**Session 6: Case Study on Interpreting a draft assessment**

The ‘Integrated assessment across indicators’ (Section 4.1) from a draft PEFA report is set out below. **You are required** tocomment on the impact of the strengths and weaknesses revealed in the indicator assessment on (i) aggregate fiscal discipline, (ii) strategic allocation of resources, and (iii) efficient service delivery.

### Budget reliability

| **Pillar I: Budget reliability** | **Dimension Ratings** | **Overall Rating** |
| --- | --- | --- |
|  |  |  |  |
| PI-1 | Aggregate expenditure out-turn  | C |  |  |  | **C** |
| PI-2 | Expenditure composition outturn  | C | B | C |  | **C+** |
| PI-3 | Revenue out-turn  | B | B |  |  | **B** |

The ‘Budget Framework Paper’ sets out the fiscal framework within which the budget is formulated, and defines the assumptions upon which forecasts are produced: these are consistent with the policies published in the annual *Government Strategy*, and include aggregate budget ceilings, as well as forecasts of the fiscal balance.

Over the last three years, the PFM system has produced a reliable budget. While total expenditure out-turn variation exceeded 10% in two years, the composition variance by economic classification is reasonable (rated ‘C+’), as is a comparison of revenue estimates to actual outturns (PI-3, rated ‘B’): collections regularly meet and even exceed targets, due to the increased effectiveness of the Revenue Authority.

### Transparency of public finances

| **II. Transparency of public finances** | **Dimension Ratings** | **Overall Rating** |
| --- | --- | --- |
|  |  |  |  |
| PI-4 | Budget classification | A |  |  |  | **A** |
| PI-5 | Budget documentation | A |  |  |  | **A** |
| PI-6 | Central government operations outside financial reports | A | C | B |  | **B** |
| PI-7 | Transfers to subnational governments | A | A |  |  | **A** |
| PI-8 | Performance information for achieving service delivery  | C | B | D | C | **C** |
| PI-9 | Public access to fiscal information | D |  |  |  | **D** |

Budget documentation is comprehensive and used the GFS 2014 classification for the latest budget presented to Parliament (PIs 4 and 5). Coverage of government operations is good (PI-6) while the disappointing rating for ‘public access to fiscal information’ (PI-9) is explained by the non-publication of a (now compulsory) in-year budget monitoring report, although much of the ‘other’ data is available in accordance with generally accepted good practices.

The complex structure of service delivery, via several thousand non-budget agencies, means that fiscal data cannot be reported by type of service unit and geographical distribution for tracking purposes. While there are performance targets for more than 25% of services, there are deficiencies in the format and methods of measurement (PI-8).

### Management of assets and liabilities

| **III. Management of assets and liabilities**  | **Dimension Ratings** | **Overall Rating** |
| --- | --- | --- |
|  |  |  |  |
| PI-10 | Fiscal risk reporting  | B | C | D |  | **C** |
| PI-11 | Public Investment Management  | A | A | A | A | **A** |
| PI-12 | Public Asset Management  | C | D | C |  | **D+** |
| PI-13 | Debt management  | B | A | A |  | **B+** |

Overall, the mechanisms for reporting fiscal risks (PI-10) are reasonable, but while contingent liabilities arising from the guarantees provided to GBEs are recorded, those inherent in various *Public Private Partnership* arrangements are not.

MDAs submit project proposals to the Development Planning Unit which then prepares project costings that include both investment cost and forward linked recurrent expenditures for consideration by the Public Investment Committee. The Project Management and Monitoring Unit in MoF monitors and prepares quarterly and annual project progress and financial reports for Cabinet (PI-11).

The Ministry of Public Works has the mandate to compile and consolidate both movable and immovable fixed assets registers, although this is work-in-progress. Each MDA updates its fixed assets register annually, and there is a legal framework for the disposal of such assets (PI-12). Financial assets are recorded by the Portfolio Unit in MoF, but are not publically disclosed.

A three-year medium term debt strategy guides public borrowing (PI-13) and the Minister of Finance has sole responsible for this. The ‘Debt Management and Financial Analysis System’ provides complete and accurate information on both domestic and foreign debt, and while it does not record PPPs and implicit liabilities, the Central Bank maintains records of contingent liabilities: guarantees are recorded separately in an excel datable.

### Policy-based fiscal strategy and budgeting

| **IV. Policy-Based fiscal strategy and budgeting** | **Dimension Ratings** | **Overall Rating** |
| --- | --- | --- |
|  |  |  |  |
| PI-14 | Macroeconomic and fiscal forecasting | A | A | B |  | **A** |
| PI-15 | Fiscal strategy  | A | A | B |  | **A** |
| PI-16 | Medium-term perspective in expenditure budgeting  | A | B | B | B | **B+** |
| PI-17 | Budget preparation process  | A | B | C |  | **B** |
| PI-18 | Legislative scrutiny of budgets | A | B | A | C | **C+** |

In recent years, the budget preparation process has increased in rigour, including greater scrutiny of MDA budget requests for compliance with agreed priorities and the strengthening of links between sector plans (which cover over 80% of government expenditure) and forward estimates (PI-16). MoF issues a clear budget calendar to all MDAs and Districts with timelines for each activity, and allows at least three-months for the preparation of a meaningful budget. The revenue side of the budget uses comprehensive forecasts from the Tax Policy Committee, which cover all sources of revenue (PI-15).

Parliament considers and provides comments on the Budget Framework Paper (PI-18). Sector committees scrutinize budget submissions and make recommendations to the plenary for consideration and approval, and the Executive considers Parliament’s recommendations. The process allows for a period of public participation, then Parliament has at least two months to scrutinize budget estimates. In the last three FYs, the legislature approved the budget before the beginning of the financial year.

### Predictability and control in budget execution

| **V. Predictability and Control in Budget Execution** | **Dimension Ratings** | **Overall Rating** |
| --- | --- | --- |
|  |  |  |  |
| PI-19 | Revenue administration  | A | A | A | D | **B+** |
| PI-20 | Accounting for revenue  | A | B | A |  | **B+** |
| PI-21 | Predictability of in-year resource availability  | A | B | B | A | **B+** |
| PI-22 | Expenditure arrears | C | C |  |  | **C** |
| PI-23 | Payroll controls  | A | A | A | B | **B+** |
| PI-24 | Procurement  | C | A | C | A | **B** |
| PI-25 | Internal controls on nonsalary expenditure  | A | A | B |  | **A** |
| PI-26 | Internal audit  | A | C | C | B | **C+** |

The Revenue Authority website provides access for taxpayers to laws, regulations, ministerial orders and Commissioner-General rules, and tax education campaigns are carried out regularly. Self-assessment is widely used for tax declaration. A computerised risk-based taxpayer-profiling module is used to identify and select taxpayers for audit and fraud investigations. Arrears over 10 years are written off by law (PI-19).

MoF receives daily and monthly reports on all domestic revenue collected and transferred to the Treasury Main Account (including transfers from the Revenue Authority). Monthly reconciliations are completed within two weeks of the end of each month (PI-20). The TSA allows central government cash balances – including donor project bank accounts – to be consolidated daily. MDAs and DCs prepare annual cash flow forecasts, updated quarterly based on actual cash flows, and consolidated by MoF. The Minister issues quarterly expenditure commitment ceilings which are loaded into the IFMIS for expenditure commitments and payments. Budget reallocations only take place six months after the original budget is approved, when up to 20% virement within the same budget entity is allowed; these are reported to Parliament (PI-21). Expenditure arrears are reported at the end of the year, and have been less than 10% of total expenditure in each of the last three FYs (PI-22).

All personnel records and payroll data is reconciled monthly, and there are strict controls in the system, including links to budget approvals. Authority to change records and payroll is restricted, and when changes are made, they are usually in time for the next payroll, as retroactive payments are very limited.

The Public Procurement Authority (PPA) fulfils a monitoring and capacity-building role in a decentralized procurement system. Procurement plans are published on the website of the procuring entity and the PPA, as are the results of competitive tendering processes and contract awards. The PPA’s Annual Reports for the last two FYs suggest there are problems with procuring entities meeting the legal requirements (e.g. only 15% report procurement outcomes on their websites).

Expenditure commitment controls effectively limit commitments to actual cash availability and approved budget allocations. The Budget Law, accounting regulations, and various procedure manuals specify the division of duties between staff in different aspects of the payment process, which are generally followed, although both IA and OAG report instances of non-compliance with internal controls (PI-25).

There are internal audit personnel at each government entity, although the independence of these 160+ staff is open to question as they are recruited and can be dismissed at the entity level. The function employs a ‘risk-based’ approach, and entity Audit Committees approve audit plans and review the reports produced: there is an increased political will to implement audit recommendations. The (central) Internal Audit Unit at MoF issues a quarterly Internal Audit report to the Minister of Finance, highlighting key and crosscutting findings and recommendations for attention and action.

### Accounting and reporting

| **VI. Accounting and reporting** | **Dimension Ratings** | **Overall Rating** |
| --- | --- | --- |
|  |  |  |  |
| PI-27 | Financial data integrity  | B | A | A | B | **B+** |
| PI-28 | In-year budget reports  | A | D | C |  | **D+** |
| PI-29 | Annual financial reports  | C | A | C |  | **C+** |

Bank reconciliations for all Government accounts take place at least monthly at aggregate and detailed levels within two weeks of the end of the period. Suspense accounts are not used, and travel allowances are promptly expensed and any reconciliation conducted at the MDA level.

Quarterly budget execution reports (PI-28) cover general government, and include disbursements, at the payment (but not at the commitment) stage. However, the OAG has reported that the majority of budget agencies were required to adjust their AFS during audit, which suggests that these monthly budget execution reports are less than completely reliable

The annual Consolidated Financial Statements (CFSs) cover all MDAs and other budget entities, and are prepared according to the modified cash basis of accounting, in accordance with the legal framework, although this does not comply with *International Public Sector Accounting Standards*. Reports have been produced on time, within three months of the year-end (PI-29). The CFSs for the previous three years had received a ‘disclaimed’ opinion from the OAG, although an improvement was noted in the last FY, with a slight increase in the number of public entities receiving unqualified reports. However, the OAG notes that the AFSs of some GBEs were marred by gross financial mismanagement, resulting in losses or misappropriations of public resources.

### External scrutiny and audit

| **VII. External Scrutiny and Audit** | **Dimension Ratings** | **Overall Rating** |
| --- | --- | --- |
|  |  |  |  |
| PI-30 | External Audit  | B | B | B | D | **D+** |
| PI-31 | Legislative scrutiny of audit reports  | C | A | B | A | **C+** |

The Audit Report was submitted to Parliament within the statutory period of seven months in each of the last three FYs (PI-30), and includes an assessment of those audited agencies that implemented audit recommendations from the previous year: hence many budget entities track implementation of audit recommendations through an action plan, whose status is reported to MoF as an attachment to the monthly financial statements. Mechanisms are being put in place to identify the causes for any entity failing to reach its targets, and for specific follow-ups to be taken to facilitate the necessary improvements. Although the OAG reports that only a proportion of previous years’ recommendations had been implemented, the majority of the shortfall lies with a few budget entities.

The Public Accounts Committee examines all the accounts submitted to it by the Auditor-General, and has completed its review within eight months of the report being presented to Parliament in each of the past three years: hearings are covered live on Parliamentary radio and sometimes on national television. The PAC prepares a report (which includes recommendations) to a plenary session of Parliament, which is then passed to the executive for action: during the year, there is oversight to ensure that recommendations are implemented (PI-31).