29.2:6. Any delay in submitting the financial reports for audit should be measured using the last annual financial report submitted for audit. However, if at the time of the assessment it is established that more than nine months have lapsed since the end of the last fiscal year, and the financial report for that year has not yet been submitted for audit, the score is also D. If the initial version of the report is rejected by the auditor, or if additional information is requested by the auditor before it is accepted, this will extend the timeframe (consistent with PI-30). The time should be measured from the end of the fiscal year to the date that an acceptable report is submitted to the auditor.

29.2:7. The external auditor for this dimension does not have to be a Supreme Audit Institution (SAI). The external audit itself is covered by PI-30.

29.2:8. In the PEFA report, assessors may wish to prepare a table that provides details of BCG financial reports (see table 29.1 above) to assist with scoring of dimensions 29.1 and 29.2.

## Dimension 29.2. Scoring

Score	Minimum requirements for scores
A	Financial reports for budgetary central government are submitted for external audit within 3 months of the end of the fiscal year.
B	Financial reports for budgetary central government are submitted for external audit within 6 months of the end of the fiscal year.
C	Financial reports for budgetary central government are submitted for external audit within 9 months of the end of the fiscal year.
D	Performance is less than required for a C score.

29.2:9. Depending on the cut-off date of the assessments, some scores might be impossible to evidence. For example, if the cut-off date of the PEFA assessment is in April, within 4 months after the end of the last completed fiscal years, and the annual financial reports are still to be submitted for external

audit, assessors will be able to preclude an A score but they will not be able to evidence a B, a C or a D score. Therefore, depending on the cut-off date and the score to be evidenced, assessors can score the previous year's report, in accordance to the following table:

Cut-Off date	Score to be evidenced
Within 3 months after the end of the fiscal year	To evidence A, B, C, and D scores
Within 6 months after the end of the fiscal year	To evidence B, C, and D scores
Within 9 months after the end of the fiscal year	To evidence C, and D scores

## Dimension 29.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last annual financial report submitted for audit.	BCG.	<ul style="list-style-type: none"> <li>Number of days following the end of the fiscal year that the financial report was submitted for external audit during the last year.</li> </ul>	<ul style="list-style-type: none"> <li>Accountant general, corroborated by SAI.</li> </ul>

## Dimension 29.3. Accounting standards

### DIMENSION MEASUREMENT GUIDANCE

29.3:1. This dimension assesses the extent to which annual financial reports are understandable to the intended users and contribute to accountability and transparency. This requires that the basis of recording the government’s operations and the accounting principles and national standards used be transparent. Higher scores require that the standards used for accounting are consistent with recognized international standards such as IPSAS. For ‘A’ and ‘B’ scores the assessment report should explain which

international standards methodology has been used and where the information on compliance with those standards is disclosed.

29.3:2. All financial reports means that financial reports must cover at least 90% of BCG expenditure. To assess ‘Most international standards’ and ‘the majority of international standards’, assessors should compare the number of standards that have been incorporated into the national standards with the total number of IPSAS standards, or other international standards.

## Dimension 29.3. Scoring

Score	Minimum requirements for scores
A	Accounting standards applied to <b>all</b> financial reports are consistent with international standards. <b>Most</b> international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed in notes to the reports.
B	Accounting standards applied to <b>all</b> financial reports are consistent with the country’s legal framework. The <b>majority</b> of international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed.
C	Accounting standards applied to <b>all</b> financial reports are consistent with the country’s legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.
D	Performance is less than required for a C score.

## Dimension 29.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three years’ financial report.	BCG.	<ul style="list-style-type: none"> <li>Evidence of accounting standards being used and applied; any gaps between the standards and international accounting standards are explained.</li> <li>Notes on the financial reports relating to the standards applied.</li> </ul>	<ul style="list-style-type: none"> <li>Accountant general corroborated by SAI.</li> </ul>



## PILLAR SEVEN: EXTERNAL SCRUTINY AND AUDIT

This pillar assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Effective external audit and scrutiny by the legislature are enabling factors for holding the government's executive branch to account for its fiscal and expenditure policies and their implementation.

Pillar VII has two indicators:

- PI-30. External audit
- PI-31. Legislative scrutiny of audit reports

# PI-30. EXTERNAL AUDIT

## ABOUT THE INDICATOR

This indicator examines the characteristics of external audit. It contains the following four dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

- Dimension 30.1. Audit coverage and standards
- Dimension 30.2. Submission of audit reports to the legislature
- Dimension 30.3. External audit follow-up
- Dimension 30.4. Supreme Audit Institution independence

## IMPACT ON BUDGETARY OUTCOMES

Reliable and extensive external audit is an essential requirement for ensuring accountability and creating transparency in the use of public funds. Such an audit provides assurance that information in financial reports is accurate and contains no material errors that would affect the reports' interpretation. This helps to ensure budget outcomes by giving stakeholders an accurate picture of financial results.

## Dimension 30.1. Scoring

Score	Minimum requirements for scores
<b>A</b>	Financial reports including revenue, expenditure, assets, and liabilities of <b>all</b> central government entities have been audited using ISSAIs or consistent national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
<b>B</b>	Financial reports of central government entities representing <b>most</b> total expenditures and revenues have been audited using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
<b>C</b>	Financial reports of central government entities representing the <b>majority</b> of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant significant issues.
<b>D</b>	Performance is less than required for a C score.

## INDICATOR MEASUREMENT GUIDANCE

30:1. The first three dimensions of this indicator focus on audit of the government's annual financial reports. The indicator does not consider other reports, analysis or assessments that may be performed by the external auditor. Inclusion of certain aspects of a performance audit would also be expected of an audit function, but this is covered in dimension 8.4.

30:2. As mentioned under PI:29.2.3, when there is no external audit, the government's annual financial statements should be submitted directly to the legislature (which may then choose to seek an external audit, see PI-31). If the government does not submit its statements to the legislature, then the score for PI-29.2 is D. In this case, the score for PI-30 is also D.

## Dimension 30.1. Audit coverage and standards

### DIMENSION MEASUREMENT GUIDANCE

30:1:1. This dimension assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards. The scope of audit indicates the entities and sources of funds that are audited<sup>12</sup> in any given year and should include extrabudgetary funds and social

<sup>12</sup> I.e., fall within the implementation of the overall risk-based audit plan of the external auditor for the given year, regardless of whether or not the plan requires substantive audit work to be carried out on that entity/fund.

security funds, i.e., the financial reports covered by PI-6.3. The latter may not always be audited by the Supreme Audit Institutions (SAI), as the use of other audit institutions may be foreseen. Where SAI capacity is limited, the audit program may be planned by the SAI in line with legal audit obligations on a multi-year basis in order to ensure that high priority or risk-prone entities and functions are covered regularly, whereas other entities and functions may be covered less frequently. Audit work should cover total revenue, expenditure, assets, and liabilities, regardless of whether these are reflected in financial reports (see PI-29<sup>13</sup>).

30.1:2. Adherence to auditing standards, such as the International Standards of Supreme Audit Institutions (ISSAI) and the IFAC/IAASB International Standards on Auditing (ISA)<sup>14</sup>, should ensure a focus on significant and systemic PFM issues in reports, as well as conducting financial and compliance audit activities, such as providing an opinion on the financial statements, the regularity and propriety of transactions, and the functioning of internal control and procurement systems. The SAI should implement a quality assurance system to assess whether its audits adhere to the adopted audit standards. These reviews are generally internal to the SAI, though independent of those carrying out the audits, but external bodies may also play a role in the process, for example, through peer reviews or via

a professional regulatory body. Independent quality assurance review reports should be the main source for assessing whether audit standards are generally adhered to.

30.1:3. This dimension is applicable in the case of audits of financial reports by jurisdictional court model SAIs (court systems). In the current state of development of budgetary and accounting environments in the countries evaluated, PEFA reports often refer to the ‘compte général des administrations des finances’ (general account of the financial administrations) as financial report and the ‘rapport d’exécution sur la loi de finance’ (budget execution report) and/or the General declaration of conformity accompanying the execution law as the audit report. This dimension assesses that the audit of financial reports made by the SAI:

- guarantees some coverage, both in terms of content (at least for C and B scores, revenue and expenditure) and materiality (percentage of CG revenue and expenditure),
- applies auditing standards which can be ISSAI or nationally defined for the scores C and B, ISSAIs or consistent with ISSAIs for A,
- highlights the significant problems.

## Dimension 30.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>• Percentage of all central government entities, including extrabudgetary units and social security funds (by value of expenditure and revenue), that were audited during the period.</li> </ul>	<ul style="list-style-type: none"> <li>• SAI, corroborated by the parliamentary public accounts committee and civic interest groups.</li> </ul>

<sup>13</sup> The 2016 framework incorrectly refers to PI-28.

<sup>14</sup> The ISSAIs on financial audit are based on the corresponding ISAs, which guide the conduct of the audit of financial statements, including related compliance audit requirements such as consideration of laws and regulations in an audit of financial statements.



## Dimension 30.2. Submission of audit reports to the legislature

### DIMENSION MEASUREMENT GUIDANCE

30.2:1. This dimension assesses the timeliness of submission of the audit report(s) on budget execution to the legislature, or those charged with governance of the audited entity, as a key element in ensuring timely accountability of the executive to the legislature and the public. This dimension requires delays in submission of audit reports to be measured from the date of the external auditor’s receipt of the relevant unaudited financial reports when a financial audit is involved. Where audit reports are made separately on different units of central government, the overall delay may be assessed as a weighted average of the delays on the respective units, weighted by the higher of their income or expenditure.

30.2:2. If financial reports provided to the external auditor are not accepted, but are returned for completion or corrections, the actual date of submission is the date on which the external auditor considers the financial reports complete and available for audit.

30.2:3. The PEFA framework measures delays in the submission of audit reports from the date of the audit office’s receipt of the relevant financial reports. Delays are considered only for the annual budget

execution report, not for any other audits performed and submitted to the legislature by the SAI.

30.2:4. This dimension assesses the activity of the SAI during the last three completed fiscal years, i.e. the timeframe between the reception of all financial reports covered during the period and the submission of the audit reports to the legislature. The financial reports do not necessarily cover the last three completed fiscal years.

30.2:5. SAIs produce different types of reports, typically including an annual activity report and an audit report on budget execution. In countries where the annual activity report and audit report on budget execution are combined, the combined audit report should be considered for dimension 30.2. In countries with the court model, the SAI normally presents a report on the State Account to legislature, drawing on its findings from the audit of individual public accounts as well as wider analytical review procedures.

30.2:6. This dimension complements dimension PI-29.2. in distinguishing the source of delays in the submission of audit reports to the legislature. Sometimes audit reports are completed but not submitted to the legislature (e.g., held up by the minister of finance or the president, who may not like the findings). In these cases, the required delay for scoring remains the same but, in the narrative, assessors should explain the particular reasons.

## Dimension 30.2. Scoring

Score	Minimum requirements for scores
A	Audit reports were submitted to the legislature* within three months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
B	Audit reports were submitted to the legislature within six months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
C	Audit reports were submitted to the legislature within nine months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
D	Performance is less than required for a C score.

\* Or other body responsible for public finance governance.

**Table 30.1: Timelines of audited financial statement submissions**

Year	Fiscal year covered by the report	Date of annual financial statement received by SAI	Date of audited annual financial statement submitted to legislature
T-1			
T-2			
T-3			

**Dimension 30.2. Timing, coverage and data requirements**

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>• Date(s) of receipt of financial report(s) by the external auditor.</li> <li>• Date(s) of submitting the audit reports to the legislature.</li> <li>• Calculation of the period between receipt by the auditor and submission to the legislature.</li> <li>• Information on the causes for any delays in submitting the audited financial report to the legislature.</li> </ul>	<ul style="list-style-type: none"> <li>• SAI corroborated by the parliamentary public.</li> <li>• Accounts committee and civic interest groups.</li> <li>• Information on submission of reports for audit can also be corroborated with the MoF or the Treasury ministries.</li> </ul>

**Dimension 30.3. External audit follow-up**

**DIMENSION MEASUREMENT GUIDANCE**

30.3:1. This dimension assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entity. Evidence of effective follow-up of the audit findings includes the issuance by the executive or audited entity of a formal written response to the audit findings, indicating how these will be or already have been addressed. Reports on follow-up may provide evidence of implementation by summing up the extent to which the audited entities have cleared audit queries and implemented audit recommendations or observations. Note that follow-up to recommendations issued by the legislature is assessed separately under PI-31.

30.3:2. This dimension is concerned only with the response to the audit report (e.g., a management

letter or final report to the auditee). The response remains valid for scoring the dimension irrespective of whether the response is made before or after the parliamentary review.

30.3:3. The terms ‘formal’ and ‘comprehensive’ imply a written response that systematically addresses the audit findings and recommendations; it does not imply that recommendations have necessarily been implemented.

30.3:4. An assessment of timeliness depends on the nature of the recommendation, but suggests that, at a minimum, the issue should not be repeated in the audit report for the following year.

30.3:5. This dimension, as dimensions 30.1 and 30.2, focuses only on audits of financial reports. However, if the SAI addresses other reports such as performance audit reports or compliance audit reports submitted to the executive and obtains responses for which follow-up was expected, assessors can mention this in the narrative.

## Dimension 30.3. Scoring

Score	Minimum requirements for scores
A	There is clear evidence of effective and timely follow-up by the executive or the audited entity on audits for which follow-up was expected, during the last three completed fiscal years.
B	A formal, comprehensive, and timely response was made by the executive or the audited entity on audits for which follow-up was expected, during the last three completed fiscal years.
C	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the last three completed fiscal years.
D	Performance is less than required for a C score.

## Dimension 30.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>Information on recommendations made by the auditor and responses from the executive or audited entity during the period.</li> </ul>	<ul style="list-style-type: none"> <li>SAI and internal auditors of major budgetary units, corroborated by parliamentary public accounts committee, government ministers, the MoF, audited entities and civic interest groups.</li> </ul>

## Dimension 30.4. Supreme Audit Institution independence

### DIMENSION MEASUREMENT GUIDANCE

30.4:1. This dimension assesses the independence of the SAI from the executive. Independence is essential for an effective and credible system of financial accountability, and should be laid down in the constitution or comparable legal framework. In practice, independence is demonstrated by the arrangements for the appointment (and removal) of the Head of the SAI and members of collegial Institutions, noninterference in the planning and implementation of the SAI's audit work, and in the approval and disbursement procedures for the SAI's budget. The SAI's mandate should cover every central government activity and enable the SAI to carry out a full range of audit activities, specifically financial, compliance and performance audits. The SAI should have unrestricted access to documents, records and information. It should be noted that performance

audits are covered by PI-8, whereas PI-30 is focused on audits of the government's annual financial reports.

30.4:2. The Supreme Audit Institution (SAI) is a public body that—however designated, constituted, or organized—exercises, by virtue of law, the highest public auditing function of a state. In some SAIs there is a single appointed state auditor who acts in a role equivalent to that of 'engagement partner' and who has overall responsibility for public sector audits. Other SAIs may be organized as a Court of Accounts or have a collegiate or board system. According to the International Organisation of Supreme Audit Institutions (INTOSAI), SAIs' independence can be ensured only if their heads are given appointments and reappointments with sufficiently long and fixed terms and cannot be removed except through a process that ensures independence from the executive and other entities.

30.4:3. This dimension only assesses the independence from the executive. However, lack

of independence from other entities, including the legislature, may be problematic. Assessors should mention it in the narrative.

30.4:4. If the requirements of the dimensions 30.1., 30.2. and 30.3. are fulfilled mainly through an external auditor that is not a SAI, then the score for dimension 30.4. will be NA, except if the primary responsibility still rests with the SAI.

30.4:5. For A, B and C scores, criteria of independence have to be met *de facto*. In addition they have to be

ensured by the law for A.

30.4:6. Procedures for appointment as well as reappointments have to be assessed as they are crucial for SAI independence.

30.4:7. Other good practices relating to independence (e.g., status of magistrate of the auditors, collegiality of decisions, existence of a financial prosecutor) cannot be taken into account to score this dimension. However, assessors should mention them in the narrative.

## Dimension 30.4. Scoring

Score	Minimum requirements for scores
A	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information.
B	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, and the approval and execution of the SAI's budget. The SAI has unrestricted and timely access to records, documentation and information for <b>most</b> audited entities.
C	The SAI operates independently from the executive with respect to the procedures for appointment and removal of the Head of the SAI as well as the execution of the SAI's budget. The SAI has unrestricted and timely access to the <b>majority</b> of the requested records, documentation and information.
D	Performance is less than required for a C score.

## Dimension 30.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
At time of assessment.	CG.	<ul style="list-style-type: none"> <li>Constitution and/or law governing operation of SAIs.</li> </ul>	<ul style="list-style-type: none"> <li>SAI.</li> <li>Legislation.</li> <li>External reports on SAI independence and financial governance.</li> </ul>

# PI-31. LEGISLATIVE SCRUTINY OF AUDIT REPORTS

## ABOUT THE INDICATOR

This indicator focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It has the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- Dimension 31.1. Timing of audit report scrutiny
- Dimension 31.2. Hearings on audit findings
- Dimension 31.3. Recommendations on audit by legislature
- Dimension 31.4. Transparency of legislative scrutiny of audit reports

## IMPACT ON BUDGETARY OUTCOMES

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee(s) or commission(s) that examines the external audit reports and questions responsible parties about the findings of the reports. A report on the results of review of the external audit report(s) by any mandated committee should be

submitted for consideration (and ideally debated) in the full chamber of the legislature in order to constitute a completed scrutiny. This is usually necessary before the executive can formally respond, though corrective action may be taken at any time. The operation of the committee(s) will depend on adequate financial and technical resources, and on adequate time being allocated to keep up to date on reviewing audit reports.

## INDICATOR MEASUREMENT GUIDANCE

31:1. As mentioned under PI:29.2.3 and PI-30:2, when there is no external audit, the government’s annual financial statements should be submitted directly to the legislature. If the legislature does not require an external audit of the financial reports that the government submits, the legislature is not fulfilling its role of ensuring the accountability of the executive leading to score D on every dimension of the present indicator. If the government does not submit its statements to the legislature, then the score for PI-29.2 is D. The score for PI-30 is also D.

31:2. If there has been no functioning legislature in place during the past three years, the indicator should be scored NA.

## Dimension 31.1 Timing of audit report scrutiny

### DIMENSION MEASUREMENT GUIDANCE

31.1:1. This dimension assesses the timeliness of the legislature’s scrutiny, which is a key factor in the effectiveness of the accountability function. Timeliness can be affected by a surge in audit report submissions, where external auditors are

## Dimension 31.1. Scoring

Score	Minimum requirements for scores
A	Scrutiny of audit reports on annual financial reports has been completed by the legislature within three months from receipt of the reports.
B	Scrutiny of audit reports on annual financial reports has been completed by the legislature within six months from receipt of the reports.
C	Scrutiny of audit reports on annual financial reports has been completed by the legislature within twelve months from receipt of the reports.
D	Performance is less than required for a C score.

## Dimension 31.1. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>Number of months taken for complete scrutiny of the external audit report by the legislature after receipt of the report.</li> </ul>	<ul style="list-style-type: none"> <li>SAI, MoF, legislature, and budget committee of the parliament, corroborated by civic interest groups.</li> </ul>

catching up on a backlog. In such situations, the committee(s) may decide to give first priority to audit reports covering the last completed reporting periods and audited entities that have a history of poor compliance. The assessment should favorably consider such elements of good practice and not be based on the resulting delay in scrutinizing reports covering more distant periods.

31.1:2. To be considered complete, an audit review by the Public Accounts Committee or any other mandated committee should be tabled in the full chamber of the legislature for scrutiny. If the SAI submits several financial audit reports to the legislature the date of the receipt of the last report should be used to calculate the delay.

## Dimension 31.2 Hearings on audit findings

### DIMENSION MEASUREMENT GUIDANCE

31.2:1. This dimension assesses the extent to which hearings on key findings of the SAI take place. Hearings on key findings of external audit reports can only be considered ‘in-depth’ if they include representatives from the SAI to explain the observations and findings as well as from the audited agency to clarify and provide an action plan to remedy the situation.

31.2:2. ‘Occasionally’ in the context of C score means that hearings may be conducted for only a small number of entities (possibly in groups), may not follow a prearranged schedule, and may not follow a consistent pattern from year to year.

## Dimension 31.2. Scoring

Score	Minimum requirements for scores
<b>A</b>	In-depth hearings on key findings of audit reports take place regularly with responsible officers from <b>all</b> audited entities which received a qualified or adverse audit opinion or a disclaimer.
<b>B</b>	In-depth hearings on key findings of audit reports take place with responsible officers from <b>most</b> audited entities which received a qualified or adverse audit opinion or a disclaimer.
<b>C</b>	In-depth hearings on key findings of audit reports take place occasionally, covering <b>a few</b> audited entities or may take place with ministry of finance officials only.
<b>D</b>	Performance is less than required for a C score.

## Dimension 31.2. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>Records of hearings and audit reports for the last three completed fiscal years.</li> <li>Records of attendance at hearings, particularly concerning the audited entities and SAI.</li> </ul>	<ul style="list-style-type: none"> <li>Respective legislative committees, the budget committee of the parliament, SAI, and the MoF, corroborated by civic interest groups.</li> </ul>



## Dimension 31.3 Recommendations on audit by legislature

### DIMENSION MEASUREMENT GUIDANCE

31.3:1. This dimension assesses the extent to which the legislature issues recommendations and follows up on their implementation. The responsible committee may recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors, refer to PI-30., and would be expected to have a follow-up system to ensure that such recommendations are appropriately considered by the executive.

31.3:2. Systematically following up implementation refers to a system for tracking recommendations that is used to record recommendations and action or lack of action taken on recommendations, and where for every recommendation, the executive and the legislature is notified during subsequent hearings whether recommendations have or have not been implemented.

31.3:3. The endorsement of SAI's recommendations by the legislature may be considered as the legislature issuing recommendations.

### Dimension 31.3. Scoring

Score	Minimum requirements for scores
A	The legislature issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.
B	The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation.
C	The legislature issues recommendations on actions to be implemented by the executive.
D	Performance is less than required for a C score.

### Dimension 31.3. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>Records of recommendations by the legislature for actions to be taken by the executive.</li> <li>Records of procedures for following up on recommendations.</li> <li>Information on whether the procedures are followed.</li> </ul>	<ul style="list-style-type: none"> <li>SAI.</li> <li>Legislature.</li> </ul>



## Dimension 31.4 Transparency of legislative scrutiny of audit reports

### DIMENSION MEASUREMENT GUIDANCE

31.4:1. This dimension assesses the transparency of the scrutiny function in terms of public access. Opening committee hearings to the public facilitates public scrutiny of the proceedings and is also a good opportunity for a legislative committee to inform the public about its work. 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. Public scrutiny can also be achieved either by transmission of the proceedings by the mass media, i.e., radio or TV, which allows citizens to follow what is currently happening in committees. Dimension 31.4 is focused on the existence of some form of general public access and does not specifically assess whether members of the public are invited to speak at hearings.

### Dimension 31.4. Scoring

Score	Minimum requirements for scores
A	All hearings are conducted in public except for strictly limited circumstances such as discussions related to national security or similar sensitive discussions. Committee reports are debated in the full chamber of the legislature and published on an official website or by any other means easily accessible to the public.
B	Hearings are conducted in public with <i>a few</i> exceptions in addition to national security or similar sensitive discussions. Committee reports are provided to the full chamber of the legislature and published on an official website or by any other means easily accessible to the public.
C	Committee reports are published on an official website or by any other means easily accessible to the public.
D	Performance is less than required for a C score.

### Dimension 31.4. Timing, coverage and data requirements

Time period	Coverage	Data requirements/calculation	Data sources
Last three completed fiscal years.	CG.	<ul style="list-style-type: none"> <li>Number of hearings on audit reports.</li> <li>Number of hearings conducted in public.</li> <li>Evidence that legislative committee reports on audits are debated in the full chamber of the legislature and published in a publicly accessible form.</li> </ul>	<ul style="list-style-type: none"> <li>Legislature corroborated by SAI and civic interest groups.</li> </ul>

# GLOSSARY

TERM	DEFINITION
<b>Acquisition value</b>	Amount paid for the assets when they were purchased.
<b>Activities</b>	Specific tasks or functions of service delivery or program.
<b>Administrative classification</b>	Classification that identifies the entity responsible for managing the public funds concerned-the main budgetary heads (votes) of budgetary units that are included in the approved budget.
<b>Administrative unit</b>	See <u>administrative classification</u> .
<b>Advance accounts</b>	Accounts that cover amounts paid to vendors under public procurement contracts as well as travel advances and operational imprests.
<b>Age of arrears</b>	Length of time between when the arrears were incurred and the current date.
<b>Aggregate expenditure</b>	<p>Total of all expenditures including:</p> <ul style="list-style-type: none"> <li>(i) those incurred as a result of exceptional events (i.e., armed conflicts or natural disasters, which may be met from contingency votes);</li> <li>(ii) expenditures financed by windfall revenues including privatization. They should be included and noted in the supporting tables and narrative; and</li> <li>(iii) externally financed expenditure (by loans or grants) – if reported in the budget, contingency vote(s) and interest on debt.</li> </ul> <p>Note: Expenditure assigned to suspense accounts is not included in the aggregate. However, if amounts are held in suspense accounts at the end of any year that could affect the scores if included in the calculations, they can be included. In such cases the reason(s) for inclusion must be clearly stated in the PEFA report.</p>
<b>Aggregate expenditure outturn</b>	Total actual expenditure of the budgetary central government for the full financial year corresponding to the approved annual budgeted expenditure.
<b>Aggregate fiscal discipline</b>	Effective control of the total budget and management of fiscal risks.
<b>Aggregation of scores</b>	Combination of dimension-specific scores to reach an overall score for each indicator using an appropriate method based on the degree of linkage between the individual dimensions (see M1/ M2).
<b>Appropriate parties</b>	The audited entity and any other parties to whom the internal auditors are required to submit their reports, as set out in laws, regulations or similar. Such parties may include the MOF and the Supreme Audit Institution.
<b>Approved budget</b>	The budget approved by the legislature (original or subsequently amended) on which budgetary units base their annual expenditure plans.
<b>Approved aggregate budgeted expenditure</b>	Total expenditure by budgetary central government as originally approved by the legislature at the commencement of the budget year. It does not reflect approved budget adjustments made by the executive or the legislature after the approval of the original budget.
<b>All</b>	90 percent or more (by value).

<b>TERM</b>	<b>DEFINITION</b>
<b>Assets</b>	Resources controlled by a government entity as a result of past events from which future economic benefits are expected to flow.
<b>Audit trail</b>	Enables checks to be made on individual accountability, intrusion detection and problem analysis. A good audit trail provides information on who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated.
<b>Budgetary central government (BCG)</b>	Based on the classification structure developed in the GFS. Single unit of the central government that encompasses the fundamental activities of the national executive, legislative, and judiciary powers. The budgetary central government's revenue and expense are normally regulated and controlled by a ministry of finance, or its functional equivalent, by means of a budget approved by the legislature.
<b>Budgetary units</b>	Under PI-17, those which are directly charged with responsibility for implementing the budget in line with sector policies and which directly receive funds or authorization to spend from the MOF. Budgetary units that report and receive budgetary funds through a parent ministry should not be considered in the assessment.
<b>Ceilings</b>	Indicative maximum budget allocations issued to budgetary units early in the budget preparation process as the basis for preparing detailed budget proposals. The final budget allocations to individual budgetary units may subsequently be adjusted on the basis of the quality and justification of their detailed proposals. Ceilings constitute an essential element in a disciplined budget preparation process.
<b>Central government</b>	Based on the classification structure developed in the GFS. Institutional units of the central government plus nonprofit institutions that are controlled by the central government. The political authority of the central government extends over the entire territory of the country. (GFSM 2014, para 2.85 and page 398)
<b>Classification of Functions of Government (COFOG)</b>	Detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of expenditures. It provides a classification of government outlays by function that experience has shown to be of general interest. According to COFOG, the functions are classified using a three-level scheme. There are ten first-level or two-digit categories, referred to as divisions. Within each division, there are several groups, or three-digit categories, while within each group, there are one or more classes, or four digit categories.  Developed by the OECD and published by the United Nations Statistical Division. Functional classification of expenditure applied by the GFS.
<b>Complete debt records</b>	Debt data covering all material domestic and foreign debt and credit guarantees of the central government.

<b>TERM</b>	<b>DEFINITION</b>
<b>Compliance improvement plan</b>	High level plan that describes generally in a single document the most significant compliance risks identified in the revenue system and the actions the revenue administration intends to take to mitigate those risks. Compliance improvement plans (also known as “compliance” and “compliance management plans or programs”) are commonly structured around major sources of revenue and payer segments.
<b>Compliance risks</b>	Risks related to revenue that may be lost if payers fail to meet the four main revenue obligation areas, including: (i) registration; (ii) timely filing of declarations; (iii) payment of liabilities on time; and (iv) complete and accurate reporting of information in declarations.
<b>Composition of arrears</b>	Segregation of arrears by responsible entity and type of arrears, such as arrears for goods and services, salary payments, pension payments, statutory transfers, court judgements etc.
<b>Contingency items</b>	Clearly defined items which are unallocated at budget preparation time but used to cover excesses in spending in any budget unit during execution. Usually established either as a separate vote, or as a sub-vote under the Ministry of Finance, with a clearly marked title such as ‘contingency reserve’ or ‘unanticipated/miscellaneous expenditure’ or <u>unallocated appropriation</u> .
<b>Contingent liabilities</b>	As per IMF’s GFS Manual 2014, obligations that do not arise unless particular discrete event(s) occur in the future.
<b>Contingency votes</b>	See <u>contingency items</u> .
<b>Current fiscal year (T)</b>	Fiscal year in which the budget proposals are being prepared and usually presented
<b>Debt related-transactions</b>	Transactions in the market such as swaps to change the risk profile of the debt portfolio, and debt buybacks of illiquid debt securities.
<b>Deconcentrated operations</b>	Regional or district operations managed by local offices of central government agencies and operations run by legally separate entities controlled and mainly financed by central government (formerly called “autonomous government agencies”).
<b>Deconcentrated units</b>	See <u>deconcentrated operations</u> .
<b>Directly linked databases</b>	For any change in the personnel database affecting the payroll status of an employee, a corresponding change is automatically made in the payroll.
<b>Easy access to information on revenue</b>	Ease by which individuals and payers can obtain information and advice from revenue administration, including considerations such as timeliness, cost and time spent finding the information.
<b>Economic category</b>	See <u>economic classification</u> .
<b>Economic classification</b>	Classification that identifies the type of expenditure incurred, for example, salaries, goods and services, transfers and interest payments, or capital spending.
<b>Efficiency and effectiveness</b>	As per ISSAI 300:11, the principle of <i>efficiency</i> means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing. The principle of <i>effectiveness</i> concerns meeting the objectives set and achieving the intended results.

<b>TERM</b>	<b>DEFINITION</b>
<b>Established procedures and rules</b>	Formal directions or regulations relating to the authority and responsibility for taking such action, the methods to be used for transfer or disposal, recording or publication of the results. These are considered to be established when the procedures and rules are formally recorded in laws, regulations or directions from appropriate authorities.
<b>Expenditure payment arrears</b>	Expenditure obligations that have been incurred by government, for which payment to the employee, retiree, supplier, contractor or loan creditor is overdue. The PEFA framework allows local definitions and local practices in the calculation of payment arrears. The definition must be included in the report.
<b>Explicit contingent liabilities</b>	<p>As per IMF's GFS Manual 2014, legal or contractual financial arrangements that give rise to conditional requirements to make payments of economic value. The requirements become effective if one or more stipulated conditions arise. Examples:</p> <ul style="list-style-type: none"> <li>(i) umbrella state guarantees for various types of loans—for example, mortgage loans, student loans, agriculture loans, and small business loans;</li> <li>(ii) state insurance schemes, such as deposit insurance, private pension fund insurance, and crop insurance;</li> <li>(iii) financial implications of ongoing litigation and court cases, although often difficult to quantify; and</li> <li>(iv) state guarantees for nonsovereign borrowing by private sector enterprises and guarantees on private investments of different types, including special financing instruments such as PPPs.</li> </ul>
<b>Extrabudgetary</b>	See <u>extrabudgetary units</u> .
<b>Extrabudgetary units</b>	As per IMF's GFS Manual 2014, entities with individual budgets not fully covered by the main budget. These entities are separate units that operate under the authority or control of a central government (or in the case of an SNG assessment the state, or local government). They may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, similar to that of budgetary units, extrabudgetary units have discretion over the volume and composition of their spending. Such entities may be established to carry out specific government functions, such as road construction, or the nonmarket production of health or education services. Budgetary arrangements vary widely across countries, and various terms are used to describe these entities, but they are often referred to as <u>extrabudgetary funds</u> or 'decentralized agencies' (ref GFS Manual 2014, Ch 2, s2.82).
<b>Fair (or market) value</b>	Amount at which an asset could be exchanged between willing parties at the current time.

<b>TERM</b>	<b>DEFINITION</b>
<b>Financial assets</b>	Assets including: <ul style="list-style-type: none"> <li>(i) cash, securities, loans, and receivables owned by the government;</li> <li>(ii) foreign reserves and long-term funds such as sovereign wealth funds and equity in state-owned and private sector institutions; and</li> <li>(iii) financial claims and gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability. (GFS Manual 2014, page 403).</li> </ul>
<b>Fiscal risks</b>	Risks that can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including <u>extrabudgetary units</u> . They can also arise from other implicit and external risks such as market failure, price changes and natural disasters.
<b>Fiscal year</b>	See: <u>current</u> , <u>following</u> , <u>next</u> , <u>outer</u> , <u>previous</u> .
<b>Fixed assets</b>	Produced assets that are used repeatedly or continuously in production processes for more than one year. (GFSM 2014, page 404).
<b>Following fiscal years (T+2, T+3, and so on)</b>	See <u>outer</u> .
<b>Function/Subfunction</b>	See <u>COFOG</u> .
<b>Functional classification</b>	See <u>COFOG</u> .
<b>General government (GG)</b>	Resident institutional units that fulfill the functions of government as their primary activity (GFS Manual 2014, 1.2, 2.58, 2.76 and page 404).
<b>GFS</b>	The IMF Government Financial Statistics (GFS) Manual 2014 defines the concepts and describes the manner in which revenues and expenditures are classified in chapter 5 (page 84) and chapter 6 (page 114). Appendix 8 (page 385) provides all of the classification codes used in the GFS.
<b>Grants</b>	Transfers receivable by government units from other residents or nonresident government units or international organizations that do not meet the definition of a <u>tax</u> , <u>subsidy</u> , or <u>social contribution</u> . When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation, so that only grants from foreign governments and international organizations would remain in the general government accounts. Grants may be classified as capital or current and can be receivable in cash or in kind.
<b>Guarantees</b>	See <u>Explicit contingent liabilities</u> .
<b>Implicit contingent liabilities</b>	Do not arise from a legal or contractual source but are recognized after a condition or event is realized (GFS Manual 2014, para 7.252 and page 405).
<b>Intangible non produced assets</b>	Constructs of society evidenced by legal or accounting actions. (GFS Manual 2014, page 405). Two types of intangible non produced assets are distinguished: contracts, leases and licenses, and goodwill and marketing assets (GFS Manual 2014, para 7.104).

TERM	DEFINITION
<b>Inventories</b>	Produced assets consisting of goods and services, which came into existence in the current period or an earlier period, and that are held for sale, use in production, or other use at a later date (GFS Manual 2014, page 406).
<b>Large revenue payers</b>	Those that make significant payments and account, in aggregate, for a large proportion of total revenues (often more than 50 percent of total amount collections). Countries tend to define large payers by reference to: (i) amount of annual sales/turnover; (ii) amount of annual income; (iii) value of assets; (iv) level of imports and/or exports; and (v) type of economic activities (e.g., financial services). Of these criteria, the amount of annual sales/turnover is normally the primary criterion.
<b>Major investment projects</b>	<p>Projects meeting both of the following criteria:</p> <ul style="list-style-type: none"> <li>• The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and</li> <li>• The project is among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units' investment project expenditure.</li> </ul>
<b>M1 (WL)</b>	<p><b>Weakest link (WL) method</b>, used for multidimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. The steps in determining the aggregate indicator score are as follows:</p> <ul style="list-style-type: none"> <li>• Each dimension is initially assessed separately and given a score on the four-point calibration scale.</li> <li>• The aggregate score for the indicator is the lowest score given for any dimension.</li> <li>• Where any of the other dimensions score higher, a “+” is added to the indicator score. Note: It is NOT acceptable to choose the score for one of the higher-scoring dimensions and add a “-” for any lower scoring dimensions.</li> </ul>
<b>M2 (AV)</b>	<p><b>Averaging method (AV)</b>, prescribed for selected multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. The steps in determining the aggregate indicator score are as follows:</p> <ul style="list-style-type: none"> <li>• Each dimension is initially assessed separately and given a score on the four-point calibration scale.</li> <li>• Refer to the <b>conversion table for indicator scores using the averaging method</b> and find the appropriate section of the table—that is, whether there are two, three, or four dimensions for the indicator.</li> <li>• Identify the row in the table that matches the scores for each dimension of the indicator; the ordering of the dimension scores does not matter.</li> <li>• Enter the corresponding overall score for the indicator.</li> </ul>
<b>Market (or fair) value</b>	Amount at which an asset could be exchanged between willing parties at the current time.



<b>TERM</b>	<b>DEFINITION</b>
<b>Medium revenue payers</b>	Those in between small and large revenue payers with more complex circumstances than small revenue payers but less significant than large revenue payers as a share of total revenues in each category.
<b>Next fiscal year (T+1)</b>	Budget year or fiscal year for which the annual budget proposals are made.
<b>Nonfinancial asset</b>	Economic asset other than a financial asset.  Nonfinancial assets are further subdivided into those that are produced (fixed assets, inventories and valuables) and those that are non-produced (land, mineral and energy resources, other naturally occurring assets, and intangible non produced assets).
<b>Non-tax revenue</b>	Revenue other than taxes, separately identified and classified as grants, social contributions, and other revenue.
<b>Operational imprints</b>	Include transfers for de-concentrated operations to decentralized agencies, extrabudgetary units and subnational governments for expenditure undertaken on behalf of BCG and subject to detailed accounting and reporting to BCG but not block grants/subsidies.
<b>Originally approved budget</b>	The budget approved by the legislature on which budgetary units base their annual expenditure plans at the commencement of the fiscal year.
<b>Other revenue</b>	All revenue receivable excluding taxes, social contributions, and grants: <ul style="list-style-type: none"> <li>(i) property income;</li> <li>(ii) sales of goods and services;</li> <li>(iii) fines, penalties, and forfeits;</li> <li>(iv) transfers not elsewhere classified; and</li> <li>(v) premiums, fees, and claims related to non-life insurance and standardized guarantee schemes.</li> </ul>
<b>Outcome</b>	Measurable effect, consequence or impact of the service (or program or function) and its outputs.  Outcome indicators measure the effects, consequences, impact of the services and their outputs.
<b>Outer fiscal years (T+2, T+3, and so on)</b>	Fiscal years beyond the year for which the annual budget proposals are made. Outer years are relevant for the medium-term budget perspective in PI-14, PI-15, and PI-16.
<b>Output</b>	Actual quantity of products or services produced or delivered by the relevant service (program or function).  Output indicators measure the quantity of outputs produced or services delivered or planned.
<b>Payroll audit</b>	Audit that should include: <ul style="list-style-type: none"> <li>(i) a documentation check, to ensure that everyone on the payroll is appropriately documented and authorized to receive a particular amount of pay, and</li> <li>(ii) a physical verification that the payees exist and are identified before payment.</li> </ul>
<b>Performance indicators or information</b>	Output and outcome indicators and planned or achieved results against those indicators.

<b>TERM</b>	<b>DEFINITION</b>
<b>Previous fiscal year (T-1)</b>	Last fiscal year completed.
<b>Program</b>	See “program classification”.
<b>Program classification</b>	Classification that implies the allocation of resources to each of the programs. If a program allocation is used for approved budgets, the program-based categories should be scored based on the same level at which they were approved by the legislature.
<b>Public access</b>	<p>When a document is available without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific country circumstances. Justification provided by government for limits on access, where applicable, should be noted in the report.</p> <p>Alternative wording: ‘made available to the public’, ‘publicly reported’ and ‘publicized’.</p>
<b>Public investment</b>	For the purpose of PI-11, creation and/or acquisition of fixed assets.
<b>Publication</b>	When a document has been made available to the public either in print or in readable form on a publicly accessible website. Publication also involves an expectation that users are made aware of the document’s availability and how they can access it.
<b>Publicized</b>	See “public access”.
<b>Publicly available or reported</b>	See “public access”.
<b>Published</b>	When a document has been made available to the public either in print or in readable form on a publicly accessible website.
<b>Reconciliation of accounts (bank, suspense and advance accounts)</b>	Identification of all mismatches and their amount (and their nature) between the government’s records of the accounting data held on its books and the government’s bank account data held by banks. The subsequent clearance could be a long process, which falls outside the scope of the time benchmarks indicated under this dimension in the Framework Document. Reconciliations are required on active accounts only, provided that the inactive accounts were reconciled while they were still active.
<b>Reconciliation of bank accounts at aggregate level</b>	The aggregate cash position of the government across all its accounts is reconciled with the central bank’s corresponding records.
<b>Reconciliation of debt records</b>	Ensuring that the same amounts are recorded in the government’s debt records and the credit institutions’ records, irrespective of whether this is done by the Central Bank, the MOF, or any other government institution which maintains the government debt records.
<b>Redress</b>	Compensation for wrongful treatment and may include acknowledgement, apology, financial compensation, reinstatement of status, and/or correction of errors.

<b>TERM</b>	<b>DEFINITION</b>
<b>Resource rent</b>	<p>Included under property income. Revenue receivable by the owner of a natural resource (the lessor or landlord) for putting the natural resource at the disposal of another institutional unit (a lessee or tenant) for use of the natural resource in production. There are two types of resource rent: rent on land and rent on subsoil resources (in the form of deposits of mineral or fossil fuels i.e. coal, oil or natural gas).</p> <p>In resource-rich countries, resource rent constitutes a significant source of government revenue. Irrespective of the fiscal regime and institutional setting to administer and manage natural resources, resource rent will be considered for scoring indicator PI-19, if they are fully covered by the main budget, otherwise they will be considered as extra-budgetary revenue (GFS Manual 2014, p107).</p>
<b>Response</b>	When management provides comments on the auditors' recommendations and takes appropriate action to implement them where necessary. Internal audit validates if the response provided is appropriate i.e. "full".
<b>Retroactive adjustments</b>	Changes in payroll after the relevant changes in personnel status, or as a result of errors, that require supplementary compensation or clawback of payments that the employee is not entitled to.
<b>Revenue arrears</b>	Total amount, including interest and payment, which is overdue from revenue payers i.e. has not been paid to the revenue collecting entity or other authorized body by the statutory due date for payment.
<b>Revenue obligations</b>	<p>Four main areas:</p> <ul style="list-style-type: none"> <li>(vi) registration;</li> <li>(vii) timely filing of declarations;</li> <li>(viii) payment of liabilities on time; and</li> <li>(ix) complete and accurate reporting of information in declarations.</li> </ul>
<b>Rights</b>	Extent to which payers are informed about the legal rights as well as review processes and procedures available to them to dispute an assessment resulting from an audit.
<b>Sampling</b>	<p>Used in situations where responsibilities are highly decentralized or cases involving large numbers of significant entities.</p> <p>Sampling techniques are usually suggested. If not, a statistically sound sampling methodology should be used.</p> <p>In any case, assessors should explain the reason for the use of sampling and justify the sampling approach they adopt.</p>

<b>TERM</b>	<b>DEFINITION</b>
<b>Service delivery</b>	<p>Programs or services that are provided either to the general public or to specifically targeted groups of citizens, either fully or partially using government resources.</p> <p>This includes services such as education and training, health care, social and community support, policing, road construction and maintenance, agricultural support, water and sanitation, and other services.</p> <p>It excludes those services provided on a commercial basis through public corporations. It also excludes policy functions, internal administration, and purely regulatory functions undertaken by the government, although performance data for these activities may be captured for internal management purposes. It also excludes defense and national security.</p>
<b>Service delivery unit</b>	Unit that is delivering “frontline” services directly to citizens and businesses such as schools, health care clinics and hospitals, local police departments and agricultural extension units.
<b>Small revenue payers</b>	Individuals and small businesses with simple revenue circumstances that generally do not require detailed knowledge of revenue or accounting provisions.
<b>Social contributions</b>	Social security contributions and other social contributions. Social contributions are actual or imputed revenue receivable by social insurance schemes to make provision for social insurance benefits payable. Social contributions will be considered for scoring PI-3, if they are fully covered by the main budget, otherwise they will be considered as extrabudgetary revenue.
<b>Social security contributions</b>	Actual revenue receivable by social security schemes organized and operated by government units, for the benefit of the contributors to the scheme. It consists of employee contributions, employer contributions, self-employed or non-employed contributions, and unallocated contributions.
<b>Stock of arrears</b>	Total value of arrears.
<b>Structured and systematic approach</b>	Approach which has clearly documented procedures and steps, is methodical and regularly repeatable.
<b>Subnational government</b>	Any level of government below the national level (state/provincial or regional and local), provided these entities have the authority to own assets, incur liabilities, and/or engage in transactions in their own right. The right to borrow is not a requirement for treatment as a subnational government in the PEFA Framework.
<b>Suspense accounts</b>	Accounts in the government’s general ledger which are used to record items temporarily before allocation to the correct or final account.
<b>Systematically (about follow up on recommendations)</b>	Where a system for tracking recommendations exists and it is used to record recommendations and to record action or lack of action taken on recommendations, and where for every recommendation, the executive and the legislature is notified during subsequent hearings whether recommendations have or have not been implemented.
<b>Tax expenditure</b>	Revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.

<b>TERM</b>	<b>DEFINITION</b>
<b>Taxes</b>	Compulsory, unrequited amounts receivable by government units from institutional units. In GFS 2014, using level three [3 digits], taxes are classified into six major categories: <ul style="list-style-type: none"> <li>(i) taxes on income, profit, and capital gains;</li> <li>(ii) taxes on payroll and workforce;</li> <li>(iii) taxes on property; (iv) taxes on goods and services;</li> <li>(v) taxes on international trade and transactions; and</li> <li>(vi) other taxes.</li> </ul>
<b>Transfers (from central government to subnational governments)</b>	Transfers to support subnational government’s expenditure can be made in the form of unconditional grants, where their final use is determined by the subnational governments through their budgets, or through conditional (earmarked) grants to subnational governments to implement selected service delivery and expenditure responsibilities—for example, by function or program, typically in accordance with an agreed-upon regulatory or policy standard.
<b>Treasury single Account (TSA)</b>	Bank account or a set of linked accounts through which the government transacts every receipt and payment.
<b>Unallocated appropriations</b>	See “contingency items”
<b>Unallocated expenses</b>	See “contingency items”
<b>Up-to-date</b>	Degree to which information is current in terms of the laws and administrative procedures.  Note: Defined in PI-19. Used as well in PI-12 and PI-31 but not exactly in the same terms.
<b>User-friendly</b>	Extent to which information is customized and tailored to meet the specific needs of key payer segments.
<b>Valuables</b>	Produced assets of considerable value that are not used primarily for purposes of production or consumption, but are held primarily as stores of value over time (GFSM 2014, page 418).
<b>Value of an asset</b>	See “acquisition value”, “fair or market value”.



## **PEFA Handbook**

Volume II: PEFA Assessment  
Fieldguide

Second edition  
December 2018

PEFA Secretariat  
Washington DC, USA