'Fieldguide'

for undertaking an assessment using the PEFA performance measurement framework

May 3rd, 2012

Foreword

In the 7 years since the Framework was launched, almost 300 PEFA assessments have been completed. The majority of these assessments have been reviewed by the Secretariat, and over this period, much experience has been gained and numerous lessons learned, both by assessors and by the Secretariat. Many of these lessons have been fed back to the PFM community in the form of 'guidance notes', addressing such matters as 'sources of evidence', 'repeat assessments', etc., and also as 'clarifications'. Now, for the first time, all this accumulated wisdom has been brought together with the material from the January 2011 version of the 'PEFA Framework booklet', to provide assessors with a ***'Fieldguide'***.

The ***Fieldguide*** arranges all the guidance material produced by the Secretariat for assessors to use when undertaking an assessment, dimension-by-dimension and also includes examples of presenting evidence for ratings. In this document, wording from the original 'PEFA Framework booklet' appears – verbatim – in shaded boxes.

The Secretariat will be most grateful to receive comments and suggestions that will further improve the ***Fieldguide***. Our intention is to update the ***Fieldguide*** on a loose leaf basis so that those who prefer to use a print out will be able to replace page updates in a ring binder.

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April 2012

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ACRONYMS

AGA	Autonomous Government Agency
BB	Blue Book
BCG	Budgetary Central Government
CBO	Community Based Organization
CG	Central Government
CGAF	*'Les Compte De Gestion'*
COFOG	Classification of Functions of Government
DSA	Debt Sustainability Analysis
EBA	Extra-Budgetary Activity/Account
FY	Fiscal/Financial Year
GFS	Government Financial Statistics
IAASB	International Accounting and Auditing Standards Board
IFAC	International Federation of Accountants
IGF	Inspector-General Finance
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
M1	'Method 1' – Pefa Scoring Methodology (weakest link)
M2	'Method 2' – PEFA Scoring Methodology (average of dimensions)
MAPS	Methodology for Assessing Procurement Systems
MDA	Ministry, Department, Agency
MOF	Ministry of Finance
NA	Not applicable
NGO	Non-Governmental Organization
NR	Not Rated
NU	Not used
OECD	Organization for Economic Co-Operation and Development
PAC	Public Accounts Committee
PE	Public Enterprise
PER	Public Expenditure Review
PI	Performance Indicator
PMU	Project Management Unit
PPA	Public Procurement Authority
PRSP	Poverty Reduction Strategic Plan
PSC	Public Service Commission
PSU	Primary Service Unit
RA	Revenue Authority
ROSC	Report on Observance of Standards and Codes
SAI	Supreme Audit Institution
SN/SNG	Sub –National/Sub-National Government
TA	Technical Assistance
TSA	Treasury Single Account
TIN	Taxpayer Identification Number
VAT	Value Added Tax

The PFM Performance Report

The objective of the PFM Performance report (PFM-PR) is to provide an assessment of PFM performance based on the indicator-led analysis in a concise and standardized manner. Information provided by the PFM-PR is intended to feed into the government / donor dialogue.

The PFM–PR is a concise document which is structured into five sections, as follows:

- **A summary assessment** (at the beginning of the report), which uses the indicator-led analysis to provide an integrated assessment of the country's PFM system against the six core dimensions of PFM performance and a statement of the likely impact of those weaknesses on the three levels of budgetary outcomes, aggregate fiscal discipline, strategic allocation of resources and efficient service delivery: this is **not** intended to be a conventional 'Executive Summary';
- **An introductory section** presents the context and the process of preparing the report and specifies the share of public expenditures captured by the report;
- **A section presenting the country-related information** necessary to understand the indicator-led and overall assessment of PFM performance. It includes a brief review of the country economic situation, a description of the budgetary outcomes as measured by achievement of aggregate fiscal discipline and strategic allocation of funds and, a statement on the legal and institutional PFM framework;
- **The main body of the report assesses the current performance of PFM systems, processes and institutions based on rating the indicators,** and describes the recent and on-going reform measures implemented by government;
- **A section on government reform process** briefly summarizes recent and ongoing reform measures implemented by government and assesses the institutional factors that are likely to impact reform planning and implementation in the future.

The report is a statement of current PFM performance and does not include recommendations for reforms or action plans. Should there be different views between the donors and the government over the report's findings, the government's opinion could be reflected in an annex of the report.

Guidance on the content of each section follows below.

Summary Assessment

This section aims to provide an integrated and strategic picture of PFM performance, including the extent to which the PFM system impacts on the achievement of outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

(i) Integrated assessment of PFM performance

The detailed indicator-led assessment is summarized along the six core dimensions of PFM performance identified in the Performance Measurement Framework:

1. **Credibility of the budget –** The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting –** The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution –** The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting –** Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. **External scrutiny and audit –** Arrangements for scrutiny of public finances and follow-up by the executive are operating.

In synthesizing the performance of the PFM system, the analysis aims at identifying the main PFM weaknesses and does not simply repeat the detailed list of weaknesses identified in section 3. The analysis captures in particular the interdependence between the different dimensions, i.e. the extent to which poor performance for one of the core dimensions is likely to influence the performance of the PFM system in relation to the other dimensions.

(ii) Assessment of the impact of PFM weaknesses

This part analyzes the extent to which the performance of the assessed PFM system appears to be supporting or affecting the overall achievement of budgetary outcomes at the three levels, i.e. aggregate fiscal discipline, strategic allocation of resources or efficient service delivery. In other words, it provides an understanding of why the weaknesses identified in PFM performance matter for this country. The assessment does not examine the extent to which budgetary outcomes are achieved (e.g. whether expenditures incurred through the budget have their desired effect on reducing poverty or achieving other policy objectives), but rather uses information from fiscal and expenditure policy analysis (as captured in the section 2 of the report) to assess the extent to which the PFM system constitutes an enabling factor for achievement of the planned budgetary outcomes.

(iii) Prospects for reform planning and implementation

This part assesses the extent to which institutional arrangements within the government support a timely and adequate reform planning and implementation process.

In addition, for aid-dependent countries, a statement is included on existing donor practices and on the extent to which they affect PFM performance.

Section 1: Introduction

The objective of the introduction is to understand the context and the process by which the PFM-PR was prepared and to outline the scope of the PFM assessment.

The introduction includes the following:

- ***Objective of the PFM-PR***, including why it has been undertaken at this time and its contribution to on-going country activities.
- ***Process of preparing the PFM-PR***, including (i) the donors associated in the preparation of the report, with a description of their role and contribution (lead donor, participating donors, financing, consultations, etc) and, (ii) involvement of government in the preparation of the report.

Example

The Ministry of Economic Planning anchored this repeat assessment, as it also did in 2008. The donor Partnership for PEMFAR and the NPC provided technical assistance. The Partnership financed the consultancy services, which also included an assessment of the procurement system using the OECD/DAC Methodology for Assessing National Procurement Systems (MAPS), and a public expenditure review in the water and sanitation sector. The NPC provided facilitation and coordination. The Government raised an inter-ministerial technical team of more than 50 persons who contributed thousands of staff hours for the assessment. The state also sponsored the assessment workshops and interviews, and provided documentation materials for the assessment.

The government has collaborated extensively by providing necessary information and assigning MOF staff to work alongside the team. This PEFA assessment has been funded by the World Bank and a multi-donor trust fund, supported by contributions from the European Union, the Netherlands, the Swiss Government and USAID. An orientation seminar was held in January 2011 for stakeholders to explain the objectives, concepts and methodology underlying the PEFA framework and to discuss a Concept Note for its application. Extensive fieldwork was undertaken during the first quarter of 2011. Discussions were also held with donor partners and some external stakeholders, including professional firms and the Chamber of Commerce. The draft scores and assessment were discussed with a core team of officers from MOF at a workshop in October 2011 and with senior officials before finalization. The report has also been peer reviewed by the PEFA Secretariat, Bank staff, donors and staff from the IMF.

Template for Disclosure of Quality Assurance Arrangements in Reports

In order to provide sufficient and consistent information on the quality assurance aspects of the PEFA assessment reports the template below has been developed. It covers the upstream and downstream issues the PEFA Secretariat believes provide a framework for the successful implementation of an assessment.

It is suggested that the quality assurance arrangements be presented in the final assessment report either before the summary assessment section or as an annex according to the following template:

PEFA Assessment Management Organization

- *Oversight Team – Chair & Members: [names & organizations]*
- *Assessment Manager: [name and organization]*
- *Assessment Team Leader and Team Members: [name and organization for each]*

Review of Concept Note and/or Terms of Reference

- *Date of reviewed draft concept note and/or terms of reference:*
- *Invited reviewers: [name and organization for each one, or as group e.g. the Oversight Team]*
- *Reviewers who provided comments: [name and organization for each one, in particular the PEFA Secretariat and date(s) of its review(s) or as group e.g. the Oversight Team]*
- *Date(s) of final concept note and/or terms of reference:*

Review of the Assessment Report

- *Date(s) of reviewed draft report(s):*
- *Invited reviewers: [name and organization for each one, in particular the PEFA Secretariat and date(s) of its review(s) or as group e.g. the Oversight Team]*
- *Reviewers who provided comments: [name and organization for each one]*

- ***The methodology for the preparation of the report,*** such as reliance on information sources, interviews, etc.
- ***The scope of the assessment as provided by the PFM-PR****:* Public financial management at the level of central government (including ministries, departments, autonomous agencies and deconcentrated entities) may cover only a limited amount of public expenditures that take place in a country, depending of the devolution of responsibilities to sub-national governments and public enterprises. Therefore, the report identifies the share of public expenditures that is made by central government. The importance of autonomous agencies in central government operations is specified due to their operations being outside the budget management and accounting system of the central government unit. In addition, the report provides information on the relative shares of public expenditures made by other entities.

Institutions	Number of entities	% of total public expenditures
Central government (Includes MDAs & deconcentrated entities)		
Autonomous government agencies		
Sub-national governments		

Example

Institutions	*No of entities*	*% of total Exp*	*Transfers*	*Total Exp*
CG				
AGAs				
SNGs				
Total				

Section 2: Country Background Information

The objective of this section is to provide information on the country whose PFM system is being assessed, to allow sufficient understanding of the wider context to PFM reforms as well as the core characteristics of the PFM system in that country.

The section is structured along the following lines and provides the following information:

Sub-section 2.1: description of the country economic situation

- ***Country context***, including population income level, percentage of population living below the poverty line, growth rate, inflation, economic structure and main challenges for development.
- ***Overall government reform program,*** with a focus on the main issues that are likely to influence public financial management.
- ***Rationale for PFM reforms*** in relation to the overall government reform program.

Sub-section 2.2: Description of budgetary outcomes (drawn from existing fiscal and expenditure policy analysis or other relevant studies).

- ***Fiscal performance:*** The report includes a short comment on the main trends in fiscal aggregate discipline for the last three years, based on the information provided by the following table. It also integrates other relevant information, for example on the debt stock.

Central government budget (in percent of GDP)			
	FY1	FY2	FY3
Total revenue			
- Own revenue			
- Grants			
Total expenditure			
- Non-interest expenditure			
- Interest expenditure			
Aggregate deficit (incl. grants)			
Primary deficit			
Net financing			
- external			
- domestic			

- ***Allocation of resources:*** The report includes information on the trends in sectoral and, if possible, economic allocation of resources. It also provides a statement on the priorities embodied in the national strategy (e.g. PRSP) and the extent to which budget allocations reflect the priorities of government.

Actual budgetary allocations by sectors (as percentage of total expenditures)			
	FY-1	FY-2	FY3
Health			
Education			
Agriculture			
Etc.			

Actual budgetary allocations by economic classification (as percentage of total expenditures)			
	FY-1	**FY-2**	**FY3**
Current expenditures			
- Wages and salaries			
- Goods and services			
- Interest payments			
- Transfers			
- Others			
Capital expenditures			

- ***Additional information***, such as proportion of funds allocated at the local level or any information related to service delivery or operational efficiency, would be added, if available.

Sub-section 2.3: description of the legal and institutional framework for pfm

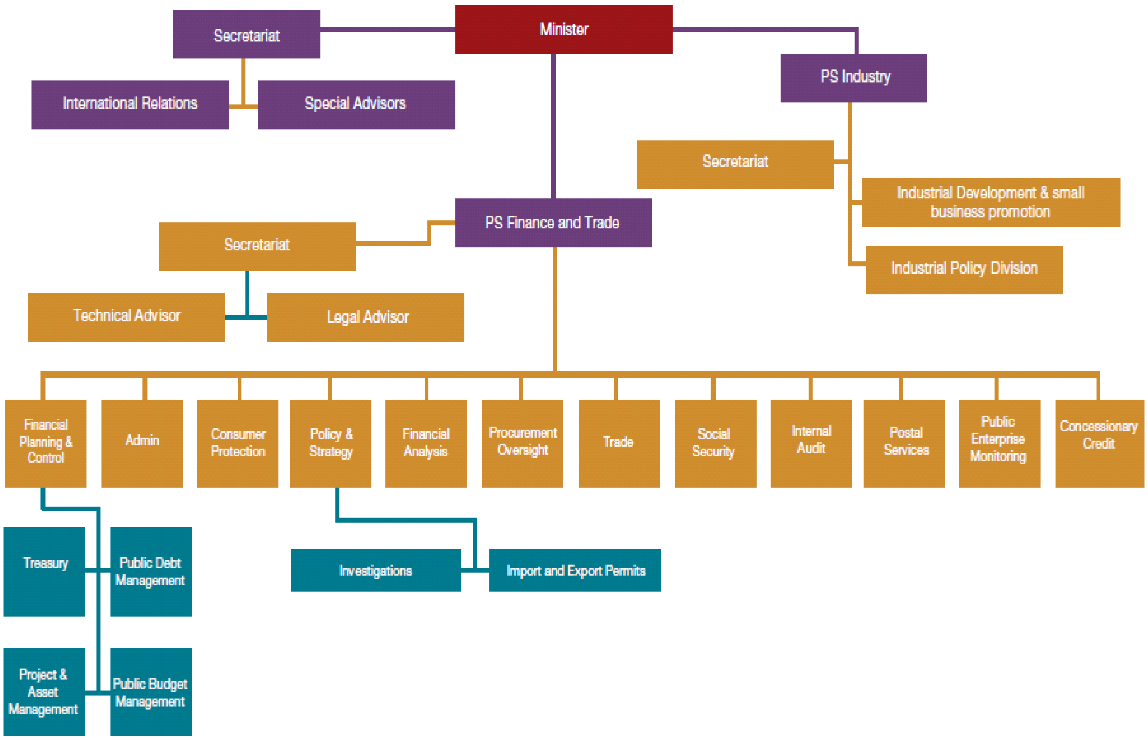
- ***The legal framework for PFM***: the report describes the legal provisions that determine the fundamental rules that are guiding the PFM system. It would involve a brief description of recent changes made to the legal framework, if relevant.

Example

Legal framework for PFM	
Area	***Description***
Public Finance	*The Constitution, 1984, sets the basis for PFM. The Public Finance Act, 2005 and Regulations of 2005 define in great detail the roles, functions and responsibilities in management of government revenue and expenditure (the Minister of Finance, the Paymaster General, the Accountant General, the Accounting Officers and Warrant Holders in ministries, departments and agencies, as well as the Controller and Auditor General). They also define the accounting, control and reporting systems. The Government Loans, Stocks, Grants and Guarantees Decree, 1978, provides authority to the Minister of Finance to raise loans.*
Audit	*The Constitution, article 112 and 113 establish the position, appointment and removal, and basic mandate of the Controller and Auditor Genera (CAG). The Establishment of the Office of Controller and Auditor General Act, No.11 of 2003 established the Audit Service Board to manage audit personnel, and elaborated the duties of the CAG.*
Procurement	*The Public Procurement and Disposal of Public Assets Act, No. 9 of 2005…*
Public Bodies	*Public Investment Act 2002 and amendments 2005, which empowered the President to set up public corporations and established a Public Investment Department within the Ministry for Finance. Also individual acts establishing the Social Security Fund, Road Fund, etc.*
Revenue	*Income tax and customs duty are legislated partly by: the Income Tax Act; Tax Revenue Appeals Act; Gaming Act; Vocational Educational and Training Act; Road and Fuel Tolls Act; Airport Service Charges Act; the Revenue Authority Act and the Customs Management Act (2005). Other laws include Entertainment Tax Decree, 1962; Hotel Levy Act, No.1 of 1995; Stamp Duty Act, No. 6 of 1996; Value Added Tax Act, No. 4 of 1998, as amended by the Finance (Public Revenue Management) Act, No. 4 of 2009 [reducing VAT from 20 to 18%]; Port Service Charge Act, No. 2 of 1999; Petroleum Levy Act, No. 7 of 2001; Property Tax Act, October 2009 [not yet in operation].*
Other	*There is an Anti-Corruption Act. There is no Freedom of Information Act or Money Laundering Act.*

- ***The institutional framework for PFM:*** the report describes the responsibilities of the main entities involved in PFM, including for the different levels of government (central and sub-national governments), the different branches of government (executive, legislative, and the judiciary) as well as for the public enterprises or autonomous government agencies. Additional information on the broad responsibilities for public financial management in the Ministry of Finance and between the Ministry of Finance and the line ministries is welcome. Recent changes in responsibilities can be mentioned, including trends towards decentralization of expenditures.

Example



- ***The key features of the PFM system:*** the report describes the key features of the PFM system, including the degree of centralization of the payment system or the type of jurisdictional control exercised by the external audit body.

The information provided is descriptive and does not intend to make a statement on compliance with existing rules or effective roles played by the legislature and external audit. Such issues are captured in the detailed assessment of the PFM system (section 3).

Section 3: Assessment of the PFM systems, processes and institutions

The objective of this section is to provide an assessment of the key elements of the PFM system, as captured by the indicators, and to report on progress made in improving those.

Sub-sections 3.1 to 3.7

Each sub-section discusses the relevant indicators. For example, the subsection 3.2 on comprehensiveness and transparency reports on indicators 5 to 10. Reporting reflects the order of the indicators.

The discussion of each of the indicators **distinguishes between the assessment of the present situation (the indicator-led analysis) and a description of any reform measures being introduced to address the identified weaknesses.** The assessment based on the indicator and the reporting on progress are separated in two different paragraphs, in order to avoid confusion between the current situation and what is happening in terms of reforms.

Reporting the indicator-led analysis

- The text gives a clear understanding of **the actual performance of each of the PFM dimensions captured by the indicators** and the rationale for its scoring. Each dimension of the indicator is discussed in the text and addressed in a way that enables understanding of the specific level (A, B, C or D) achieved by the dimension.
- The report indicates the factual evidence (including quantitative data), that has been used to substantiate the assessment. The information is specific wherever possible (e.g. in terms of quantities, dates and time spans).
- Any issues of **timeliness or reliability of data or evidence** is noted.
- If **no information** exists either for a whole indicator or one of its dimension, the text explicitly mentions it. If it is felt that scoring is still possible despite a lack of information for one of the dimension, the rationale for the scoring is made explicit.
- At the end of the discussion of each indicator, **a table** specifies the scoring along with a brief explanation for the scoring.

As a complement to the indicator scoring, reporting on progress[1] is made in relation to each of the indicator topics (if relevant, i.e. when there are recent or on-going reform measures). It aims to capture the dynamic of reforms in the country while retaining sufficient rigor in assessing on-going changes.

Reporting on progress is based on **factual evidence** and focuses on:

(i) Small improvements in PFM performance not captured by the indicators, For example:

- **PI-4** (stock and monitoring of expenditure payment arrears): In Year 1, a country rated B on this indicator, partly because the stock of arrears stood at 7% and partly as a result of efforts made recently in reducing the stock of arrears. In Year 3, the stock of arrears stands at 3%. The rating of the indicator remains B, but the report should note the progress made in reducing the stock of arrears.
- **PI-12** (multi-year perspective in fiscal planning, expenditure policy and budgeting: In Year 1, a country has two out of ten sector strategies that are fully costed. The two sectors represent 35% of total primary expenditure. In Year 3, one additional sector strategy is costed. The sector represents 10% of total primary expenditure. The progress made does not influence the rating of the indicator, but the report should note the progress made in improving the performance.

(ii) Reforms implemented to date, that have not yet impacted PFM performance or for which no evidence exists on their impact on PFM performance, For example:

- **PI-21** (effectiveness of internal audit): In Year 1, the country rated D on this indicator as no internal audit function existed. In Year 3, an internal audit department has been created in the Ministry of Finance, but is still very weak. The reform – creation of the internal audit department – has not yet impacted PFM performance, but should be noted in the report.
- **PI-19** (competition, value for money and controls in procurement): A new procurement law was adopted one year ago, but no analysis has been made since then to assess its impact on the use of open competition for award of contracts, etc. Since no evidence is available on the impact of this new legislation, the rating of the indicator should be based on the latest evidence of procurement practices, i.e., prior to the adoption of the new legislation. The report should note the existence of the new procurement law and the lack of evidence collected to assess its impact.

[1] The level of performance of the PFM system, as captured by the indicators, reflects a combination of historical, political, institutional and economic factors and is not necessarily representative of recent or on-going **efforts made by government to improve PFM performance.** Improvement in the scoring of the indicators may take some years given the four-point scale by the high-level indicators. This is why the PFM-PR introduces some reporting on progress made in improving PFM performance as captured by the indicators.

Reference to government reform plans or description of existing conditionality selected by the international finance institutions or donors (i.e. reform measures yet to be implemented) are not considered as sufficient evidence for demonstrating progress.

An upward arrow can be used next to the score (e.g., **D▲)** to indicate progress, but its use is limited to cases as described above under (i) small improvements in PFM performance not captured by the indicators, and (ii) reforms implemented to date that have not yet impacted PFM performance or for which no evidence on their impact on PFM performance exists.

Sub-section 3.8

The PFM-PR provides information on **country-specific issues** that are essential for a comprehensive picture of PFM performance and that are not fully captured by the indicators. This sub-section is based on available information. Below are some examples of such country specific issues:

1. Sub-national governments:

The performance indicators capture local government issues in relation to the clarity of inter-governmental fiscal relations (PI-8), the comprehensiveness of fiscal risk oversight (PI-9) and the extent to which spending ministries and agencies are able to plan and commit expenditures in accordance with budgets and work plan (PI-16). In countries where a significant proportion of expenditures are executed at the sub-national level and where information is available, the PFM-PR provides some information on PFM performance at the local level. This section does however not seek to substitute for any assessment done at the sub-national level.

2. Public enterprises

The performance indicators capture public enterprise issues in relation to the comprehensiveness of aggregate fiscal risk oversight (PI-9). Depending on the importance of these entities, a comprehensive overview of the PFM system may therefore require a description of the relationships between the central government and those entities or the performance of those entities in terms of PFM, to the extent information exists.

3. Management of revenues in natural resources rich countries

Revenues from natural resources may constitute an important source of income for certain countries and may be subject to specific financial management arrangements. This section may in such cases present a description the performance of those arrangements.

4. Any other issues relevant for a comprehensive picture of PFM performance.

Section 4: Government reform process

This section aims to describe the overall progress made by government in improving PFM performance and to provide some forward-looking perspective on the factors that are likely to affect future reform planning, implementation and monitoring.

Sub section 4.1: description of recent and on-going reforms

The most important recent and ongoing reforms are briefly summarized (as a detailed description of those takes place in section 3) to give a thrust of the main progress made by government in strengthening the PFM system.

Sub-section 4.2: institutional factors supporting reform planning and implementation

This part of the report provides a **forward-looking perspectiv**e of the extent to which **institutional factors** are likely to support the reform planning and implementation process.

The following identifies several factors that are likely to be relevant in supporting an effective reform process in many country contexts. In each case, this part of the PFM-PR takes into account recent and ongoing reform experiences and identifies, where appropriate, additional country specific factors to those suggested below.

- ***Government leadership and ownership*** is likely to contribute to a more effective PFM reform process by setting the objectives, direction and pace of reforms, clarifying organizational responsibilities for the reform process and addressing, in a timely manner, any resistance to change. Consideration may be given to the level and nature of political engagement in the reform process, the extent to which the government articulates a compelling case for PFM reforms, the dissemination of the government vision in public documents (PRSPs, specific PFM strategy or action plan, etc.) and the provision of resources by government to PFM reforms. Cross reference to the extent to which the reform process is progressing according to government plans can be included if found relevant.
- ***Coordination across government*** is likely to contribute to a more prioritized and sequenced reform agenda, as existing capacities of different entities and levels of government are taken into account in planning and implementing reforms. In assessing the extent to which arrangements for coordination are in place, consideration may be given to the extent to which relevant entities, especially line ministries, are associated in the reform decision making process, the existence of mechanisms to ensure timely decisions-making especially for cross-cutting reforms, the clarity of roles and responsibilities in the implementation of reforms and the existence of a focal point in government for coordination of donors in relation to PFM reforms. Association of the Parliament and the external audit in the PFM reform process may also be considered when relevant.
- Impact of the PFM reforms is likely to depend on the extent to which existing arrangements support **a sustainable reform process**. In this context, consideration may be given to the extent to which the reform process is driven by government experts or technical assistance, whether reforms are being associated with comprehensive capacity-building programs and consideration is being given to retaining trained staff. Any information on funding of the recurrent costs, resulting from the implementation of reforms, may also be included, if relevant.

The assessment of those institutional factors is as factual as possible and does not rely on government plans or commitments. **The report does not make recommendations** for the reform program of the government and does not include a judgment as to whether the government reform program addresses the right PFM weaknesses or whether the proposed reform measures are adequate.

Scoring Methodology

Most of the indicators have a number of dimensions linked to the subject of the indicator. Each of these dimensions must be assessed separately. The overall score for an indicator is then based on the assessments for the individual dimensions of the indicator. Combining the scores for dimensions into the overall score for the indicator is done by Scoring Method 1 (M1) for some indicators and Scoring Method 2 (M2) for other indicators. It is specified in the indicator guidance for each indicator what methodology should be used.

Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the ***weakest link*** in the connected dimensions of the indicator). For indicators with 2 or more dimensions, the steps in determining the overall or aggregate indicator score are as follows:

- Each dimension is initially assessed separately and given a score.
- Combine the scores for the individual dimensions by choosing the lowest score given for any dimension.
- A '+' should be added, where any of the other dimensions are scoring higher (Note: It is NOT possible to choose the score for one of the higher scoring dimensions and add a '-' for any lower scoring dimensions. And it is NOT possible to add a '+' to the score of an indicator with only one listed dimension).

Method 2 (M2) is based on averaging the scores for individual dimensions of an indicator. It is prescribed for selected multi-dimensional 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 the dimensions all fall within the same area of the PFM system, progress on individual dimensions can be made independent of the others and without logically having to follow any particular sequence. The steps in determining the overall or aggregate indicator score are as follows:

- For each dimension, assess what standard has been reached on the 4-point calibration scale (as for M1).
- Go to the Conversion Table for Scoring Method M2 (below) and find the appropriate section of the table (2, 3 or 4 dimensional indicators),
- Identify the line in the table that matches the combination of scores that has been given to the dimensions of the indicator (the order of the dimensional scores is immaterial),
- Pick the corresponding overall score for the indicator.

General guidance on "No Score" methodology: In all cases, adequate justification should be provided in the report:

- **NA** – Not applicable: in the case of a dimension, then the dimension is excluded from any further consideration i.e. the assessor proceeds as if the dimension did not exist.
- **NU** – Not used: when there was no intention to assess a dimension or an indicator for a specific reason.
- **NR** – Not rated: when insufficient information is available to score a dimension or indicator.

Conversion Table for Scoring Method M2: i.e. PIs 8, 11, 12, 13, 14, 17, 19, 22

(This table CANNOT be applied to indicators using scoring method M1)

The Conversion Table applies to all indicators using M2 scoring methodology only and cannot be used for indicators using M1, as that would result in an incorrect score. The Conversion Table should NOT be used to aggregate scores across all or sub-sets of indicators, since the table was not designed for that purpose. In general, the performance indicator set has not been designed for aggregation, and therefore, no aggregation methodology has been developed.

Note: It is of no importance in which order the dimensions in an indicator are assigned the individual scores

2-dimensional indicators				
D	D			**D**
D	C			**D+**
D	B			**C**
D	A			**C+**
C	C			**C**
C	B			**C+**
C	A			**B**
B	B			**B**
B	A			**B+**
A	A			**A**

3-dimensional indicators				
D	D	D		**D**
D	D	C		**D+**
D	D	B		**D+**
D	D	A		**C**
D	C	C		**D+**
D	C	B		**C**
D	C	A		**C+**
D	B	B		**C+**
D	B	A		**B**
D	A	A		**B**
C	C	C		**C**
C	C	B		**C+**
C	C	A		**B**
C	B	B		**B**
C	B	A		**B**
C	A	A		**B+**
B	B	B		**B**
B	B	A		**B+**
B	A	A		**A**
A	A	A		**A**

4-dimensional indicators				
D	D	D	D	**D**
D	D	D	C	**D**
D	D	D	B	**D+**
D	D	D	A	**D+**
D	D	C	C	**D+**
D	D	C	B	**D+**
D	D	C	A	**C**
D	D	B	B	**C**
D	D	B	A	**C+**
D	D	A	A	**C+**
D	C	C	C	**D+**
D	C	C	B	**C**
D	C	C	A	**C+**
D	C	B	B	**C+**
D	C	B	A	**C+**
D	C	A	A	**B**
D	B	B	B	**C+**
D	B	B	A	**B**
D	B	A	A	**B**
D	A	A	A	**B+**
C	C	C	C	**C**
C	C	C	B	**C+**
C	C	C	A	**C+**
C	C	B	B	**C+**
C	C	B	A	**B**
C	C	A	A	**B**
C	B	B	B	**B**
C	B	B	A	**B**
C	B	A	A	**B+**
C	A	A	A	**B+**
B	B	B	B	**B**
B	B	B	A	**B+**
B	B	A	A	**B+**
B	A	A	A	**A**
A	A	A	A	**A**

General queries about the coverage of the indicators

Coverage of the indicators: General points		Clarification
G-a	When evaluating multidimensional indicators, a situation may arise whereby **not all the dimensions can be rated** due to the absence of reliable information. What is the most appropriate course of action to take? Would it be to (a) rate only those dimensions for which data is available or (b) assign a default 'D' score to those dimensions where information is not available or (c) apply an average rating to the missing dimensions, or (d) simply not score the indicator?	It is generally not possible to score an indicator if one or more of the dimensions cannot be rated, and in those circumstances it should be left as unscored. However, there is an exception to this generalization if the scoring methodology is based on Method 1 (M1), and at least two of the dimensional ratings are known, where one of them is represented by a D score and the other by a score higher than a D. In this situation the performance indicator is scored D+ irrespective of whatever rating is given to any other dimension of that indicator, including those situations where the other indicators could not be rated. This exception to the rule **does not apply** if the scoring methodology is method M2.
G-b	How will '**No score' of a dimension** affect the rating of the overall indicator?	When a dimension is not scored due to being 'not applicable' i.e. NA (with adequate justification provided in the report for being NA), then the dimension is excluded from further consideration. In other words proceed as if the dimension did not exist. So a 3-dimensional indicator where one dimension is NA, would be scored on the basis of the two remaining dimensions. Typical examples on 2-dimensional indicators are PI-9 (if there is no SNG you score the dimension concerning public enterprises and the overall indicator gets same score) and PI-7 (if there is no external project/program aid, dimension ii is NA and the indicator is scored exclusively on dimension (i)). This is not the case if a dimension is not scored for lack of information (NR). This means that essential information is not available to the government (or it does not want to share with the assessors) which reflects a performance problem that should be shown in the rating, which would also usually be NR (see below).
G-c	Is it correct to provide **no overall rating** on an M1 indicator where one of the dimensions is scored as 'D'?	NR on one dimension would lead to NR on the indicator (irrespective of M1 or M2) because if there were information available on the missing dimension(s), the rating potentially could improve to 'D+'. However, there is an exception in the case of an M1 indicator with 3 or 4 dimensions and one is rated 'D', one is rated NR and the other(s) rated 'C' or above: here the overall rating could be 'D+', but for consistency NR may be preferable.
G-d	Is it possible that the rating (as 'D') of one dimension **renders the other dimension of the same indicator non applicable**?	Yes, this is possible. E.g. in the case of PI-21, if there is no internal audit function at all, dimension (i) will rate 'D' and dimension (ii) and (iii) will have no content, so they will be non-applicable. Overall, therefore, PI-21 will be rated 'D'.
G-e	Some of the dimensions under performance indicators have sub-dimensions (e.g. PI-26, dimension 1). **Can these sub-dimensions be scored individually** and an overall score derived for the dimension (either as an average as per M2 or the lowest score with a plus sign added as per M1)?	No. Only dimensions are subject to scoring, not "sub-dimensions". The rating of a dimension will depend on full compliance with all the sub-dimensions of that rating.

G-f	In the dimensions that have "sub-dimensions" such as PI-11 (i), PI-17 (i), PI-21 (i): **do all requirements need to be met**?	Yes: if the requirements are only partly met, it means that the criteria are not satisfied hence the rating should be at the highest grade **below** the level that is not met.
G-g	Does the set of indicators (other than PI-7, PI-9, PI-26 and D-2) apply to "only nominally on-budget" or **are off-budget operations to be covered in the assessment of all indicators**?	The document states on page 3: "The focus of the indicator set is on revenues and expenditures undertaken through the central government budget. However, activities of central government implemented outside the budget are covered in part by the indicators PI-7, PI-9, PI-26 and D-2". All indicators, except the four mentioned here (and in some cases in PI-23), relate specifically to the budget and therefore cover operations that are "on budget" unless explicitly excluded in each case (such as donor funded project expenditure and debt service in some indicators). Off-budget operations falling under the central government and operations of other parts of general government or the public sector are assessed only in the five indicators mentioned.
G-h	**What is meant and covered by MDAs and deconcentrated units** in PI-7, PI-11, PI-16, PI-24 and PI-25?	In the PFM Performance Measurement Framework, Ministries, Departments, Agencies (MDAs) and deconcentrated units are the main budget entities i.e. the primary recipients of allocations in the central government budget. Central government may comprise other departments and agencies that receive budgetary funds as transfers or subventions from the main budgetary entities, but those departments and agencies are not included in this definition.
G-i	The government has entered into numerous '**Public Private Partnerships'** which are off-budget and may also create fiscal risks and possibly contingent liabilities. How should they be treated in the PEFA assessment?	In a country that has made significant use of PPPs, their impact on PIs 9 (i), 12 (iii), 17 (iii), 26, possibly 12 (iv) and 25 (depending on the government ownership under the terms of the agreement) should be clearly explained in the narrative.
G-j	How should PEFA assessment missions **treat informally received information**?	While informal channels can be useful for obtaining information quickly, such information can be difficult to use for official purposes. The government therefore needs to confirm its agreement with the data or be given the opportunity to present alternative "correct" data. If none of this happens, and necessary data are not available from alternative authoritative sources (e.g. the central bank), then it will not be possible to score the relevant indicators. On occasion, informants who provide informal information may wish to remain anonymous due to the controversial nature of the information. In this case, the information should be corroborated by other, independent sources or to challenge the government to present hard evidence for its position.

PI-1 Aggregate expenditure out-turn compared to original approved budget.

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports), but excludes two expenditure categories over which the government will have little control. Those categories are (a) debt service payments, which in principle the government cannot alter during the year while they may change due to interest and exchange rates movements, and (b) donor funded project expenditure, the management and reporting of which are typically under the donor agencies' control to a high degree.

In order to understand the reasons behind a deviation from the budgeted expenditure, it is important that the narrative describes the external factors that may have led to the deviation and particularly makes reference to the impact of deviations from budgeted revenue, assessed by indicators PI-3 (domestic revenue) and D-1 (external revenue). It is also important to understand the impact of a total expenditure deviation on the ability to implement the expenditure composition as budgeted, ref. also PI-2 and PI-16.

Dimension to be assessed (Scoring method M1):

(i) The difference between actual primary expenditure and the originally budgeted primary expenditure.

Points to note:

1. "Primary expenditure" is total expenditure minus interest on public debt minus donor-funded project expenditure (loans and grants).
2. Important to use same source for both original budgets & actual expenditure to ensure consistency.
3. Must use the initially approved budget NOT supplementary budget.
4. For calculation use the spreadsheet model @ www.pefa.org.

Dimension (i) The difference between actual primary expenditure and the originally budgeted primary expenditure

Key questions

1. Is data on budgeted & actual primary expenditures readily available for last 3 FY?
2. Is data on primary expenditures broken down by functions &/or administrative agencies for last 3 FY?
3. If yes, where is it exactly located & in what form (hard copies, electronic)?
4. If not, where is data (on total expenditures, interest on the public debt, & donor-funded project expenditure) available & accessible to calculate total primary expenditures & primary expenditures by functions &/or administrations?

Coverage	Budgetary central government
Critical period/time	Last 3 FYs completed
Quantifiable data required	Actual primary expenditure minus budgeted primary expenditure as a percentage of budgeted primary expenditure, for each of the last three fiscal years
Information sources	The best source for these indicators is the Budget entity (Department, Directorate or other entity) within MoF. Generally the Budget entity has budgeted & actual data on recurrent & capital budget & can also provide data on primary expenditures. Most countries have an integrated database for their budgets. Often the database although accessible from the Budget entity is located separately (with separate staff). It may be easier to access the necessary information directly from the staff members dealing with the database.

Rating criteria

A. In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 5% of budgeted expenditure.
B In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 10% of budgeted expenditure.
C In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by more than amount equivalent to 15% of budgeted expenditure.
D In 2 or all of last 3 years did actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

Clarifications

PI-1 Query/Issue		Clarification
1-a	Does "**externally funded project expenditure**" refer to donations only?	The definition of the indicator specifies "excluding externally funded project expenditure". That means donor funding received both as grants and loans. This exclusion has been made because the government typically does not (or only partially) control the implementation, contracting and payments for such projects.
1-b	Government budget execution reports include complete information on project expenditure, but the **donor funded part cannot be separated from the domestically funded expenditure**. Therefore, donor funded project expenditure cannot be deducted from total expenditure. How should this case be handled for indicator PI-1?	The data on which the calculation is made for PI-1 could include all project expenditure, if such expenditure is predominantly domestically funded. Or it could exclude all project expenditure if such expenditure is predominantly externally funded. There could be countries where externally funded project expenditure is fully under government control, i.e. the donor/lender advances all of the funds to the government. In such cases, externally funded projects could also be included in the expenditure data for PI-1. Where any of these options are chosen, it should be explicitly stated in the report, since a later repeat assessment would have to use the same definition of expenditure in order to make the results comparable over time.

1-c	Where data are available on **build-up of expenditure arrears and payment of old arrears**, should these items be included in aggregate expenditure?	The Framework allows the use of either cash-based accounting (the basis of the 1986 IMF-GFS Manual) or accrual-based accounting (the basis of the 2001 revised Manual). Whichever basis is used, it should be stated and used consistently in all indicator assessments.
1-d	**What years should be included in the assessment** of this indicator? Example: During one of the last three years the country had a constitutional/political crisis, which meant that government was unable to function for half of the year. Can that year be excluded from the three year data set and be replaced by the year before the last three-year period?	The assessment already takes into account the existence of an abnormal or "outlier" year, out of the three most recent fiscal years in the following way. The indicators require calculation of the deviation for each of those three years. The scoring for A, B and C is then specified in such a way as to allow one of the years to be an "outlier", and as long as the other two years are within the specified limits the score is justified. In the example, if the deviation in the crisis year is bigger than the other two years, then the crisis year becomes the "outlier". The score that is then given will depend on which limits the other two years fall within. It is of no importance for the indicator what the reason for the "outlier" may be (be it international commodity markets, natural disasters, political crisis, poor budget discipline or no data on which to calculate the deviation). A different wording of PI-1 Score A, but with the same meaning, is: "The actual expenditure deviated from budget by 5% or less in at least two of the last three years".
1-e	Are there any **limitations on the deviation from the budgeted amounts for the "outlier"** year?	There are no limits on the deviation between budget and actual in an outlier year. E.g. as long as two of the last three years have a deviation below 5%, the indicator scores an A even if third year deviation is above 15%.
1-f	Last year the legislature failed to approve the budget within the timeframe fixed by the Constitution. As a consequence the previous year's budget was carried over to cover last year. Midway during the year, the **government introduced a revision to the "carried over" budget and that revision was approved by the legislature**. Shall that budget revision be considered as the "originally approved" budget to be compared to the actual expenditure and revenue?	It is crucial that the "original approved budget" for calculation of budget outturns is the budget on which budget execution started and on which budget responsible and service delivering entities would have to make their annual plans and commence implementation. The budget approved in mid-year cannot therefore be considered the originally approved budget. When there is such a situation, with no originally approved budget, the deviation cannot be calculated. When the deviation cannot be calculated, the year can be considered an "outlier", ref. above.
1-g	Should projects funded by donors be included in the calculation of PI-1, if budget execution reports do not distinguish between domestic and donor-financed projects?	Such projects should be included in the calculation if donors are financing less than 50 percent by value of all development expenditure, and should be excluded if donors are financing more than 50 percent. An explanatory note should be provided in the narrative.
1-h	Should **"exceptional" expenditures** (such as those that may be incurred after a civil war or a natural catastrophe) be included in the calculation of PI-1?	They should be included and noted in the supporting tables and text. Repeat assessments may then pick up on any progress that has been made since the incurrence of the exceptional events.

1-i	How should unpredictable **privatisation proceeds** be treated in scoring PI-1?	The answer is the same as with other types of "windfall" income. It has to be included in the calculation of indicator PI-1. If the spending of these proceeds results in lower ratings than if the spending had been excluded, then this can be referenced in the narrative, including the summary assessment. The reason is that spending unplanned windfall gains by increasing the budget allocations during the year easily leads to poorly planned investment, but perhaps more significantly to rushed procurement processes or implementation schedules (to spend the money before year-end) with loss of value for money as a consequence. The narrative could comment on mitigating measures taken to ensure proper investment planning (such as a well defined investment pipeline prepared during the budgeting process) and value for money. In principle, the government could simply save the money for the time being and budget for its expenditure in the following years, following the full expenditure planning and implementation cycle. It could also be used to pay off debt, if debt levels are a concern. If the spending of the privatisation proceeds has not been budgeted for in the first place (as the proceeds were an unexpected windfall gain), then there is no legal necessity to spend them before the end of the financial year (though there may be political pressure to do so).
1-j	Should **central government subsidies and transfers** of any kind feed into the calculation of PI-1?	Yes. As PI-1 largely feeds into analysis of the government's ability to achieve its desired overall fiscal balance, all expenditures under Government's control should be included in the calculation. In the case of variances between budgeted and actual transfers to sub-national governments, indicator PI-8 dim (ii) would supplement the information in PI-1. A sub-national government PEFA assessment would indicate such an impact in more detail.
1-k	Can PI-1 be scored on the basis of **annual accounts that have yet to be audited**?	It is quite normal for scoring of quantitative indicators to be scored partially on the basis of unaudited accounts, as accounts for the most recent year(s) may still be awaiting audit. The unaudited accounts can be used with reasonable assurance if previous audited accounts indicate insignificant differences from the unaudited accounts. In the absence of such assurance (because accounts have not been audited for several years, or that there are non-systematic and significant differences each year), it is recommended that the existing data be used, but with the proviso that the assessment is preliminary and should be updated after accounts have been audited.
1-l	How should this indicator be rated if the **deviations** are 4%, 4% and 20%, as this **appears to meet the requirements for any** of the 'A', 'B' and 'C' ratings?	The criteria is better interpreted as "In at least two of the last three years, actual expenditure has not deviated from budget by more than 5%", which would merit 'A' (similarly, "not more than 10%" would merit 'B', and "not more than 15%" merits 'C').
1-m	The definition of 'the **government budget'** in the constitution of this country is inconsistent with GFS. How should PI-1 be rated?	Follow the country's definition, but make it clear in the narrative of the difference in definition, and if possible, quantify the effect.
1-n	Late in the fiscal year, the government **transferred large unused capital allocations to Extra-Budgetary Funds** for spending in future years. As no provision had been made in the budget for these transfers, should the amounts be excluded from the PI-1 calculation?	No: these changes will show up in PI-2. The methodology requires scoring to be based on the original budget and the outturn. However, the narrative should discuss any large transfers of **budgeted** capital allocations to EBFs.

1-o	During the period of the assessment, the law changed the fiscal year to the calendar year. The implication was that there was a **transitional period of six months** – should this be treated as a 'fiscal year'?	The guidance on evidence and sources defines which indicators require information for last two or three FYs (PI-1, 2, 3, 11iii, 12i, 15i, possibly 25iii, and D-1). If this information is available separately for each of the last three FYs, there should not be a problem, even if one of three FYs covers less than 12 months due to a transition. If the information is not separately available for the transitional six-month period but only in aggregate for the two budget periods covering 18 months, then the aggregate of those two periods would have to be considered as the third of the three budget periods for the purpose of the listed indicators. However, for PI-11 iii, it will be necessary to consider only the six month transitional period, as an aggregation for two different budget approvals is not meaningful.
1-p	The previous PEFA assessment covered the 2004, 2005 and 2006 fiscal years, and the current assessment is to look at 2008, 2009 and 2010. **What about the 2007 fiscal year? Can we consider 4 budgets**, and then adapt the calculation of the scores?	No: the gap in coverage between successive assessments is irrelevant.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
The deviations (in absolute terms) were 2.8%, 11.1% and 0.2% in 2008, 2009 and 2010 respectively.	**B**	i) In no more than 1 of last 3 years has actual deviated from budgeted expenditure by amount equivalent to more than 10% of budgeted expenditure.	MOF Accounting Department. Tables generated from FMIS.	**C**	Previous deviations were: 6.1% in 2006; 12.3% in 2007 & 14.1% in 2008.

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

Where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level. As budgets are usually adopted and managed on an administrative (ministry/department/agency) basis, this is the preferred basis for assessment, but a functional or program basis is acceptable, provided that the same basis is used for both appropriation and reporting execution. At the administrative level, variance is to be calculated for the main budgetary heads (votes) of ministries, departments and agencies, which are included in the approved budget. If a functional classification is used, variance should be based on the GFS/COFOG ten main functions. If a program basis is used, they should be high-level "main" programs.

Changes in the overall level of expenditure (assessed in PI-1) will translate into changes in spending for administrative (functional/program) budget heads. The first dimension of this indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. In addition to excluding debt service and donor funded project expenditure (as in PI-1), contingency items are not included in the calculation.

The second dimension recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency reserve (although this should not be so large as to undermine the credibility of the overall budget), accepted 'good practice' requires that these amounts be vired to those votes against which the unforeseen expenditure is recorded (in other words, that expenditure is not charged directly to the contingency vote). Assessors should discuss the budgeting and accounting treatment of discernable contingency items in the narrative. The calibration is based on the volume of expenditure recorded against the contingency vote (except for transfers to a Disaster Fund or something similar) as this represents a deviation from policy intent.

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

Dimensions to be assessed (Scoring Method M1):

(i) Extent of the variance in expenditure composition during the last three years, **excluding** contingency items
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

Points to note:
Contingency items should only include clearly defined items which are unallocated at budget preparation time but used to cover shortfalls in spending in any budget unit during execution. They can include a reserve allocation for wage increases, say, held centrally but distributed to budget users once the level of increase has been settled (or agreed with unions). These are 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". Contingencies established within budget user votes, as well as any vote suspected of really being allocated for contingencies, should NOT be included

Use the calculation model on the website to insert the data and obtain the annual calculations of expenditure variance for each year. The steps in calculation for each year are as follows:

- For each budget head selected for composite variance analysis (i.e. excluding contingency items), calculate the "adjusted" budget (this is {the original budget for each head, multiplied by {aggregate actual expenditure divided by aggregate budget}}).
- For each budget head, calculate the deviation between actual expenditure and adjusted budget.
- Add up the absolute value of the deviations for all budget heads (absolute value = the positive difference between the actual and the budget figures). Do not use percentage deviations.
- Calculate this sum as a percentage of the total adjusted budget (i.e. total actual expenditure).
- Establish in how many years the percentage points exceeded 5, 10 or 15, and go to the scoring PI-2 table to determine the final score.

General Clarifications

PI-2 Query/Issue		Clarification
2-a	**What years should be included in the assessment** of this indicator? Example: During one of the last three years the country had a constitutional/political crisis, which meant that government was unable to function for half of the year. Can that year be excluded from the three year data set and be replaced by the year before the last three-year period?	The assessment already takes into account the existence of an abnormal or "outlier" year, out of the three most recent fiscal years in the following way. The indicators require calculation of the deviation for each of those three years. The scoring for 'A', 'B' and 'C' is then specified in such a way as to allow one of the years to be an "outlier", and as long as the other two years are within the specified limits the score is justified. In the example, if the deviation in the crisis year is bigger than the other two years, then the crisis year becomes the "outlier". The score that is then given will depend on which limits the other two years fall within. It is of no importance for the indicator what the reason for the "outlier" may be (be it international commodity markets, natural disasters, political crisis, poor budget discipline or no data on which to calculate the deviation).
2-b	Are there any **limitations on the deviation from the budgeted amounts for the "outlier"** year?	There are no limits on the deviation between budget and actual in an outlier year.
2-c	Last year the legislature failed to approve the budget within the timeframe fixed by the Constitution. As a consequence the previous year's budget was carried over to cover last year. Midway during the year, the **government introduced a revision to the "carried over" budget and that revision was approved by the legislature**. Shall that budget revision be considered as the "originally approved" budget to be compared to the actual expenditure and revenue?	It is crucial that the "original approved budget" for calculation of budget outturns is the budget on which budget execution started and on which budget responsible and service delivering entities would have to make their annual plans and commence implementation. The budget approved in mid-year cannot therefore be considered the originally approved budget. When there is such a situation, with no originally approved budget, the deviation cannot be calculated. When the deviation cannot be calculated, the year can be considered an "outlier", ref. above.
2-d	Should **projects funded by donors** be included in the calculation of PI-2, if budget execution reports do not distinguish between domestic and donor-financed projects?	Such projects should be included in the calculation if donors are financing less than 50 percent by value of all development expenditure, and should be excluded if donors are financing more than 50 percent. An explanatory note should be provided in the narrative.
2-e	Should **"exceptional" expenditures** (such as those that may be incurred after a civil war or a natural catastrophe) be included in the calculation of PI-2?	They should be included and noted in the supporting tables and text. Repeat assessments may then pick up on any progress that has been made since the incurrence of the exceptional events.

2-f	How should unpredictable **privatisation proceeds** be treated in scoring PI-2?	The answer is the same as with other types of "windfall" income. It has to be included in the calculation of indicator PI-2. If the spending of these proceeds results in lower ratings than if the spending had been excluded, then this can be referenced in the narrative, including the summary assessment. The reason is that spending unplanned windfall gains by increasing the budget allocations during the year easily leads to poorly planned investment , but perhaps more significantly to rushed procurement processes or implementation schedules (to spend the money before year-end) with loss of value for money as a consequence. The narrative could comment on mitigating measures taken to ensure proper investment planning (such as a well defined investment pipeline prepared during the budgeting process) and value for money. In principle, the government could simply save the money for the time being and budget for its expenditure in the following years, following the full expenditure planning and implementation cycle. It could also be used to pay off debt, if debt levels are a concern. If the spending of the privatisation proceeds has not been budgeted for in the first place (as the proceeds were an unexpected windfall gain), then there is no legal necessity to spend them before the end of the financial year (though there may be political pressure to do so).
2-g	Should **central government subsidies and transfers** of any kind feed into the calculation of PI-2?	Yes. For PI-2, a large magnitude of subsidies and transfers - and a large difference between actual and budgeted amounts - will impact the quality of the services being financed by these allocations. In the case of variances between budgeted and actual transfers to sub-national governments, indicator PI-8 dim (ii) would supplement the information in PI-2. A sub-national government PEFA assessment would indicate such an impact in more detail. In order to assess the credibility of central government MDA budgets alone, an alternative calculation could score PI-2, excluding subsidies and transfers. But this calculation should be noted as a supplement to the main rating, not an alternative.
2-h	Can PI-2 be scored on the basis of **annual accounts that have yet to be audited**?	It is quite normal for scoring of quantitative indicators to be scored partially on the basis of unaudited accounts, as accounts for the most recent year(s) may still be awaiting audit. The unaudited accounts can be used with reasonable assurance if previous audited accounts indicate insignificant differences from the unaudited accounts. In the absence of such assurance (because accounts have not been audited for several years, or that there are non-systematic and significant differences each year), it is recommended that the existing data be used, but with the proviso that the assessment is preliminary and should be updated after accounts have been audited.

Dimension (i) Extent of the variance in expenditure composition during the last three years, excluding contingency items

Key questions
(None)

Coverage	Budgetary central government.
Critical period/time	Last 3 FYs completed.
Quantifiable data required	Actual and budgeted expenditure for each of the main functional classifications or for each of the 20 largest budget heads in the administrative classification: if a program classification is used at main function (i.e. COFOG) level, the number of heads will be 10. Should the number of main budget heads exceed 20, the composition variance shall 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. This data is needed for each of the last three FYs.
Information sources	MOF (if possible, same source for original budgets and actual expenditure).

Rating criteria

A. Variance in expenditure composition exceeded 5% in no more than one of the last three years.
B Variance in expenditure composition exceeded 10% in no more than one of the last three years.
C Variance in expenditure composition exceeded 15% in no more than one of the last three years.
D Variance in expenditure composition exceeded 15% in at least two of the last three years.

Clarifications

PI-2	Query/Issue	Clarification
2-i	The following information was received regarding '**contingencies'**: *"Please note that we don't have any code called 'Contingency' in our budget classification system. However, we do put money centrally for unanticipated circumstance in 'Unexpected Allocation' head within the MoF. This money is distributed among different Ministries as per special requirement throughout the year which is adjusted within their appropriation in the revised budget. Therefore in the revised budget, allocations in the 'Unexpected Allocation' head have reduced substantially".* As there is no direct spending from this and it is allocated during the year, would it be correct to say that **one need not take it off from the aggregate original budget,** since it is allocated to the line entities any way? If so, then one does not have a dim (ii).	An 'Unexpected Allocation' is a contingency (in some countries it might simply be called a 'Reserve'). Hence the answer is 'No', and the treatment would be: for Dim (i) Remove 'unexpected allocation' head in MoF from calculation; for Dim (ii) The revised budget is irrelevant. The note implies that virement is used, and that the amount likely to be ***charged directly*** against 'unexpected allocation' head is likely to be small, so using the criteria to score may result in 'A'.

2-j	What would be the score of dimension (i) if the **variance exceeded the deviations** by no more than 5% in one year, and by more than 5% but less than 10% in the other two years (e.g. by 0%, 6% and 9% respectively)?	The score should be ‘B’ because two years were above 5% (so not ‘A’) but not more than one year (in fact none) exceeded 10%.

Dimension (ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

Key questions
(None)

Coverage	Budgetary central government.
Critical period/time	Last 3 FYs completed.
Quantifiable data required	Actual expenditure charged to the contingency heading (either as a separate vote, or as a sub-vote under the Ministry of Finance, with a clearly marked title such as “contingency reserve”) for each of the last three fiscal years.
Information sources	MOF

Rating criteria

A. Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.
B Actual expenditure charged to the contingency vote was on average more than 3% but less than 6% of the original budget.
C Actual expenditure charged to the contingency vote was on average more than 6% but less than 10% of the original budget.
D Actual expenditure charged to the contingency vote was on average more than 10% of the original budget.

Clarifications

PI-2	**Query/Issue**	**Clarification**
2-k	In dimension (ii) how do you calculate the **average percentage of contingency** over the last three years?	A simple average is sufficient, e.g. if the percentages of actual expenditure charged to the contingency vote to the original total budget were 2%, 4% and 6%, the average would be 4%, which is rated ‘B’.
2-l	Dim (ii) If there are **no contingency funds in the budget**, and there is no accounting or any kind of official reference to contingency expenditures, how can dim (ii) be rated?	As there is no expenditure charged to contingency, this would appear to meet the requirement for an 'A' rating.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**C**	
Variance was: 19.3% in 2007/08 (old method 16%); 14.9% in 2008/09 (old 4.1%); 30.8% in 2009/10 (old 17.4%).	D	(i) Variance in expenditure composition exceeded 15% in at least two of the last three years	Accountant-General's Dept – figs not audited for 2009/10.		There has been deterioration in Dim (i) since 2006, which would be 'D' in either the old or new scoring methodology. Whether it is an aberration is hard to tell. The budget is actively monitored in January–April of each fiscal year. This allows funds to be moved between Ministries to address poor fund utilization. This may potentially undermine any strategic allocation decisions made at the beginning of the year.
Actual expenditure to the contingency vote was on average nil in the last three years.	A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.	As above.		*(new dimension)*

PI-3 Aggregate revenue out-turn compared to original approved budget.

An accurate revenue forecast is a key input to the preparation of a credible budget. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations and to larger fiscal deficits should spending not be reduced in response to an under-realization of revenue. On the other hand, pessimism in the forecast can result in the proceeds of an over-realization being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of under-realization are more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing revenue over-realization.

It is recognized that the revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of the forecast, such as a major macroeconomic shock. For this reason, the calibration allows for one unusual or 'outlier' year to be excluded by focusing on significant deviations from the forecast which occur in two or more of the three years covered by the assessment.

The indicator is limited to domestic revenue, which may include 'windfalls' such as proceeds from the sale of assets.

The narrative to support the rating should:

- describe the sources of data (which will normally be drawn from budget execution reports or annual financial statements), noting any concerns about their suitability and reliability;
- provide background information on the institutional arrangements for revenue forecasting;
- note any special factors that affect revenue composition, forecasts, and performance (e.g., dependence on revenue from natural resource; sources of economic and revenue volatility; significant tax reforms; unanticipated macroeconomic developments; 'windfalls'); and,
- discuss any inter-dependence between PI-3 and other indicators, especially PI-1 (expenditure out-turns) and D-1 (direct budget support, which includes external revenue and concessional loans).

Dimension to be assessed (Scoring method M1):

(i) Actual domestic revenue compared to domestic revenue in the originally approved budget.

Points to note:

The same source for budgeted & actual revenue amounts should be used.

Issues to be discussed in the narrative

- describe the sources of data (which will normally be drawn from budget execution reports or annual financial statements), noting any concerns about their suitability and reliability;
- provide background information on the institutional arrangements for revenue forecasting;
- note any special factors that affect revenue composition, forecasts, and performance (e.g., dependence on revenue from natural resource; sources of economic and revenue volatility; significant tax reforms; unanticipated macroeconomic developments; 'windfalls'); and,
- discuss any inter-dependence between PI-3 and other indicators, especially PI-1 (expenditure out-turns) and D-1 (direct budget support, which includes external revenue and concessional loans).

Dimension (i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget

Key questions

1. Is data on budgeted & actual domestic revenue (tax revenue & non-tax revenue) for the last 3 FY readily available?
2. Is the data disaggregated by major revenue head?
3. Where is this data exactly located and in what form (hard copies, electronic)?

Coverage	Budgetary central government.
Critical period/time	Last 3 FYs completed.
Quantifiable data required	Actual domestic revenue collected as a percent of budgeted domestic revenue for each of the last three fiscal years.
Information sources	As for PI-1. In addition information on the main sources of revenue may also be available from the Revenue Authorities, although they may not be responsible for departmental revenues, on which data are also required.

Rating criteria

A. Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years.
B Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years.
C Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the last three years.
D Actual domestic revenue was below 92% or above 116% of budgeted domestic revenue in two or all of the last three years.

Clarifications

PI-3 Query/Issue		**Clarification**
3-a	**What years should be included in the assessment?** Example: During one of the last three years the country had a constitutional/political crisis, which meant that government was unable to function for half of the year. Can that year be excluded from the three year data set and be replaced by the year before the last three-year period?	The assessment already takes into account the existence of an abnormal or "outlier" year, out of the three most recent fiscal years in the following way. The indicators require calculation of the deviation for each of those three years. The scoring for A, B and C is then specified in such a way as to allow one of the years to be an "outlier", and as long as the other two years are within the specified limits the score is justified. In the example, if the deviation in the crisis year is bigger than the other two years, then the crisis year becomes the "outlier". The score that is then given will depend on which limits the other two years fall within. It is of no importance for the indicator what the reason for the "outlier" may be (be it international commodity markets, natural disasters, political crisis, poor budget discipline or no data on which to calculate the deviation).
3-b	Are there any **limitations on the deviation from the budgeted amounts for the "outlier"** year?	There are no limits on the deviation between budget and actual in an outlier year.

3-c	Last year the legislature failed to approve the budget within the timeframe fixed by the Constitution. As a consequence the previous year's budget was carried over to cover last year. Midway during the year, the **government introduced a revision to the "carried over" budget and that revision was approved by the legislature**. Shall that budget revision be considered as the "originally approved" budget to be compared to the actual expenditure and revenue?	It is crucial that the "original approved budget" for calculation of budget outturns is the budget on which budget execution started and on which budget responsible and service delivering entities would have to make their annual plans and commence implementation. The budget approved in mid-year cannot therefore be considered the originally approved budget. When there is such a situation, with no originally approved budget, the deviation cannot be calculated. When the deviation cannot be calculated, the year can be considered an "outlier", ref. above.
3-d	How should unpredictable **privatisation proceeds** be treated in scoring PI-3?	The answer is the same as with other types of "windfall" income. It has to be included in the calculation of indicators PI-3. If the spending of these proceeds results in lower ratings than if the spending had been excluded, then this can be referenced in the narrative, including the summary assessment. The reason is that spending unplanned windfall gains by increasing the budget allocations during the year easily leads to poorly planned investment , but perhaps more significantly to rushed procurement processes or implementation schedules (to spend the money before year-end) with loss of value for money as a consequence. The narrative could comment on mitigating measures taken to ensure proper investment planning (such as a well defined investment pipeline prepared during the budgeting process) and value for money. In principle, the government could simply save the money for the time being and budget for its expenditure in the following years, following the full expenditure planning and implementation cycle. It could also be used to pay off debt, if debt levels are a concern. If the spending of the privatisation proceeds has not been budgeted for in the first place (as the proceeds were an unexpected windfall gain), then there is no legal necessity to spend them before the end of the financial year (though there may be political pressure to do so).
3-e	Can PI-3 be scored on the basis of **annual accounts that have yet to be audited**?	It is quite normal for scoring of quantitative indicators to be scored partially on the basis of unaudited accounts, as accounts for the most recent year(s) may still be awaiting audit. The unaudited accounts can be used with reasonable assurance if previous audited accounts indicate insignificant differences from the unaudited accounts. In the absence of such assurance (because accounts have not been audited for several years, or that there are non-systematic and significant differences each year), it is recommended that the existing data be used, but with the proviso that the assessment is preliminary and should be updated after accounts have been audited.
3-f	How should PI-3 be scored if the government is using the GFS 2001 manual, which counts only **current revenues** above the line?	PI-3 covers all domestic revenue, whether current or capital, irrespective of the use of GFS 1986 or GFS 2001 or the calculation of the deficit. Thus it includes capital receipts from the sale of assets and privatization proceeds.
3-g	Some **departmental revenues are off budget**, and not included in revenue and expenditure reports. How are these treated?	In principle, all domestic revenues should be included in the assessment of PI-3. If some departmental revenues are not reported, they should be estimated in the assessment of PI-7 (i) and the narrative under PI-3 should make a cross reference to this.

3-h	The collections of some **revenue items are shared** between the central and local governments. In a central government assessment, what is included in PI-3?	If the revenues pass through the CG budget they should be included. However, if they are "shared" before they reach CG accounts/funds then – since the budget will not reflect the estimated revenue nor any spending out of the LG share of the revenue – they should be excluded.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Actual domestic revenue collection was 95% in 2008; 92% in 2009; & 96 % in 2010 of budgeted revenue estimates, & would rate as 'B' under either the old or new methodology.	**B**	i) Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years.	MOF Accounting Division, confirmed by figures from FMIS.	**C**	This is an improvement on both the old and revised criteria: previous deviations were: 93% in 2005; 89% in 2006 & 91% in 2007.

PI-4 Stock and monitoring of expenditure payment arrears.

Expenditure payment arrears are expenditure obligations that have been incurred by government, for which payment to the employee, supplier, contractor or loan creditor is overdue, and constitutes a form of non-transparent financing. A high level of arrears can 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. Expenditure arrears assume that the outstanding payment is due under a specific legal obligation or contractual commitment, which the government has entered, and may include due but unpaid claims for salaries, pensions, supplies, services, rents, interest on domestic and external debt. Delays or reductions in transfers of subsidies and grants to autonomous government agencies and other levels of government would not constitute arrears unless they are part of a legal obligation (specifying amount and timing of each payment) or contractual agreement. A provision for a transfer in the annual budget law or appropriations act would not in itself constitute a legal obligation. Unpaid amortization of loan principal is not considered an arrear for this indicator, since amortization is not expenditure, but a financing transaction.

Local regulations or widely accepted practices may specify when an unpaid claim becomes in arrears. If such a local practice is applied in measuring the stock of arrears, then its content and basis should be described in the narrative. The default for the assessment, however, would be internationally accepted business practices according to which a claim will be considered in arrears if payment has not been made within 30 days from government's receipt of supplier's invoice/claim (for supplies, services or works delivered), whereas the failure to make staff payroll payment or meet a deadline for payment of interest on debt immediately results in the payment being in arrears.

This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which the systemic problem is being brought under control and addressed. While special exercises to identify and pay off old arrears may be necessary, this will not be effective if new arrears continue to be created (payments due during the last year but not made). Most fundamentally, however, is the assessment of the existence and completeness of data on arrears, without which no assessment can be made.

Dimensions to be assessed (Scoring method M1):

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.

(ii) Availability of data for monitoring the stock of expenditure payment arrears.

Point to note:

The framework allows local practice and local definitions in the calculation of payment arrears, but the definition must be included in the report.

Dimension (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

Key questions

1. What are the existing legislation and regulations referring to arrears?
2. To which extent are they respected in practice?

Coverage	Budgetary central government.
Critical period/time	End of last FY before assessment.
Quantifiable data required	Level of expenditure arrears (preferably at end of last fiscal year) as a percentage of total expenditures (for the last fiscal year). Change in level of expenditure arrears during the last fiscal year (or similar period)
Information sources	Treasury, Budget entity, Debt Management Unit

Rating criteria

A The stock of arrears is low (i.e. is below 2% of total expenditure)
B The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years.
C The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years.
D The stock of arrears exceeds 10% of total expenditure.

Clarifications

PI-4 Query/Issue		Clarification
4-a	In the situation where a new government has come to power in the wake of a civil war and/or major tragedy and **inherits a large stock of payments arrears**, should these be included in the definition of arrears?	Such arrears should still be included in the arrears data for the indicator rating. At some point, the new government may choose to convert the arrears into formal debt or seek funds to pay them off. The text in the assessment report should comment on this type of special situation.

4-b	The concept of payment arrears as explained in PI-4 does not seem to be adaptable to the way arrears are defined and accounted for in most francophone countries, leading to systematic D scores for both dimensions or no score. **How could the indicator be usefully applied in a francophone context**?	The Framework emphasizes the notion of "overdue payment" to evaluate the stock and monitoring of expenditure payment arrears. PEFA does not define the period after which a payment is to be considered overdue but states that "*local regulations or widely accepted practices may specify when an unpaid claim becomes in arrears".* The period of three months specified by the UEMOA for instance must be considered when applying the Framework in member countries, even if some experts consider this period too long compared with internationally accepted business practices (30 days). The starting point of this period is also left unspecified by the Framework. In most francophone countries, the period runs from the acceptance of the payment order (*mandat)* by the Treasury (*prise en charge*) and not from when the good or service is delivered and the invoice sent. The period between the reception of goods and services (*liquidation*) and the acceptance to pay by the Treasury may be long; it is at the discretion of the Treasury and is not accounted for when measuring the flow of arrears. This creates a difficult situation because if the Treasury fixes the starting point, it means that the government itself decides when a valid claim from the private sector becomes a debt. On the other hand, the notion of "due payment" is to be understood "*under specific legal obligation or contractual commitment, which the government has entered*" and the legal and contractual context in most francophone countries is one that accepts that a payment claim to the Treasury becomes valid when the Treasury has accepted it. The only criterion here is the practice of commercial courts. When a provider raises a claim against the government, what period does the judge take into account to calculate the payment delay? This period should be considered when applying PI-4.
4-c	Dimension (i): what is **'total expenditure'** on which the percentage of arrears is calculated? Is it total expenditure and net lending per GFS, or total net of foreign funded project expenditure, since the latter does not pass through government systems or into arrears records? Is interest included, unlike PI-1 and 2? This can make a significant difference to the percentage.	If there are arrears on foreign funded projects and the expenditure has not passed through country systems, they should be excluded. Otherwise, interest should be included in the expenditure arrears calculation, as it can also be in arrears. There is nothing indicating that PI-4 needs to have the same quantitative base as PI-1 and PI-2 where interest is removed for reasons specific to the outturn calculation.

Dimension (ii) Availability of data for monitoring the stock of expenditure payment arrears.

Key questions

1. Is there any reliable data on the stock of arrears for the last 2 years?
2. If yes, where is this data available and in what form (hard copies, electronic)?
3. Is this data broken down over arrears to employees, suppliers/contractors, interest on debt, others?
4. Has this data been generated by at least 1 comprehensive & ad hoc exercise within the last 2 years? OR
5. Is the data on the stock of arrears generated annually & likely not complete for a few identified expenditure categories or specified budget institutions? OR
6. Is reliable & complete data on the stock of arrears generated through routine procedures at least at the end of each FY (including an age profile)?
7. Which entity (s) are involved in this exercise?

Coverage	Budgetary central government.
Critical period/time	End of last 2 FYs.
Quantifiable data required	
Information sources	Treasury, Budget entity, Debt Management Unit

Rating criteria

A Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).
B Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.
C Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.
D There is no reliable data on the stock of arrears from the last two years.

Clarification

PI-4 Query/Issue		Clarification
4-d	How should dimension (ii) be scored if there are **no arrears** because: (i) financial regulations explicitly rule out arrears; and (ii) prudent controls ensure that bills are paid before year-end?	An A rating is justified as long as it can reasonably be demonstrated that the control systems are complete and fully functioning, and that reliable and complete information is available to suggest the amount of arrears is nil.
4-e	Should a 'D' score on dim (ii) due to a **lack of reliable data** automatically lead to a 'D' overall?	No: if there is no reliable data on the stock of arrears, then the score of dim (ii) will be 'D'. However, although this may suggest that the information required for dim (i) is not reliable, Assessors may be able to find sufficient evidence to enable a rating to be allocated.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B			**D+**	
Consolidated Accounts show arrears to domestic suppliers as part of domestic debt. This is outstanding balance of arrears up to 2004, since when all payments have been centralised. The arrears at that time were verified by 2007 & most have been paid, with 5.5 bn outstanding at end of 2009. No further arrears have been created (see PI-20 (i)). There are no arrears of interest, or other known arrears. Arrears at 30 June 2009 were 7.8 bn, which is 4.9% of total expenditure that year. This is a significant reduction end of 2007, when arrears were 18.4 bn, 18.6% of expenditure.	B	i) The stock of arrears constitutes 2-10% of total expenditure; & there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years.	Trial balance sheets for end-2006/07-2008/09, trial balance sheet for end of first quarter of 2009/10 & budget performance reports for these 3 years. Provided by Accounting Division.	D	At the end of 2004/05, arrears to suppliers and retired civil servants were 31.7 bn, which represented over 40% of expenditure that year. The improvement in performance has been the result of tighter control of commitments through the Public Finance Act.
Arrears are listed on an Excel spreadsheet by the Debt Management Unit, & adjusted as they are paid off. The gross total includes inter-ministry debt. The balances are not analyzed by age.	B	(ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.	As above.	C	Rollout of FMS to all MDAs.

PI-5 Classification of the budget.

A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional and program. Where standard international classification practices are applied, governments can report expenditure in GFS format and track poverty-reducing and other selected groups of expenditure. The budget will be presented in a format that reflects the most important classifications (usually administrative combined with economic, functional and/or programmatic) and the classification will be embedded in the chart of accounts to ensure that all transactions can be reported in accordance with any of the classifications used.

In countries where a poverty reduction strategy is a core element in the government's overall policy framework, the definition of poverty reducing expenditure is normally linked directly to the classification of the budget.

The international standard for classification systems is the Government Finance Statistics (GFS) which provides the framework for economic and functional classification of transactions. Under the UN-supported Classification of Functions of Government (COFOG), which is the functional classification applied in GFS, there are ten main functions at the highest level and 69 functions at the second (sub-functional) level.

No international standard for programmatic classification exists, and this type of classification is used in widely deviating ways across countries. However, program classification can be an important tool in budget formulation, management and reporting (ref. indicator PI-12), and the way in which is it applied should be explained in the narrative if the highest score is assigned on this basis.

Dimension to be assessed (Scoring method M1):

(i) The classification system used for formulation, execution and reporting of the central government's budget.

Points to note:

Reports often only refer budgetary classification for "formulation", but execution and reporting are part of the requirement.

Dimension (i) The classification system used for formulation, execution and reporting of the central government's budget.

Key questions

1. Is budget formulation & execution based on administrative, economic & functional classification?
2. If not, what types of classification are not possible?
3. Is any economic classification compatible with GFS (1986 or 2001 manuals)?
4. Is any functional classification compatible with UN-COFOG to main function level, or to sub-function level, or to program level?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	Requires review of types of classification actually in use in budget documents and chart of accounts.
Information sources	Budget books provided by the Budget entity for the last completed FY

Rating criteria

A. The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)

B The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.

C The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.

D The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

Clarifications

PI-5 Query/Issue		**Clarification**
5-a	Should the assessment be based on adherence to the **classifications** in the GFS 2001 Manual or is classification according to the GFS 1986 Manual equally acceptable?	The issue at hand is if the government's budget classification system is consistent and sufficiently disaggregated to ensure effective management of the budget. The functional and economic classifications in both the 1986 and 2001 GFS manuals represent such consistent and disaggregated systems and should therefore be treated as equally fulfilling the requirements for scoring of the indicator.
5-b	What is meant by "a standard that can produce **consistent documentation** according to these standards"?	If the classification is not directly based on the GFS standard, but is converted to GFS, there will often be an assessment by the IMF as to the ability of this conversion to produce consistent GFS compatible statistical reports. A consistent conversion is typically based on a standard bridge table between the classification used and the GFS system. A need for reclassification of expenditure, by splitting accounting entries under a particular accounts code into different codes in the GFS system, indicates that there is a high risk of inconsistency (unless such cases concern insignificant amounts).
5-c	What is meant by "**used for formulation, execution and reporting**"?	The important factor in the assessment is the existence of a budget classification and a chart of accounts that are directly aligned, so that government accounts, budget execution reports and other budget execution data can be produced with a break-down that corresponds to the documentation for the proposed and approved budget. PI-24 (i) assesses if the budget execution reports actually presents such compatible information.

5-d	How should a "**development budget**" be scored, when it consists of a mix of administrative, economic, and functional/program classifications (or sub-functional /sub-program)?	The clarifications mentioned above partially address this query. The main issues are the degree of consistency and the sufficiency of disaggregation. Classification by Projects usually represents a narrow type of program classification. It may be the case that the economic and program classifications are not used consistently (e.g. some items classified as projects, others as purchases of assets such as equipment not connected to a project). When making the overall judgment for the indicator it will be necessary to decide whether inconsistent elements in the capital/development budget represent a significant share of the budget (and to state that share for future tracking of change). The score can reflect the separate scorings of recurrent and capital expenditure weighted by the proportions of recurrent and capital/development expenditure to total expenditure. For example, if recurrent expenditure scores A and represents 75% of the budget and capital/development expenditure scores D, then the overall score would be B (rounding down from scores between two grades).
5-e	The **classification used** by the government in the Poverty Reduction strategy does not exactly match the COFOG standard: does this automatically require a 'C' rating?	No: LICs are likely to use their own PRSP functional classification, for example, to identify expenditure on water and sanitation, which is not recognised in COFOG (which is used mainly for international reporting). 'A' and 'B' requirements can be considered satisfied provided a country uses a functional classification in its budget and accounts, and there is evidence (in the form of a print out) of a bridging table used to convert this into a COFOG classification for reporting to the IMF for GFS purposes.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Budget formulation & execution is presented in summary form in accordance with economic & functional classifications using GFS/COFOG standards. The detailed budget formulation & execution is presented on the administrative classification, broken down by programme & sub-programme.	**B**	i) The budget formulation and execution is based on administrative, economic and functional classification using at least the 10 main COFOG functions, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.	Budget Manual, January 2009 Chart of Accounts, May 2008. Budget Guide, 2009, prepared by Budget Reform Team	**C**	Compared with 2006, performance has improved with the more effective use of functional and programmatic classifications.

PI-6 Comprehensiveness of information included in budget documentation.

Annual budget documentation (the annual budget and budget supporting documents), as submitted to the legislature for scrutiny and approval, should allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the following elements:

1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.
3. Deficit financing, describing anticipated composition.
4. Debt stock, including details at least for the beginning of the current year.
5. Financial Assets, including details at least for the beginning of the current year.
6. Prior year's budget outturn, presented in the same format as the budget proposal.
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

Dimension to be assessed (Scoring method M1):

(i) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).

Points to note:

Requires review of types of information included in actual budget documentation

Dimension (i) Share of the 9 elements listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).

Key questions

Does the annual budget documentation (annual budget & budget supporting documents), as submitted to the legislature for scrutiny & approval include 9 elements?

Coverage	Budgetary central government.
Critical period/time	Last budget presented to legislature.
Quantifiable data required	Requires review of the types of information included in actual budget documentation.
Information sources	Latest budget & supporting documents presented to the legislature

Rating criteria

A. recent budget documentation fulfils 7-9 of the 9 information benchmarks
B recent budget documentation fulfils 5-6 of the 9 information benchmarks
C recent budget documentation fulfils 3-4 of the 9 information benchmarks
D recent budget documentation fulfils 2 or less of the 9 information benchmarks

Clarifications

PI-6	Query/Issue	Clarification
6-a	References to the **'current year' and 'prior year'** are confusing: how should they be interpreted?	The reference to 'current year' refers to the year in which the budget is being prepared, which is 'Budget year minus 1', and the 'prior year' is 'budget year-2'.
6-b	If certain documentation (e.g. details of financial assets and debt stock at the beginning of the year) is **not part of the documentation submitted to the legislature**, but it is already available to the legislature through e.g. the audited financial statements, would that be considered as fulfilling the benchmark?	The important issue to consider is whether that information is available to the members of the legislature at the time of reviewing the budget proposals. If that is done through another regular and official report (which can be considered as "supporting documentation" to the budget), it will count towards fulfilling the requirement.
6-c	The MoF presents general government data to the legislature without separation of central government from local government. As the presentation of **information for general government is of greater utility than information on central government only**, can this be used for rating this indicator?	Although this is not strictly consistent with the methodology, in the event that central government is not separable from data on general government (as is often the case in unitary states), this can allowed in the rating but must be clearly stated in the narrative.

6-d	Element 3. Whereas, it may be possible to obtain information as to the extent to which the deficit is financed domestically and externally it is not always possible to get further break downs. **What is the level of detail required** for this element?	It is good practice that the budget document describes the expected composition of deficit financing in terms of domestic borrowing, external borrowing (preferably including identification of concessional loan financing) and sale of assets (if appropriate); at least in net terms only. Other information, such as duration, interest, holder of the debt, and gross figures, while desirable, would be beyond the requirements of this indicator.
6-e	Element 6 and 7. When the indicator refers to "the **same format as the budget proposal**", does that mean the same level of detail for all line items' prior and current year's outturn or only the aggregates?	The requirement for these two dimensions is that prior year and/or current year estimates/outcomes are presented at a detailed level for all budget lines in the budget proposal (e.g. so that expenditure by economic codes can be tracked over time for each department etc.). There could be an exception in that some governments prepare budgets disaggregated to economic sub items, and present them in a separate (voluminous) budget document due to the immense level of detail (e.g. every type of personal allowance itemized for each department, every type of utility expense for each department etc.). It could be accepted that this kind of very detailed information may not be presented for prior year and/or current year. In PI-6 element 8, the criterion is meant to reflect if the reader (parliamentarian) is able to understand changes in expenditure allocations and sources of revenue during the same three years and relate this to government policy. To that effect, comparable figures for prior year, current year and budget year proposed estimates should be presented at an aggregated level for all major lines in the budget classification i.e. in particular by budget head, vote of the administrative classification, by main economic classification codes and by any main functions and/or program records used in the budget proposal, if any. There could be overlap between the elements 6, 7 and 8, but not necessarily. The main difference between the elements is that element 8 asks for aggregates only and these aggregates may be presented separately for administrative codes, economic codes, functional codes and program codes. Elements 6 and 7 would normally show aggregation according to the administrative classification (and these aggregates may not necessarily be pulled together in an overview), but not for any other type of classification.
6-f	Element 8. Could you clarify what in practical terms is meant by "**revenue by main heads of the classification** used (PI-5)"?	Revenue classification: Revenue is usually also presented in the budget in accordance with a classification system, whether this is GFS compatible or not. If the government follows the GFS economic classification, the main heads can be extracted from the GFS 2001 manual page 178.
6-g	Element 9. What are the **typical requirements** for satisfying the compliance of this element?	Typically, fulfillment of this requirement would mean that the revenue impact is estimated and presented for each change in revenue measures (e.g. change in a tax rate, expanded coverage of a duty, introduction of a new tax credit, abolition of primary school fees) and similarly on the expenditure side that the estimated impact of the major policy related changes in expenditure are presented (e.g. a reform of civil service remuneration, the impact of a debt relief initiative, the cost of additional teachers, books etc due to increasing primary school enrolment as a result of abolishing school fees, or a change in agricultural input subsidies).

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Recent budget documentation fulfils 6 of 8 benchmarks. No debt exists, & hence criteria 4 cannot be assessed, so total number of criteria has been reduced to 8.	**A**	Recent budget documentation fulfils 7-9 of the 9 information benchmarks		**B**	Previous assessment scored this indicator as 'B' because the previous years' data was excluded. Budget documentation now more comprehensive.
	Yes	*Macro-economic assumptions, including estimates of aggregate growth, inflation & exchange rate*	*Book 1 of General Budget of the State & State Plan for 2010.*		
	Yes	*Fiscal deficit, defined according to GFS or other internationally recognized standard*	*Book 1 of General Budget of the State & State Plan for 2010.*		
	Yes	*Deficit financing, describing anticipated composition*	*Book 1 of General Budget of the State & State Plan for 2010.*		
	N/A	*Debt stock, including details at least for the beginning of the current year*	*There is no public debt, but the legal provision for public borrowing is clear.*		
	No	*Financial Assets, including details at least for the beginning of the current year.*	*Information on financial assets is included in the final reports.*		
	Yes	*Prior year's budget outturn, presented in the same format as the budget proposal*	*Both revenues and expenditure outturns are presented in Book 1.*		
	Yes	*Current year's budget (either revised budget or the estimated outturn), presented in the same format as the budget proposal*	*Approved budget or estimated outturn is included in Book 1 of General Budget of the State and State Plan for 2010.*		
	Yes	*Summarized budget data according to main heads, including data for current & previous year*	*Book 1 of General Budget of the State & State Plan for 2010.*		
	No	*Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact*	*No information is provided on new policies.*		

PI-7 Extent of unreported government operations.

Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public, should cover all budgetary and extra-budgetary activities of central government to allow a complete picture of central government revenue, expenditures across all categories, and financing. This will be the case if (i) extra-budgetary operations (central government activities which are not included in the annual budget law, such as those funded through extra-budgetary funds), are insignificant or if any significant expenditures on extra-budgetary activities are included in fiscal reports, and if (ii) activities included in the budget but managed outside the government's budget management and accounting system (mainly donor funded projects) are insignificant or included in government fiscal reporting.

While donor project funding is partially outside government control (particularly for inputs provided in-kind i.e. supplied and paid under contracts to which the government is not a party), MDAs in charge of implementing donor funded projects should at least be able to provide adequate financial reports on the receipt and use of donor funding received in cash. Donors' assistance to the government in providing full financial information on project support (including inputs in-kind) is assessed in indicator D-2.

Dimensions to be assessed (Scoring method M1):

(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.

Points to note:

1. It is necessary to identify the agencies that are outside the budgetary system (i.e. their budgets and actual income and spending do not appear in the government's budgetary documents). This should be reasonably easy to do, as they are typically few in number and are well-known (e.g. Social Security agency).
2. The Auditor General and Ministry of Finance (or other parent ministry) may have information on income and expenditure of the extra-budgetary operations (it is possible that the information is available, but is not reported in fiscal reports).
3. Request meetings with the heads of the agencies through which the main extra-budgetary operations are occurring.
4. Some of the extra budgetary operations may be occurring through the retention and spending of non-tax revenue by agencies. The MoF may have information on this, based on knowledge of the rates and the amount of activity, and perhaps on the basis of internal reports sent by these agencies.
5. Other possible sources might be:
   - IMF information/statistics (GFS Yearbook, ROSC reports, Article IV, TA reports);
   - World Bank PER (Note: some PER look into extra-budgetary issues);
   - Tax authorities;
   - Line ministers overseeing EBA;
   - MDAs that collect revenues /fees and the bank accounts they maintain for such revenues;
   - Central Bank (which has supervisory oversight of the commercial banks).

General Clarifications

PI-7	Query/Issue	Clarification
7-a	The rating criteria refer to expenditure: **what about Revenue**?	The title of the PI-7 is very clear: '**Extent of unreported government operations',** which would normally be understood to include **both** expenditures and revenues. In addition, the first paragraph of the Guidelines (Bluebook) explains that the dimension refers to activities, therefore to **both** expenditures and revenues: extra-budgetary revenues are as much an anomaly as extra-budgetary expenditures.

7-b	The calibration of this indicator depends on the percentage of total expenditure that is unreported. **What counts as reported and unreported**?	The guidance states that the annual budget estimates, in year budget execution reports, annual financial statements, and other fiscal reports should cover all expenditure of central government. For the purpose of the calibration, expenditure should be reported both ex-ante (budget estimates) and ex-post (actual expenditure) in the mentioned fiscal reports in order to be counted as "reported". "Other fiscal reports" should, in fact, not be considered for the assessment of this indicator, since the three specified standard reports should contain the necessary information. Expenditure is "reported" if it is included in the fiscal reports, either by consolidation with other central government expenditure, or is shown in a separate section or annex of the document, or shown in a separate document presented to the legislature and published at the same time as the fiscal reports. Expenditure is therefore unreported when it fails to be captured in the fiscal reports.
7-c	What is meant by "**government operations**"? Do these include special funds, social security funds, parastatals etc?	This indicator applies to central government as defined by IMF-GFS, which excludes regional states or local authorities (i.e. sub-national government entities which are assessed under PI-8) and public business enterprises. In GFS terminology, central government comprises all units at the central level carrying out government policies. This includes not only the MDAs that operate as part of the government as a single reporting entity, but also non-market non-profit institutions that are controlled and mainly financed by government. Most special funds, social security funds and other autonomous agencies are likely to fall within this definition, except public business enterprises. Total expenditure includes the expenditure and net lending of all bodies making up central government as defined for indicators PI-1 and PI-2. Where there are many extra-budgetary agencies, the largest ones (in particular those with the largest revenue other than transfers from the central government) need to be identified and their expenditure in the most recent, completed accounting year ascertained in order to estimate the order of magnitude of their omission. When evaluating dimension (i) it is important to note that it is not possible to simply award a "D" rating for lack of information as this would imply that the extra-budgetary expenditure constitutes more than 10% of total expenditure.
7-d	**Expenditure from trust funds** does not require annual appropriation. Should this be counted as an omission?	In principle, all government expenditure is included in the denominator, irrespective of whether it is appropriated annually by the legislature or whether the trustees have statutory authority to approve and make payments. Thus expenditures from trust funds that are controlled by the government should be counted. Similarly, in some countries certain expenditures such as the salaries of judges are designated as statutory expenditures and a first charge on the consolidated fund without annual appropriation. They are also part of central government expenditure and should be reflected in both annual estimates and financial statements.
7-e	How should **decentralized operations** be taken into account?	A distinction is made between deconcentrated operations and devolved operations. Deconcentrated operations comprise (i) regional or district operations managed by local offices of central government agencies, and (ii) operations (local or national) run by legally separate entities controlled and mainly financed by central government. These are all counted as part of central government. Operations devolved to sub-national levels of government, which are managed by locally elected state parliaments or district/municipal councils, are part of state government or local government (GFS Manual 2001 paragraphs 2.4-2.58 on pages 13 & 14) and therefore should not be considered in an assessment of central government's PFM system.

7-f	How should **non-tax revenues** earned by MDAs be treated?	In many countries, MDAs collect revenues such as user fees and charges, dividends from State-Owned Enterprises, mineral royalties, returns from production-sharing agreements, fines and rent of property and use them for their own expenditure in addition to the budgetary allocations without those cash flows being brought into the government's central accounts. This treatment may be legal or (often) illegal. In either case, comprehensive and transparent fiscal reports require inclusion of such revenues and expenditures. Dimension (i) of this indicator should take account of all such expenditure (and all revenue ends up as expenditure). N.B. IMF and/or World Bank have *'Guidance on sources of evidence'* for corroboration.
7-g	Do "**unreported government operations**" include quasi-fiscal activities and tax expenditures?	In principle, they do. However, information on these is usually hard to come by during a PEFA mission, particularly in the absence of previous analytical work on this issue.

Dimension (i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.

Key questions

Do annual budget estimates, in-year execution reports & year-end financial statements (other fiscal reports are excluded) cover all activities of central government?

If yes, assign a score 'A' to both dims (i) & (ii). If not please address these queries:
1. What are the extra-budgetary activities other than donor-funded projects & in which entities do they take place?
2. Is data on extra-budgetary expenditures (other than donor-funded projects) readily available?
3. In which entities & in what form?
4. Is this data reliable?

Coverage	Central government including autonomous government agencies.
Critical period/time	Last completed FY.
Quantifiable data required	Amount of extra budgetary expenditure as a percentage of total expenditure (excluding donor funded project/program support); Proportion of actual extra-budgetary expenditure that is not included in fiscal report
Information sources	In addition to list in introduction, MoF, Min of Planning, Auditor General, each significant unreported entity, & each ministry in receipt of significant unreported revenues

Rating criteria

A. The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).
B. The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure.
C. The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 5-10% of total expenditure.
D. The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure.

Clarifications

PI-7	Query/Issue	Clarification
7-h	Dimension (i): Are the following items **unrecorded expenditure**?	
	Unexpended portions of any votes in previous fiscal years to pay for outstanding commitments?	No. This is a transfer payment from a vote to a deposit account (*Dr Vote expenditure, Cr Sundry Deposit, Dr Deposit bank account, Cr Consol Fund bank account*). So the payment is included in reported expenditure, even if not finally accounted for. If the commitment is paid in the following year, the expenditure is charged against Sundry Deposits, so it may never get reported in the Appropriation Accounts (except as a transfer).
	Bail deposits for court cases?	No, this is not expenditure but an external liability, unless it is forfeited.
	Funds for foreign scholarships?	No. Same treatment as unexpended amounts retained to pay for outstanding commitments.
	Proceeds from prison manufacturing units?	Two options: 1. If these units financially operate as part of the prison services, the proceeds can be considered equivalent to user charges and fees by other ministries and agencies and should be reported. 2. If the prison manufacturing units are set up as public enterprises, then the units fall outside general government and are not part of the assessment (other than government oversight ref PI-9i), but in that case how does the income end up in a government sundry account?
	Withholdings (salary deductions)?	No. Salary expenditure should be the gross salary. Deductions are credited to Sundry Deposits until they are paid. If expenditure includes the gross salary there is no non-reporting.
7-i	What are **the best sources of the information** necessary to rate dimension (i) likely to be?	First, it is necessary to identify the agencies that are **outside** the budgetary system (i.e. their budgets and actual income and spending do not appear in the government's budgetary documents). This may be reasonably easy to do, as they are typically few in number and are well-known (e.g. Social Security agency), although some countries do have large numbers of AGAs: the SAI should have a complete list of auditees and the largest ones can be selected. Second, request the MoF (or other parent ministry) for information on income and expenditure of the extra-budgetary operations. It is possible that the information is available, but is not reported in fiscal reports. However, it is not uncommon for the MoF to deny the existence of extra-budgetary operations, be unaware of them or did not quite understand the concept of extra-budgetary expenditures. Once this is established, it makes sense to double check with the MOF (or with the entity in charge of coordinating external assistance), which is often located within the MOF. Third, request meetings with the head of the agencies through which the main extra-budgetary operations are occurring.

Dimension (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.

Key questions

1. Is income/expenditure data on donor funded projects (loans & grants) readily available (excluding inputs provided in-kind)?
2. Is this data centralized & located in a specific entity of the central government?
3. Is this data reliable?
4. Do fiscal reports include income/ expenditure information on donor financed projects (loans & grants)?
5. If yes, is this information complete or does it only represent % of total loan-financed projects & % of grant-financed projects?

Coverage	Budgetary central government.
Critical period/time	Last completed FY
Quantifiable data required	Donor funded project/ program expenditure as a percentage of total expenditure. Actual donor funded project / program expenditure included in fiscal reports as a percentage of total estimated donor funded project / program expenditure.
Information sources	MoF, Auditor General, each significant unreported entity, & each ministry in receipt of significant unreported revenues; aid administration agency, principal donors of project aid.

Rating criteria

A. Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).
B Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.
C Complete income/expenditure information for all loan financed projects is included in fiscal reports.
D Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations.

Clarification

PI-7	**Query/Issue**	**Clarification**
7-j	Dimension (ii): To what extent should **donor funding of NGOs** appear in fiscal reports?	NGOs can operate both as agencies of the government and as private sector service providers. The difference lies in whether the NGO provides a service under contractual agreement with the government and therefore whether the government has significant control over the nature and scope of the service. If this is the case, then all funds paid to the NGO, to finance the goods and services provided, ought to be counted as government expenditure and be shown in the government budget (e.g. in special schedules as memoranda items). If the NGOs provide services not covered by an agreement with the government, then the NGOs should be considered at par with private sector service providers and not be counted as government-funded services. The government should not include in its budget - and potentially be held accountable for – the expenditure for services over which it has no control. An aid agreement between the government and the aid agency does not in itself mean that the services provided by the NGO and funded by the donor are being provided under a contractual agreement between the government and the NGO. The overriding criterion is the provision of services by an NGO under a contractual agreement with the government.
7-k	What are **the best sources of the information** necessary to rate dimension (ii) likely to be?	In addition to the MoF, which may have an aid management unit/ department, or a donor information portal, the donor group, or Embassies of countries whose operations are clearly extra-budgetary may be useful sources of information.

7-l	Dimension (ii): Are Grant funds that are not channeled through the budget **unrecorded expenditure**?	Yes (under PI-7 (ii)).This is part of unrecorded external aid.
7-m	Dimension (ii): When donor agencies pay suppliers, contractors and consultants directly for a large part of project aid, does this count as **inputs provided in kind**?	No. To count as 'inputs in kind', the beneficiary country must not have been involved in the financial aspects of the decision (goods and/or services 'in kind' are typically grants of equipment for emergency assistance and food aid, contracted between the donor and the supplier without the government being party to the contract).

Example of presentation in a summary box

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D			**C**	
There are 161 parastatals (including SAGAs, Trust Funds, State Corporations with majority State ownership). Preliminary actual expenditure & current grants represented over 11% of total expenditure; Comprehensive details on expenditure & non-tax revenues are not included in fiscal reports, either in consolidation with other central government expenditure, or shown in a separate annex of the document, or shown in a separate document presented to the legislature & published at the same time as the fiscal reports.	D	The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure.		C	In 2008 PEFA Secretariat issued Clarification on the definition of *"unreported government operations"* and required reporting; - lack of information – comprehensive and consolidated – for statutory boards and state corporations.
D Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations	D	(ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations.		C	a) Door funding is significant. 12 %. b) Exceptionally even large donor loans not reported. Besides CAG reported 8 major donor projects as unreported for budget representing 3,8 bn.

PI-8 Transparency of Inter-Governmental Fiscal Relations.

While the performance indicator set is focused on PFM by central government, Sub-National (SN) Governments in many countries have wide-ranging expenditure responsibilities. In federal states, the fiscal relationship between the central (federal or union) government and the individual states is typically established in the Constitution of the Union or Federation. In other cases, specific laws determine the layers of SN government, the expenditure responsibilities and revenue sharing arrangements. Transfers falling in these categories are usually unconditional grants, the use of which will be determined by SN governments through their budgets. In addition, central government may provide conditional (earmarked) grants to SN governments to implement selected service delivery and expenditure responsibilities e.g. by function or program, on a case by case basis. The overall level of grants (i.e. the vertical allocation) will usually be budget 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, such as formulas, for the distribution of grants among SN government entities (i.e. 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 SN governments. It is also crucial for SN governments that they receive firm and reliable information on annual allocations from central government well in advance of the completion (preferably before commencement) of their own budget preparation processes.

Given the increasing tendency for primary service delivery to be managed at sub-national government levels, correct interpretation of sectoral resource allocation and actual spending effort require tracking of expenditure information at all levels of government according to sectoral categories (which may or may not correspond to the GFS functional classification), even when this is not the legal form in which the budget is executed. Generation of a full overview of expenditure allocations by general government requires that SN government can generate fiscal data with a classification that is comparable to central government and that such information is collected at least annually and consolidated with central government fiscal reports. SN governments may not have obligations to report directly to central government. Collection and consolidation of fiscal data for general government, therefore, may not necessarily be undertaken by central government, but rather by a national statistical office. For the coverage to be meaningful, the consolidated reporting of fiscal information should be of a reasonable quality, include all tiers of general government, and be presented on both an ex-ante (budgeted) and an ex-post (actual) basis. Ex-post information should be sourced from routine accounting systems.

Dimensions to be assessed (Scoring method M2):

(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);

(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

Points to note:

Funding provided to deconcentrated units of central government (which do not have local accountability mechanisms) is not covered by the scope of this indicator.

Dimension (i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);

Key questions

1. Which entities exist that meet the criteria for being SNG (ref SNG Guidelines)?
2. What are the fiscal relationships of CG with these entities and how are these defined (Constitution, specific law or decree; expenditure responsibility & revenue sharing arrangements)?
3. What transfers are made to the first tier of SNG and is the horizontal allocation of these transfers determined entirely or in part by transparent & rules based systems?
4. If in part, what is approximate % of transfers determined by transparent & rules based systems?
5. Can SNGs calculate in advance the amounts they should receive or do receive in accordance with these systems?
6. Is a specific formula used for these transfers? If yes, what criteria are taken into consideration (population, development levels, capacity to raise revenue, others)? N.B. rating depends only on transparency & objectivity.

Coverage	1st tier sub-national level of government.
Critical period/time	Last completed FY.
Quantifiable data required	Proportion of transfers to SN governments by value for which allocations among the SN government entities are determined by transparent rules or formulas.
Information sources	Budget entity, specific entity in charge of SN matters such as Minister of Local Government or Decentralization, Budget entity or Finance officers of major SN governments

Rating criteria

A. The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent & rules based systems

B. The horizontal allocation of most transfers from central government (at least 50% of transfers) is determined by transparent and rules based systems.

C. The horizontal allocation of only a small part of transfers from central government (10-50%) is determined by transparent and rules based systems.

D. No or hardly any part of the horizontal allocation of transfers from central government is determined by transparent and rules based systems.

Clarifications

PI-8	Query/Issue	Clarification
8-a	Dimension (i): Is the **allocation of expenditure responsibilities** between central and sub-national governments a transparency issue?	Yes, the issue is certainly related to transparency, but is more of a decentralization policy issue than a financial management issue. The subject rated by PI-8 is whether sub-national governments know what financing they will have available for the coming year's budget. The expenditure responsibilities are therefore not a specific subject for the indicator rating. However, the link between the two could be commented on.
8-b	Dimension (i): If the allocation formulae are clear but the **allocations are not transferred in full**, how is the dimension rated?	It depends on whether each sub-national government can calculate its allocation. For instance, if there is a shortfall of revenue and allocations are reduced by a stated percentage across the board, they are still transparent. On the other hand, if they are reduced in an arbitrary or unknown way, they are not determined by a transparent and rules-based system. The difference between: (i) the transfers from central government to the sub-national government notified to it during its budget preparation process and (ii) the amount of transfers allocated to the SNG in the approved central government budget is covered by dimension (ii).

8-c	Dimension (i): If sub-national governments receive **shares of centrally collected revenues**, or their allocations are reduced for sub-national receipts of aid, should these be included with grants from central government for devolved functions when assessing the degree of transparency in inter-government fiscal relations?	Yes. All fiscal transfers from central government to the highest level of sub-national government should be taken into consideration. The assessment concerns the horizontal allocation of the total amount. If different formulae/criteria are used for different elements of transfer, the overall assessment may be based on a weighted average.

Dimension (ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;

Key questions

1. When exactly during FY are reliable (not preliminary) estimates of central government transfers issued to SN entities? However the CG may answer this question, the reliability of estimated transfers can only be established ex post, by checking the variance with actual transfers. There may never be 'reliable' estimates, say, variance< 5%
2. When do SN entities have to start preparing their estimates?
3. Are transfers notified too late in that SN budgets have already been finalized? Or are not finalized but notification is too late to allow changes?

Coverage	1^{st} tier sub-national level of government.
Critical period/time	Last completed FY.
Quantifiable data required	Period between the date on which SN government administrators are provided firm information on the transfers from central government and the date on which the SN government administrations must submit their budget proposals for final approval.
Information sources	Budget entity, specific entity in charge of SN matters such as Minister of Local Government or Decentralization, Budget entity or Finance officers of major SN governments

Rating criteria

A. SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.
B. SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.
C. Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made.
D. Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable.

Clarifications

PI-8	Query/Issue	Clarification
8-d	Dimension (ii): How should '**reliable'** be interpreted in the rating criteria?	Dim (ii) refers to the timely availability of reliable information on budgetary allocations to LGs in relation to their budget process. As both CG and LGs should have their budgets adopted before the start of the fiscal year, the key issue is predictability: when in the LG budget cycle are they notified of their CG transfers, and are these figures maintained when the CG budget is finally adopted?

Dimension (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

Key questions

1. Do SN entities forward fiscal information (revenue & expenditure, budget & actual) to central government?
2. What % of SN expenditure is reported to central government?
3. Is SN fiscal data classification consistent with that of central government?
4. Is a consolidation of this information into annual reports carried out &, if so, within how many months of the end of FY?

Coverage	1st tier sub-national level of government.
Critical period/time	Last completed FY.
Quantifiable data required	Total annual expenditure of SN governments for which data by sectoral or functional categories are centrally collected and consolidated, as a percentage of all SN government expenditure. The period from the end of the fiscal year (covered by the last consolidated report on SN government) to the date of issue of the consolidated report.
Information sources	Budget entity, specific entity in charge of SN matters such as Minister of Local Government or Decentralization, Budget entity or Finance officers of major SN governments

Rating criteria

A. Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.

B. Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for at least 75% (by value) of SN government expenditure and consolidated into annual reports within 18 months of the end of the fiscal year.

C. Fiscal information (at least ex-post) that is consistent with central government fiscal reporting is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year.

D. Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure **OR** if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.

Clarifications

(None)

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C			**A**	
Since 1998/99 grants have been increased incrementally, on an annual basis, without reference to any formula.	D	(i) No or hardly any part of the horizontal allocation of transfers from central government is determined by transparent and rules based systems.		A	Although horizontal allocations to sub-national government are transparent, they have not been based on any objective rule based criteria for more than ten years; this was not reflected in the 2007 assessment.
Grant information for July to December 2009 was subject to further delay due to change in financial year & eventually made available in July 2009.	D	(ii) Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable.		A	Partly due to change in FY, but delays also note in previous 2 years.
Sub-national governments report monthly and produce annual financial statements. Consolidated central and local government fiscal information by economic category is fully reported in the Digest of Public Finance Statistics within ten months of the end of the financial year.	A	(iii) Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.		A	No change.

PI-9 Oversight of aggregate fiscal risk from other public sector entities.

Central government will usually have a formal oversight role in relation to other public sector entities and should monitor and manage fiscal risks with national implications arising from activities of sub-national (SN) levels of government, autonomous government agencies (AGA) and public enterprises (PE), including state-owned banks, but may also for political reasons be obliged to assume responsibility for financial default of other public sector entities, where no formal oversight role exists. Fiscal risks can be created by SN government, AGAs and PEs and *inter alia* take the form of debt service defaulting (with or without guarantees issued by central government), operational losses caused by unfunded quasi-fiscal operations, expenditure payment arrears and unfunded pension obligations.

Central government should require and receive quarterly financial statements and audited year-end statements from AGAs and PEs, and monitor performance against financial targets. AGAs and PEs often report to parent line ministries, but consolidation of information is important for overview and reporting of the total fiscal risk for central government. Where SN governments can generate fiscal liabilities for central government, their fiscal position should be monitored, at least on an annual basis, again with consolidation of essential fiscal information.

Central government's monitoring of these fiscal risks should enable it to take corrective measures arising from actions of AGAs, PEs and SN governments, in a manner consistent with transparency, governance and accountability arrangements, and the relative responsibilities of central government for the rest of the public sector.

Dimensions to be assessed (Scoring method M1):

(i) Extent of central government monitoring of AGAs and PEs.
(ii) Extent of central government monitoring of SN governments' fiscal position.

Points to note:

Dimension (i) Extent of central government monitoring of AGAs and PEs.

Key questions

1. What are major AGAs & PEs?
2. Do current legislation & regulations oblige AGAs & PEs to forward in-year financial statements & yearend financial statements to the central government? And do they do so?
3. Do current legislation & regulations require central government to monitor fiscal risk of AGAs, PEs & SN entities on a regular basis (at least annually)? And does it do so?
4. Can SN governments borrow without prior approval of the central government? Does ‘borrowing’ include short-term overdrafts and suppler credit?
5. Does central government monitor AGAs & PEs?
6. If yes, is monitoring carried out through (semi-annual or annual) fiscal reports & annual audited accounts submitted by AGAs & PEs?
7. Are fiscal risk issues of AGAs & PEs consolidated annually into a report by the central government?

Coverage	Central government (as defined by GFS) and public enterprises.
Critical period/time	Last completed FY.
Quantifiable data required	List of AGAs and PEs with amount of expenditure and frequency of submission of fiscal reports to government.
Information sources	MoF, agencies with oversight responsibilities (such as Auditor General), major AGAs & PEs, Finance Officers of major SN governments.

Rating criteria

A. All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually.
B. All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report.
C. Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete.
D. No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete.

Clarification

PI-9	Query/Issue	Clarification
9-a	Dimension (i): What would be the **difference between scoring C and D**?	Score “C” requires that most AGAs and PEs submit fiscal reports to central government, but active monitoring of fiscal risks on this basis does not take place. Score “D” assumes that only a minority (if any) of such entities submit fiscal reports annually, for which reason it is not possible for the central government to monitor fiscal risks comprehensively.

Dimension (ii) Extent of central government monitoring of SN governments' fiscal position.

Key questions

1. Are SN entities legally entitled to borrow with or without CG approval? Does this cover short-term overdrafts and supplier credit?
2. Does central government monitor SN entities' fiscal position at least annually?
3. Does government elaborate a consolidated overview (in form of an annual report) on the fiscal position of SN entities?

Coverage	1st tier SN level of government.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	MoF, agencies with oversight responsibilities (such as Auditor General), major AGAs & PEs, Finance Officers of major SN governments

Rating criteria

A. SN government cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.
B. The net fiscal position is monitored at least annually for the most important level of SN government, and central government consolidates overall fiscal risk in report.
C. The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete.
D. No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete.

Clarifications

PI-9	Query/Issue	Clarification
9-b	Dimension (ii): Does SN governments' "fiscal position" include the **reporting of expenditure arrears** (assuming a cash basis of accounting)?	Yes. Expenditure arrears are liabilities and constitute a fiscal risk to central government. If they are material, or unknown, monitoring is significantly incomplete.
9-c	Dimension (ii): Although in this country Provinces do not have the legal power to borrow, many fail to pay suppliers on time in order to **ease their cash flow: does this constitute a fiscal risk**?	Yes: while raising supplier credit may not constitute borrowing according to national law, this is still a fiscal risk to be monitored and should be considered when rating dim (ii), particularly if there is a history of the CG 'bailing-out' SNGs.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**D+**	
All PEs & AGAs submit financial accounts to the Accountant General's Department at MoF on an annual basis & a consolidated overall fiscal risk report has been issued	B	All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report.	Accountant General's Department; website	C	The creation of a new unit in 2009 in MoF has resulted in the centralization and consolidation of information on PEs & AGAs, & also in the publication of an overall report.
Fiscal information on SN governments is monitored annually but it is not used to produce a overall fiscal risk report	C	The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete.	Accountant General's Department.	D	Fiscal and accounting information on SN governments is monitored but not used to produce a fiscal risk analysis or report. In the period examined in 2007, SNs were not required to send financial statements to MoF.

PI-10 Public Access to key fiscal information.

Transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest groups.

The narrative of the assessment should comment on the quality of information made available (e.g. understandable language and structure, appropriate layout, summarized for large documents) and the means used to facilitate public access (such as the press, websites, sale of major documents at no more than printing cost and notice boards for mainly locally relevant information). The extent to which the means are appropriate depends on the nature of the documentation and the characteristics of the relevant interest or user groups, such as access to different media.

Elements of information to which public access is essential include:

(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.
(iv) External audit reports: All reports on central government consolidated operations are made available to public through appropriate means within 6 months of completed audit.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).

Dimensions to be assessed (Scoring method M1):

(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).

Points to note:
'Complete' means that the documents made publicly available contain all the information listed under indicator PI-6, to the extent this information exists.

Dimension (i) Number of 6 listed elements of public access to information that is fulfilled *1) Annual Budget 2) In-year budget reports 3) Year end financial statements 4) External audit reports; 5) Contract awards > $ 100,000; 6) Funding resources to primary service units in at least 2 sectors such as elementary schools and primary health clinics.*

Key questions

For each of the information items made public:
- What was the delay from its production until it was actually accessible by the public?
- By which means was it being publicized?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	(i)-(v) Number of days after relevant event that reports are made available to the public (concerns annual budget documents, in-year budget execution reports, year end financial statement, audit reports and contract awards above the value of US$100,000)
Information sources	MoF, Auditor General, Public procurement Authority, corroborated by government bookshops, websites & notice boards, & public interest groups such as governance NGOs, chamber of commerce, donor country offices

Rating criteria

A. the government makes available to the public 5-6 of the 6 listed types of information
B. the government makes available to the public 3-4 of the 6 listed types of information
C. the government makes available to the public 1-2 of the 6 listed types of information
D. the government makes available to the public none of the 6 listed types of information

Clarifications

PI-10	Query/Issue	Clarification
10-a	In assessing whether information is easily accessible to the general public or at least the relevant interest groups, if the country has a **Right to Information Act**, does this meet the requirement of accessibility? Does **availability on a website** (in a country with very low internet access) or submission to parliament meet the requirement?	A Right to Information Act, ipso facto, would not normally constitute access as it requires a special initiative and procedure. Availability on a website would meet the requirements if at least relevant interest groups have internet access. Submission to Parliament does not in itself count as “public access”.
10-b	Element (i): The reference to “**complete**” is unclear, even with the footnote.	“Complete” means that all the budget documents that are provided to the legislature can be obtained by the public. The comprehensiveness of the information produced is assessed separately in PI-6 and does not impact the score for this indicator.
10-c	Element (iii): How should this requirement be interpreted if the **government publishes its financial statements before they have been audited** and not afterwards?	The issue is if the public has access to the details of the financial statements, which ideally should be confirmed by the external auditors. In this indicator we do not judge if external audit takes place, and if it does, element (iv) captures if the public has access to those audit reports. Public access to un-audited financial statements should therefore be considered as fulfilling the requirement for element (iii).
10-d	Element (iii): Do the year-end **financial statements have to be consolidated**?	The element does not require that end-year financial statements have to be consolidated. Public access to a complete set of individual MDA statements would count. The content and standards of the statements are rated in PI-25.

10-e	Element (iv): How should this element be assessed if the government does **not produce consolidated financial statements**?	External audit reports on financial statements by individual budget entities would be equally acceptable as a measure of public accessibility.
10-f	Element (iv): How should this element be assessed if **parts of the audit report are not made public**?	The audit report should cover all matters required by national legislation, without external limitation or restriction. However the auditor may acquire information that in the national interest should not be disclosed, and is responsible for deciding what to omit, and whether this should be included in a separate unpublished report, or redacted in a published report (guidance is provided in the INTOSAI Lima Declaration). This element is met if the public has access to the main report.
10-g	Element (v): The **threshold of US$100,000 for contract awards** appears low. How has this threshold been derived and what is the experience of its application in middle income countries?	The threshold of US$100,000 equivalent, for publication is referred to as an approximate level, and therefore leaves some room for flexibility. It is set in order to ensure that contract award is transparent for contract amounts which most local businesses would consider significant and that all of the government's major procurement operations are made public. For assessing the indicator element, it is useful to know if a government has a specific policy on publications of contract awards and used a different threshold. If that is the case, and if the threshold is not out of proportion to the US$100,000 (say up to US$200,000 equivalent), and if the policy is actually implemented, then the government threshold could be accepted. Some high income countries publish information on award of contracts with even lower thresholds than US$ 100,000.
10-h	Element (vi): What is the meaning of **information is made available on resources available to primary service units**?	This is intended to mean that interested parties are able to find out how much funding is being provided by the responsible level of government (whether Federal, Provincial or Local) to their local school or health clinic.
10-i	Element (vi): In the country being assessed, **the primary service units for Health and Education are the responsibility of the SNG** level: should they be included under this PI?	Only if Health and Education are funded by earmarked transfers from the CG. However, the report should identify primary service units that are managed and funded by the CG (e.g. agriculture) and report accordingly. If the primary service units are under the jurisdiction of the SNG, they should be included in a SNG rather than a CG assessment.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B	(i) Government makes available 4 of the 6 listed types of information.	Government website	**C**	Budget documentation was available after adoption, but other information was not. The change of score seems to adequately reflect an improvement in performance.
All draft budget documents are published on MOF website directly after submission to the Parliament; the approved budget is published a couple of months after approval by the legislature	*Met*	*Annual budget documentation when submitted to legislature*	*Government website*		
All reports are available to the public after presentation to the Parliament on MOF website within one month of their completion:	*Met*	*In-year budget execution reports within one month of their completion.*	*Government website*		
The annual budget execution report is available to the public after the presentation to the Parliament on MOF website within one month of its completion	*Met*	*Year-end financial statements within 6 months of completed audit.*	*Government website*		
The audited final accounts are made available to the public in a timely manner	*Met*	*Availability of external audit reports to the public.*	*Government website*		
Information on tender awards is not published systematically	*Not met*	*Contract awards with value above US$ 100,000 approx. are published at least quarterly.*			
Information on resources received by primary service providers is not available	*Not met*	*Availability to public of information on resources for primary service units.*			

PI-11 Orderliness and participation in the annual budget process.

While the Ministry of Finance (MOF) is usually the driver of the annual budget formulation process, effective participation in the budget formulation process by other ministries, departments and agencies (MDAs) as well as the political leadership (the leadership of the executive, such as the Cabinet or equivalent body. Involvement of the legislative in review of budget proposals is covered by indicator PI-27) impacts the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar.

The calendar should allow for passing of the budget law before the start of the fiscal year as well as for sufficient time for the other MDAs to meaningfully prepare their detailed budget proposals as per the guidance. Delays in passing the budget may create uncertainty about the level of approved expenditures and delays in some government activities, including major contracts. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual, including indicative budgetary ceilings for administrative units or functional areas.

In order to avoid last minute changes to budget proposals, it is important that the political leadership is actively involved in the setting of aggregate allocations (particularly for sectors or functions) from an early stage of the budget preparation process. This should be initiated through review and approval of the allocation ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate allocations (e.g. in a budget outlook paper).

Dimensions to be assessed (Scoring method M2):

(i) Existence of and adherence to a fixed budget calendar;
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).

Points to note:

1. The MDAs concerned for the purpose of this indicator are 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. MDAs that report and receive budgetary funds through a parent ministry should not be considered in the assessment.
2. Is there a (recent) budget law (or budget regulations), which sets the basic principles of the budget process (including the calendar)?
3. This indicator covers the process for both the recurrent/operating budget and the capital/development budget, whether they are integrated or using separate processes. In the latter case, this means that the requirements for a score should be fulfilled for each of the separate processes.
4. “Ceilings” refers to the indicative budget allocations issued to budget entities early in the budget preparation process as the basis for preparing detailed budget proposals. The final budget allocations to individual budget entities may subsequently be adjusted on the basis of the quality and justification of their detailed proposals.

General Clarification

PI-11	Query/Issue	Clarification
11-a	Does this indicator cover the **process for both the recurrent/operating budget and the capital/development budget**?	Yes, all parts of the central government’s annual budget are covered, whether they are integrated or using separate processes. In the latter case, this means that the requirements for a score should be fulfilled for each of the separate processes.

Dimension (i) Existence of and adherence to a fixed budget calendar

Key questions

1. Is a budget calendar prepared and adhered to?
2. Is the budget calendar clear?
3. How many weeks does the budget calendar allow to ministries, department and agencies (MDAs) to complete their detailed estimates?

Coverage	Budgetary central government.
Critical period/time	Last budget approved by the legislature.
Quantifiable data required	Number of weeks from when MDAs receive budget circular till they have to submit detailed budget proposals to MOF**.**
Information sources	MOF (budget dept), corroborated by Finance Officers of large spending MDAs.

Rating criteria

A. A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.
B. A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.
C. An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.
D. A budget calendar is not prepared OR it is generally not adhered to **OR** the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.

Clarifications

PI-11	**Query/Issue**	**Clarification**
11-b	Dimension (i): Could more clarification be provided on the **distinction between scores C and D**.	Score D represents situations either (a) where no attempt has been made to establish a formal budget calendar or (b) where such an attempt has been made but it has little value due the lack of adherence to the calendar or the lack of time available for line ministries seriously limits the value of their budget submissions. Score C represents a situation where a formal budget calendar exists and at least the finance ministry attempts to keep to it, even if there are major delays or many MDAs do not meet the deadlines.
11-c	Dimension (i): What is meant by a "**rudimentary**" budget calendar?	A clear budget calendar does not necessarily have to consist of one document. It can be contained in different documents. The crucial point is whether the actors in the budget preparation process know in advance their roles and the timing of the different stages of the process. This may not necessarily be consolidated in one document, but if the information is complete and established by law (and therefore well-known and fixed) it could be considered a clear fixed calendar. If some important elements of the calendar are disseminated informally, decided ad hoc and MDAs instructed "as you go", then it should be considered as a rudimentary calendar.

11-d	Dimension (i), this country has a clear budget calendar with 6 weeks allowed to MDAs to complete their estimates, but there are **substantial delays:** hence it does not meet the requirement for an 'A' or 'B', but neither does it satisfy two of the requirements for 'C' (rudimentary budget calendar and insufficient time allowed to MDAs).	In situations where progression in the criteria is not cumulative, the rating should be at the highest grade **below** the level that is not met, in this case 'C'.

Dimension (ii) Guidance on the preparation of budget submissions

Key questions

1. Is a budget circular issued to MDAs?
2. Is the budget circular clear?
3. Does the budget circular include ceilings pre-approved by Cabinet?
4. If not, are Cabinet-approved ceilings notified in time for MDAs to amend their budget estimates?
5. Can the Cabinet still make adjustments to budget estimates before they are submitted to Parliament?

Coverage	Budgetary central government.
Critical period/time	Last budget approved by the legislature.
Quantifiable data required	Date of Cabinet approval of budget circular compared to date of MOF issue of budget circular to MDAs.
Information sources	MOF (budget dept), corroborated by Cabinet (Memoranda) & large MDAs.

Rating criteria

A. A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.

B. A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission.

C. A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments.

D. A budget circular is not issued to MDAs OR the quality of the circular is very poor **OR** Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.

Clarifications

PI-11	Query/Issue	Clarification
11-f	Dimension (ii): Why are **budget ceilings** not referred to in the requirements for score D, as it is for all other scores?	Score D refers to "the quality of the circular is very poor". One reason for judging the circular as very poor would be the absence of budget ceilings.
11-g	Dimension (ii): Is it correct that ceilings **should be set for recurrent expenditure, but not for development expenditures** where these are determined mainly by external donors?	Ceilings for administrative units or functional areas should cover all expenditure, irrespective of funding source, If comprehensive information on donor project expenditure is not available, or the process of integrating donor projects into the MTEF/budget preparation process is not yet complete, then the ceilings in the budget circular should cover recurrent expenditure, domestically financed capital expenditure and any elements of donor projects that are already budgeted for and executed through government systems.
11-h	Dimension (ii): If the **budget circular does not include ceilings**, should this be interpreted as "the quality is very poor"?	Yes: ceilings constitute essential elements in a disciplined budget formulation process; hence their absence does constitute poor quality and would merit a 'D' rating.

Dimension (iii) Timely budget approval by the legislature

Key questions

1. During the last three fiscal years, was the budget approved before the start of the fiscal year?
2. If not, when was the budget approved each year (how many months into the year)?

Coverage	Budgetary central government.
Critical period/time	Last 3 FYs budgets.
Quantifiable data required	Delay in budget approval by the legislature after start of fiscal year, for the last three fiscal years.
Information sources	MOF (budget dept), corroborated by Clerk to Parliament.

Rating criteria

A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.
B. The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years.
C. The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.
D. The budget has been approved with more than two months delay in two of the last three years.

Clarifications

PI-11	Query/Issue	Clarification
11-i	Dimension (iii): How should this dimension be scored if the legislature at the beginning of the year approved an **interim budget covering less than the full year** (e.g. due to a political crisis or a stalemate in the budget negotiation between the executive and the legislature)?	Until a budget has been specifically approved for the entire new fiscal year, the approval process will be considered as being delayed.
11-j	Dimension (iii): If 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,** is this budget considered an approved budget for the purposes of the indicator?	Until a budget has been specifically approved for the new fiscal year, the approval process will be considered as being delayed. An automatic extension of last year's budget is not "orderly".

11-k	Dimension (iii): If the President (or equivalent 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, does this constitute approval of the draft budget.	No. Formal approval of the draft budget is usually 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. 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.
11-l	Dimension (iii): From **which date should a delay be counted** for score D?	Score D applies if the approval takes place more than two months after the start of the fiscal year (in two of the last three years).
11-m	On dimension (iii), the calibration does not cover the situation where a country **passes its budget one month into the year** every year. How should this be rated?	The calibration that 'two of the last three years' should be interpreted as "at least two of the last three years", and would result in 'C'.
11-n	Dim (iii) Budgets were passed into law by the Assembly within three months of the start of the FY in 2008/09, with a one month delay in 2009/10 and two months delay in 2010/11. **How should this situation be rated?**	This should be rated 'C', as *"Two of the last three years"* includes all three years, and *"approved the budget within two months of the start of the fiscal year"* includes budget approvals before the start of the fiscal year.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	A			**B+**	
A clear annual budget calendar exists, with some delays in its implementation. For instance, in FY2011, MDAs were given 4 weeks to complete detailed estimates. Some MDAs only submitted estimates to MOF with a delay of 2 to 3 weeks.	B	(i) A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time	Budget Manual, January, 2007; Budget Director, MoF; CFO MoHealth	A	No delays were reported in 2006
The budget circular is clear & comprehensive & includes a ceiling for recurrent expenditure per administrative unit that has been approved by Cabinet prior to distribution.	A	(ii) A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution.	Ditto.	B	Real improvement: previously, ceilings only approved after distribution of circular.
The approval of the budget by Parliament was before start of the fiscal year in the past three years.	A	(iii) The legislature has, during the last three years, approved the budget before the start of the fiscal year.	Budget proclamations for 2006/07-2009/10. Parliamentary record; Budget Director, MoF.	B	In 2006, budget approval was delayed due to elections.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.

Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, medium term expenditure aggregates for mandatory expenditure and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) must be the foundation for policy changes.

Expenditure policy decisions or options should be described in sector strategy documents, which are fully costed in terms of estimates of forward expenditures (including expenditures both of a recurring nature as well as those involving investment commitments and their recurrent cost implications) to determine whether current and new policies are affordable within aggregate fiscal targets. On this basis, policy choices should be made and indicative, medium-term sector allocations be established. The extent to which forward estimates include explicit costing of the implication of new policy initiatives, involve clear, strategy-linked selection criteria for investments and are integrated into the annual budget formulation process will then complete the policy-budget link.

Countries that have effectively introduced multi-annual program budgeting are likely to show good performance on most aspects of this indicator. In this regard, assessors could substitute ‘programs’ for ‘functions’ in dimension (i) and for ‘sector strategies’ in dimensions (iii) and (iv) of the indicator.

Dimensions to be assessed (Scoring method M2):

(i) Preparation of multi -year fiscal forecasts and functional allocations;
(ii) Scope and frequency of debt sustainability analysis
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure;
(iv) Linkages between investment budgets and forward expenditure estimates.

Points to note:

Dimension (i) Multi-year fiscal forecasts and functional allocations

Key questions

1. Are forward estimates of fiscal aggregates undertaken in practice and for what duration (two-year, three-year)?
2. If yes, are they on a rolling annual basis?
3. How are they classified (economic, functional/sector)?
4. Are there any links between multi-year estimates and subsequent setting of annual budget ceilings?
5. If yes, are these links clear and are differences explained?

Coverage	Budgetary central government.
Critical period/time	Last 2 completed FYs.
Quantifiable data required	
Information sources	MOF Planning & Budget Depts (Annual Budget Circular, MTEF, budget ceilings in following year Budget Circular).

Rating criteria

A. Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.

B. Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained.

C. Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.

D. No forward estimates of fiscal aggregates are undertaken.

Clarifications

PI-12	Query/Issue	Clarification
12-a	Dimension (i): What is meant by "**on a rolling basis**"?	"On a rolling basis" means simply that multi-year forecasts are made annually and therefore the years of their coverage is overlapping. The more sophisticated aspect of linking such annual forecasts is included in the requirements for scores A and B ("Links between multi-year estimates and subsequent setting of annual budget ceilings"), but not for score C. Due to the need for links between a multi-year forecast in one year with the corresponding multi-year forecasting done during the previous year, it is not possible to score higher than a "C" in the first year of introducing a multi-year budgeting system.
12-b	Dimension (i): What is meant by "**ceilings**"?	"Ceilings" refers to the indicative budget allocations issued to budget entities early in the budget preparation process as the basis for preparing detailed budget proposals. The final budget allocations to individual budget entities may subsequently be adjusted on the basis of the quality and justification of their detailed proposals.
12-c	Dimension (i): What is the **implication of the brackets** in terms of the description of requirements for scores A, B & C.	The content of the text within brackets is of the same status as all other description of the requirements.

Dimension (ii) Scope and frequency of debt sustainability analysis

Key questions

1. During the last three years, how often has Debt Sustainability Analysis (DSA) been undertaken for external and domestic debt or for external debt only?
2. Dates?

Coverage	Budgetary central government.
Critical period/time	Last 3 years before assessment.
Quantifiable data required	Dates of debt sustainability analyses during the last three years (external and domestic debt respectively).
Information sources	MOF (Debt Management Dept) & Central Bank.

Rating criteria

A. DSA for external and domestic debt is undertaken annually.
B. DSA for external and domestic debt is undertaken at least once during the last three years.
C. A DSA for at least for external debt undertaken once during last three years.
D. No DSA has been undertaken in the last three years.

Clarification

PI-12	Query/Issue	Clarification
12-d	Dimension (ii): Does a **Debt Sustainability Analysis have to be conducted by the government**, or can a DSA conducted by an external party (e.g. IMF) within the last 3 years count towards the assessment.	It depends on whether the external agency has conducted the DSA in agreement with the Government, perhaps as part of technical assistance to Government, and whether the Government accepts the findings of the DSA conducted on its behalf. If the answer to this is unambiguously yes on the basis of verbal and documentary evidence, then this should not reduce the performance rating.
12-e	Dimension (ii): The country has **no external debt and domestic debt is very small**. Is a DSA necessary?	If net public debt is insignificant (below 10 % of GDP), the dimension is not applicable, and the indicator is scored on the other three dimensions only.

Dimension (iii) Existence of costed sector strategies

Key questions

1. For the last completed budget, have sector strategies been prepared for some or more sectors?
2. Have these been costed (for investments and recurrent expenditure)?
3. If yes, what percentage of total primary expenditure do the costed sectors represent?
4. Are the costs consistent with fiscal forecasts?

Coverage	Budgetary central government.
Critical period/time	Last completed budget.
Quantifiable data required	Amount of primary expenditure in sectors that have prepared fully costed sector strategies as a percentage of total primary expenditure during the last year.
Information sources	MOF Planning & Budget Depts (Ann. Budget Circular, Public Investment Programme, Approved Estimates).

Rating criteria

A. Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.

B. Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure.

C. Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure **OR** costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts.

D. Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.

Clarification

PI-12	Query/Issue	Clarification
12-f	Dimension (iii): What is meant by "**statements of sector strategies**" for score B and C? Scores A and D refer simply to "sector strategies".	"Statements of …" refers simply to the strategy documents. There is no difference in the meaning compared to the wording for scores A and D.
12-g	Dimension (iii) Sector strategies have been prepared for health and education, but they are very broad and the costing is lump sum with no detail or explanation. **What are the minimum criteria for a costed sector strategy**?	A sector strategy is costed if it shows the cost of each sector program, broken down by implementing agency, by main economic category (personnel, other recurrent expenditure, capital), and by year over the medium term, and main parameters and assumptions are stated. It should be approved by the head of the responsible ministry. It may or may not be within aggregate fiscal forecasts.

Dimension (iv) Linkages between investment budgets and forward expenditure estimates

Key questions

1. For the last completed budget, are budgeting for investment and budgeting for recurrent expenditure two separate processes (with no recurrent cost estimates being shared)?
2. How significant is the link between investment decisions, sector strategies and their recurrent cost implications?

Coverage	Budgetary central government.
Critical period/time	Last completed budget.
Quantifiable data required	
Information sources	MOF Planning & Budget Depts (Ann. Budget Circular, Public Investment Programme, Approved Estimates).

Rating criteria

A. Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.
B. The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.
C. Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.
D. Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.

Clarifications

(None issued for this dimension)

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B			**C**	
Aggregate expenditure projections are derived from macro-fiscal framework. Expenditures by ministry according to economic classification are projected, but basis is unclear, as is link with setting annual budget ceilings: suggests that the medium term framework has yet to be integrated into the budget cycle.	C	(i) Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.	• *"Medium Term Expenditure Framework 2010-12: Linking Planning & Budgeting: Economic & Public Finance Policy Department",* March 2009 and associated workshop, May 2009. • Meetings with Budget Department.	C	Forecasts of fiscal aggregates were being prepared. The introduction of BSPs has provided a medium term perspective in functional allocations, which was not present in 2005. But this is not enough to increase the score from C, as the linkages between multi year forecasts and subsequent setting of annual budget ceilings have not been developed.
DSA for external debt conducted annually by IMF/World Bank & Government concurs. Domestic debt is insignificant & unchanged for years.	A	(ii) DSA for external and domestic debt is undertaken annually.	• IMF Article IV Consultation Report, February 2009. • Meetings with Budget Department.	A	No change
Health & education sector strategies (about 26% of exp) are costed (though not all future costs from capital projects are included in education plan) & are broadly consistent with fiscal forecasts.	B	(iii) Statements of sector strategies are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure.	• Education Sector Strategic Plan, 2006-2010. • Health Sector Strategic Plan, 2008-15.	C/D	Sector strategies were not fully costed.
The majority of important investments are selected on basis of sector strategies & although budgeting for investment & current expenditure is institutionally separated (& capital is mainly financed by DPs) in practice there is some connection through the program budgeting framework.	C	(iv) Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.	The strategic plans referred to above.	D	No evidence of *any* link in earlier assessment.

PI-13 Transparency of Taxpayer Obligations and Liabilities.

Effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system (ref. PI-14) but is also very dependent on the direct involvement and co-operation of the taxpayers from the individual and corporate private sector. Their contribution to ensuring overall compliance with tax policy is encouraged and facilitated by a high degree transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability.

A good tax collection system encourages compliance and limits individual negotiation of tax liability by ensuring that tax legislation is clear and comprehensive and that it limits discretionary powers (especially in decisions on tax assessments and exemptions) of the government entities involved, such as e.g. the revenue administration (RA), the ministry of finance and investment promotion agencies.

It should be noted that a country's RA may comprise several entities, each of which has revenue collection as its principal function (e.g. an Inland Revenue Agency and a Customs Authority). All of those entities should be included in the assessment of the revenue related indicators PI-13, PI-14 and PI-15, where it is relevant.

Taxpayer education is an important part of facilitating taxpayer compliance with registration, declaration and payment procedures. Actual and potential taxpayers need easy access to user friendly, comprehensive and up-to-date information on the laws, regulations and procedures (e.g. posted on government websites, made available through taxpayer seminars, widely distributed guidelines/pamphlets and other taxpayer education measures). Potential taxpayers also need to be made aware of their liabilities through taxpayer education campaigns.

Taxpayers' ability to contest decisions and assessment made by the revenue administration requires the existence of an effective complaints/appeals mechanism, that guarantees the taxpayer a fair treatment. The assessment of the tax appeals mechanism should reflect the *existence* in practice of such a system*, its independence* in terms of organizational structure, appointments and finance, *its powers* in terms of having its decisions acted upon as well as its *functionality* in terms of access (number and size of cases), efficiency (case processing periods), and fairness (balance in verdicts).

Dimensions to be assessed (Scoring method M2):

(i) Clarity and comprehensiveness of tax liabilities .
(ii) Taxpayer access to information on tax liabilities and administrative procedures.
(iii) Existence and functioning of a tax appeals mechanism.

Point to note:

Regarding taxpayer access to information: it is important to establish that the information is accessible to a majority of taxpayers and not only to the taxpayers located in the capital city or having access to internet, and also that the information is available in the language of the taxpayer (for countries with several languages, perhaps English or French and other local official languages).

General Clarification

PI-13	Query/Issue	Clarification
13-a	Should the **scope of PI-13** include social security contributions?	No. The definition of revenue and expenditure used in the PEFA framework follows the GFS 2001 manual. The manual (p. 178) defines four groups of revenue (taxes, social contributions, grants and other revenue). In principle, PIs 13-15 cover only the first group: "taxes". One should be aware, however, that there are countries in which social contributions are collected when in fact they are taxes. Paragraph 4.22, page 39 of the 2001 GFS manual indicates the distinction between taxes and social contributions. Note also that PI-3 covers all domestic revenue and not just taxes, while PI-7 correspondingly refers to all central government operations irrespective of the source of funding, i.e. including government managed social security schemes.

Dimension (i) Clarity and comprehensiveness of tax liabilities.

Key questions

1. What are legislation & procedures referring to main taxes & custom duties?
2. Are legislation & procedures comprehensive & clear for all areas of taxation or just for some areas?
3. Does the existing legislation include elements of administrative discretion in assessment of tax liabilities or penalties?
4. If yes, are these elements significant, fairly or strictly limited?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	
Information sources	Revenue Administration (incl. Income Tax, Customs, VAT) & investment promotion agency, corroborated by taxpayer groups.

Rating criteria

A. Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.
B. Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.
C. Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.
D. Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities.

Clarifications

PI-13	Query/Issue	Clarification
13-b	Dimension (i): discussions with the local Chamber of Commerce reveal instances **of tax officials using discretion corruptly when applying penalties.** How should this be treated?	Lack of clarity on penalties, allowing greater discretion to tax officials, should be counted into the assessment.

Dimension (ii) Taxpayer access to information on tax liabilities and administrative procedures.

Key questions

1. What means are currently used to allow tax payers access to information on tax liabilities & administrative procedures (website, brochures, regular radio or TV programs, specialized seminars, hotline, etc) & which taxes are covered?
2. In addition to the above, are there tax education campaigns? In the main tax payer languages?
3. Are these campaigns limited to tax payers in the capital or main cities?
4. Is there a special information desk in main tax offices nationwide?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	
Information sources	Revenue Administration (incl. Income Tax, Customs, VAT) & investment promotion agency, corroborated by taxpayer groups.

Rating criteria

A. Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.
B. Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.
C. Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date.
D. Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient.

Clarifications
(None)

Dimension (iii) Existence and functioning of a tax appeals mechanism.

Key questions

1. Is there a tax appeal mechanism (other than recourse to the general law courts)?
2. If yes, how does it work?
3. Is it operational in practice?
4. Is it fair, transparent & effective (are its decisions promptly acted upon in practice? Refer to the same criteria of effectiveness as in PI-19 (iv))
5. If not, what issues need to be addressed, or does it need substantial redesign?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	
Information sources	Revenue Administration (incl. Income Tax, Customs, VAT) & investment promotion agency, corroborated by taxpayer groups.

Rating criteria

A. A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.
B. A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed.
C. A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.
D. No functioning tax appeals system has been established

Clarifications

PI-13	Query/Issue	Clarification
13-c	Dimension (iii): In this country, the **only appeal mechanism** available to taxpayers is the general legal system: how should this be rated?	Recourse to the general legal system is not regarded as a tax complaints mechanism, unless a special court (a tax court or commercial court) has been established to hear such cases.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	A			**C+**	
Legislative framework for major taxes is generally clear and comprehensive. Some of the recent changes are not very clearly & consistently reflected in the legislation and regulations (e.g. transfer pricing). While there are some discretionary powers provided (e.g. in the waiving of penalties) these are not strictly limited but are in practice are guided by internal policy documents & procedures.	B	(i) Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.	Meetings with Revenue Authority.	C	The transparency of taxpayers' obligations & liabilities has improved as a result of a clearer legislative framework with discretionary powers being removed.
Tax payers have ready access to comprehensive & up to date information on tax obligations and administrative procedures. Advisory centers have been established in 2009 on the main islands.	A	Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.	Meetings with Revenue Authority & Chamber of Commerce.	B	Establishment of advisory centers provides outreach to taxpayers.
Tax appeal comprises 3 levels: objection, appeal to Revenue Tribunal & law courts. Data on objections demonstrate the system to be effective.	A	A tax appeals system of transparent administrative procedures with appropriate checks & balances, & implemented through independent institutional structures, is completely set up & effectively operating with satisfactory access and fairness, & its decisions are promptly acted upon.	Meetings with Revenue Authority & Chamber of Commerce	C	Tax appeal system now in place.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment.

Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers.

Taxpayer registration is facilitated by control mechanisms introduced by the revenue administration (RA). Maintenance of a taxpayer database based on a unique taxpayer identification number is an important element of such a control system, but is most effective if combined with other government registration systems that involve elements of taxable turnover and assets (such as e.g. issue of business licenses, opening of bank accounts and pension fund accounts). In addition, RAs should ensure compliance with registration requirements through occasional surveys of potential taxpayers e.g. by selective, physical inspection of business premises and residences.

Ensuring that taxpayers comply with their procedural obligations of taxpayer registration and tax declaration is usually encouraged by penalties that may vary with the seriousness of the fault. Effectiveness of such penalties is determined by the extent to which penalties are sufficiently high to have the desired impact, and are consistently and fairly administered.

Modern RAs rely increasingly on self-assessment and use risk targeted auditing of taxpayers as a key activity to improve compliance and deter tax evasion. Inevitable resource constraints mean that audit selection processes must be refined to identify taxpayers and taxable activities that involve the largest potential risk of non-compliance. Indicators of risk are the frequency of amendments to returns and additional tax assessed from tax audit work. Collection and analysis of information on non-compliance and other risks is necessary for focusing tax audit activities and resources towards specific sectors, and types of taxpayers have the highest risk of revenue leakage. More serious issues of non-compliance involve deliberate attempts of tax evasion and fraud, which may involve collusion with representatives of the RA. The ability of the RA to identify, investigate and successfully prosecute major evasion and fraud cases on a regular basis is essential for ensuring that taxpayers comply with their obligations.

Dimensions to be assessed (Scoring method M2):

(i) Controls in the taxpayer registration system.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.
(iii) Planning and monitoring of tax audit and fraud investigation programs.

Points to note:

Dimension (i) Controls in the taxpayer registration system.

Key questions

1. Is there a tax payer registration system?
2. Does it assign a Tax Identification Number (TIN) to each tax payer?
3. Are authorities obliged to quote unique TIN in correspondence with taxpayers?
4. If yes, does this happen in practice?
5. What is registration system (manual, electronic database using/ not using specialized software)?
6. Is the tax payer registration system linked to other relevant government registration systems (eg. supplier registration, business licensing, pension fund accounts)?
7. Are these linkages weak, partial or comprehensive?
8. Are surveys of potential tax payers carried out?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	
Information sources	Revenue Administration, Ministry of Trade & Industry (Business Licensing), other agencies having databases containing potential taxpayers.

Rating criteria

A. Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations.
B. Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.
C. Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.
D. Taxpayer registration is not subject to any effective controls or enforcement systems.

Clarifications
(None)

Dimension (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.

Key questions

1. Are there penalties for non-compliance with registration & tax declaration in existing legislation or current administrative procedures?
2. If yes, are they sufficient to impact on compliance or are changes needed?
3. How do they work in practice? Are they enforced?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	Penalties for no or late registration for tax purposes and no or late submission of tax returns (not for unpaid tax).
Information sources	Revenue Administration (incl. Income Tax, Customs, VAT) & investment promotion agency, corroborated by taxpayer groups.

Rating criteria

A. Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered.
B. Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.
C. Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.
D. Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed).

Clarification

PI-14	Query/Issue	Clarification
14-a	Dimension (ii): Is the rating measured against (a) "**penalties for non compliance with registration and tax declaration**" (as stated in the first column); or (b) "all areas of non compliance" (as stated in the second column)?	The answer is (a) – the dimension is focused on registration and tax declaration, so "all" in the second column refers to all areas concerning registration and declaration. Non-compliance with payment obligations would be covered in PI-15 as part of the effectiveness in avoiding and collecting arrears.

Dimension (iii) Planning and monitoring of tax audit and fraud investigation programs.

Key questions

1. Are there any tax audits (or tax audit programs) & fraud investigations?
2. If yes, how many tax audits were carried out in the last year?
3. Are audit programs carried out based on a documented audit plan, with clear risk assessment criteria for selection of audits?
4. If yes, what are the taxes that apply self-assessment?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	
Information sources	Revenue Administration (including entity in charge of Tax Audit within the administration)

Rating criteria

A. Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.
B. Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.
C. There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.
D. Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.

Clarification

PI-14	Query/Issue	Clarification
14-b	Dimension (iii): Does an "A" rating apply to the situation where a **documented audit plan** is in place with clear risk assessment criteria, but the complexity of some of the problem areas is straining the capacity of the tax auditors?	An "A" rating applies as long as the tax audits and investigations are being reported on. The fact that the audit team may have capacity problems is not in itself a reason for awarding a lower rating, as long as reports indicate problems incurred in attempting to implement audit plans. The narrative could include a comment on the problems being experienced.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B			**C**	
Any person or business with potential tax obligations must have a unique TIN (also a required to obtain a business license or open a bank account). The introduction of biometric finger prints has facilitated increased coverage of actual & potential taxpayers by the TIN. All businesses, regardless of size are required to have sales machines linked electronically to RA. Use of financial institutions as check points is likely to increase in the future.	B	(i) Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.	-- Tax Proclamations -- staff -- Regulation 139/2009 on *"Provide for the Obligatory Use of Cash Machines"*, Prime Minister, January, 26, 2009 (on ERCA website). -- Directive 46/2007, Minister of Revenues, August, 2009 on *"Provision for the use of Sales Register Machines"* (on website). Comments provided by staff	C	TIN system implemented.
Substantive penalties, high enough to act as a deterrent, are listed in the proclamations. Insufficient evidence to demonstrate consistent administration (capacity constraints). The new system is making it easier to detect non-compliance.	B	(ii) Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.	-- Tax proclamations. Interviews with RA staff.	C	RA staff convinced compliance improving.
A system of audit plans based on risk assessment criteria was instituted in 2009.	C	(iii) There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.	Interviews with RA staff.	C	No change.

PI-15 Effectiveness in the collection of tax payments.

Accumulation of tax arrears can be a critical factor undermining high budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily and need close follow up. The level of tax arrears itself does not necessarily correlate to the effectiveness of the tax collection system, since a major tax assessment drive may substantially increase tax arrears. However, the RA's ability to collect the taxes assessed is critical, unless the overall level of arrears is insignificant. Part of the arrears collection effort relates to resolution of tax debt in dispute. In some countries, tax arrears in dispute constitute a significant part of the total tax arrears, for which reason there may be a major difference between gross and net arrears (including and excluding disputes respectively).

Prompt transfer of the collections to the Treasury is essential for ensuring that the collected revenue is available to the Treasury for spending. This may take place either by having a system that obliges taxpayers to pay directly into accounts controlled by the Treasury (possibly managed by a bank) or, where the RA maintains it 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).

Aggregate reporting on tax assessments, collections, arrears and transfers to (and receipts by) the Treasury must take place regularly and be reconciled, where appropriate, in order to ensure that the collection system functions as intended, that tax arrears are monitored and the revenue float is minimized.

Dimensions to be assessed (Scoring method M1):

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

Points to note:

Dimension (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).

Key questions

1. Is there any reliable data on tax arrears (gross & net) at least for last 2 FYs?
2. Are they updated at least every year?
3. Does data show the % of gross arrears at beginning of each FY that was collected during that FY?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	Last 2 completed FYs.
Quantifiable data required	Tax arrears collected during the last two fiscal years as a percentage of gross tax arrears (including amounts in dispute / under litigation) at the beginning of each fiscal year.
Information sources	Revenue Administration (incl. Income Tax, Customs, VAT).

Rating criteria

- **A.** The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections).
- **B.** The average debt collection ratio in the two most recent fiscal years was 75-90% and the total amount of tax arrears is significant.
- **C.** The average debt collection ratio in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant
- **D.** The debt collection ratio in the most recent year was below 60% and total amount of tax arrears is significant (i.e. more than 2% of total annual collections).

Clarifications

PI-15	Query/Issue	Clarification
15-a	Dimension (i): As regards the **calculation of the debt collection ratio** at the beginning of the financial year, does the percentage of tax arrears at the beginning of the fiscal year refer to the total stock of arrears in dispute or the amount of tax collection in that year which is subject to dispute?	The stock of tax arrears refers to the accumulated stock of arrears, not just to the arrears from the last fiscal year. Moreover the “gross” tax arrears include both arrears in dispute and non-disputed (but never-the-less unpaid) taxes due.
15-b	Dimension (i): When **determining the significance or insignificance of tax arrears**, a criterion of 2% of total annual collections is applied. Does the 2% apply to (i) the total historical balance at the end of the year, against the percentage of collections during that year, or (ii) the balance of arrears generated during that year as a percentage of collections during that same year?	The threshold for significant tax arrears is based on the cumulative tax arrears as at the end of the last completed year, being less than 2% of tax collections for that year.

Dimension (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.

Key questions

1. Where do taxpayers & importers pay their taxes & duties (directly to RA, commercial banks, central bank, post office, etc)?
2. How do taxes & duties reach Treasury?
3. How long after collection are revenues transferred to Treasury? What is average frequency and delay?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	Frequency of transfer of tax revenue from RAs to the Treasury.
Information sources	Revenue Administration, Treasury.

Rating criteria

A. All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.
B. Revenue collections are transferred to the Treasury at least weekly.
C. Revenue collections are transferred to the Treasury at least monthly.
D. Revenue collections are transferred to the Treasury less regularly than monthly.

Clarifications

PI-15	Query/Issue	Clarification
15-c	Dimension (ii): Taxpayers pay income tax and VAT into commercial bank branches for transfer to a central Treasury bank account. **The Revenue Authority does not receive the revenue or itself transfer it to the Treasury.** How is dimension (ii) assessed?	The rating depends on the frequency of transfer of collections by the commercial banks to the Treasury.

Dimension (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

Key questions

1. Is a reconciliation exercise of tax assessments, collections, arrears & transfers to Treasury carried out?
2. If yes, how often?
3. When exactly is the reconciliation exercise completed after the period under consideration?

Coverage	Major tax revenues arising from all central government activities.
Critical period/time	As at time of assessment.
Quantifiable data required	Frequency and delay in reconciliation of records of tax assessment, collection, arrears and payment to the Treasury.
Information sources	Revenue Administration, Treasury.

Rating criteria

A. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.
B. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.
C. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.
D. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually OR is done with more than 3 months' delay.

Clarifications

PI-15	Query/Issue	Clarification
15-d	Dimension (iii): What is meant by **reconciliation of tax assessments and arrears**? Is this a reference to reconciliation against accounting records, implying accrual-based accounting?	The indicator dimension seeks to assess if the difference between tax assessed and tax received by the Treasury can be explained. It does not assume or imply an accrual based accounting system. The revenue administration (RA) would normally keep records on aggregate tax collections, and transfers to the Treasury in its accounting system. The RA should also keep records for each taxpayer about tax assessed, tax due and tax paid, but this may be done in other (possibly tax specific) data systems. The RA should be able to aggregate such information, so that it can report how much of assessed taxes is (a) not yet due, (b) in arrears (the difference between what is due and what has been paid in) and out of that how much is (b1) in dispute in appeals or other legal system, (b2) considered bad debt and (b3) in principle collectable, (c) collected by the RA but not yet transferred to the Treasury.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**D+**	
Effective collection is undermined by problems with writing-off debts that cannot be collected: this prevents a higher score. The RA provided an "age analysis of debt", showing that by 30 June 2007, 64% of amounts outstanding was overdue by 2 years or more, & that 8% was overdue between 1 & 2 years. The Tax Arrears Payment Incentive Scheme reduced the share of debts outstanding for more than 2 years to 44%, but this may have been a temporary effect. The average is 66.% over 2 years.	C	(i) The average debt collection ration in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant.	• Revenue staff. • Comments of Revenue provided at the September 16-17 workshop.	D	The tax debt collection ratio remains relatively low due to reluctance to write off old debts, but it has improved.
The frequency of transfers of revenue collections to the Treasury Account is at least once per day.	A	(ii) All tax revenue is paid directly into accounts controlled by the treasury or transfers to the treasury are made daily	Revenue Authority staff.	A	No change.
Reconciliation takes places on a monthly basis. This frequency is high with use being made of the Treasury Accounting System (TAS).	A	(iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of the end of the month.	• Head, Revenue Authority • Comments provided by Revenue Authority at the September 16-17 workshop.	A	No change.

PI-16 Predictability in the availability of funds for commitment of expenditures.

Effective execution of the budget, in accordance with the work plans, requires that the spending ministries, departments and agencies (MDAs) receive reliable information on availability of funds within which they can commit expenditure for recurrent and capital inputs. This indicator assesses the extent to which the central ministry of finance provides reliable information on the availability of funds to MDAs, that manage administrative (or program) budget heads (or votes) in the central government budget and therefore are the primary recipients of such information from the ministry of finance. The MDAs concerned in this indicator are the same as those concerned in indicator PI-11.

In some systems, funds (commitment ceilings, authority to spend or transfers of cash) are released by the ministry of finance in stages within the budget year (monthly, quarterly etc). In others, the passing of the annual budget law grants the full authority to spend at the beginning of the year, but the ministry of finance (or other central agency) may in practice impose delays on ministries in incurring new commitments (and making related payments), when cash flow problems arise. To be reliable, the amount of funds made available to an entity for a specific period should not be reduced during that period.

Predictability for MDAs in the availability of funds is facilitated by effective cash flow planning, monitoring and management by the Treasury, based on regular and reliable forecasts of cash inflows and of major, atypical outflows (such as the cost of holding an election and discrete capital investments) which are linked to the budget implementation and commitment plans for individual MDAs, and incorporates the planned in-year borrowing to ensure adequate liquidity at any time.

Governments may need to make in-year adjustments to allocations in the light of unanticipated events impacting revenues and/or expenditures. The impact on predictability and on the integrity of original budget allocations is minimized by specifying, in advance, an adjustment mechanism that relates adjustment to the budget priorities in a systematic and transparent manner (e.g. protection of particular votes or budget lines that are declared to be high priority, or say 'poverty related'). In contrast, adjustments can take place without clear rules/guidelines or can be undertaken informally (e.g. through imposing delays on new commitments). While many budget adjustments can take place administratively with little implication for the expenditure composition outturn at the more aggregate level of budget classifications, other more significant changes may change the actual composition at fairly aggregate administrative, functional and economic classification levels. Rules for when the legislature should be involved in such in-year budget amendments are assessed in PI-27 and not covered here.

The adherence of MDAs with the ceilings for expenditure commitment and payments is not assessed here, but is covered by indicator PI-20 on internal controls.

Dimensions to be assessed (Scoring method M1):

(i) Extent to which cash flows are forecast and monitored.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.

Points to note:

- It is important to indicate the ***value*** of expenditure involved when looking at the frequency and transparency of adjustments in budget classifications;
- PI-16 (iii) deals with total expenditures (including project expenditures financed with foreign loans and grants) not primary expenditures (as for PI-2).

General Clarification

16-a	What is meant by "**atypical outflows**" in the guidance text, 3rd paragraph?	The word "atypical" refers to expenditures that do not take place on a regular monthly or annual basis.

Dimension (i) Extent to which cash flows are forecast and monitored.

Key questions

1. Is a cash flow forecast established at the start of the new FY, for year ahead? If so, is it revised & updated during year?
2. How frequently (monthly, quarterly half yearly)?
3. Do in-year updates of cash flow forecasts include re-estimates of future cash requirements?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	Frequency of cash flow forecasting /updates by the Treasury for the last year.
Information sources	Treasury, Finance Officers of major spending agencies.

Rating criteria

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 updated at least quarterly, on the basis of actual cash inflows and outflows.
C. A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated.
D. Cash flow planning and monitoring are not undertaken or of very poor quality.

Clarification

PI-16	Query/Issue	Clarification
16-b	Dimension (i): What is meant by "**updated**"?	An update of the cash flow forecast requires re-estimation/re-scheduling of future cash flows.

Dimension (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.

Key questions

1. Are MDAs provided with reliable indication of actual resources available for commitments?
2. How much in advance is this indication provided (1, 2, 3 or 6 months)?
3. As a result, are MDAs able to plan & commit expenditures in accordance with budget appropriations?
4. In practice, does Treasury use non-transparent cash control mechanisms during periods of cash flow problems (e.g. delaying printing of cheques to suppliers for centrally-administered purchases or delaying transfer of funds to budget entity accounts for which cheques have already been written by budget entities)?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	Frequency of issue of commitment ceilings to MDAs and the period covered, for the last year.
Information sources	Treasury, Finance Officers of major spending agencies.

Rating criteria

- **A.** MDAs are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.
- **B.** MDAs are provided reliable information on commitment ceilings at least quarterly in advance.
- **C.** MDAs are provided reliable information for one or two months in advance.
- **D.** MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.

Clarification

PI-16	Query/Issue	Clarification
16-c	Dimension (ii): How should this dimension be scored in the instance where the **predictability of funds denominated in foreign exchange** is much lower (e.g. one week) than the predictability of funds denominated in domestic currency (e.g. 3 months)?	The scoring convention is that the requirements for the grade have to be fully met. A ‘B’ rating would be incorrect if the predictability of forex-denominated funds is less than quarterly, even if the proportion of expenditure denominated in foreign currencies is very low compared to the proportion of domestic currency-denominated expenditure. A lower rating should be scored representing aggregate predictability based on the weighted predictability of the two types of expenditure, the weights representing the proportions of domestic and foreign currency-denominated expenditure to total expenditure. For example, a ‘C’ score would appropriately represent aggregate predictability based on a high percentage (e.g. 90%) of expenditure for which commitments can be made 3 months in advance and a low percentage (10%) of expenditure for which commitments can be made only 1 week in advance. The forex-denominated portion of expenditure may represent a small proportion of total expenditure, but nevertheless the unpredictable availability of forex for purchasing inputs could adversely affect the timeliness of total expenditure to a significant degree and ultimately the quality of service delivery. A serious forex availability problem may indicate that something is fundamentally wrong somewhere in the economy, perhaps related to the government’s economic policies and the way it manages its public finances.

Dimension (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.

Key questions

1. What are legislative & procedural rules for making adjustments to original budget appropriations (e.g. virements, supplementary budgets)?
2. Are these rules respected?
3. What adjustments were made to budget allocations during last completed FY (with respect to virements, supplementary budgets & any other cause)?
4. Were these adjustments carried out transparently?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	Frequency of in-year budget adjustments by MOF and /or the legislature; and the value of expenditure involved for each adjustment event.
Information sources	Treasury, Finance Officers of major spending agencies.

Rating criteria

A. Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.
B. Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.
C. Significant in-year budget adjustments are frequent, but undertaken with some transparency.
D. Significant in-year budget adjustments are frequent and not done in a transparent manner.

Clarifications

PI-16	Query/Issue	Clarification
16-d	Dimension (iii): If there are many **virement adjustments made by agencies within their appropriations** with Ministry of Finance approval, do these count as in-year budget adjustments above the level of management of MDAs?	No. The dimension refers only to adjustments imposed by the MOF, not virement adjustments proposed by MDAs that do not cause MDA spending ceilings to be exceeded (even if these need MOF approval). Adjustments imposed by the MOF (perhaps requiring legislative approval of a proposed supplementary budget, see PI-27) may be in the form of cutbacks in spending ceilings for all or some MDAs in response to resource shortfalls and/or unanticipated requirements by some MDAs for extra funding. They could also be in the form of increases in spending ceilings as a result of higher than budgeted resource receipts.
16-e	Dimension (iii): How does an assessor determine whether **significant in-year adjustments above the level of MDA** management are done in a transparent and predictable way?	Documented procedures should be in place governing requests for virements, reallocations and changes in MDA spending ceilings, and consistent with the government's stated budget priorities. 'Significance' may be assessed in relation to the percentages specified in the PI-1 rating criteria.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C			**B+**	Slippage in this score was caused by the increased number of Supplementary Appropriations.
Line ministries prepare pro forma cash flows annually: however, these are only updated on an ad hoc basis where there is a significant deviation from anticipated expenditure.	C	(i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated.	-- MoF Financial Administration and Property Management Department. -- Draft IMF Aide Memoire on Cash Management & Banking Arrangements, Feb 2010.	B	No change in performance.
The MOF, informed by the pro forma cash flows and cash availability projections allocates funds on a quarterly basis by entering spending ceilings in FMIS. As a cautionary response to the global credit crunch expenditure commitment horizon was reduced from three months to one month in 2009.	C	(ii) MDAs are provided reliable information for one or two months in advance.	-- MoF Financial Administration and Property Management Department.	B	No change in performance.
Significant in-year budget adjustments are done in a transparent way but there were either 3 or 4 done for each of the fiscal years reviewed.	C	(iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.		A	The slippage in this score reflects the use of 3 supplementary budget procedures during the period under review as opposed to 2 in the previous assessment and the 2 prescribed by the PEFA methodology.

PI-17 Recording and management of cash balances, debt and guarantees.

Debt management, in terms of contracting, servicing and repayment, and the provision of government guarantees are often major elements of overall fiscal management. Poor management of debt and guarantees can create unnecessarily high debt service costs and can create significant fiscal risks. The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over.

An important requirement for avoiding unnecessary borrowing and interest costs is that cash balances in all government bank accounts are identified and consolidated (including those for extra-budgetary funds and government controlled project accounts). Calculation and consolidation of bank accounts are facilitated where a single Treasury account exists or where all accounts are centralized. In order to achieve regular consolidation of multiple bank accounts not held centrally, timely electronic clearing and payment arrangements with the government's bankers will generally be required.

Critical to debt management performance are also the proper recording and reporting of government issued guarantees, and the approval of all guarantees by a single government entity (e.g. the ministry of finance or a debt management commission) against adequate and transparent criteria.

Undertaking of debt sustainability analyses is covered under multi-year perspectives in PI-12, whereas monitoring of liabilities arising from guarantees issued is covered under fiscal risk oversight in PI-9.

Dimensions to be assessed (Scoring method M2):

(i) Quality of debt data recording and reporting.
(ii) Extent of consolidation of the government's cash balances.
(iii) Systems for contracting loans and issuance of guarantees.

Points to note:

Dimension (i) Quality of debt data recording and reporting.

Key questions

1. Where is debt data recorded?
2. Does debt data cover both external & domestic debt?
3. Does debt data base use specialized debt software?
4. Is the software equally used for external & internal debts or does each type of debt use different software?
5. Are data on external debt & data on internal debt complete?
6. What is quality of both external & domestic debt data?
7. Are data on external & internal debt updated & reconciled on a regular basis (monthly, quarterly, yearly, other)?
8. Are there any regular reports on external & domestic debt?
9. What is frequency of issue of such reports (monthly, quarterly, yearly, others)?
10. Do reports cover debt service, stock & operations?
11. Is debt data available on MoF website?

Coverage	Debt and guarantees issued by central government, excluding temporary overdrafts and supplier credit.
Critical period/time	As at time of assessment.
Quantifiable data required	Frequency of updating and reconciliation of data for all government debt; Frequency of debt report issue.
Information sources	MOF (Debt Management Dept) & Central Bank.

Rating criteria

A. Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly

B. Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually.

C. Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content.

D Debt data records are incomplete and inaccurate to a significant degree.

Clarifications

PI-17	Query/Issue	Clarification
17-a	Dimension (i): Is **non-formalised debt** (other than arrears on servicing of formal debt) such as expenditure arrears covered by this indicator?	No. This indicator covers only formally contracted debt and guarantees. Non-formalised debt is covered under PI-4 (Stock and monitoring of expenditure payment arrears). Including non-formalised debt under PI-17 would lead to duplication. The first paragraph under PI-4 in the Framework document indicates the items that would be included in a definition of expenditure arrears.
17-b	Dimension (i): Does reconciliation refer to **the reconciliation of Ministry of Finance data with data of the Central Bank or data of the creditors.**	The indicator refers to reconciliation between the government's records and the records of the creditor institutions, irrespective of whether the Central Bank or the Ministry of Finance maintains the government's debt records.

Dimension (ii) Extent of consolidation of the government's cash balances.

Key questions

1. Is there an STA where all government accounts are centralized?
2. Where are government bank accounts maintained?
3. Are all government bank accounts known (including those for extra-budgetary funds & government controlled project accounts)?
4. Are balances of some or all government accounts calculated & consolidated?
5. How often are bank balances consolidated or total of all balances calculated & known to government (daily, weekly, monthly, other)?

Coverage	All bank balances managed by Treasury and MDAs.
Critical period/time	As at time of assessment.
Quantifiable data required	Number of bank accounts for which balances are calculated and consolidated by the Treasury. Frequency of such calculations/consolidation.
Information sources	Treasury, Finance Officers of major spending agencies.

Rating criteria

A. All cash balances are calculated daily and consolidated.
B. Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.
C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances
D. Calculation of balances takes place irregularly, if at all, and the system used does not allow consolidation of bank balances.

Clarifications

PI-17	Query/Issue	Clarification
17-c	Dimension (ii): Do "**government controlled project accounts**" include ring-fenced projects executed by government project implementation units?	Yes. But it is only for an "A" score that all accounts have to be calculated and consolidated, whereas the requirements of scores "B" and "C" allow for some accounts not being included in that arrangement.
17-d	Dimension (ii): **CORRECTION** for score C	The words "and consolidation" should be removed as they contradict the last part of the sentence. (If the system does not allow consolidation, the balances cannot be consolidated)
17-e	Dimension (ii): Does "**most cash balances**" refer to value or number?	To value: the capture of cash balances depends on the coverage of a system to capture government accounts. It is the volume of cash balances that is the basis for this dimension. It may be useful to discuss the amounts and the number of active relative to dormant accounts in the narrative of the report. N.B. When conducting a repeat assessment, assessors should be aware that this contradicts a previous clarification.
17-f	Dimension (ii): What is the exact definition of "**consolidation**" of cash balances in this indicator?	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.

17-g	Dimension (ii): What is meant by "**calculated**"?	"Calculated" refers to the process of collating the data on cash balances held by MDAs in bank accounts and then obtaining a total figure by adding these up. The process is more difficult in a system of multiple bank accounts as there may be items in transit; the actual cash balance figure in an account may not fully reflect recent debits and credits.

Dimension (iii) Systems for contracting loans and issuance of guarantees.

Key questions

1. What is current legal framework which governs contracting of loans & issue of guarantees (including to AGAs & PEs)?
2. Who can authorize loans & issue of guarantees, (eg. MoF, other ministries)?
3. Are decisions concerning contracting of loans & issue of guarantees taken on basis of clear guidelines, transparent criteria & fiscal targets?

Coverage	Loans and guarantees issued by central government.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	MOF (Debt Management Dept) & Central Bank.

Rating criteria

A. Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.
B. Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.
C. Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.
D. Central government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism.

Clarifications

PI-17	Query/Issue	Clarification
17-h	Dimension (iii) requires that contracting of loans and issuance of guarantees be **approved by a "single responsible entity**". In some countries, both the Treasurer and the Minister for Finance are able to approve guarantees for government business enterprises (GBEs) depending on the specifics of the legislation that applies to that particular entity. Is this criterion intended to capture this situation, or is it more targeted at situations where GBEs are able to enter into arrangements without the knowledge or approval of central Finance agencies?	The indicator dimension is targeting situations where different central government entities (e.g. Ministers of Finance, responsible line ministers, or Office of the President) may all be allowed to (or despite legislation to the contrary, actually do) issue guarantees for loans obtained by the central government or GBEs and AGAs. In the case referred to, it is necessary to consider the determinants of a single responsible government entity and determine whether the Treasury together with the Ministry of Finance form such an entity. The circumstances will differ with each country situation. A unified overview mechanism i.e. a mechanism that keeps track of the volume of guarantees being issued and ensures that the volume remains within any ceilings set will be a determinant to consider. Ratification of loans and guarantees by the legislature is not relevant to this dimension, which is concerned only with executive approval.
17-i	Dimension (iii): "**Fiscal targets**" which score A could be interpreted as looser than "limits for debt and guarantees" which scores B.	The specific fiscal targets referred to for a score "A" represent limits to total debt and total guarantees and part of a set of fiscal parameters which are determined jointly and possibly updated jointly if required by changes in macro-economic conditions during the year. The ceilings referred to for a score "B" may be more crudely fixed for the year with weaker links to the macro-economic framework.
17-j	Dimension (iii): Why are "**criteria**" referred to for scores A and C, but not for B?	While score A requires that "transparent criteria and fiscal targets" are applied, score C represents a situation where no guidelines, criteria and ceilings are applied. Score B refers to one criterion only, namely the limits set for total debt and total guarantees, and do not require that any other criteria (including guidelines or ceilings) are applied.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	A			**C+**	
Domestic and foreign debt records are reconciled on a monthly basis. Comprehensive management reports are produced monthly & cover debt stock, debt service & operations.	A	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly.	MOF (Debt Management Dept) & Central Bank	B	New Public Debt Management Act implemented: medium-term strategy formulated & updated annually, & included in budget documents submitted to the National Assembly. Further the new Act & its amendments strengthen rules governing provision of government guarantees & give Minister of the Finance alone power to raise debt.
The payments system uses the TSA for all Government payments (except for some donor funded project accounts). This facilitates daily monitoring that reports & reconciles TSA. Calculation on all other accounts is available monthly.	B	Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.	Chief Finance Officers of Education & Agriculture	C	Treasury Single Account implemented.
Central government's contracting of loans & issuance of guarantees are made against transparent criteria & fiscal targets set in the Debt Management Strategy. Contracting of loans & guarantees is always approved by a single responsible government entity, the National Debt Committee.	A	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.	MOF (Debt Management Dept) & Central Bank	C	Prior to the new Public Debt management Act the Minister was the sole authority to contract loans and issue guarantees, but this was not always respected in practice. The new Act establishes transparent and sound procedures in the commitment of public debt obligations

PI-18 Effectiveness of payroll controls.

The wage bill is usually one of the biggest items of government expenditure and susceptible to weak control and corruption. This indicator is concerned with the payroll for public servants only. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of general internal controls (PI-20). However, different segments of the public service may be recorded in different payrolls. All of the more important of such payrolls should be assessed as the basis for scoring this indicator, and mentioned in the narrative.

The payroll is underpinned by a personnel database (in some cases called the “nominal roll” and not necessarily computerized), which provides a list of all staff, who should be paid every month and which can be verified against the approved establishment list and the individual personnel records (or staff files). The link between the personnel database and the payroll is a key control. 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. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps and identify control weaknesses.

Dimensions to be assessed (Scoring method M1):

(i) Degree of integration and reconciliation between personnel records and payroll data.
(ii) Timeliness of changes to personnel records and the payroll.
(iii) Internal controls of changes to personnel records and the payroll.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.

Point to note:
The scope of this indicator includes AGAs (in some cases they are not dealt with, although this is clearly stated in the guidelines).

General Clarification

18-a	The four **dimensions appear to be quite independent** of each other. A country could be rated, ‘A’, ‘A’, ‘A’ & ‘D’, and overall get only a ‘D+’. Is this fair? Are the dimensions dependent or independent?	The dimensions are interdependent, so the overall rating depends on the lowest rated dimension. If, for instance, dimensions are rated ‘A’, ‘A’, ‘A’ and ‘D’, due to the absence of payroll audits, there would be no assurance that the system is performing well, despite the ratings of the first three dimensions. Hence the overall score would be ‘D+’.

Dimension (i) Degree of integration and reconciliation between personnel records and payroll data.

Key questions

1. Who is in charge of central government payroll(s)?
2. Is payroll data centralized &/or computerized (with or without specialized software)?
3. Who is responsible for personnel records & personnel database?
4. Does information in above 3 exist in electronic form?
5. What can be said about quality & completeness of payroll data, personnel records & database?
6. Are payroll data, personnel records & personnel database electronically linked or are they regularly reconciled (is there any cross-check between personnel database & payroll)?
7. If yes, what is the frequency of reconciliation (monthly, quarterly, every six months, other)?
8. Is the payroll centrally operated (does treasury make payments directly to individuals for all institutions throughout government)?
9. Are all payments made directly to bank account for each individual (if not, how are payments made)?

Coverage	All payrolls of the central government, including all MDAs and AGAs.
Critical period/time	As at time of assessment
Quantifiable data required	
Information sources	Public Service Commission, Personnel Management Dept, Accountant General, Finance Officers of MDAs and AGAs, corroborated by Auditor General.

Rating criteria

A. Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.
B. Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.
C. A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months.
D. Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists.

Clarifications

PI-18	Query/Issue	Clarification
18-b	Dimension (i): What is meant in score D by "**the three lists**"?	"The three lists" refers to the establishment list, the personnel records (or the nominal roll) and the payroll.
18-c	Dimension (i): What is meant by "**directly linked**"?	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.
18-d	Dimension (i): How should a situation be rated where there is **no automated personnel database** for the payroll system to check against, but nevertheless manual systems ensure data consistency and monthly reconciliation?	The indicator does not require an automated system to receive a high score. A well-managed manual database system may be better than an automated electronic system that is deficient in input controls and documentation.
18-e	Dimension (i): What is the difference between the terms **"personnel database" and "personnel data"**?	The terms "personnel database" and "personnel data" are used synonymously.

Dimension (ii) Timeliness of changes to personnel records and the payroll.

Key questions

1. What is the average or typical delay between a personnel change (eg. recruitment, promotion, transfer, separation) & corresponding payroll change?
2. Are retroactive adjustments widespread, frequent, occasional or rare?

Coverage	All payrolls of the central government, including all MDAs and AGAs.
Critical period/time	As at time of assessment
Quantifiable data required	Frequency of updating of personnel records and payroll data. Average delay in the number of days from change in personnel status to personnel records and payroll data are updated.
Information sources	Public Service Commission, Personnel Management Dept, Accountant General, Finance Officers of MDAs and AGAs, corroborated by Auditor General and staff union.

Rating criteria

A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).

B. Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.

C. Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments.

D. Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments.

Clarifications

PI-18	Query/Issue	Clarification
18-f	Dimension (ii): The criteria for a 'D' rating specifies a "**nominal roll**". What is this?	The nominal roll is the same as the 'personnel records' mentioned in the other criteria.

Dimension (iii) Internal controls of changes to personnel records and the payroll.

Key questions

1. What are controls on changes to personnel records?
2. Are they good enough to avoid payment errors & to ensure full integrity of data?
3. Are authority & basis for changes to personnel records & payroll clear & restricted to named officers?
4. Do changes of records & payroll result in an audit trail?

Coverage	All payrolls of the central government, including all MDAs and AGAs.
Critical period/time	As at time of assessment
Quantifiable data required	
Information sources	Public Service Commission, Personnel Management Dept, Accountant General, Finance Officers of MDAs and AGAs, corroborated by Auditor General.

Rating criteria

A. Authority to change records and payroll is restricted and results in an audit trail.
B. Authority and basis for changes to personnel records and the payroll are clear.
C. Controls exist, but are not adequate to ensure full integrity of data.
D. Controls of changes to records are deficient and facilitate payment errors.

Clarification

PI-18	**Query/Issue**	**Clarification**
18-g	Dimension (iii): Clarification of the Score B reference to "**the authority and basis for changes**".	It is insufficient that the authority and basis for changes are stated in the rules. They must also be applied in practice so that the actual authorization of and basis for the changes made are clear.

Dimension (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.

Key questions

1. Have partial or full payroll audits or staff surveys been undertaken within last 3 years?
2. If yes, were all Central government entities covered?
3. Were audits/surveys done independently of the payees This question is intended to draw attention to possibility of collusion within the audited agencies and the validity of the audit findings?
4. Is there a strong system of annual payroll audits to identify control weaknesses &/or ghost workers?

Coverage	All payrolls of the central government, including all MDAs and AGAs.
Critical period/time	Last 3 years before assessment.
Quantifiable data required	Dates of payroll audit events during the last 3 years
Information sources	Public Service Commission, Personnel Management Dept, Accountant General, Finance Officers of MDAs and AGAs, corroborated by Auditor General.

Rating criteria

A. A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.
B. A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).
C. Partial payroll audits or staff surveys have been undertaken within the last 3 years.
D. No payroll audits have been undertaken within the last three years.

Clarification

PI-18	Query/Issue	Clarification
18-h	Dimension (iv): For A, B or C ratings, is it necessary that **action is taken on the results of payroll audits**?	An ‘A’ rating requires that appropriate action is taken, as implied by the word “strong” in the text shown in the Framework document. A ‘B’ rating indicates that appropriate action has not been taken or only to a limited agree. A ‘C’ rating indicates that no action has been taken.
18-i	Dimension (iv): **What counts as a payroll audit**?	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 the payees exist and are identified before payment.
18-j	In the country being assessed, the proportion of **non-permanent staff** on the payroll is significant. Will this affect the rating of Dimension (iv)?	No: as the possibility of ghost workers is just as high amongst non-permanent staff, the requirements remain in place.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+				*First assessment*
The payroll is split, with approximately half the employees not on conventional payroll system. Personnel records are maintained by a number of entities and there is no routine reconciliation process between personnel records payroll & the nominal ledger (list of people to be paid).	D	(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists.	*Interviews Treasury, Establishment Department*		
There are no reports from the system, which generate accurate information on the timeliness of changes/ need for retroactive adjustments. Delays are reported of up to three months which require retroactive adjustments.	C	(ii) Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments.	*PSC annual report Interviews Treasury, Establishment Department*.		
There is no comprehensive set of payroll procedures, no audit trail and no clear designation of roles and responsibilities this consequently means that data integrity cannot be assured but internal processing requirements means that there are some controls in place.	C	(iii) Controls exist, but are not adequate to ensure full integrity of data.	*Interviews Treasury, Establishment Department, Free balance documents*		
No payroll audit or staff survey has been carried out in the last three years.	D	(iv) No payroll audits have been undertaken within the last three years.	*Interviews Treasury, Establishment Department Audit Office*		

PI-19 Transparency, competition and complaints mechanisms in procurement.

Significant public spending takes place through the public procurement system. A well functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programs and services by the 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. One of the key principles established by the legal framework is the use of transparency and competition as a means to obtain fair and reasonable prices and overall value for money.

While the procurement system operates within its own framework, it benefits from the overall control environment that exists in the PFM system, including public access to information, internal controls operated by implementing agencies, and external audit. The procurement system also contributes to many aspects of the PFM system, providing information that enables realistic budget formulation, providing access to information to stakeholders that contribute to public awareness and transparency, and supporting efficiency and accountability in delivery of government programs. (The following indicators impact on or are influenced by procurement: PI-4, PI-10, PI-12, P-20, PI-21, PI-24, PI-26 and PI-28).

However, unique to the public procurement process is the involvement of participants from the private sector and the civil society who are key stakeholders in the outcome of the procurement process. A good procurement system uses the participation of these stakeholders as part of the control system in the process for submission and resolution of complaints in a fair, transparent, independent and timely manner. The timely resolution of complaints is necessary to allow contract awards to be reversed if necessary and limit 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 appeals.

Public dissemination of information through appropriate means (e.g. government or agency level websites, procurement journals, national or regional newspapers, on demand from procurement bodies) on procurement processes and its outcomes are key elements of transparency. In order to generate timely and reliable data, a good information system will capture data on procurement transactions and be secure.

Dimensions to be assessed (Scoring method M2):

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.
(ii) Use of competitive procurement methods.
(iii) Public access to complete, reliable and timely procurement information.
(iv) Existence of an independent administrative procurement complaints system.

While dimension (i) is concerned with the existence and scope of the legal and regulatory framework, dims (ii), (iii) & (iv) focus on the operation of the system.

Points to note:

- PEFA coverage is limited to Government funds, excluding SOEs (the OECD DAC *'Methodology for Assessing Procurement Systems'* covers all public funds).
- It is of no consequence if part or all of the public procurement system is run fully or partly under an externally financed technical assistance project though the text accompanying the rating might comment from a sustainability point of view.

Dimension (i) Transparency, comprehensiveness and competition in the legal and regulatory framework.

Key questions

Is the legal and regulatory framework for procurement:

(i) organized hierarchically and precedence clearly established;
(ii) freely and easily accessible to the public through appropriate means;
(iii) applied to all procurement undertaken using government funds;
(iv) making open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified;
(v) providing for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints;
(vi) providing for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature?

Coverage	All procurement for central government using national procedures, including all MDAs and AGAs.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	MOF, Central Procurement Authority, Procurement Officers in heavy spending MDAs, corroborated by Auditor-General & NGOs (e.g. Chamber of Commerce).

Rating criteria

A. the legal framework meets all six of the listed requirements.
B. the legal framework meets four or five of the six listed requirements.
C. the legal framework meets two or three of the six listed requirements.
D. the legal framework meets one or none of the six listed requirements.

Clarifications

PI-19	Query/Issue	Clarification
19-a	Dimension (i): What is the **scope of the "public procurement system"** referred to in the first sentence of the first paragraph under PI-19 in the Framework document?	The public procurement system refers to the system for procuring goods and services of the government being assessed. The scope of the system would include: • centralized procurement, such as through a central tender board; • decentralized procurement through procurement entities in the government's MDAs; • procurement by agencies other than MDAs (e.g. NGOs), where these are contracted to undertake procurement on behalf of the government; and, • procurement financed by donor project funds (perhaps through a PMU) provided that they use the government's procurement system in its entirety and do not apply the donors' procurement systems. Donor project payments, however, might be managed through the government's own financial management system (perhaps through a special account) or the donor's financial management system (i.e. the donor pays the contracted supplier directly). The scope excludes procurement fully or partially using donor systems and the procurement systems of state owned enterprises even if they receive transfers from the government's budget. It is of no consequence if part or all of the public procurement system is run fully or partly under an externally financed technical assistance project though the text accompanying the rating might comment from a sustainability point of view.

19-b	Dimension (i). What is meant by a **legal and regulatory framework** “organized hierarchically and precedence clearly established”?	This requirement is that the legal framework should be clear, so, for example the procurement procedures (which may be regulations) are backed by statute (e.g. 'the Minister may issue regulations'); and other legislation (e.g. a Water Act) cannot override the procurement procedures.
19-c	In dimensions (i) and (iii) there is a requirement that information should be available to the public “through appropriate means”. **Does this include provision of information through a website**?	A website is one means of providing information at low cost to all those who might want it, provided the website is functional and can be accessed through a multiplicity of points, such as Internet cafes. At local level, other means may be appropriate, such as notice boards.

Dimension (ii) Use of competitive procurement methods.

Key questions

1. Do existing legislation & regulatory requirements clearly establish open competition as preferred method of procurement?
2. If yes, how regular & strong is justification for use of less competitive methods?
3. Are less competitive methods justified in accordance with regulatory requirements?

Coverage	All procurement for central government using national procedures including all MDAs and AGAs.
Critical period/time	As at time of assessment.
Quantifiable data required	
Information sources	MOF, Central Procurement Authority, Procurement Officers in heavy spending MDAs, corroborated by Auditor-General & NGOs (e.g. Chamber of Commerce).

Rating criteria

When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements:

A. In all cases.
B. For at least 80% of the value of contracts awarded.
C. At least 60% of the value of contracts awarded.
D. For less than 60% of the value of contracts awarded, **OR** reliable data is not available.

Clarification

PI-19	Query/Issue	Clarification
19-d	Dimension (ii): In order to score this dimension **does the data have to be sufficient to assess the method used**?	Yes, there must be reasonably complete data available to determine first, the value of contracts awarded other than by open competition, and secondly, the percentage of these that were legally justified. If such reasonably complete data is not available, the score would be 'D'.
19-e	Dimension (ii): **Which modalities of procurement are counted as "open competition"**?	Modalities may be defined differently in different countries, but normally only international competitive bidding and national competitive bidding are included as open competition. Limited competitive bidding, such as selection from a list of approved contractors, may be counted as open and competitive if the list is compiled from regular open invitations to register. 'Prudent shopping' and sole sourcing are not considered open competition.

Dimension (iii) Public access to complete, reliable and timely procurement information.

Key question

Is key procurement information, (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) made available to the public through appropriate means?

Coverage	All procurement for central government using national procedures including all MDAs and AGAs.
Critical period/time	As at time of assessment.
Quantifiable data required	
Information sources	MOF, Central Procurement Authority, Procurement Officers in heavy spending MDAs, corroborated by Auditor-General & NGOs (e.g. Chamber of Commerce).

Rating criteria

A. All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means.

B. At least three of the key procurement information elements are complete and reliable for government units representing 75% of procurement operations (by value) and made available to the public in a timely manner through appropriate means.

C. At least two of the key procurement information elements are complete and reliable for government units representing 50% of procurement operations (by value) and made available to the public through appropriate means.

D. The government lacks a system to generate substantial and reliable coverage of key procurement information, **OR** does not systematically make key procurement information available to the public.

Clarification

PI-19	Query/Issue	Clarification
19-c	In dimensions (i) and (iii) there is a requirement that information should be available to the public "through appropriate means". **Does this include provision of information through a website**?	A website is one means of providing information at low cost to all those who might want it, provided the website is functional and can be accessed through a multiplicity of points, such as Internet cafes. At local level, other means may be appropriate, such as notice boards.
19-f	Dimension (iii): **Contract awards are published** on the Procurement Authority website, but are months late and incomplete. Does this count toward the score?	No. Information must be complete, reliable and timely.
19-g	Dimension (iii): MDA procurement plans are published in full on the Procurement Authority website, but d**o not include the budgeted amounts.**	Procurement plans should show the amount provided for each large contract, otherwise this element is not met.

Dimension (iv) Existence of an independent administrative procurement complaints system.

Key questions

Are complaints reviewed by a body which:

(i) is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;
(ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;
(iii) does not charge fees that prohibit access by concerned parties;
(iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available;
(v) exercises the authority to suspend the procurement process;
(vi) issues decisions within the timeframe specified in the rules/regulations; and
(vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).

Coverage	All procurement for central government using national procedures including all MDAs and AGAs.
Critical period/time	As at time of assessment
Quantifiable data required	Number of complaints settled in favor of complainants, and number in favor of the procuring entities.
Information sources	Complaints body, MOF, Central Procurement Authority, Procurement Officers in heavy spending MDAs, corroborated by Auditor General & NGOs (e.g. Chamber of Commerce).

Rating criteria

A. The procurement complaints system meets all seven criteria.
B. The procurement complaints system meets criteria (i), (ii) and three of the other five criteria.
C. The procurement complaints system meets criteria (i), (ii) and one of the other five criteria.
D. The procurement complaints system does not meet criteria (i) & (ii) and one other criterion, **OR** there is no independent procurement complaints review body.

Clarification

PI-19	Query/Issue	Clarification
19-h	Dimension (iv): Procurement process **complaints can be taken to the law courts**. Do these constitute an external body for resolution of complaints?	No, unless a special court, such as a commercial court, is set up to hear such cases. Recourse to the general law courts is not regarded as a procurement complaints mechanism.

Example of presentation in a summary box

<table>
<tr><th colspan="2" rowspan="2">Dimension</th><th colspan="3">2011 Assessment</th><th>2006 Baseline</th><th rowspan="2">Explanation</th></tr>
<tr><th>Score</th><th colspan="2">Framework Requirement</th><th>Score</th></tr>
<tr><td rowspan="7">(i)</td><td rowspan="7">Transparency, comprehensiveness and competition in the legal and regulatory framework</td><td rowspan="7">C</td><td colspan="2">The legal and regulatory framework for procurement should</td><td rowspan="17">Not comparable</td><td rowspan="17">Not comparable. The new methodology uses 4 dimensions, instead of 3, & is more comprehensive. The major reform since 2006 has been the passage in Parliament of the PPA-2006 embodying a comprehensive set of international good procurement practices: this became effective from FY 2008.</td></tr>
<tr><td>• be organized hierarchically and precedence is clearly established</td><td>√</td></tr>
<tr><td>• be freely and easily accessible to the public through appropriate means</td><td>√</td></tr>
<tr><td>• apply to all procurement undertaken using government funds</td><td>√</td></tr>
<tr><td>• make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified</td><td>√</td></tr>
<tr><td>• provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints</td><td>X</td></tr>
<tr><td>• provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature</td><td>X</td></tr>
<tr><td>(ii)</td><td>Use of competitive procurement methods</td><td>D</td><td colspan="2">Data not supplied</td></tr>
<tr><td>(iii)</td><td>Public access to complete, reliable and timely procurement information</td><td>D</td><td colspan="2">The public does not have access to any of the key procurement information listed</td></tr>
<tr><td rowspan="8">(iv)</td><td rowspan="8">Existence of an independent administrative procurement complaints system</td><td rowspan="8">D</td><td colspan="2">Complaints are reviewed by a body which</td></tr>
<tr><td>• is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government</td><td>X</td></tr>
<tr><td>• is not involved in any capacity in procurement transactions or in the process leading to contract award decisions</td><td>X</td></tr>
<tr><td>• does not charge fees that prohibit access by concerned parties</td><td>X</td></tr>
<tr><td>• follows processes for submission and resolution of complaints that are clearly defined and publicly available</td><td>X</td></tr>
<tr><td>• exercises the authority to suspend the procurement process</td><td>X</td></tr>
<tr><td>• issues decisions within the timeframe specified in the rules/regulations</td><td>X</td></tr>
<tr><td>• issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)</td><td>X</td></tr>
<tr><td></td><td>Score M2</td><td>D</td><td colspan="2"></td><td>D</td><td></td></tr>
</table>

PI-20 Effectiveness of internal controls for non-salary expenditure.

An effective internal control system is one that (a) is relevant (i.e. based on an assessment of risks and the controls required to manage the risks), (b) incorporates a comprehensive and cost effective set of controls (which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), (c) is widely understood and complied with, and (d) is circumvented only for genuine emergency reasons. Evidence of the effectiveness of the internal control system should come from government financial controllers, regular internal and external audits or other surveys carried out by management. One type of information could be error or rejection rates in routine financial procedures.

Other indicators in this set cover controls in debt management, payroll management and management of advances. This indicator, therefore, covers only the control of expenditure commitments and payment for goods and services, casual labor wages and discretionary staff allowances. The effectiveness of expenditure commitment controls 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 projected cash availability, thereby avoiding creation of expenditure arrears (ref. indicator PI-4).

Dimensions to be assessed (Scoring method M1):

(i) Effectiveness of expenditure commitment controls.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.
(iii) Degree of compliance with rules for processing and recording transactions.

General Clarifications

PI-20	Query/Issue	Clarification
20-a	PI-20 concentrates on recurrent non-salary expenditure i.e. on goods and services and their related procurement arrangements. The indicator is silent about capital expenditure. **Should capital expenditures be included**?	The indicator should include capital expenditure since it is also part of "non-salary expenditure". If capital/development expenditure is controlled by donor procedures, then the internal control systems applied through those procedures should not be assessed, as the performance indicators focus on performance of government systems, not donor systems (however, there may be separate systems – one for expenditures financed with domestic resources and one (not donor controlled) for expenditures financed with external resources).
20-b	Is **internal control of expenditure financed from subventions to districts** included in the scope for indicator PI-20?	If the districts referred to are deconcentrated units of central government, they should be considered the same way as the rest of central government. If they are separate legal entities, with own accountability systems through a local elected council or similar body, then they are not part of central government and their use of the subventions and the related PFM systems should not be included in an assessment of central government. If in the latter case the magnitude of such subventions is important from a national perspective, it may be decided to expand the scope of the entire assessment to include assessment of PFM systems at district level.
20-c	There appears to be a **contradiction in the guidance text** between item (b) in the first sentence and the second paragraph's second sentence. What is the correct interpretation?	This sentence has been misinterpreted to mean that PI-20 only relates to controls on expenditure commitments and payment for goods and services. However, PI-20 covers the whole internal control framework (as set out in INTOSAI's guidance on internal controls), including for procurement, assets management, records management, with the exception of controls over debt management, payroll management and management of advances, which are covered in PIs-17, 18 and 22. A clarification note below under dimension (ii) specifically outlines the scope of internal control systems. The second paragraph's second sentence should be understood to mean: "This indicator therefore covers only controls relating to goods and services, casual labor, and discretionary staff allowances."

Dimension (i) Effectiveness of expenditure commitment controls.

Key questions

1. Are there expenditure commitment control systems in place?
2. How do they operate in practice?
3. Are they respected, or are they overridden at top level?
4. Do they cover all expenditures?
5. Do they effectively limit commitments to projected cash availability & approved budget allocations for most types of expenditures or for all expenditures?

Coverage	Budgetary central government.
Critical period/time	As at time of assessment.
Quantifiable data required	Qualitative only. <u>Useful supplementary data</u>. Error rates or rejection rates in routine financial transactions as reported by government financial controllers and /or internal or external audit bodies.
Information sources	MOF (Internal Audit), Accountant General, Heads and Finance Officers of major MDAs, corroborated by Auditor General.

Rating criteria

A. Comprehensive expenditure commitment controls are in place & effectively limit commitments to actual cash availability & approved budget allocations (as revised).
B. Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.
C. Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.
D. Commitment control systems are generally lacking OR they are routinely violated.

Clarifications

PI-20	Query/Issue	Clarification
20-d	Dimension (i). If there are **problems with the accuracy and /or timelines of recording of commitments**, should both indicators PI-20(i) and PI-24(iii) be penalized?	PI-20(i) is concerned only with the effectiveness of commitment controls, whereas PI-24(i) is concerned inter-alia with the availability of both commitment and payment data and PI-24(iii) is concerned with the accuracy of the data. Commitment controls may be very effective, but the data reporting may be weak or non-existent, and vice versa. The two indicators are measuring different things.
20-e	Dimension (i): How should this dimension be scored in the instance where **commitment controls are in place but linked to a revised budget that has not been approved** by parliament.	The answer to this partly depends on the extent to which the budget can be revised without prior parliamentary approval (see PI-27). The usual case is that reallocations within MDAs (through virements) are allowed up to a point without requiring prior parliamentary approval. If the revised budget only reflects changes that did not require prior parliamentary approval then an A or B score would be appropriate. If the revised budget requires prior parliamentary approval and commitment control checks are being conducted against the unapproved revised budget, then a C score may be appropriate.
20-f	Dimension (i): A commitment is made against a budget allocation, not cash on hand, yet an 'A' or 'B' rating requires that commitment controls "effectively limit commitments to ***actual*** cash availability…" Should this be ***projected*** cash availability?	Yes: this should be "***projected*** cash availability" and is linked to the 'horizon of reliable information' specified in PI-16 (ii), which provides an MDA with authority to spend. An earlier clarification about the coverage of this indicator ('*non-salary expenditure' is not only recurrent, but also capital, and of course may be multi-year*) implies this.

Dimension (ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.

Key questions

1. Are there clear & comprehensive control rules/procedures in other important areas?
2. If yes, are they excessive?
3. Are they well understood by those directly involved in their application?
4. Are they efficient & do they contribute to reduce unnecessary delays?
5. Are they comprehensive & cost-effective?

Coverage	Budgetary central government.
Critical period/time	As at time of assessment.
Quantifiable data required	Qualitative only. Useful supplementary data: Error rates or rejection rates in routine financial transactions as reported by government financial controllers and /or internal or external audit bodies.
Information sources	MOF (Internal Audit), Accountant General, Heads and Finance Officers of major MDAs, corroborated by Auditor General.

Rating criteria

A. Other internal control rules & procedures are relevant, & incorporate a comprehensive & generally cost effective set of controls, which are widely understood.

B. Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.

C. Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.

D. Clear, comprehensive control rules/procedures are lacking in other important areas.

Clarification

PI-20	Query/Issue	Clarification
20-g	Dimension (ii): What is the scope of "**other internal controls and procedures**"?	Other internal controls, excluding those specifically related to payroll controls (PI-18 dimension iii) and those related to revenue reconcilations (PI-15) and bank reconciliations (PI-22), cover: (in line with INTOSAI Control Standards): • *Authorisation and Approval Procedures:* Only valid transactions and events are initiated as intended by management. Procedures are documented and clearly communicated. Procedures include delegations of responsibility (e.g. signing powers) to lower level officials in the interests of efficiency. • *Segregation of responsibilities*. To reduce the risk of error, waste, or *wrongful* acts, no single individual or team should control all stages of a transaction or event. Segregation of responsibilities provides effective checks and balances. For example: (i) the person who proposes the use of funds for a particular item should not be the same person who approves the proposal; (ii) the staff preparing procurement tenders should not be the same staff that evaluates bids. • *Verifications:* Transactions and significant events are verified before and after processing. For example: (i) request for payment for a new *vehicle* should be accompanied by the pro forma invoice, purchase order, delivery receipt, final invoice and the forms indicating that the correct procurement procedures have been followed; (ii) once payment is approved, verification that the intended recipient receives the approved amount of money in a timely fashion. • *Controls over use of IT.* (i) *General controls*: entity-wide security program planning and management, access controls, controls on development, maintenance and change of application software, system software controls, segregation of duties, service continuity; *(ii) Application Controls*: policies and procedure relating to separate, individual application systems, designed to prevent, detect, and correct errors and irregularities as information flows through information systems. • *Controls over access to resources and records:* e.g. government vehicles, computers, furniture, and stationery. Access to resources is limited to authorized individuals who are accountable for the custody and use of resources. A real asset register may be part of the control system. • *Controls over information and communication systems:* To ensure full documentation of all transactions (e.g. financial transactions) and significant events. The various internal control systems noted here should be well-documented and available to all staff.

Dimension (iii) Degree of compliance with rules for processing and recording transactions.

Key questions

1. In routine financial procedures, are there any error rates or rejection rates compiled? What do these rates imply for assessing the understanding of rules, & compliance with them?
2. Is compliance with rules low, fairly high or high?
3. How widespread is the unjustified use of simplified/emergency procedures?

Coverage	Budgetary central government.
Critical period/time	As at time of assessment.
Quantifiable data required	Qualitative only. Useful supplementary data: Error rates or rejection rates in routine financial transactions as reported by government financial controllers and /or internal or external audit bodies.
Information sources	MOF (Internal Audit), Accountant General, Heads and Finance Officers of major MDAs, corroborated by Auditor General.

Rating criteria

A. Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.
B. Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.
C. Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.
D. The core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures.

Clarifications

PI-20	Query/Issue	Clarification
20-h	Dimension (iii): What is the **difference between a B and C score**?	The difference is in the degree of unjustified use of simplified/emergency procedures. If unjustified use occurs occasionally without becoming a major concern, the score is B. If unjustified use is a major concern, the score is C. [If unjustified use is rampant, the score would be D].

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**D+**	
Commitments for all expenditure categories are registered in the accounting system: this incorporates comprehensive controls that limit expenditure commitments according to cash availability (conformity with budget allocations & availability).	C	(i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	-- Financial Administration proclamations (2003 and 2009) and Regulations (2003). -- MoF and IA Department staff.	D	Enhancement to accounting package.
Internal controls are implemented through FMIS, including all execution stages as well as via a public procurement module. There is no formal procedures manual to disseminate & communicate internal control rules, although the Internal Audit Agency is considering preparing one. However, the regulatory framework for all administrative processes is contained in the Financial Management legislation published on the Government website & in a detailed manual.	C	(ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.	-- As above.	C	No change.
Existing control mechanisms are understood and followed in most transactions. However, occasionally simplified procedures are used without further justification.	B	(iii) Compliance with rules is fairly high, but simplified/ emergency procedures are used occasionally without adequate justification.	-- MoF and IA staff -- AG annual report to FBC,. -- Council FBC.	B	No change.

PI-21 Effectiveness of internal audit.

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 meet international standards such as the International Standards for the Professional Practice in Internal Audit (ISPPIA), issued by the Institute of Internal Auditors, in terms of (a) appropriate structure particularly with regard to professional independence, (b) sufficient breadth of mandate, access to information and power to report, (c) use of professional audit methods, including risk assessment techniques. The function should be focused on reporting on significant systemic issues in relation to: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts. Internal audit functions are in some countries concerned only with pre-audit of transactions, which is here considered part of the internal control system and therefore assessed as part of indicator PI-20.

Specific evidence of an effective internal audit (or systems monitoring) function would also include a focus on high risk areas, use by the SAI of the internal audit reports, and action by management on internal audit findings. The latter is of critical importance since lack of action on findings completely undermines the rationale for the internal audit function.

The internal audit function may be undertaken by an organization with a mandate across entities of the central government (such as government inspection general or IGF) or by separate internal audit functions for individual government entities. The combined effectiveness of all such audit organizations is the basis for this indicator.

Dimensions to be assessed (Scoring method M1):

(i) Coverage and quality of the internal audit function.
(ii) Frequency and distribution of reports.
(iii) Extent of management response to internal audit findings.

Points to note:

It is important to differentiate between ***audit*** and ***control***: this indicator is concerned with internal audit and not as it too often occurs (particularly in francophone African countries) with control activities.

Dimension (i) Coverage and quality of the internal audit function.

Key questions

1. Who is in charge of internal audit?
2. Is internal audit separate and independent of payment and accounting processes?
3. How operational is audit function & which entities of Central government does it cover? What % of total expenditure is covered?
4. Does internal audit focus on systems (as opposed to individual transactions)?
5. If yes, how much of staff time is spent on systemic issues (20%, 50%, other).
6. Does internal audit meet recognized professional standards?

Coverage	Budgetary central government.
Critical period/time	Latest available financial and operational information.
Quantifiable data required	Percentage of internal audit staff time spent on systemic issues. Useful supplementary data: Number of material weaknesses found per year and the remediation rates – i.e. the percentage of material weaknesses corrected within 12 months of notification.
Information sources	MOF (Internal Audit), Accountant General, Heads and Finance Officers of major MDAs, corroborated by Auditor General.

Rating criteria

A. Internal audit is operational for all central government entities, and generally meets professional standards. It is focused on systemic issues (at least 50% of time).
B. Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time).
C. The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.
D. There is little or no internal audit focused on systems monitoring.

Clarification

PI-21	Query/Issue	Clarification
21-a	Dimension (i): Can "**systemic issues**" as defined here be drawn from transaction level testing?	The performance of transaction level testing can be a useful tool in study and evaluation of internal control systems, if such testing is planned with that purpose in mind (e.g. risk-based selection of areas for study and design of samples for testing). Transaction level testing may not, however, be sufficient to evaluate systemic control issues (e.g. control systems and procedures should be assessed for completeness and checks to ensure that all operations will result in the appropriate transaction entries).

Dimension (ii) Frequency and distribution of reports.

Key questions

1. Are internal audit reports issued?
2. With what frequency?
3. Are reports issued regularly for most government entities?
4. Are reports distributed to the audited entity, the MoF & SAI?

Coverage	Budgetary central government.
Critical period/time	Latest available financial and operational information.
Quantifiable data required	
Information sources	MOF (Internal Audit), Accountant General, Heads and Finance Officers of major MDAs, corroborated by Auditor General.

Rating criteria

A. Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI.
B. Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.
C. Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.
D. Reports are either non-existent or very irregular.

Clarifications

PI-21	Query/Issue	Clarification
21-b	Dimension (ii). In certain countries it is not the practice for the Ministry of Finance to have an internal control mandate (other than for its own operations). The Supreme Audit Institution (SAI) in such a country is the regulator of internal controls and internal audits. In this type of institutional setting and in connection to dimension (ii), can the phrase "the Ministry of Finance and the SAI" be interpreted as "**the Ministry of Finance or the SAI**"?	The Ministry of Finance is expected to be an interested party in monitoring how financial management systems function, since it is responsible for all the financial aspects of government, which in an international setting would encompass those issues which an internal audit role would be expected to report on, being namely : Reliability and integrity of financial and operational information; Effectiveness and efficiency of operations; Safeguarding of assets; Compliance with laws regulations and contracts. The role of the SAI would not normally be to regulate internal controls and internal audits. The dimension is examining the frequency and distribution of the internal audit reports in relation to compliance with internationally recognized "good practice". So distribution of the reports to the Ministry of Finance is essential and is required for scoring a "C" or higher.
21-c	Dimension (ii): How to score if the **reports are submitted only to the finance ministry** (or some other control authority) and not to the audited entity?	This may happen if the internal audit function for all ministries is located in the finance ministry. If the finance ministry submits the report without change to the audited entity, then the score would be A or B. If the audited entity never receives the report, then a D score is appropriate.
21-d	Dimension (ii): What is meant by "**most government entities**" in the requirements for a C score?	Refer to the text under the B score: "Most government entities" means "most audited government entities".
21-e	Dimension (ii): How is this dimension scored if there is no internal audit?	In the absence of internal audit and internal audit recommendations, the score is D. As dimensions (i) and (ii) would also be D, the overall score would be D.

Dimension (iii) Extent of management response to internal audit findings.

Key questions

1. Are internal audit recommendations addressed by government managers?
2. Is a fair degree of action or comprehensive action taken by managers on major issues?
3. Is action taken by many managers or across central government entities?
4. Is action taken immediately or with delay?

Coverage	Budgetary central government.
Critical period/time	Latest available financial and operational information.
Quantifiable data required	Number of material weaknesses found per year and the remediation rates – i.e. the percentage of material weaknesses corrected within 12 months of notification.
Information sources	MOF (Internal Audit), Accountant General, Heads and Finance Officers of major MDAs, corroborated by Auditor General.

Rating criteria

A. Action by management on internal audit findings is prompt and comprehensive across central government entities.
B. Prompt and comprehensive action is taken by many (but not all) managers.
C. A fair degree of action taken by many managers on major issues but often with delay.
D. Internal audit recommendations are usually ignored (with few exceptions).

Clarification

PI-21	Query/Issue	Clarification
21-e	Dimension (iii): How is this dimension scored if there is **no internal audit**?	In the absence of internal audit, the dimension is ‘non-applicable’ (as will be dimension iii). As dimension (i) would be ‘D’, the overall score would also be D.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**C**	
The new platform for internal audit, which complies with IIA standards, has been successively implemented & seems to be mostly operational for all central government entities guided by auditing standards while we have seen evidence that the modernisation might not yet have fully penetrated all departments.	B	(i) Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time).	-- Government internal audit manual. -- Meeting with MOF staff. -- Meeting with IA department in Ministry of Education.	C	Marked improvement in capability and scope of audit.
Internal Audit reports are issued to Accounting officers, the IAG, MoF & NAO. Reporting is done without delay as audits are finished.	B	(ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.	-- ID, MOF	C	Frequency & distribution of reports has improved.
The lingering weaknesses about internal audit are primarily related to management follow up & delay in action to remedy deficiencies. The follow-up & response to reports seems not to have improved much in spite of establishment of Audit Committees: these have been set up in most entities. Some meetings have taken place (but not regularly) & follow ups have been documented: however, a recent IMF report suggests little ownership within line ministries.	C	(iii) A fair degree of action taken by many managers on major issues but often with delay.	-- MOF; IA department in Min of Education.	C	No Change.

PI-22 Timeliness and regularity of accounts reconciliation.

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 quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. Two critical types of reconciliation are (i) reconciliation of accounting data, held in the government's books, with government bank account data held by central and commercial banks, in such a way that no material differences are left unexplained; and (ii) clearing and reconciliation of suspense accounts and advances i.e. of cash payments made, from which no expenditures have yet been recorded. Advances would include travel advances and operational imprests, but not budgeted transfers to autonomous agencies and SN governments which are classified as expenditures when they are effected, even if reporting on any earmarked portion of the transfers is expected periodically.

Dimensions to be assessed (Scoring method M2):

(i) Regularity of bank reconciliations

(ii) Regularity of reconciliation and clearance of suspense accounts and advances.

Points to note:

Dimension (i) Regularity of bank reconciliations

Key questions

1. Who undertakes reconciliation of central government bank account statements with the corresponding cash books?
2. How frequently are bank reconciliations made? (i) for all Treasury managed bank accounts, and (ii) for all other bank accounts (less than quarterly, quarterly, monthly, other)?
3. When does reconciliation take place after the period under consideration (i) for all Treasury managed bank accounts, & (ii) for all other bank accounts (8 weeks, 4 weeks, other)? How many bank accounts are there (i) Treasury managed, (ii) other?
4. Does bank reconciliation take place at aggregate & detailed levels?
5. Are there any significant unresolved differences between treasury records & bank account information?
6. When was the last reconciliation for which all differences have been satisfactorily explained?

Coverage	Budgetary central government.
Critical period/time	As at time of assessment.
Quantifiable data required	Frequency of reconciliation of Treasury managed bank accounts. Number of days from end of reconciled period to date of reconciliation is completed for Treasury managed bank accounts. Frequency of reconciliation of government bank accounts not managed by Treasury. Number of days from end of reconciled period to date of reconciliation is completed for government bank accounts not managed by the Treasury.
Information sources	Treasury, Accountant General, & Auditor General for confirmation of information.

Rating criteria

A. Bank reconciliation for all central government bank accounts take place at least monthly at aggregate & detailed levels, usually within 4 weeks of end of period.
B. Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.
C. Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter.
D. Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.

Clarifications

PI-22	Query/Issue	Clarification
22-a	Dimension (i): If **reconciliations are performed only on active accounts**, can an A rating (with respect to all government accounts) or a B rating (with respect to all Treasury accounts) be given?	Yes, reconciliations are required only on active accounts, provided that the inactive accounts were reconciled while they were still active.
22-b	**What does the reconciliation exercise entail**?	Reconciliation includes the identification of all mismatches and their amounts (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 (ii) Regularity of reconciliation and clearance of suspense accounts and advances.

Key questions

1. How many suspense accounts & advance payments are there & what funds are allocated to them (for travel allowances, construction advances, other)?
2. What are rules that govern suspense accounts & advance payments?
3. How frequently does reconciliation & clearance of suspense accounts & advances take place (annually, quarterly, other)?
4. How long after period under consideration does reconciliation & clearance of suspense accounts & advances take place (more than two months, within two months, within a month)?
5. Is the number of accounts with un-cleared balances brought forward significant? Or just some of the accounts?

Coverage	Budgetary central government.
Critical period/time	As at time of assessment.
Quantifiable data required	Frequency of reconciliation/ clearance of suspense and advance accounts. Average number of days from end of quarter/ year to the clearance of the accounts.
Information sources	Treasury, Accountant General (Trial Balance), & Auditor General for confirmation of information.

Rating criteria

- **A.** Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.
- **B.** Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.
- **C.** Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward.
- **D.** Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.

Clarifications

PI-22	**Query/Issue**	**Clarification**
22-c	Dimension (ii). Should **unexpended portions** of previous fiscal years votes held in suspense to pay for outstanding commitments or salary deductions awaiting payment to a Revenue Authority be included in rating?	Yes: amounts credited to Sundry Deposits/Liabilities until they are cleared are relevant.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C			**C+**	The impact of improvements in cash reconciliations that have more greatly burdened suspense account reconciliations led to an overall reduction in scoring.
All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 7 days of the close of the month. There are other government accounts specifically donor funded project accounts which are not reconciled on a regular basis.	B	(i) Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of the month.	-- MOF -- Example of a bank reconciliation statement.	D	Improvement in bank reconciliations has been achieved (i.e. from monthly with a backlog of un-reconciled items carried over six months to monthly within 7 days of the close of the month).
Reconciliation & clearance of suspense accounts & advances is carried out monthly within 15 days of end of each month. Where advances arise out of travel payments made to Government officials unpaid amounts are immediately deducted from salary payments. In the case of suspense accounts a number of elements mainly arising out un-reconciled non-tax revenue entries remain un-cleared. In addition there are a number of old suspense account entries that remain to be written off.	D	(ii) Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.	-- Trial balance sheet, end-2008/09 (provided by MoF).	A	Reconciliation and clearance of suspense accounts has been affected by a number of elements mainly arising from un-reconciled non-tax revenue entries which remain un-cleared, & and the old suspense account entries (resulted from improved cash reconciliation) that remain to be written off.

PI-23 Availability of information on resources received by service delivery units.

Problems frequently arise in front-line service delivery units providing services at the community level (such as schools and health clinics) in obtaining resources that were intended for their use, whether in terms of cash transfers, distribution of materials in kind (e.g. drugs and school books) or provision of centrally recruited and paid personnel. The intended resource provision may not be explicit in budget documentation, but is likely to form part of line ministries internal budget estimates preparation. Front line service delivery units, being furthest in the resource allocation chain, may be the ones to suffer most when overall resources fall short of budget estimates, or when higher level organizational units decide to re-direct resources to other (e.g. administrative) purposes. There may be significant delays in transfers of resources to the unit whether in cash or in kind. Tracking of such information is crucial in order to determine, if the PFM systems effectively support front-line service delivery.

Information about the receipt of resources by service units is often lacking. The accounting system, if sufficiently extensive, reliable and timely, should provide this information, but frequently information on expenditures in the field is incomplete and unreliable and the flow of information disrupted by different and unconnected systems being used at different levels of government (most primary service delivery units typically being the responsibility of sub-national governments). Routine data collection systems, other than accounting systems (i.e. statistical systems), may exist and be able to capture the relevant information along with other service delivery information. Public Expenditure Tracking Surveys, inspections, audits (whether by internal or external auditors) or other ad hoc assessments may constitute alternative information sources.

Dimensions to be assessed (Scoring method M1):

(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

Points to note:

This indicator is not applicable if the assessed government is not involved in or providing funding for primary service delivery in the sectors.

Dimension (i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

Key questions

1. Is data collected on resources received by service delivery units (mainly primary schools & primary health clinics)?
2. Which entity is in charge of this collection?
3. When was this done last?
4. Are both resources in cash & in kind taken into consideration when data is collected?
5. Have special surveys been undertaken during last 3 years to collect data on resources to services delivery units?
6. Does the accounting system provide reliable information on all types of resources in cash & in kind by either primary schools or primary health clinics or both?
7. If yes, is this information compiled into annual reports?

Coverage	Front line service delivery units (whether falling under central or sub-national government).
Critical period/time	Last 3 years before assessment.
Quantifiable data required	Qualitative data only.
Information sources	MOF (Budget Department) and Finance Officers of deconcentrated ministries and SN governments, corroborated by community service organisations, civic interest groups, etc.

Rating criteria

A. Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.

B. Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).

C. Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors.

D. No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

Clarification

PI-23	Query/Issue	Clarification
23-a	Availability of information on resources received by service delivery units assesses the extent to which funding is received by the most common front line service delivery units relative to the amount of total funding that is provided to that sector. Is this intended to capture where **failings in the public financial management systems between or within levels of government are resulting in funds not being received for front line service delivery?** And does this mean that the indicator **applies to all levels of government in a particular country**, and not just the central government?	The indicator cuts across different levels of government in cases where central government provides earmarked grants to lower levels of government for the purposes of supporting a specific type of service delivery. Central government should in such cases be able to track (through accounting systems or periodic surveys) how much of its subsidies actually reach the targeted service delivery units. Where central government provides unconditional grants to lower level government, there is nothing to be tracked. In the latter case, general statistics on the budget and actual expenditure at lower level government may be desirable (ref. PI-8 dim (iii)) but would usually specify data by functional classification and not by type of service outlet. This indicator is not applicable to assessment of a central government which does not directly provide primary services and which does not finance such services through earmarked transfers to lower level governments or other service providers.
23-b	In an assessment of sub-national governments in this country, the primary service units (Health and Education) **are funded by the central government**: should this PI be 'N/A?	Yes: if these primary service units are funded directly by CG, this PI should not be assessed in a SNG assessment. However, the report should identify any primary service units that are managed and funded by the SNG and report accordingly.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Reliable information on resources received is available to primary schools by monthly reports. For primary health clinics the reporting system shows only aggregate expenditure for clinics and hospitals.	**B**	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash & in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually.	-- Education Ministry, Head, Planning and Budgeting Department.	**A**	For primary health clinics disaggregated information is not available – since 2009 the system reports expenditure for clinics and hospitals in total.

PI-24 Quality and timeliness of in-year budget reports.

The ability to "bring in" the budget requires timely and regular information on actual budget performance to be available both to the ministry of finance (and Cabinet), to monitor performance and if necessary to identify new actions to get the budget back on track, and to the MDAs for managing the affairs for which they are accountable. The indicator focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget (i.e. flash reports on release of funds to MDAs are not sufficient). Coverage of expenditure at both the commitment and the payment stage is important for monitoring of budget implementation and utilization of funds released. Accounting for expenditure made from transfers to deconcentrated units within central government (such as provincial administrations) should be included.

The division of responsibility between the ministry of finance and line ministries in the preparation of the reports will depend on the type of accounting and payment system in operation. The role of the ministry of finance may be simply to consolidate reports provided by line ministries (and where applicable, from deconcentrated units) from their accounting records; in other cases the ministry of finance may undertake the data entry and accounting for transactions in which case the role of the line ministry is reduced, perhaps to reconciling ministry of finance data with their own records; in yet other cases ministry of finance can generate reports out of integrated, computerized accounting systems. The important requirement is that data is sufficiently accurate to be of real use to all parties.

Dimensions to be assessed (Scoring method M1):

(i) Scope of reports in terms of coverage and compatibility with budget estimates.
(ii) Timeliness of the issue of reports.
(iii) Quality of information.

Points to note:
It would be useful to refer to the SAI and the IMF ROSC view of the quality of data used in budget execution reports.

General Clarifications

PI-24	Query/Issue	Clarification
24-a	Does the indicator assess whether the **information goes to Cabinet**?	No. The distribution of the reports is not assessed by this indicator. [If the reports are produced and used by the finance ministry, the Cabinet would always be able to demand copies, if it so wishes].
24-b	Does the indicator apply to **the internal information available to the MOF on each MDA or to the compilation released officially by MOF?**	The publication of the information is covered in PI-10 and not in PI-24. PI-24 is focused on the preparation of comprehensive budget execution reports for government's internal use, i.e. providing an overview of execution in order to take management decisions on a well informed basis. Availability of the information in terms of separate reports from the budget entities would meet the requirement only to the extent that such information is complete and consolidated to provide a full overview.
24-c	If PI-4 rating reflects concerns about **quality of data on payment of arrears**, should PI-24 be penalised too for the same reason?	PI-24 calls for information about commitments and payments. It does not demand information on arrears. The latter requires registration of unpaid invoices for which payment is due, and that issue is covered neither by commitment information nor by payment records. So there would not be double penalty.

Dimension (i) Scope of reports in terms of coverage and compatibility with budget estimates.

Key questions

1. Are in-year budget reports produced which show actual expenditures /revenues compared with approved budgets?
2. Who is in charge of preparing & issuing these reports (for expenditures & for revenues)?
3. Do expenditure in-year reports include information on commitments?
4. What level of aggregation /disaggregation is used in in-year budget reports?
5. What classification is used in reports?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	Accountant General corroborated by Auditor General.

Rating criteria

A. Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.
B. Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages.
C. Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both).
D. Comparison to the budget may not be possible across all main administrative headings.

Clarifications

PI-24	Query/Issue	Clarification
24-d	Dimension (i): What is meant by "**deconcentrated units**" in the last sentence of the first paragraph of the guidance text, "Accounting for expenditure made from transfers to deconcentrated units within central government (such as provincial administrations) should be included."	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 autonomous government agencies (AGAs). If only transfers to entities and not the actual expenditure of such entities are included in budget execution reports, these reports are not going to give a true and useful picture of the progress and status of budget execution. In scoring the dimension, each component of the system should be looked at separately (e.g. expenditures within central government as one component, transfers to deconcentrated units as another) and then weighted according to their relative importance in the budget in order to come up with a rating for the dimension.
24-e	Dimension (i): If MDAs produce their own reports and the Ministry of Finance produces a consolidated report, **which reports are assessed on their scope and quality**?	Both: Availability of the information in terms of separate reports from the budget entities would meet the requirement only to the extent that such information is complete and consolidated to provide a full overview. Where there are various budget execution statements, assessors should state which statement or set of statements is being assessed, and the same statement or set should be the basis for rating all three dimensions.

Dimension (ii) Timeliness of the issue of reports.

Key questions

1. How often are in-year budget reports produced (monthly, quarterly, others)?
2. How long after end of period covered are reports distributed (e.g. within 4, 6, 8, more than 8 weeks)?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	Frequency of in-year budget execution reports. Number of days following end of period that budget report is disseminated within the government, during the last year.
Information sources	Accountant General corroborated by Auditor General.

Rating criteria

A. Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.
B. Reports are prepared quarterly, and issued within 6 weeks of end of quarter.
C. Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter.
D. Quarterly reports are either not prepared or often issued with more than 8 weeks delay.

Clarification

PI-24	Query/Issue	Clarification
24-f	Dimension (ii): How should this dimension and the overall indicator be scored if the **government only produces one quarterly budget execution report** per year?	The rating for the dimension would be D. The overall rating could be D+ if the other dimensions of the indicator score higher.
24-g	Dimension (ii): Would this dimension be scored A when information is **available at any time from a computerized information system**?	'A', 'B' and 'C' ratings depend on reports actually being prepared and distributed to those responsible for budget execution (normally the MDAs and the Ministry of Finance), not merely potentially being available on line. However, where the MOF requires MDAs to explain variances from budget each month via an online IFMIS without using printed monthly statements, this would not merit 'D' ***provided*** that there is verification of the timing of the processes followed (possibly by emails).
24-h	How is dimension (ii) scored when MDAs do not have the **capacity to use information,** or ignore it entirely when making commitments?	PI-24 is focused on the preparation of comprehensive budget execution reports for government's internal use, i.e. providing an overview of execution in order to take management decisions on a well informed basis. Whether the information is actually used, or correctly used, is outside the scope of this indicator.

Dimension (iii) Quality of information.

Key questions

1. What is quality of data of in-year budget reports?
2. Is basic usefulness of the reports undermined by inaccuracies or omissions?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	Accountant General corroborated by Auditor General.

Rating criteria

A. There are no material concerns regarding data accuracy.
B. There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.
C. There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.
D. Data is too inaccurate to be of any real use.

Clarifications

(None)

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	A			**B**	The implementation of FMIS has improved recording & accounting in terms of timeliness, frequency and quality.
The COA provides a unified classification of data including organizations, economic, functional, programmatic & expenses per source of funding. This allows preparation of budget & financial statements on the same basis & is observed in practice. FMIS caters for budgeted, commitment & payment stages of all financial flows.	A	(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	The Law on the Budget System and the Rulebook on Standard Classification Framework -- Budget performance reports.	B	Comparison to original budget figures was only possible with some recalculation of certain headings
The Law defines a calendar for submission of FS by MDAs within 10 days of end of quarter. The system includes all receipts & payments & allows monitoring of all flows against economic & functional classification, sources, programmes & projects. Treasury prepares daily reports on revenues & expenditures; monthly comparative overviews of budget execution against plan; quarterly reports on actual & planned income & expenditures.	A	(ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period	-- The Law on the Budget System MoF staff. -- Budget Performance reports.	A	
There are no significant flaws with respect to accuracy of data.	A	(iii) There are no material concerns regarding data accuracy	-- As above.	B	The implementation of a new chart of account, generally consistent with GFSM 2001.

PI-25 Quality and timeliness of annual financial statements.

Consolidated year-end financial statements (for French heritage countries: 'le loi de reglement' supported by 'les comptes de gestion' or 'CGAF') are critical for transparency in the PFM system. To be complete they must be based on details for all ministries, independent departments and deconcentrated units. In addition, the ability to prepare year-end financial statements in a timely fashion is a key indicator of how well the accounting system is operating, and the quality of records maintained. In some systems, individual ministries, departments and deconcentrated units issue financial statements that are subsequently consolidated by the ministry of finance. In more centralized systems, all information for the statements is held by the ministry of finance. Validation of the financial statements through certification by the external auditor is covered in indicator PI-26. Submission of annual financial statements from AGAs that are part of central government are covered in indicator PI-9.

In order to be useful and to contribute to transparency, financial statements must be understandable to the reader, and deal with transactions, assets and liabilities in a transparent and consistent manner. This is the purpose of financial reporting standards. Some countries have their own public sector financial reporting standards, set by government or another authorized body. To be generally acceptable, such national standards are usually aligned with international standards such as the International Federation of Accountants' International Public Sector Accounting Standards (IPSAS), of which some are relevant for countries that adopt accrual based accounting, while others are relevant for cash-based systems.

Dimensions to be assessed (Scoring method M1):

(i) Completeness of the financial statements.
(ii) Timeliness of submission of the financial statements.
(iii) Accounting standards used.

Points to note:

Dimension (i) Completeness of the financial statements.

Key questions

1. Is a government statement covering whole of budgetary central government prepared annually?
2. Is it comprehensive: complete information on revenue, expenditure, financial assets & liabilities?
3. If not, are omissions significant?

Coverage	Budgetary central government.
Critical period/time	Last annual financial statement prepared.
Quantifiable data required	
Information sources	Accountant General corroborated by Auditor General.

Rating criteria

A. A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.
B. A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities.
C. A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.
D. A consolidated government statement is not prepared annually, **OR** essential information is missing from the financial statements OR the financial records are too poor to enable audit.

Clarifications

PI-25	Query/Issue	Clarification
25-a	The guidance text (first sentence) has a different interpretation in the French version than in the other languages as to **what accounts will accompany the "loi de reglement"** as supporting documentation.	The "loi de reglement" may be supported by either the CGAF or by "un etat d'execution du budget incluant la balance definitive des comptes". This is reflected in the French version of the Framework. The "comptes de gestion" referred to in the other language versions are unlikely to support the "loi de reglement" due to their disaggregation, level of detail and consequently their delayed completion.
25-b	Dimension (i): What is meant by "**consolidated government statement**"?	This dimension is concerned with the coverage of central government and the coverage of revenue, expenditure, assets and liabilities. The Framework uses the term "consolidated government statement" because in some countries, individual MDAs prepare their accounts, which may or may not be consolidated by the MOF.
25-c	Dimension (i): What is meant by **"full" information** for 'A' and 'B' scores, and in particular should "full" information on revenue include external grants and user charges?	Full information, in terms of this dimension is defined as full information on revenue, expenditure and financial assets/liabilities, including disclosure of arrears of revenue, arrears of expenditure, financial assets and public debt, either in the balance sheet (in an accrual-based system) or by way of notes to the financial statements (in a cash-based system). Off-budget operations, which are neither covered by the budget, nor managed through the Treasury system, therefore, do not have to be included in "full" information (e.g. revolving funds or collection of a dedicated tax which is transferred directly from the collection agency to an autonomous user). User charges and external project funding, which are included as revenue and expenditure in the budget, should be included in the "full" information for financial statements, even if in practice they are not channeled through the Treasury budget management system.

25-d	Dimension (i): **Are AGAs to be included in the consolidated government statement**?	AGAs are autonomous and operating their own accounting systems outside the central government budgetary system. Therefore, they prepare their own accounts statements and do not have to be included in consolidated government statements (though some governments do prepare consolidated statements for the general government sector or the entire public sector). The extent to which the central government receives such statements is covered in indicator PI-9 and the coverage of external audits of the statements is covered in PI-26.
25-e	What is the **scope of consolidated government** financial statements in dimension (i)?	The “consolidated government statement” referred to in both PI-25 (i) and (ii) should be read as a “budgetary central government consolidated statement” and provided the country produces accounts centrally for all MDAs, then they can be deemed to be consolidated (although they are more likely to be ‘aggregated’ i.e. totaled, rather ‘consolidated’ in the strict accounting sense of the term).

Dimension (ii) Timeliness of submission of the financial statements.

Key question

When are financial statements submitted for external audit after end of FY (more than 15 months, within 15, 10 or 6 months of end of FY)?

Coverage	Budgetary central government.
Critical period/time	Last annual financial statement submitted for audit, except for 'D' rating, where the critical period is 3 years, *"generally not submitted for audit"*.
Quantifiable data required	Number of months after end of year that consolidated financial statements (or all individual financial statements by central government budget entities) are submitted to the SAI.
Information sources	Accountant General corroborated by Auditor General.

Rating criteria

A. The statement is submitted for external audit within 6 months of the end of the fiscal year.
B. The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.
C. The statements are submitted for external audit within 15 months of the end of the fiscal year.
D. If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year.

Clarification

PI-25	Query/Issue	Clarification
25-f	Dimension (ii): How should this dimension be interpreted in systems where there is **no external audit** for which the accounts are submitted?	The government's annual financial statements should be submitted directly to the legislature (which may then choose to seek an external audit, see PI-28). 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-26 is also 'D'.
25-g	Dimension (ii): If financial statements are not accepted by external audit, but are returned for completion or corrections, what is the **actual date of submission** for assessing this dimension?	The actual date of submission is the date on which the external auditor considers the financial statements complete and available for audit.

Dimension (iii) Accounting standards used.

Key questions

1. Are financial statements presented in a consistent format over time?
2. Are accounting standards disclosed, partially disclosed or not disclosed at all?
3. Are International Public Sector Accounting Standards (IPSAS) or corresponding national standards partially or fully applied for statements?

Coverage	Budgetary central government.
Critical period/time	Last 3 years' financial statements.
Quantifiable data required	
Information sources	Accountant General corroborated by Auditor General.

Rating criteria

A. IPSAS or corresponding national standards are applied for all statements.
B. IPSAS or corresponding national standards are applied.
C. Statements are presented in consistent format over time with some disclosure of accounting standards.
D. Statements are not presented in a consistent format over time or accounting standards are not disclosed.

Clarifications

PI-25	Query/Issue	Clarification
25-h	Dimension (iii): What is the **difference between the requirements for scores A & B**?	There is no difference. The indicator score in the A-B range would be determined by the other two dimensions (ref. also clarification to PI-27 dimension (iii)).
25-i	Dimension (iii): Should annual financial statements prepared according to IPSAS for cash-based systems **include financial information on externally-funded projects**?	The cash basis IPSAS specifically requires inclusion in a separate column of such expenditures made on behalf of the Government. They are to be treated as payments by the Government and simultaneous receipts of grant or loan. They are normally controlled by the Government as such payments cannot be made except on request by the Government. If a government transparently excludes such expenditures from the annual statements, it is not complying with IPSAS (also see text under dimension (i) above).

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			C+	Progress, though the overall score & the scores for 2 dims show deterioration.
Though a consolidated government statement is prepared annually, essential information is missing so that the OAG has disclaimed an opinion on the consolidated government statement.	D	(i) A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit.	-- MoF	C	Real progress, as Govt previously lacked capacity to issue consolidated financial statements (2006 statements were issued with support of PwC, & none issued before). By contrast, since 2007, MoF has issued CFS annually, although material misstatements in the accounts caused OAG to disclaim an opinion, & hence rating is D.
CFS & the public accounts were submitted within the statutory 3 months after the end of FY.	A	(ii) The statements are submitted for external audit within 6 months of the end of the fiscal year.	-- MoF	A	No change in score as in both 2006 & 2009, CFS were submitted to OAG within 6 months, as required. That said, the accounts are now submitted earlier than in 2006 (when they were submitted just over 5 months), as they were submitted in 2009 within 3 months of FY-end, as required by the national legal framework.
Statements are presented in a consistent format over time. Accounting standards used are disclosed only in the CFS for 2007 and 2008, and not in those for 2009. In all three years, the requirements of IPSAS and national accounting standards are in any case not met in important respects.	C	(iii) Statements are presented in a consistent format over time with some disclosure of accounting standards.	-- MoF -- PEFA Secretariat “Clarifications to the PFM Performance Management Framework, June 2005 (updated September 2008)” -- IFAC (IPSAS on cash basis).	B	Dimension (iii) was over scored in 2007, as the dimension is required to be assessed over 3 years and no CFS were produced for FYs 2004 and 2005.

PI-26 Scope, nature and follow-up of external audit.

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of actual external audit comprise the scope/ coverage of the audit, adherence to appropriate auditing standards including independence of the external audit institution (ref. INTOSAI and IFAC/IAASB), focus on significant and systemic PFM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit (such as e.g. value for money in major infrastructure contracts) would also be expected of a high quality audit function.

The scope of audit mandate should include extra-budgetary funds and autonomous agencies. The latter may not always be audited by the Supreme Audit Institution (SAI), as the use of other audit institutions may be foreseen. The scope indicates the entities and sources of funds that are audited in any given year. 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 most important or risk-prone entities and functions are covered annually, whereas other entities and functions may be covered less frequently.

While the exact process will depend to some degree on the system of government, in general the executive (the individual audited entities and/or the ministry of finance) would be expected to follow up of the audit findings through correction of errors and of system weaknesses identified by the auditors. 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. The following year's external audit report may provide evidence of implementation by summing up the extent to which the audited entities have cleared audit queries and implemented audit recommendations.

Dimensions to be assessed (Scoring method M1):

(i) Scope/nature of audit performed (incl. adherence to auditing standards).
(ii) Timeliness of submission of audit reports to legislature.
(iii) Evidence of follow up on audit recommendations.

Points to note:
The % in dimension (i) refers to the amount of expenditure of the entities covered by annual audit activities, not the sample of transactions selected by the auditors for examination within those entities.

Dimension (i) Scope/nature of audit performed (incl. adherence to auditing standards).

Key questions

1. What legislation regulates external audit (including organization of SAI)?
2. What % of total expenditure of central government was achieved in audit coverage for last FY audited (50% or less, over 50%, over 75% or 100%)?
3. Do audit activities cover PEs & AGAs?
4. What is nature of external audit performed (audits of transactions or audits of systems)?
5. Are performance audits performed in addition to financial audits?
6. To what extent do audit activities adhere to auditing standards?

Coverage	Central government incl. all MDAs and AGAs.
Critical period/time	Last FY audited.
Quantifiable data required	Percentage of all central government entities including AGAs (by value of expenditure) that were audited during the last year.
Information sources	Auditor General, corroborated by Parliamentary Public Accounts Committee and civic interest groups.

Rating criteria

A. All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.

B. Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues.

C. Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.

D. Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues.

Clarifications

PI-26	Query/Issue	Clarification
26-a	Why is no reference made to **independence of the external auditor** in the scores for this indicator?	Independence of the external auditor is an audit standard (ref INTOSAI Code of Ethics and Auditing Standards, section 2.2). Independence is therefore covered where the scores for dimension (i) refer to "adherence to auditing standards".
26-b	Dimensions (i) and (ii).**What constitutes an audit report**?	SAIs produce different types of reports including an Annual Activity Report and an Audit Report on Budget Execution. Dimension (i) and (ii) refer to the audit report on budget execution. In some countries the annual activity report and audit report on budget execution is combined, in which case the combined audit report should be considered for dim (i) and (ii). In countries with the Court model, the SAI normally presents a report on the State Account to Parliament, drawing on its findings from the audit of individual public accountants as well as wider analytical review procedures.

26-c	Dimension (i): If the **external auditor has no right of access to taxpayer records** and therefore cannot effectively audit tax revenues, does this represent a scope issue that would affect the scoring of this dimension?	Yes. To score an A rating would require that the scope of the external audit is not limited in principle in this way. In practice, the external auditor may not exercise this scope as the tax administration agency has the operational right to access taxpayer records and to manage internal controls and systems in support of taxpayer compliance with tax laws. The internal audit unit within the tax administration agency would also check that internal controls and systems are working effectively in support of taxpayer compliance (see PI-14). Thus the external audit office's decision whether to exercise its scope in this way would be based in part on evidence of shortcomings in the management of the tax administration agency and its internal audit function.

Dimension (ii) Timeliness of submission of audit reports to legislature.

Key questions

1. What is the law on the timeliness of submission of audit reports to legislature?
2. Is the legislation followed in practice?
3. When are audit reports submitted to legislature after end of period covered (more than 12, within 12, 8 or 4 months)?
4. When are audits of financial statements submitted to legislature from their receipt by the auditors (more than 12, within 12, 8 or 4 months)?

Coverage	Central government incl. all MDAs and AGAs.
Critical period/time	Last annual audit report submitted to the legislature.
Quantifiable data required	Number of months after receipt of financial statements by SAI that audit reports relating to budget execution are presented to the legislature.
Information sources	Auditor General, corroborated by Parliamentary Public Accounts Committee and civic interest groups.

Rating criteria

A. Audit reports are submitted to legislature within 4 months of end of period covered & in the case of financial statements from their receipt by the auditor.
B. Audit reports are submitted to legislature within 8 months of end of period covered and in the case of financial statements from their receipt by the auditor.
C. Audit reports are submitted to legislature within 12 months of end of period covered (for audit of financial statements from their receipt by the auditors).
D. Audit reports are submitted to legislature more than 12 months from end of period covered (for audit of financial statements from their receipt by the auditors).

Clarifications

PI-26	Query/Issue	Clarification
26-b	Dimensions (i) and (ii).**What constitutes an audit report**?	SAIs produce different types of reports including an Annual Activity Report and an Audit Report on Budget Execution. Dimension (i) and (ii) refer to the audit report on budget execution. In some countries the annual activity report and audit report on budget execution is combined, in which case the combined audit report should be considered for dim (i) and (ii). In countries with the Court model, the SAI normally presents a report on the State Account to Parliament, drawing on its findings from the audit of individual public accountants as well as wider analytical review procedures.
26-d	Dimension (ii): How should scoring of this dimension take into account **delays in submitting information for audit**, for example, information on extra-budgetary funds?	The Framework requires delays in submission of audit reports to be measured from the date of the audit office's receipt of the respective statements. Where audit reports are made separately on different agencies/funds of central government, the overall delay may be assessed as a weighted average of the delays on the respective agencies/funds, weighting on their expenditure.
26-e	Dimension (ii): Please clarify the meaning of "**and in the case of financial statements from their receipt by the audit office**". What time period is being referred to?	For the A score (and, equivalently, in the case of the other scores), the sentence should be interpreted as: "Audit reports are submitted to the legislature within 4 months of the end of the period covered and, in the case of financial statements, *within four months* from their receipt by the audit office.

26-f	Dimension (ii): The financial statements go to Parliament after less than 4 months after being received by the SAI. For the audit reports prepared by the latter it is difficult to establish (on the basis of available information) whether **they are presented to Parliament less than 12 months** after the period covered.	If the SAI completes its audit of the financial statements and submits its report to Parliament within 4 months of receiving the financial statements, then PI-26 (ii) would score 'A'.

Dimension (iii) Evidence of follow up on audit recommendations.

Key questions

1. Are audit recommendations from SAI to entities audited addressed by management?
2. Is there any clear evidence of timely & systematic follow up on these recommendations?

Coverage	Central government incl. all MDAs and AGAs.
Critical period/time	Last FY audited.
Quantifiable data required	
Information sources	Auditor General and Internal Auditors of major MDAs and AGAs, corroborated by Parliamentary Public Accounts Committee and civic interest groups.

Rating criteria

A. There is clear evidence of effective and timely follow up.
B. A formal response is made in a timely manner, but there is little evidence of systematic follow up.
C. A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.
D. There is little evidence of response or follow up.

Clarification

PI-26	Query/Issue	Clarification
26-g	Dimension (iii): How should this dimension be scored where a **response is made only after parliamentary review**?	This dimension is concerned only with response to the audit report (management letter or final report to the auditee), not the response to any parliamentary report as the latter is scored under PI 28 (iii). The response remains valid for scoring the dimension irrespective of whether the response is made before or after parliamentary review.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B			**D+**	Real improvement in all dimensions, though not apparent for dim (iii) due to the over-scoring in 2007.
The OAG carries out financial audits of all MDAs annually. It also audits all SNGs & the CFS, which cover revenue, expenditure, assets & liabilities. It only audits a small % of GBEs (5% in 2009), & outsources audit of another 6%. As the GBE sector represented 18% of CG expenditure in 2009 & coverage of CG audit besides PEs is 100%, the total coverage including GBEs is at least 75%.	B	(i) Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues..	-- Auditor General, AG. -- Proclamation 90/2005 governing AG.	D	Audit coverage has improved from less than 50% at the end of the period examined in 2007, to at least 75%.
For the past 2 completed audit reports OAG submitted the Audit Report to Parliament 7.5 months after receiving the CFS on the same FYs.	B	(ii) Audit reports are submitted to the legislature within 8 months of end of the period covered and in the case of financial statements from their receipt by audit office.	-- Auditor General.	C	In the period examined by the 2007 PEFA, OAG reports were being submitted to Parliament over 8 months after the reception of the GCFS; now they are submitted in less than 8 months.
A summary of outstanding recommendations is included '*Non Compliance with Article 74 of the OBL'*: which also lists the finding & the Response, and, since May 2010, whether the Executive has implemented the recommendation or if not, the actions to be taken. That said, the implementation is not systematic.	B	A formal response is made in a timely manner, but there is little evidence of systematic follow-up.	-- Auditor General.	A	Though the 2007 PEFA rates dimension (iii) an A, the findings reported are not all positive. (The 2007 PEFA underlines, for instance, the lack of a summary of outstanding recommendations to streamline follow-up in the OAG reports, which has now been introduced).

PI-27 Legislative scrutiny of the annual budget law.

The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. Assessing the legislative scrutiny and debate of the annual budget law will be informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allowed for that process.

Adequacy of the budget documentation made available to the legislature is covered by PI-6.

In-year budget amendments constitute a common feature of annual budget processes. 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, including limits on extent to which expenditure budgets may be expanded and re-allocated and time limits for the executive's presentation of amendments for retro-active approval by the legislature. These rules must also be adhered to.

Dimensions to be assessed (Scoring method M1):

(i) Scope of the legislature's scrutiny.
(ii) Extent to which the legislature's procedures are well-established and respected.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.

Points to note:

Dimension (i) Scope of the legislature's scrutiny.

Key questions

1. Is there a functioning legislature?
2. What budget documents are presented to legislature?
3. Are budget documents reviewed by legislature?
4. If yes, is legislative review limited or detailed?
5. If detailed, does legislature review cover expenditures & revenues, fiscal policies, medium-term fiscal framework & medium term priorities?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	Budget Director, Secretary or Chair of budget committee(s) of Parliament, corroborated by civic interest groups.

Rating criteria

A. The legislature's review covers fiscal policies, medium term fiscal framework 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 detailed estimates of expenditure and revenue.
C. The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.
D. The legislature's review is non-existent or extremely limited, **OR** there is no functioning legislature.

Clarification

PI-27	Query/Issue	Clarification
27-a	Dimension (i): If the **legislature's review** covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue, but only at a stage where detailed proposals have been finalized, is the score B or C?	It is of very limited, if any, use to review the fiscal policies and aggregates at a time when the detailed budget proposals have been finalized with little scope for timely revision. The score "B" could be justified if there is so much time allowed from the submission of the budget proposals to the legislature until the deadline for final budget approval that the executive, on the basis of adjusted aggregates, is able to meaningfully revise the detailed proposals and timely re-submit the detailed budget proposals to the legislature. If this is not the case, the score would be a "C".

Dimension (ii) Extent to which the legislature's procedures are well-established and respected.

Key questions

1. Are procedures for legislative review established and are they mandated by legislation?
2. If yes, are they comprehensive?
3. Do they include internal organizational arrangements such as specialized review committees, & negotiation procedures?
4. Are the current procedures for legislative review respected by both the committee members and the government?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	Respective Legislative Committees, corroborated by civic interest groups.

Rating criteria

A. The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.
B. Simple procedures exist for the legislature's budget review and are respected.
C. Some procedures exist for the legislature's budget review, but they are not comprehensive and only partially respected.
D. Procedures for the legislature's review are non-existent or not respected.

Clarification

(none issued)

Dimension (iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).

Key question

How much time is allowed for the legislature's review (less than one month, at least one month, at least two months)?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	Number of days the legislature has to review the detailed budget proposals and, if applicable, any earlier review of proposed macro-fiscal aggregates.
Information sources	Respective Legislative Committees, corroborated by civic interest groups.

Rating criteria

A. The legislature has at least two months to review the budget proposals.
B. The legislature has at least one month to review the budget proposals.
C. The legislature has at least one month to review the budget proposals.
D. The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).

Clarifications

PI-27	Query/Issue	Clarification
27-b	Dimension (iii): The **requirements for scores B and C are the same.** How should that be interpreted?	When the same calibration applies to two scores of a dimension, it means that the overall indicator score is determined by the score of the other dimension(s) of the indicator. If indicator PI-27 dimension (iii) fulfills the requirements for scores B/C, then a "B" applies if the other dimensions scores B or higher, and a "C" applies if the other indicators score C or higher. If any other dimensions score a D, it will not make any difference as the indicator score will become a D+ in any case.
27-c	Dimension (iii). Legislative scrutiny of the annual budget law looks at the adequacy of time provided for the legislature to review the budget proposals. This appears to reflect a budget process where the annual budget is negotiated through the legislature, rather than the Westminster system where the budget is presented to Parliament largely as a "fait-accompli". **What sort of legislative process is this indicator intended to capture**?	The indicator seeks to capture elements of good practice in many diverse systems across countries (where the two systems mentioned represent some extremes). Whilst the indicator does not try to promote the extensive budget formulation powers of e.g. the US Congress and the lengthy congressional debate period (up to six months), it is based on good practice being a system in which the legislature has a clear role and adequate time (defined as at least two months) to debate the budget proposal and offer its views and counter-proposals to the executive. Whether the executive is obliged to change the budget accordingly is not an issue for the indicator.

27-d	How should the term "**respect**" be interpreted?	"Respect" may be defined as the legislature's effort to observe its own procedures for reviewing the draft budget and the executive's effort to observe the legislature's procedures. In the case of the latter, the executive might disregard the review process and any recommended amendments arising from this and start to implement the draft budget in the form that was submitted to the legislature (possibly without publishing it). In this case, dimension (ii) would warrant a low rating. Dimension (iv) would also warrant a low rating as the fact that the Ministry of Finance uses its own version of the budget can be considered as an in-year amendment to the budget that could have reflected the legislature's recommendations but didn't; rules regarding in-year budget adjustments in this case are rudimentary and unclear.

Dimension (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

Key questions

1. Are there any legal & procedural rules that govern in-year budget amendments by the executive?
2. If yes, how clear are these rules?
3. Do they allow extensive administrative reallocation as well as expansion of total expenditure or do they set strict limits on the extent and nature of amendments?
4. Are they always respected?

Coverage	Budgetary central government.
Critical period/time	Last completed FY.
Quantifiable data required	
Information sources	Respective Legislative Committees, corroborated by civic interest groups.

Rating criteria

A. Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
B. Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.
C. Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.
D. Rules regarding in-year budget amendments may exist but are either very rudimentary and unclear OR they are usually not respected.

Clarifications

PI-27	Query/Issue	Clarification
27-e	Dimension (iv) What documents would typically contain "**clear rules**".	These rules would typically be contained in the public finance legislation and accompanying regulations. The rules should indicate: (i) the scope and procedures for adjustments within MDA budget ceilings without requiring prior MOF approval; (ii) the scope and procedures for adjustments within MDA budget ceilings that require prior MOF approval, but not prior legislature approval; (iii) the scope and procedures for in-year adjustments of MDA budget ceilings that require MOF (and perhaps Cabinet) prior approval but not prior legislature approval; and (iv) the scope and procedures for in-year adjustments of MDA budget ceilings that require prior legislature approval (also ref. PI-16).
27-f	Dimension (iv): If the executive **disregards the legislative review** process and starts to implement the budget in the form that it is submitted to the legislature, how is this dimension assessed?	Should the Ministry of Finance implement the proposed budget and fail to reflect the legislature's recommendations, this should be considered as an in-year amendment to the **approved** budget, and would warrant a 'D' rating both here and for dim (ii).

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**D+**	
Legislature's review has increased & covers fiscal policies & aggregates for coming year as well as detailed estimates of expenditure & revenue.	B	(i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.		C	Parliamentary committees involved in budget process at earlier stages and are consulted.
Parliament's role in budget process is outlined in Constitution & procedures are in SOs: these are respected but do not address the major obstacle - limited time.	B	(ii) Simple procedures exist for the legislature's budget review and are respected.	-- Chairman & vice Chairman, BFC	C	Procedures have improved.
SOs restrict time for debate to less than one month. According to interviews with Budget Committee, this is insufficient for meaningful debate: two weeks.	D	(iii) The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).	-- Chairman, BFC	D	No change.
Rules allow for budget amendments without ex-ante approval & Govt must then report to Parliament in supplementary budget (normally once or twice a year). Extensive admin reallocations take place during the year. Rules allow for emergency spending resulting in expansion of budget with ex-post approval by Parliament. CAG & PAC point out that Ministries use the Civil Contingencies Fund in an unintended way, thereby expanding spending beyond budget.	C	(iv) Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.	-- Chairman, BFC. -- Financial Administration Proclamation.	C	No change.

PI-28 Legislative scrutiny of external audit reports.

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. 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. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors (ref. PI-26).

The focus in this indicator is on central government entities, including autonomous agencies to the extent that either (a) they are required by law to submit audit reports to the legislative or (b) their parent or controlling ministry/department must answer questions and take action on the agencies' behalf.

Timeliness of the legislature's scrutiny can be affected by a surge in audit report submissions, where external auditors are catching up on a backlog. In such situations, the committee(s) may decide to give first priority to audit reports covering the most recent reporting periods and audited entities that have a history of poor compliance. The assessment should favourably consider such elements of good practice and not be based on the resulting delay in scrutinizing reports covering more distant periods.

Dimensions to be assessed (Scoring method M1):

(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).
(ii) Extent of hearings on key findings undertaken by the legislature.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.

Points to note:

Dimension (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).

Key questions

1. Do current legislation &/or existing procedures establish any deadlines for review of audit reports by legislature?
2. When examination of audit reports takes place by legislature, how long does it take in practice for to complete this examination (more than 12, within 12, 6 or 3 months from receipt of reports)?
3. Was duration of examination of audit reports by legislature same on all audit reports received during last 3 FYs?

Coverage	Central government incl. all MDAs and AGAs.
Critical period/time	Audit reports submitted to legislature within the last 3 years.
Quantifiable data required	Average number of months following submission of external audit reports to the legislature before specialized committee completes examination of the reports, for the last year.
Information sources	Respective Legislative Committees, Auditor General and MOF, corroborated by civic interest groups. Secretary or Chair of budget committee of parliament

Rating criteria

A. Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.
B. Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports.
C. Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports.
D. Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete.

Clarifications

PI-28	Query/Issue	Clarification
28-a	Can PI-28 be scored if the country's PFM system does **not include an external audit function** (i.e. PI-26 scores 'D')?	Yes. A well-functioning legislature would want to ensure that audits do take place in one form or another. If the legislature does not organize an external audit of the annual financial statements that government submits to it (see PI-25), the legislature is not fulfilling its role of ensuring the accountability of the executive and should receive a 'D' rating.
28-b	Dimension (i): Does a **PAC review/report constitute scrutiny by the legislature**, or does that require legislative debate?	No. An audit review by the PAC or any other mandated committee should be tabled (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.
28-c	Dimension (i): What is meant by "usually" in the calibration table?	"Usually" means that scrutiny has been completed of all audit reports, received by the legislature during the last three years, with the exception of only a few audit reports or of audit reports of little significance.

28-d	Since the previous assessment, the PAC has been disbanded and the Finance and Expenditure Committee is now responsible for reviewing the public accounts. The audit report of the Controller and Chief Auditor which provides a brief summary of activities in the year is reviewed by the Business Committee (chaired by the Speaker with the Prime Minister as a member). Provided procedure is followed, hearings held and a report produced, good scores will result: but how is the **quality of the review** assessed?	It should not matter which committee scrutinizes the auditor's report(s) as long as the job is done, is timely and includes in-depth hearings ref. PI-28(ii). The interpretation of an 'in depth' hearing is one in which the accountable officer is formally required by the legislative committee to explain and justify the findings of the external audit on his/her performance. In most countries, such committees lack technical capacity, but they may still be feared and have an impact. They would be rated accordingly.

Dimension (ii) Extent of hearings on key findings undertaken by the legislature.

Key questions

1. What action does legislature take with respect to key findings in audit reports (eg. hearings which require members of executive to answer questions or to bring evidence)?
2. Does the legislative committee have technical assistance , eg. from the SAI, in undertaking their scrutiny?
3. Do in-depth hearings on key findings take place occasionally, on a routine basis, or consistently?
4. Do in-depth hearings take place with responsible officers from all audited entities on which audit report raises queries?

Coverage	Central government incl. all MDAs and AGAs.
Critical period/time	Last 12 months.
Quantifiable data required	
Information sources	Respective Legislative Committees, Auditor General and MOF, corroborated by civic interest groups. Secretary or Chair of budget committee of parliament

Rating criteria

A. In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.
B. In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion.
C. In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only.
D. No in-depth hearings are conducted by the legislature.

Clarifications

PI-28	Query/Issue	Clarification
28-e	The Finance Commission calls the Head of SAI to appear and answer questions on his/her report. How should this be rated for dimension (ii)?	The Finance Commission hearings can only be considered ‘in-depth’ if they include representatives both 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.

Dimension (iii) Issuance of recommended actions by the legislature and implementation by the executive.

Key questions

1. Does law require actions to be taken with respect to recommendations of legislative review?
2. In practice, are recommendations being issued by legislature?
3. Is there any evidence that recommendations are acted on by the executive?

Coverage	Central government incl. all MDAs and AGAs.
Critical period/time	Last 12 months.
Quantifiable data required	
Information sources	Respective Legislative Committees, Auditor General and MOF, corroborated by civic interest groups. Secretary or Chair of budget committee of parliament

Rating criteria

A. The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.
B. Actions are recommended to the executive, some of which are implemented, according to existing evidence.
C. Actions are recommended, but are rarely acted upon by the executive.
D. No recommendations are being issued by the legislature.

Clarifications
(None)

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**D+**	
There are significant backlogs at all stages in the process.	D			D	No change
In-depth hearings take place with bodies covered by the audit reports. Unlike in 2006, donors give technical & financial support to committee members to assist in understanding of audit queries & importance of implementing recommendations. Nonetheless, as in 2006, fact that queries are so outdated still jeopardizes their understanding or makes them obsolete, undermining accountability.	A			C	Dimension (ii) was downrated in 2005 on lack of technical capacity, but the PAC meets all the criteria required for an A rating.
The PAC report presents the management response to external audit queries. Those endorsed are issued as recommendations. Implementation status is then outlined in a Treasury Memo, but this can only be published after PAC report is debated & approved by the full Parliament. As a result, the backlog in parliamentary delays implementation of recommendations.	D			C	No real change on dimension (iii). In both assessments, no recommendations had been issued by the legislature in the relevant period (previous 12 months).

D-1 Predictability of Direct Budget Support.

Direct budget support constitutes an important source of revenue for central government in many countries. Poor predictability of inflows of budget support affects the government's fiscal management in much the same way as the impact of external shocks on domestic revenue collection. Both the shortfalls in the total amount of budget support and the delays in the in-year distribution of the in-flows can have serious implications for the government's ability to implement its budget as planned.

Direct budget support consists of all aid provided to the government treasury in support of the government's budget at large (general budget support) or for specific sectors. When received by the government's treasury, the funds will be used in accordance with the procedures applying to all other general revenue. Direct budget support may be channeled through separate or joint donor holding accounts before being released to the treasury.

The narrative should explain possible reasons for the observed deviation between forecasts and actual disbursements, which could include non-implementation or delay of actions agreed with the government as condition for disbursement.

Dimensions to be assessed (Scoring method M1):

(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).

Points to note:

1. The rating is based on donor forecasts, rather than budgeted donor support (which may be different).
2. Dimension (ii) should be assessed on the basis of the quarterly distribution of actual budget support inflows compared to the distribution according to the agreed plan. The weighted disbursement delay would be calculated as the percent of funds delayed multiplied by the number of quarters of the delay (so if 10% of the actual inflows arrive in the fourth quarter instead of the first quarter as planned, the weighted delay is 30%).
3. There is a spreadsheet available for this calculation on the PEFA website www.pefa.org.

Dimension (i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).

Key questions

1. Is comprehensive & timely data on forecasted budget support for the last 3 FYs provided by donor agencies?
2. If yes, how does this data compare with actual budget support received in each FY?
3. In each of the last 3 FYs, what is deviation between forecast & actual data (more than 15%, 10%, 5%, less than 5%)?

Coverage	All donors providing direct budget support to or through the central government.
Critical period/time	Last 3 FYs.
Quantifiable data required	Actual receipt of direct budget support from donors minus forecast of direct budget support issued by donors as a percentage of the forecast, for each of the last three fiscal years.
Information sources	All DBS donors, corroborated by MOF (Budget Dept and Accountant General).

Rating criteria

A. In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%.
B. In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%.
C. In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%.
D. In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15% OR no comprehensive and timely forecast for the year(s) was provided by the donor agencies.

Clarification

D-1 Query/Issue		**Clarification**
D1-a	In this country, government did not **expect nor did it receive Direct Budget Support in all of the last three years**. How should this be rated?	If DBS has been forecast and received in only one year, the indicator is 'not applicable'. If DBS has been forecast and received two years, the criteria can be interpreted accordingly, provided nothing was promised and nothing was received in the other year.
D1-b	Should **concessional loans** from donors (such as DPLs from World Bank) as well as grants be included in rating dimension (i)?	Yes: dim (i) should include all aid in support of the government's budget (general or sector-specific) whether in the form of grants or concessional loans.
D1-c	Dimension (i): In this country, **budget support is a line of credit** that the government can choose to use or not. Over the last few years, government chose to use these lines only partially as a debt management strategy. So, budget support was not delivered as planned but because of government not donor decisions. How should this be rated?	Assuming that government can draw on lines of credit made available by donors with no strings attached, then dim (i) would rate 'A' **provided**: • the size of the line of credit in practice is equal to the amount promised by the donors six weeks before the start of the FY and the DBS is included in the annual budget as a loan or grant from the donor agency; • there are no conditions to be met for drawing on the lines of credit; • the funds are placed in an account controlled by the government or the central bank, so the funds can be drawn without donor involvement OR donors on request consistently transfer the funds within a delay defined in the budget support agreement i.e. the government knows exactly when the cash will be available (this would also merit an 'A' rating for dim (ii)).

Dimension (ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).

Key questions

1. Did forecasts of budget support include quarterly or more detailed distribution of expected disbursements?
2. If yes, what was actual quarterly distribution of receipt of direct budget support from donors & corresponding forecast, for each of last 3 FYs

Coverage	All donors providing direct budget support to or through the central government.
Critical period/time	Last 3 FYs.
Quantifiable data required	Actual quarterly distribution of receipt of direct budget support from donors and the forecast of quarterly distribution of direct budget support as issued by donors, for each of the last three fiscal years.
Information sources	All DBS donors, corroborated by MOF (Budget Dept and Accountant General).

Rating criteria

A. Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
B. Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
C. Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years.
D. The requirements for score C (or higher) are not met.

Clarifications

D-1 Query/Issue		**Clarification**
D1-d	Dimension (ii): **How exactly should the calculation be done**?	To assist in processing the data for scoring of the indicator a calculation model (spreadsheet) has been placed on the website.
D1-e	Dimension (ii): **The requirements for ‘A’ and ‘B’ are the same**. How should this be interpreted?	When the same calibration applies to two scores of a dimension, it means that the overall indicator score is determined by the score of the other dimension(s) of the indicator. If indicator D-1 dimension (ii) fulfills the requirements for scores ‘A’/‘B’, then the indicator will score ‘A’ if dimension (i) scores ‘A’, and it will score ‘B’ if dimension (ii) scores ‘B’.

D1-f	How should the indicator be assessed if **the donors do not provide a forecast for budget support** in total and/or for the quarterly disbursements?	Where donors have not made commitments to deliver budget support and have also not provided any forecast of expected budget support, the government has no basis on which to include budget support disbursement in the budget. The indicator therefore should not be scored at all. Where donors have made commitments accompanied by expected disbursement timing, but do not specifically coordinate a forecast for budget support and submit this to the government, the sum of the individual commitments for the fiscal year could be considered the forecast for the year on which the government can base its budget estimates. This would form the basis for assessing dimension (i). If donors have made commitments to provide budget support for the fiscal year, but do not provide a forecast of budget support disbursements quarter by quarter (individually or jointly), dimension (ii) will score 'D'. However, in cases where there is an agreement that the government can draw on budget support on the basis of reimbursement of expenditure with no other conditions attached prior to disbursement, the government has control over the amounts it will receive. Therefore, quarterly disbursement estimates may not be required and dimension (ii) would score 'A'.
D1-g	Dimension (ii): The **in-year delay of budget support can exceed 100%**. How should that be interpreted?	The calculation is based on the percentage of disbursed budget support that is delayed and the number of quarter of such a delay. This means that if all budget support is delayed by one quarter the total delay will be 100%. Correspondingly if all budget support disbursements are delayed and the delay in all cases is by 3 quarters (from quarter 1 to quarter 4), then the total delay can reach 300% (which is the maximum).

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D			**C+**	
In the past three years, budget support compared to forecast was 56%, 146%, & 61%.	D	In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15%.	MoF Budget Performance Reports.	B	The deviation is attributed to: • Delays by Govt in fulfilling conditions; • Delays in securing parliamentary approvals for loan components; • Delays in some donors' internal procedures; and • Accounting classification errors.
There is no projected breakdown of budget support by quarter.	D	(ii) Quarterly disbursement estimates have been agreed with donors at or before beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years. D = the requirements for score C (or higher) are not met.	MoF Budget Performance Reports.	C	Real deterioration in the predictability of amount and timing of budget support.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid.

Predictability of disbursement of donor support for projects and programs (below referred to only as projects) affect the implementation of specific line items in the budget. Project support can be delivered in a wide range of ways, with varying degrees of government involvement in planning and management of resources. A lower degree of government involvement leads to problems in budgeting the resources (including presentation in the budget documents for legislative approval) and in reporting of actual disbursement and use of funds (which will be entirely the donor's responsibility where aid is provided in-kind). While the government through its spending units should be able to budget and report on aid transferred in cash (often as extra-budgetary funding or through separate bank accounts), the government is dependent on donors for budget estimates and reporting on implementation for aid in-kind. Donor reports on cash disbursements are also important for reconciliation between donor disbursement records and government project accounts.

Dimensions to be assessed (Scoring method M1):

(i) Completeness and timeliness of budget estimates by donors for project support.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

Points to note:

Quantitative data for five largest project donors should be quoted, corroborated by MOF (Budget Dept and Accountant General) and MDA Finance Officers or Project Management Units.

Dimension (i) Completeness and timeliness of budget estimates by donors for project support.

Key questions

1. For each large donor, what are amounts of project/program support estimated for receipt in last completed FY?
2. When are estimates received by government (eg. in time for incorporation into government budget formulation, or at least 3 months before FY starts)?
3. Are estimates broken down using same classification of government budget?
4. What % of total estimated project/ program support is notified according to above criteria of timeliness & classification (all, more/less than half)?

Coverage	Major donors providing project support to or through the central government.
Critical period/time	Last completed FY.
Quantifiable data required	Project/ program support amounts of donor agencies (with estimated annual disbursement to or on behalf of government) that submit budget estimates in time for incorporation into government budget formulation, (and with a breakdown corresponding to government budget classification); compared to total estimated project/ program support to government from all donor agencies.
Information sources	Five largest project donors, corroborated by MOF (Budget Dept and Accountant General) and MDA Finance Officers or Project Management Units.

Rating criteria

A. All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification.

B. At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification.

C At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government's budget classification.

D. Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming FY and at least 3 months prior to its start.

Clarification

(none issued)

Dimension (ii) Frequency and coverage of reporting by donors on actual donor flows for project support.

Key questions

1. Do large donors provide at least quarterly reports to government on their actual project/ program disbursements?
2. If so, when do large donors provide their reports (within 1 month of end of each quarter, 2 months, more than 2 months)?
3. Are reports classified in same way as the government budget?
4. What is % of donor project/ program support flows for which information on actual disbursements are reported to government within one month of end of quarter for last year & also for key expenditure categories in accordance with government budget classification?

Coverage	Major donors providing project support to or through the central government.
Critical period/time	Last completed FY.
Quantifiable data required	Percentage of donor project/ program support flows for which information on actual disbursements are reported to government within one month of end of the quarter for the last year (at the aggregate level and also for key expenditure categories in accordance with the government budget classification).
Information sources	Five largest project donors, corroborated by MOF & MDA Finance Officers or Project Management Units.

Rating criteria

A. Donors provide quarterly reports within one month of end-of-quarter on all disbursements made for at least 85% of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification.
B. Donors provide quarterly reports within one month of end-of-quarter on all disbursements made for at least 70% of the externally financed project estimates in the budget with a break-down consistent with the government budget classification.
C. Donors provide quarterly reports within two months of end-of-quarter on all disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a break-down consistent with the government budget classification.
D. Donors do not provide quarterly reports within 2 months of end-of-quarter on disbursements made for at least 50% of externally financed project estimates in the budget.

Clarification

D-2 Query/Issue		**Clarification**
D2-a	What total do the **percentages in the calibration of dimension** (ii) refer to?	The percentages refer to the externally funded projects and programs for which budget estimates are presented in the approved annual budget i.e. to the number of projects/programs weighted by the size of budget. It is not a question of whether the actual disbursements reach a certain percentage of the budget estimates. Actual reporting could exceed 100% in cases where donors report on projects/programs that were either known but not incorporated in the budget estimates or agreed and initiated only during the budget year. It is important to note that the indicator only refers to externally-funded projects and programs for which budget estimates are presented in the approved annual budget (including the case where donors finance part of the Public Investment Program and this is effectively the government's development budget, even if it is documented separately). Reporting on disbursements of aid against projects that are not in the government's budget/PIP is not covered by this indicator.

D2-b	If government receives **information on project disbursements** not from the donors directly but from PIUs and/or banks and/or the recipient institution, does this count in regard to the scoring of D-2?	The information on disbursements under donor-financed projects (including offshore project spending, such as payment to suppliers, contractors and consultants and aid –in-kind) ultimately comes from the donors. Whether the information comes directly from the donors to the government, or indirectly via PIUs/banks/recipient institutions is not relevant for the purposes of scoring this indicator. Nevertheless, the data received from these sources should eventually be reconciled with donor reports.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**D+**	No change.
Budget proclamations indicate donor assistance & loans in aggregate & according to projects they finance. They incorporate loans & assistance from the 5 largest donors for which information is available (other donors, such as Global Fund, may be larger, but no information is available on its planned annual expenditures). Only ADB & World Bank use government's budget classification system.	C	(i) At least half of donors (including the 5 largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least 3 months prior to its start. Estimates may use donor classification & not be consistent with government's budget classification system.	-- 2009/10 Budget Proclamation -- Annual budget performance reports for capital expenditure funded by donor loans and assistance. -- MoF	C	
Quarterly expenditure reports are only provided under the WASH programme. Annual expenditures under UNICEF & some (but not all) ADB funded projects are reflected in end-year budget performance report & trial balance.	D	(ii) Donors do not provide quarterly reports within two months of end-of-quarter on the disbursements made for at least 50% of externally financed project estimates in the budget.	-- Annual budget performance report for 2008/09 concerning capital expenditure financed by loans and assistance. -- End-2008/09 monthly trial balance sheet (codes 2001 & 2025 for ADB and UNICEF respectively).	D	

D-3 Proportion of aid that is managed by use of national procedures.

National systems for management of funds are those established in the general legislation (and related regulations) of the country and implemented by the mainstream line management functions of the government. The requirement that national authorities use different (donor-specific) procedures for the management of aid funds diverts capacity away from managing the national systems. This is compounded when different donors have different requirements. Conversely, the use of national systems by donors can help to focus efforts on strengthening and complying with the national procedures also for domestically funded operations.

The use of national procedures mean that the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements for donor funds are the same as those used for government funds. All direct and un-earmarked budget support (general or sector based) will by definition use national procedures in all respects. Other types of donor funding such as e.g. earmarked budget support, basket funds and discrete project funding may use some or no elements of national procedures.

Dimensions to be assessed (Scoring method M1):

(i) Overall proportion of aid funds to central government that are managed through national procedures.

Points to note:

This proportion should be arrived at as an average of the proportion of donor funds that use national systems for each of the four areas of procurement, payment/ accounting, audit and reporting respectively.

Dimension (i) Overall proportion of aid funds to central government that are managed through national procedures.

Key questions

What is % of all donor funds to government that:

- use national procurement procedures?
- use national payment /accounting procedures?
- use national audit procedures?
- use national reporting procedures?

Coverage	All aid to or through central government.
Critical period/time	Last completed FY.
Quantifiable data required	Calculate the average of the following four percentages: • Percentage of all donor funds to government that use the national procurement procedures: • Percentage of all donor funds to government that use the national payment /accounting procedures: • Percentage of all donor funds to government that use national audit procedures: • Percentage of all donor funds to government that use the national reporting procedures
Information sources	Five largest project donors, corroborated by MOF (Budget Dept and Accountant General) and MDA Finance Officers or Project Management Units.

Rating criteria

A. 90% or more of aid funds to central government are managed through national procedures.
B. 75% or more of aid funds to central government are managed through national procedures.
C. 50% or more of aid funds to central government are managed through national procedures.
D. Less than 50% of aid funds to central government are managed through national procedures.

Clarification

D-3 Query/Issue		Clarification
D3-a	Do **National Procedures include procedures that are supplemented by donor additions**?	No. National procedures may appear to be followed, but donors may impose their own requirements as additional procedures (e.g. no objections at different stages of procurement processes). Such cases cannot be rated as following national procedures.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Donor-financed projects do not use Govt's budget execution system, banking arrangements (project accounts are outside TSA), procurement & audit systems. Accounting & reporting systems are used. Even so, as not all donor projects are classified according to Govt's budget classification system expenditures under donor projects can't be reported on.	**D**	Less than 50% of aid funds to regional government are managed through national procedures.	MoF: see table below.	**C**	Government no longer reports development expenditure in the financial statements

FY 2008/09	**Aus**	**NZ**	**EU**	**WB**	**Japan**	**China**	**ADB**
Budget *(Own currency)*	21,769,497	11,359,430	5,548,234	1,537,894	2,121m	179,036,939	5,136,933
Ex Rate (08/09)	2.234	1.79	3.792	2.56	0.0297	0.375	2.56
Latest Budget *(million)*	48,633,057	21,072,613	21,038,904	3,936,895	62,995,787	67,138,514	13,150,549
Procedure							
Budget	99%	97%	100%	100%	17%	84%	94%
Banking	33%	13%	0%	0%	0%	0%	0%
Accounting	33%	31%	0%	100%	0%	0%	73%
Procurement	31%	16%	0%	0%	0%	0%	0%
Reporting	0%	0%	0%	0%	0%	0%	0%
Audit	47%	42%	0%	100%	3%	0%	100%

In analyzing the situation, the following assumptions have been made:

- ***Budget:*** This means that the funding is indicated somewhere in approved Budget Estimates for 2008/09.
- ***Banking:*** This refers to the use of one of the Government's main bank accounts managed by Treasury. Special purpose accounts are not considered to be using Government systems.
- ***Accounting:*** This refers to the use of Government's accounting software systems
- ***Procurement:*** This refers to use of Government guidelines and standards with approvals by the Tender Board. Additional approvals by a donor are not considered as using Government procedures.
- ***Reporting:*** This refers to the presentation of donor expenditure in the Government's official financial statements. It is recognised that Government does not report development expenditure in the financial statements (PI-25) and therefore this is not within the control of the donors.
- ***Audit:*** This refers to the use of the Controller and Chief Auditor to undertake the audit of donor financed programs.