



# **GUIDANCE FOR SNG PEFA ASSESSMENTS**

# DRAFT

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## ABOUT PEFA

The Public Expenditure and Financial Accountability (PEFA) is a partnership program of the European Commission, the International Monetary Fund, the World Bank, and the governments of France, Luxembourg, Norway, Slovak Republic, Switzerland, and the United Kingdom.

The PEFA program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at a specific point in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time.

PEFA is a tool that helps governments to achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important PFM institutions, systems, and processes.

The PEFA framework includes a report that provides an overview of the PFM system and evidence-based measurement against a full set of performance indicators. It also provides an assessment of the implications for overall system performance and desirable PFM outcomes. It provides a foundation for planning reform, discussing strategy and priorities, and monitoring progress.

In addition to governments, civil society organizations and international development institutions also use PEFA. PEFA scores and reports allow users to gain a quick overview of the strengths and weaknesses of a country's PFM system as well as the implications of the overall results for the key performance goals of fiscal discipline, strategic resource allocation, and efficient service delivery. The PEFA analysis thereby contributes to dialogue on the need and priorities for improving PFM.

The PEFA methodology draws on good practices based on international standards on crucial aspects of PFM, as identified by experienced practitioners. PEFA incorporates a PFM performance report for the subject government that presents evidence-based indicator scores and analyzes the results based on existing evidence. It emphasizes a country-led approach to improving performance and aligning stakeholders around common goals.

In addition to guidance for analysis and reporting, the PEFA program provides support, monitoring, and analysis of PEFA assessments. For more information on PEFA, please see the PEFA website: [www.pefa.org](http://www.pefa.org).

## ABOUT THE GUIDANCE

Public financial management (PFM) arrangements at the subnational level are likely to depend on arrangements determined by the central government in national legislation or national constitution. PFM arrangements can vary considerably by country. Variations reflect differences in, among other things, population and geographic size, governance, functions and responsibilities, administrative traditions, and the degree of operational discretion.

The guidance for SNG PEFA assessments supplements the Public Expenditure and Financial Accountability (PEFA) Framework document published on February 1, 2016, and replaces the Supplementary Guidance for Subnational PEFA assessments, published on December 2016.

It provides additional guidance for applying the PEFA methodology at the subnational level. To this end, it offers recommendations on how each of the PEFA indicators and dimensions can be applied or modified to better suit the characteristics of the subnational governments. It introduces some new indicators and a new pillar on the intergovernmental fiscal relations which consists of two indicators, including: HLG 1: Transfers from higher levels of government; and HLG 2: Fiscal rules and monitoring of fiscal position.

Part 1 and 2 of the guidance present the general features and the methodology of the PEFA framework, which are similar to the use of PEFA at national level.

Part 3 focuses on indicators, including how the standard PEFA 2016 indicators may be applied or modified, if necessary, to accommodate differences at the subnational level (see subsection 3.2 for the full set of indicators).

As detailed in part 4, the PEFA report format described in the PEFA Framework document requires some adjustment when applied at the subnational level.

Part 5 describes the particularities of the PEFA process for subnational governments, in particular for a set of assessments, i.e. when a number of SNG at the same level or different levels is assessed in the same country during the same period of time.

Two optional supplementary modules complement the guidance:

## **MODULE : HOW TO GET A FULL OVERVIEW OF THE PFM PERFORMANCE AT SNG LEVEL**

When responsibilities for PFM functions are shared between subnational and central government, the overall PFM performance of the SNG can be a result of the PFM performance of both SNGs and the CG. Provided that the PEFA assessment captures the effect of both CG and SNG performance on an aspect of PFM at SNG level, the findings of the assessments may help both CG and SNG officials developing action plans to address the identified weaknesses that are within their respective areas of control and responsibility.

The revised guidance on SNG assessments introduces a flexible approach to PEFA assessments, in particular by excluding from the assessment indicators for PFM aspects where the SNG(s) being assessed do not have autonomy but where CG sets rules and or implements. However, if the purpose is to inform reform actions also at CG level, all the dimensions of the PEFA framework will have to be used, meaning that all functions of PFM are assessed no matter whether they are performed by CG or SNG. It also means that, in addition to the evidence for scoring, the report provides additional information on the ways the regulations and tools (e.g., IFMIS, financial report templates) provided by CG have an influence on SNG performance.

Aiming at determining the influence of the central government on the subnational PFM performance, the approach in this guidance provides:

- A methodology to be used for those dimensions that relate to PFM functions performed by CG,
- A set of diagnostic questions mapped to the relevant PEFA framework indicators to collect and analyze information, aiming to assess the influence of CG on the PFM functions that are performed at SNG level.

This approach, introduced as a supplementary module to the PEFA Guidance for SNGs, is intended to be conducted on an optional basis concurrently with a PEFA assessment and will be part of the PEFA report. Its findings will be summarized in a consolidated report. It cannot be carried out as a stand-alone activity.

The decision to carry out this optional module would require prior agreement between the subnational government(s), the central government, and any development partners involved. A joint planning of PEFA assessments at the different tiers of government would be an essential first step to improve the understanding of linkages amongst tiers from the start of the assessment.

## **MODULE: SERVICE DELIVERY**

To respond to a growing number of requests from PEFA users for help on improving their ability to use a SNG PEFA assessment/s to identify bottlenecks in service delivery due to PFM performance, the PEFA Guidance for SNG PEFA assessments introduces a Service Delivery assessment module (the SD module).

The SD module—is a set of diagnostic questions mapped to the relevant PEFA framework indicators to collect and analyze information, aiming to assess the extent to which a SNG’s public financial management (PFM) performance enables effective service delivery. It is introduced as a supplementary module to the PEFA Guidance for SNG PEFA assessments and is intended to be conducted on an optional basis concurrently with a PEFA assessment and the analysis presented as an Annex of the PEFA assessment report. While the SD approach can also be carried out as a stand-alone activity, it is preferable if this is done concurrently with a PEFA assessment to capitalize on data already collected during the PEFA assessment process. This should may result in cost and resource efficiency gains.

Service delivery arrangements differ significantly across and within countries, involve different levels of the government as well as private operators. Diversity and the complexity in the funding, management and delivering arrangements makes it difficult to develop a set of PEFA like indicators based on a four-point ordinal scale A-B-C-D, which would be applicable and feasible across the SNGs. Hence, the SD module is not intended to provide scores for the performance of SD expenditures or SD units of the SNG being assessed as measured by relevant indicators or dimensions.

The SD module should focus on and be limited to SD functions under the direct responsibility of the assessed SNG. Thus, it should cover programs and services delivered directly by the SNG’s budgetary and extra budgetary units. Integral steps in the SD module are to (a) collect additional information, (b) analyze the information gathered, (c) draw conclusions on the extent to which PFM performance affects SD, (d) present the analysis as an annex of the PEFA assessment report, and (e) summarize the key findings in part 3 of the PEFA assessment report.

The decision to carry out the SD module would require prior agreement between the subnational government(s) and, when necessary, the central government and development partners. An agreement should also be reached on SD programs/expenditures and SD units to be covered and assessed. The decision to use the SD module, coverage and scope should be documented in the PEFA assessment Concept Note.

## LIST OF ABBREVIATIONS AND ACRONYMS

<b>AV</b>	Average
<b>BCG</b>	budgetary central government
<b>CG</b>	central government
<b>COFOG</b>	Classifications of Functions of Government
<b>DACD</b>	Development Assistance Committee of OECD
<b>EUR</b>	euro
<b>FY</b>	fiscal year
<b>GDP</b>	gross domestic product
<b>GFS</b>	government financial statistics
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IFAC</b>	International Federation of Accountants
<b>IGF</b>	Inspection Générale des Finances
<b>INTOSAI</b>	International Organization of Supreme Audit Institutions
<b>IPSAS</b>	International Public Sector Accounting Standards (of IFAC)
<b>ISA</b>	International Standards on Auditing
<b>ISO</b>	International Standards Organization
<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>MOF</b>	Ministry of Finance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PC</b>	public corporation
<b>PFM</b>	public financial management
<b>PI</b>	PEFA indicator
<b>PPP</b>	public-private partnership
<b>SAI</b>	Supreme Audit Institution
<b>SNG</b>	subnational government
<b>SD</b>	service delivery
<b>TSA</b>	Treasury single account
<b>USD</b>	United States dollars
<b>WL</b>	Weakest Link

# PART I OVERVIEW OF THE SNG PEFA FRAMEWORK

## I.1. Scope and coverage of the PFM SNG framework

### *What SNG PEFA assesses*

The purpose of a good PFM system is to ensure that desirable fiscal and budgetary outcomes are achieved:

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

The PEFA framework identifies seven pillars of performance in a PFM system that are essential to achieving these objectives. The framework for subnational PEFA assessments uses the same indicators as the framework for national government PEFA assessments, with some adaptation, plus a new pillar on intergovernmental fiscal relations. The seven pillars and the newly introduced one for the SNGs thereby cover the key elements of a PFM system. The pillars are as follows:

**SNG pillar on intergovernmental fiscal relations.** Subnational governments obtain reliable and timely information on transfers from the central government to help them prepare meaningful budgets. Central government sets effective fiscal rules and monitors the fiscal position of the subnational governments.

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

ensures that public investments provide value for money, assets are recorded, and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

- IV. **Policy-based fiscal strategy and budgeting.** The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.
- V. **Predictability and control in budget execution.** The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.
- VI. **Accounting and reporting.** Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.
- VII. **External scrutiny and audit.** Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

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

### ***What institutions SNG PEFA covers***

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

The IMF<sup>1</sup> identifies “state” and “local” government units. Both state and local governments are covered by the term “subnational government” in PEFA. Specifically, *state and local governments have authority over smaller geographical areas than do central governments; have the authority to own assets, incur liabilities, and/or engage in transactions in their own rights. The right to borrow is not a requirement for treatment as a subnational government in the PEFA Framework.*

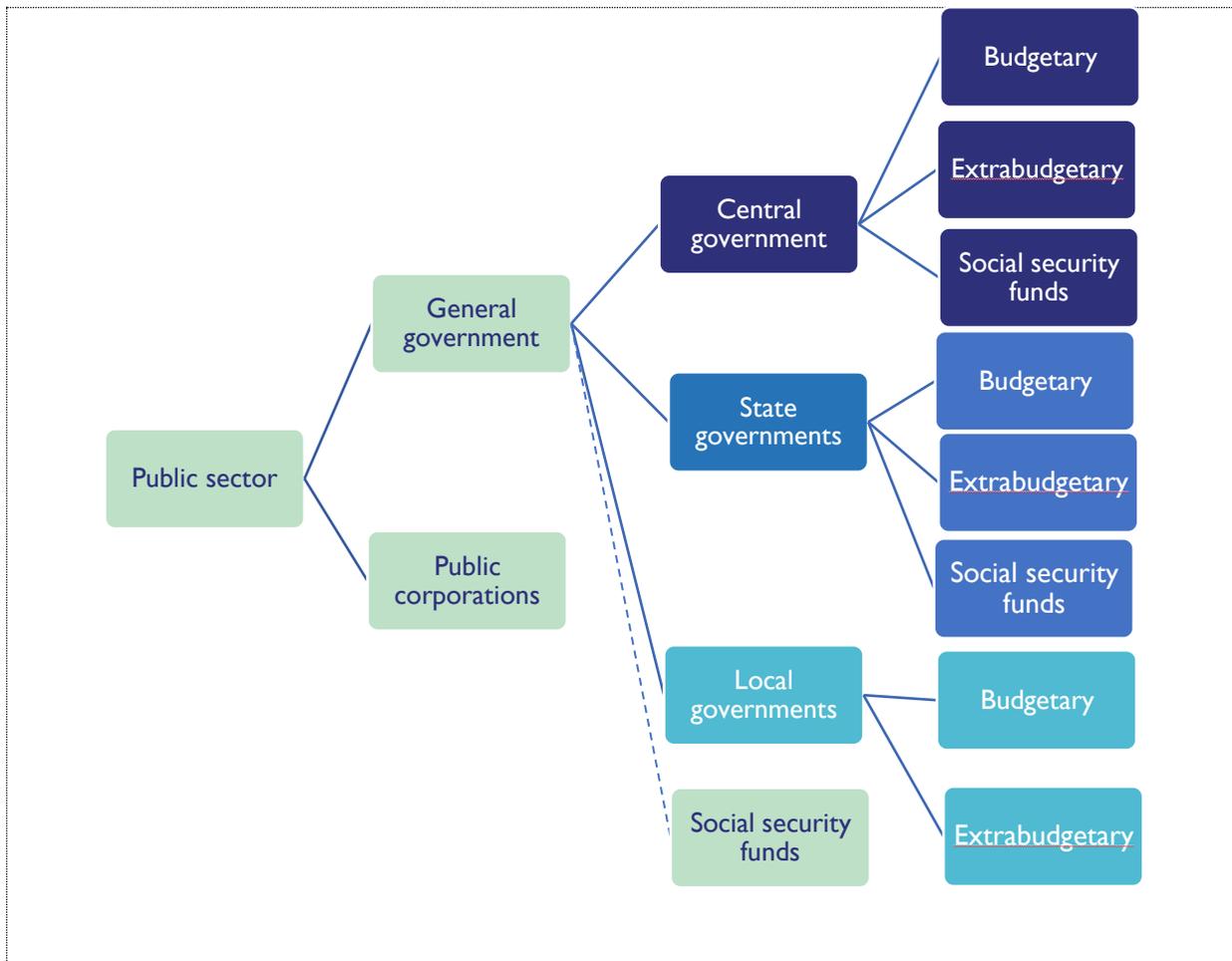
Deconcentrated units of central government, however, are not considered to be subnational governments. Such units perform functions under direction from a central authority but do not have powers to raise or spend funds on their own initiative. Deconcentrated units should be included in the assessment of the tier of government that has authority over and responsibility for their activities. This will typically be the central government but may be the state government in states that cover large areas and have diverse responsibilities.

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

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<sup>1</sup> International Monetary Fund, *Government Finance Statistics Manual 2014*, p. 25–27, provides a detailed explanation of the characteristics of state and local governments, including when more than three tiers of government are present.

**Figure 1.2 The main components of the public sector, as defined in Government Finance Statistics and referred to in PEFA**



Source: PEFA Secretariat 2016.

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

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

### What SNG PEFA does not include

The PEFA indicators focus on the operational performance of key elements of the PFM system rather than on all the various inputs and capabilities that may enable the PFM system to reach a certain level of performance. PEFA thus does not measure every factor affecting PFM performance, such as the legal framework, Information and Communication Technology (ICT) systems, institutional setup or human resource capacities within the government. These are matters that should be taken into account, however, in addition to PEFA findings, as part of a dialogue on PFM reform after the PEFA report has been finalized. Further analysis, including more

detailed examination of specific areas, may be required in addition to PEFA to explore the underlying factors affecting performance<sup>2</sup>.

PEFA also does not involve fiscal or expenditure policy analysis that would determine whether fiscal policy is sustainable. It does not evaluate whether expenditures incurred through the budget ultimately have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. A more detailed analysis of data, or utilization of country/SNG specific indicators, would be required for such an assessment. PEFA focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes. PEFA does not assess the decentralization system either. It does not provide an evaluation of the share of responsibilities between different levels of governments, neither does it assess how mandates and competencies are transferred.

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

## **I.2 The SNG PEFA performance indicators**

The PEFA framework for SNGs includes the full set of indicators across the broad array of PFM activities performed by governments. The indicators are grouped under the eight pillars:

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

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<sup>2</sup> Guidance is available in Volume IV of the PEFA handbook: Using PEFA to support PFM improvements. The PEFA Handbook is available on [www.pefa.org](http://www.pefa.org).

Each pillar comprises a group of indicators that capture the performance of the key systems, processes, and institutions of government. Each indicator in turn includes one or more performance dimensions. A complete listing of the individual indicators and their constituent performance dimensions is provided in Part 3 of this guidance.

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

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

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

## PART 2 GUIDANCE ON SCORING

### 2.1 General guidance on scoring

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

#### *Designation of D score for lack of sufficient information*

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

#### *Scoring where indicators are not applicable or not used*

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

**Not applicable (NA).** In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases “NA” is entered instead of a score. In cases where one or more dimensions of a multidimensional indicator are not applicable, the assessor proceeds as if the “not applicable” dimensions did not exist. In some cases, a D rating on an indicator or dimension can lead to NA on others. For example, if there is no internal audit function

(PI-26.1), the other dimensions of PI-26 are NA because there will be nothing to assess for those dimensions in the absence of an internal audit function. If the SNG being assessed is not allowed to borrow, PI.13: Debt management will be not applicable.

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

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

### ***Time horizons***

The requirements for a score can be assessed on the basis of different time horizons. These are set forth in the specifications for each indicator. As a general rule, the assessment is based on the situation at the time of data collection, or in the case of periodic events, on the basis of the relevant and completed events during the most recent or ongoing budget period. Certain indicator dimensions require data for more than one fiscal year or budget period. In these cases, the relevant period on which a dimension should be assessed, and therefore for which evidence should be sought, is specified for the relevant indicator.

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

### ***Materiality, size, and significance***

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

- ***All*** refers to 90 percent or more (by value).

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

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

### ***Use of sampling where complete information on the SNG is impractical to collect***

PEFA indicators generally require assessors to measure performance for the entire SNG including, budgetary and extrabudgetary units of the SNG being assessed. This may be impractical in cases involving large numbers of significant entities. Several indicators provide directions on the selection of specific matters to be assessed—for example, PI-11. In other indicators, sampling techniques are suggested—for example, PI-23 and 24. Where no specific sampling techniques are proposed but a complete set of information is impractical to collect, assessors may use a statistically sound sampling methodology. Assessors should explain the reason for the use of sampling and justify the sampling approach they adopt. It would be preferable that assessors and government agree on the sampling approach. In case of disagreement, differences of views can be accommodated in an annex as explained in the framework document under Part 3: The PEFA Report, paragraph 4 (See PEFA 2016, page 84).

### ***Issues of commercial confidentiality***

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

### ***Fiscal year***

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

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

Next year (T+1) is the budget year or fiscal year for which the annual budget proposals are made.

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

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

### **Public access and publication**

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

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

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

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

## **2.2 Scoring of indicators with multiple dimensions**

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

1. **Weakest link method: M1 (WL).** This method is used for multidimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. In other words, this method is applied where

there is a “weakest link” in the connected dimensions of the indicator. The steps in determining the aggregate indicator score are as follows:

- Each dimension is initially assessed separately and given a score on the four-point calibration scale.
  - The aggregate score for the indicator is the lowest score given for any dimension.
  - Where any of the other dimensions score higher, a “+” is added to the indicator score. Note: It is NOT acceptable to choose the score for one of the higher-scoring dimensions and add a “-” for any lower scoring dimensions.
2. **Averaging method: M2 (AV).** The aggregate indicator score awarded using this method is based on an approximate average of the scores for the individual dimensions of an indicator, as specified in a conversion table (table 1). Use of this method is prescribed for selected multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though all dimensions of an indicator fall within the same area of the PFM system, in certain areas progress on some individual dimensions can be independent of the others. The steps in determining the aggregate indicator score are as follows:
- Each dimension is initially assessed separately and given a score on the four-point calibration scale.
  - Refer to the **conversion table for indicator scores using the averaging method** (table 1) and find the appropriate section of the table—that is, whether there are two, three, or four dimensions for the indicator.
  - Identify the row in the table that matches the scores for each dimension of the indicator; the ordering of the dimension scores does not matter.
  - Enter the corresponding overall score for the indicator.

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

**TABLE 1:** Conversion table for indicator scores using the averaging method M2 (AV)

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

## 2.3 Composition of SNG PEFA pillars, indicators and dimensions

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

**TABLE 2: Composition of SNG PEFA pillars, indicators, and dimensions**

PILLARS	INDICATORS	DIMENSIONS
SNG Pillar. Intergovernmental Fiscal Relations  	HLG-1 Transfers from Higher Levels of Government  HLG-2 Fiscal rules and monitoring of fiscal position (new)	HGL 1.1 Outturn of transfers from higher levels of government (adjusted) HGL 1.2 Transfers composition outturn (adjusted) HGL 1.3 Timeliness of transfers from higher levels of government HGL 1.4 Predictability of transfers (new) HGL 2.1. Fiscal rules for SNG (new) HGL 2.2 Debt rules for SNG (new) HGL 2.3. Monitoring of SNG (new)
<b>I. Budget reliability</b>  	1. Aggregate expenditure outturn 2. Expenditure composition outturn  3. Revenue outturn (adjusted)	1.1 Aggregate expenditure outturn 2.1 Expenditure composition outturn by function 2.2 Expenditure composition outturn by economic type 2.3 Expenditure from contingency reserves 3.1 Aggregate revenue outturn 3.2 Revenue composition outturn
<b>II. Transparency of public finances</b>  	4. Budget classification 5. Budget documentation 6. Subnational government operations outside financial reports  7. Transfers to subnational governments  8. Performance information for service delivery	4.1 Budget classification 5.1 Budget documentation (adjusted) 6.1 Expenditure outside financial reports 6.2 Revenue outside financial reports 6.3 Financial reports of extrabudgetary units (adjusted) 7.1 System for allocating transfers 7.2 Timeliness of information on transfers 8.1 Performance plans for service delivery (adjusted) 8.2 Performance achieved for service delivery

PILLARS	INDICATORS	DIMENSIONS
		8.3 Resources received by service delivery units
		8.4 Performance evaluation for service delivery
	9. Public access to fiscal information (adjusted)	9.1 Public access to fiscal information (adjusted)
	9bis. Public consultation (new)	9bis.1 Public consultation in budget preparation (new)
		9bis 2 Public consultation in the design of service delivery programs (new)
		9bis3 Public consultation in investment planning (new)
<b>III. Management of assets and liabilities</b>	10. Fiscal risk reporting (adjusted)	10.1 Monitoring of public corporations (adjusted)
		10.2 Monitoring of subnational governments
		10.3 Contingent liabilities and other fiscal risks (adjusted)
	11. Public investment management	11.1 Economic analysis of investment proposals
		11.2 Investment project selection
		11.3 Investment project costing
		11.4 Investment project monitoring
	12. Public asset management (adjusted)	12.1 Financial asset monitoring
		12.2 Nonfinancial asset monitoring (adjusted)
		12.3 Transparency of asset disposal (adjusted)
	13. Debt management	13.1 Recording and reporting of debt and guarantees
		13.2 Approval of debt and guarantees
		13.3 Debt management strategy
<b>V. Policy-based fiscal strategy and budgeting</b>	14. Medium term budget strategy (new)	14.1 Underlying forecasts for medium-term budget (new)
		14.2 Fiscal impact of policy proposals (adjusted)
		14.3 Medium-Term Expenditure and Revenue Estimates (adjusted)
		14.4 Consistency of budgets with previous year's estimates
	17. Budget preparation process	17.1 Budget calendar
		17.2 Guidance on budget preparation
		17.3 Budget submission to the subnational council
	18. Legislative scrutiny of budgets	18.1 Scope of budget scrutiny

PILLARS	INDICATORS	DIMENSIONS
		18.2 Legislative procedures for budget scrutiny
		18.3 Timing of budget approval
		18.4 Rules for budget adjustment by the executive
<b>V. Predictability and control in budget execution</b>	19. Tax administration (adjusted)	19.1 Rights and obligations for tax measures (adjusted)
	19.2 Accounting for revenue (adjusted)	19.2 Property tax register and value assessment (new)
	19.3 Predictability of in-year resource allocation	19.3 Tax risk management, audit and investigation (adjusted)
	20. Accounting for revenue (adjusted)	19.4 Tax arrears monitoring (adjusted)
	20.1 Predictability of in-year resource allocation	20.1 Information on revenue collections
	20.2 Expenditure arrears	20.2 Transfer of revenue collections
	20.3 Payroll controls	20.3 Tax accounts reconciliation (adjusted)
	20.4 Procurement	21.1 Consolidation of cash balances
	20.5 Internal controls on nonsalary expenditure	21.2 Cash forecasting and monitoring
	20.6 Internal audit	21.3 Information on commitment ceilings
	20.7 Financial data integrity	21.4 Significance of in-year budget adjustments
		22.1 Stock of expenditure arrears
		22.2 Expenditure arrears monitoring
		23.1 Integration of payroll and personnel records
		23.2 Management of payroll changes
		23.3 Internal control of payroll
		23.4 Payroll audit
		24.1 Procurement monitoring
		24.2 Procurement methods
		24.3 Public access to procurement information
		24.4 Procurement complaints management
		25.1 Segregation of duties
		25.2 Effectiveness of expenditure commitment controls
		25.3 Compliance with payment rules and procedures
		26.1 Coverage of internal audit
		26.2 Nature of audits and standards applied
		26.3 Implementation of internal audits and reporting
		26.4 Response to internal audits
	27. Financial data integrity	27.1 Bank account reconciliation

PILLARS	INDICATORS	DIMENSIONS
<p data-bbox="203 359 492 386">VI. Accounting and reporting</p> 	<p data-bbox="618 359 873 386">28. In-year budget reports</p> <p data-bbox="618 495 886 522">29. Annual financial reports</p>	<p data-bbox="1032 254 1263 281">27.2 Suspense accounts</p> <p data-bbox="1032 289 1256 317">27.3 Advance accounts</p> <p data-bbox="1032 325 1403 352">27.4 Financial data integrity processes</p> <p data-bbox="1032 361 1382 422">28.1 Coverage and comparability of reports</p> <p data-bbox="1032 430 1398 457">28.2 Timing of in-year budget reports</p> <p data-bbox="1032 466 1419 493">28.3 Accuracy of in-year budget reports</p> <p data-bbox="1032 501 1403 562">29.1 Completeness of annual financial reports</p> <p data-bbox="1032 571 1414 632">29.2 Submission of reports for external audit</p> <p data-bbox="1032 640 1393 667">29.3 Accounting standards (adjusted)</p>
<p data-bbox="203 667 513 695">VII. External scrutiny and audit</p> 	<p data-bbox="618 667 894 695">30. External audit (adjusted)</p> <p data-bbox="618 940 997 1001">31. Legislative scrutiny of audit reports (adjusted)</p>	<p data-bbox="1032 667 1333 695">30.1 Audit coverage (adjusted)</p> <p data-bbox="1032 703 1414 764">30.2 Submission of audit reports to the subnational council (adjusted)</p> <p data-bbox="1032 772 1317 833">30.3 External audit follow-up (adjusted)</p> <p data-bbox="1032 842 1403 932">30.4 Independence of the public audit institution in charge of subnational governments</p> <p data-bbox="1032 940 1377 968">31.1 Timing of audit report scrutiny</p> <p data-bbox="1032 976 1333 1003">31.2 Hearings on audit findings</p> <p data-bbox="1032 1012 1419 1073">31.3 Recommendations on audit by the subnational council</p> <p data-bbox="1032 1081 1338 1142">31.4 Transparency of legislative scrutiny of audit reports</p>

## PART 3: MEASURING PERFORMANCE INDICATORS AND DIMENSIONS

Subnational PEFA assessments use the same indicators as the national government PEFA assessments, with some adaptation, plus an additional pillar on intergovernmental fiscal relations which consists of two indicators.

This section provides detailed technical guidance on the scoring of each indicator and dimension. It also outlines the implications and possible interpretations of PEFA indicators for subnational government PEFA assessments. It expands on the PEFA 2016 Fieldguide (Volume II of the PEFA Handbook available on [www.pefa.org](http://www.pefa.org)) by providing guidance, clarifications, and definitions which are specific to the application of the PEFA Framework to subnational governments. Importantly, it does not replicate all the information of the Fieldguide. Users of Part 3 of the Guidance for SNG PEFA assessments will still have to refer to the PEFA Fieldguide for general guidance on scoring, glossary, and clarifications.

The subnational PEFA framework is adapted to situations where autonomy is limited and the role of the higher-level government in PFM and service delivery is significant. Thus, assessments of states or their like in federal systems might opt to use the national PEFA framework. Doing so it does not prevent the assessment from picking and choosing those indicators that might be of interest in their project (for example, HLG–1, Transfer from a higher level of government; HLG–2, Fiscal rules and monitoring of the fiscal position; PI-9 bis Public consultation).

Given the range of subnational government structures, there is no “one size fits all” interpretation of PEFA 2016 at the subnational level. The set of indicators used may need to be adapted to different responsibilities at the subnational level. The guidance highlights the indicators and dimensions that may be applicable with modification or different scoring requirements.

As needed, assessors should provide a detailed explanation of the reasons why indicators are considered not applicable (NA) or are not used (NU). Applicability depends on the following elements:

1. ***Existence of the function to be assessed.*** For example, PI–6.3, Financial reports of extrabudgetary units, is not applicable when the SNG does not have extrabudgetary units.
2. ***Organization of the PFM function.*** For example, PI–12.1, Financial asset monitoring, is not applicable if the subnational government owns the financial assets but a higher level

of government maintains the records on the holdings and the subnational government does not have control over them.

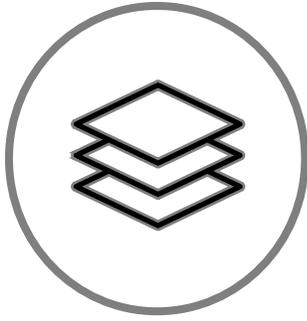
3. **Purpose of the assessment.** For example, HLG–2, Fiscal rules and monitoring of the fiscal position, is an optional indicator that is used when the purpose of the assessment, particularly for a set of assessments, is to provide conclusions on the system of fiscal decentralization in the country.

The extent to which indicators or dimensions are applicable should be analyzed carefully to ensure that non-applicability is limited. Such an analysis should be carried out at an early stage of the process for both a stand-alone assessment and a set of assessments and could be included as an annex to the concept note, either when the concept note is first issued or at a later stage of the process.

In case of a set of assessment, assessors might want to tailor the applicability of those dimensions which concern a PFM function performed by central government. Please refer to the *supplementary module: How to get a full overview of the PFM performance at SNG level*. In this case, the central government's performance regarding PFM functions that are performed at subnational level is assessed through a representative sample which could include:

- a. SNGs of which total expenditure accounts for at least 20% of total expenditure of the tier of SNGs being assessed;
- b. The political and when necessary economic capital city of the country;
- c. SNGs representative of the diversity of the country – rural, urban, medium, small, and large as well as languages, ethnic groups (minorities), geography (mountainous, flat land, etc...) and other regional specifics.

The above-mentioned sampling criteria are indicative and should be tailored to the country's context, purpose of the assessment, funding and implementation arrangements, etc. The sampling criteria should be clearly stated in the PEFA report narrative and the selection of SNGs should be agreed on with the CG, the SNGs, and the sponsors of the assessment.



# SNG pillar: Intergovernmental fiscal relations

## HLG-I. TRANSFERS FROM HIGHER LEVELS OF GOVERNMENT

This indicator assesses the extent to which transfers to the subnational government from higher-levels of government (HLG) are consistent with original approved budgets of higher-level government and are provided according to agreed time frames. The indicator contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

***Dimension HLG.1.1: Outturn of transfers from higher-levels of government***

***Dimension HLG.1.2: Transfers composition outturn***

***Dimension HLG.1.3: Timeliness of transfers from higher-levels of government***

***Dimension HLG.1.4: Predictability of transfers***

### ***Indicator measurement guidance***

Transfers from higher levels of governments include all revenues transferred either in the form of block or earmarked grants, as well as shared revenues that are not collected by the SNG (ref PI.3). Such transfers include international development funding that is pooled at the HLG level and channeled to subnational entities directly or through a line ministry. This indicator applies to top-down transfers only and not to fiscal transfers from SNG to HLGs (e.g. a SNG may own and manage all revenue and provide a fixed percentage to the HLG). International development funds (donor projects or program funding) should be considered only if they are pooled by HLG and transferred to SNG. If the funds are not recorded in the budget, this should be identified in indicator PI-6.

The narrative should explain possible reasons for any observed deviation between (i) amounts provided by an HLG for inclusion in subnational budget estimates and (ii) actual disbursements. For example, an action agreed on with the central government or development partners as a condition for disbursement may have been delayed or not implemented according to agreed time frames. Or a transfer may have taken place after the approval of the subnational budget. Assessments of an individual government might comment on whether that entity was responsible for the action required. If a delay or discrepancy is due to macroeconomic, political, or other factors out of the control of the assessed SNG, this should be explained.

Reasons for the shortfall in shared revenues could be noted, as well as implications of the shortfall on the SNG and HLG.

When the SNG receives transfers from more than one HLG, the assessors should quantify the respective share of transfer. The scores for HLG1.1 and HLG.1.2 should be assigned on weighted average.

Calculation of the deviations between (i) the actual total transfers to the SNG from an HLG and the original budget total to be allocated; (ii) the actual and originally budgeted transfers of earmarked grants; (iii) in-year timeliness of transfers from HLG should be performed using the spreadsheet provided on the PEFA website [www.pefa.org](http://www.pefa.org). Calculations for the indicator should be included in the assessment report as an Annex.

## HLG-I.1 Outturn of transfers from higher-levels of government

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES <sup>3</sup>
<b>A</b>	Actual transfers were between 97% and 106% of the original budget estimate in at least two of the last three years.
<b>B</b>	Actual transfers were between 94% and 112% of the original budget estimate in at least two of the last three years.
<b>C</b>	Actual transfers were between 92% and 116% of the original budget estimate in at least two of the last three years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Higher-levels of government and the SNG being assessed.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	➤ From higher-levels to subnational governments, the aggregated transfer outturn and the approved aggregated transfer for each of the last three completed fiscal years.

### Dimension measurement guidance

This dimension assesses if and how actual total transfers from higher-levels to subnational governments deviated from the originally budgeted total to be allocated. Transfers from higher levels of governments include all revenues transferred either in the form of block or earmarked grants, as well as shared revenues that are not collected by the SNG (ref PI.3). Such transfers include international development funding that is pooled at the HLG level and channeled to subnational entities directly or through a line ministry. This indicator applies to top-down transfers only and not to fiscal transfers from SNG to HLGs (e.g. a SNG may own and manage all revenue and provide a fixed percentage to the HLG). International development funds (donor projects or program funding) should be considered only if they are pooled by HLG and transferred to SNG. If the funds are not recorded in the budget, this should be identified in indicator PI-6.

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

<sup>3</sup> The range of deviation values in the calibration has changed and aligned with PI.3.1.

## HLG-I.2 Transfers composition outturn

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Variance in transfer composition was less than 5% in two of the last three years.
<b>B</b>	Variance in transfer composition was less than 10% in two of the last three years.
<b>C</b>	Variance in transfer composition was less than 15% in two of the last three years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Higher levels of government and the SNG being assessed.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	➤ From higher-levels to subnational governments, the outturn and the approved budget for each kind of transfer for each of the last three completed fiscal years.

### Dimension measurement guidance

This dimension measures the difference between the actual and estimated transfers. Depending on the timing of the approval of the subnational budget relative to the higher-levels budget, there may be some deviation from the amount included in the higher-level budget. This dimension should be assessed on the same basis as PI-2. All transfers that are not earmarked should be counted in aggregate as one component of transfers. Deviations in outturn of all other transfers should be considered sector by sector, corresponding to the 10-part Classification of the Functions of Government (COFOG) of the United Nations, or any similar classification to the extent it is applicable.

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

# HLG-I.3 Timeliness of transfers from higher-levels of government

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	<p>A disbursement timetable is part of the agreement between the higher-level government and subnational government. The disbursement timetable is agreed on by all stakeholders at the beginning of the fiscal year. At least 75 percent of actual disbursement (weighted) has been on time in two of the last three years.</p> <p><b>OR</b></p> <p>Actual transfers have been distributed evenly across the year, or with some front-loading, in each of the last three years.</p>
<b>B</b>	<p>A disbursement timetable is part of the agreement between the higher-level government and subnational government. The disbursement timetable is agreed on by all stakeholders at the beginning of the fiscal year. At least 75 percent of actual disbursement (weighted) has been on time in one of the last three years.</p> <p><b>OR</b></p> <p>Actual transfers have been distributed evenly across the year, or with some front-loading in two of the last three years</p>
<b>C</b>	<p>A disbursement timetable is part of the agreement between a higher-level government and subnational government. The disbursement timetable is agreed on by all stakeholders at the beginning of the fiscal year. Fifty percent of actual disbursements have been on time in two of the last three years.</p> <p><b>OR</b></p> <p>Actual transfers have been distributed evenly across the year, or with some front-loading in one of the last three years.</p>
<b>D</b>	<p>Performance is less than required for a C score.</p>

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA.
<b>COVERAGE</b>	Higher levels of government and SNG being assessed.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Document of the agreed disbursement timetable between the higher-level government and subnational government.</li> <li>➤ Actual disbursement and respective timeliness.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the in-year timeliness of all transfers from higher-level governments, with reference to timetables for in-year distribution of disbursements. The alternatives for each score are intended to cover situations when formal disbursement schedules are agreed within one month of the start of the subnational government’s fiscal year, or when no formal disbursement schedule has been established. The alternatives provided in this dimension relate

to circumstances where there is a disbursement schedule, or where there is no formal schedule. A default standard of a quarterly distribution may be used in the absence of an agreed disbursement timetable. A weighted disbursement delay should be used, calculated as the percentage of funds delayed, and multiplied by the extent of delay within the year. “On time” disbursements refer to those delivered on or before the agreed date, or by the first day of each quarter when there is no agreed disbursement schedule.

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

# HLG–I.4 Predictability of transfers

*Scoring*

Score	Minimum requirements for scores
<b>A</b>	The higher levels of government provide information on transfers for the fiscal year and the two following fiscal years and an explanation of <b>all</b> changes between the current and the previous year.
<b>B</b>	The higher levels of government provide information on transfers for the fiscal year and the two following fiscal years and an explanation of <b>most</b> changes between the current and the previous year.
<b>C</b>	The higher levels of government provide information on transfers for the fiscal year and the following fiscal year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Higher levels of government and the SNG being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Document presenting information on the amount and composition of transfers for the current fiscal year and the following two fiscal years.</li> <li>➤ Document explaining any changes in the amount and composition of transfers between the current year and the previous year.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the extent to which the HLG provides information to the SNG on the amount and composition of transfers for the current fiscal year and the two following fiscal years. It also requires an explanation of any major changes in the amount and composition of transfers between the previous-year information and the current-year transfer.

Many SNGs receive a significant portion of their revenues from transfers from the central government. Predictability of the intergovernmental transfer systems is important because SNGs need to be able to budget and plan for the future. Lack of predictability makes it difficult for SNGs to plan expenditures. When grants decline, SNGs have to make up the lost revenue by reducing expenditures or increasing local taxes, user fees, or other revenues.

The intergovernmental transfer system should ensure predictability of subnational governments’ shares by providing 3-year projections of funding availability. Any major changes in the amount and composition of transfers between the previous-year information and the current-year

transfer should be explained in the form of the table that highlights and explains any major policy change and assumptions.

# HLG-2 FISCAL RULES AND MONITORING OF FISCAL POSITION

HLG-2 assesses the extent to which the central government sets fiscal rules framing the budget and granting subnational governments the right to borrow. It also assesses the extent to which the central government monitors the financial position of subnational governments. It contains the following three dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

***HLG-2.1: Fiscal rules for subnational governments***

***HLG-2.2: Debt rules for subnational governments***

***HLG-2.3: Monitoring of subnational governments***

***Indicator measurement guidance***

Decentralization without fiscal rules can generate fiscal risks for both the central and the subnational governments. If the fiscal policy guidelines and rules are not well defined, lack clear enforcement requirements, or are enforced at the aggregate level only, fiscal decentralization may fail to achieve fiscal discipline. In addition, fiscal risks can arise from the financial position of subnational governments, which the central government monitors through the annual financial statements.

The indicator is also applicable in the cases of highly decentralized federal countries, in which SNGs themselves may enforce their own established fiscal rules to lower tiers of SNGs.

The indicator is used when the purpose of the assessment, particularly for a set of SNG assessments, is to provide conclusions on the fiscal decentralization system in the country.

<b>APPLICABILITY</b>	Application of this indicator is optional. The three dimensions of this indicator are applicable at the CG (or HLG level if it enforces the established fiscal rules to lower-tiers of SNGs) and assess the performance of the CG (or HLG) with respect to a whole tier of SNGs.
<b>SAMPLING</b>	The dimensions of the indicator are based on materiality, which implies that a sample of SNGs has to be established and agreed on. A representative sample would be the one that include: <ul style="list-style-type: none"> <li>• SNGs of which total expenditure accounts for at least 20% of total expenditure of the tier of SNGs being assessed;</li> </ul>

	<ul style="list-style-type: none"> <li>• The political and when necessary economic capital city of the country;</li> <li>• SNGs representative of the diversity of the country – rural, urban, medium, small, and large.</li> </ul> <p>When the set of assessed SNGs does not comply with these requirements, other SNGs should be included in the sample. The selection of additional SNGs should be agreed on with the CG, the SNGs, and the sponsors of the assessment.</p>
<b>COVERAGE</b>	Central government and the SNGs being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.

# HLG-2.1 Fiscal rules for subnational governments

*Scoring*

Score	Minimum requirements for the score
<b>A</b>	Fiscal rules established by the central government set a ceiling on the primary fiscal balance or the operating balance for the subnational government. The fiscal rules include clearly stated exemptions for specific circumstances, sanctions, and enforcement mechanisms. <b>All</b> subnational governments respect the fiscal rules.
<b>B</b>	Fiscal rules established by the central government set a ceiling on the primary fiscal balance or the operating balance for the subnational government. The fiscal rules include clearly stated exemptions for specific circumstances. <b>Most</b> subnational governments respect the fiscal rules.
<b>C</b>	Fiscal rules established by the central government set a ceiling on the primary fiscal balance or the operating balance for the subnational government. The <b>majority</b> of subnational governments respect the fiscal rules.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	See HLG-2, Fiscal rules and monitoring of fiscal position.
<b>SAMPLING</b>	See HLG-2, Fiscal rules and monitoring of fiscal position.
<b>COVERAGE</b>	Central government and the SNGs being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Document, laws, and regulations stipulating the fiscal rules established by the CG for the SNGs.</li> <li>➤ Description of the fiscal rules, including exemptions, sanctions, and enforcement mechanisms.</li> <li>➤ Evidence on the share of SNGs (materiality by value as defined by the PEFA framework) that have respected the fiscal rules.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the extent to which the central government has established fiscal rules for SNGs on the approved budget. The overall deficit or the budget deficit net of capital expenditure should be under a cap set by the national rule. The fiscal rule should also include clearly stated exemptions to the ceiling. Enforcement mechanisms and sanctions should be in place and applied to ensure compliance with the rule(s).

## HLG–2.2 Debt rules for subnational governments

### Scoring

Score	Minimum requirements for scores
<b>A</b>	The national rules set a ceiling on the subnational government debt and provide clear time-limited exemptions for specific circumstances, sanctions, and enforcement mechanisms. The central government monitors the subnational debt, and <b>all</b> subnational governments respect the ceiling.
<b>B</b>	The national rules set a ceiling on subnational government debt and provide clear time-limited exemptions for specific circumstances. The central government monitors the subnational debt, and <b>most</b> subnational governments respect the ceiling.
<b>C</b>	The central government monitors the subnational debt and the <b>majority</b> of subnational governments respect the ceiling.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	See HLG–2, Fiscal rules and monitoring of fiscal position. This dimension is applicable if subnational governments are allowed to borrow.
<b>NO APPLICABILITY</b>	This dimension is not applicable if subnational governments are not allowed to borrow.
<b>SAMPLING</b>	See HLG–2, Fiscal rules and monitoring of fiscal position
<b>COVERAGE</b>	Central government and the SNG being assessed.
<b>Time period</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Documents, laws, or regulations presenting the national rules for subnational government borrowing.</li> <li>➤ Description of the national rules, including subnational debt ceilings, exemptions, sanctions, and enforcement mechanisms.</li> <li>➤ Evidence on the share of SNGs (materiality by value as defined by the PEFA framework) that have respected the debt ceiling.</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which the CG has established national rules framing the borrowing by SNGs. The national rules should set a ceiling on the subnational debt, including sanctions and enforcement mechanisms. They should also allow exemption to the ceilings under clear, time-limited, and restricted conditions. The CG should have a mechanism in place for monitoring the debt of SNGs.

This dimension does not assess the arrangements for the approval and control of the subnational government’s contracting of loans and issuance of guarantees against adequate and transparent criteria, which are covered under PI–13.2, Approval of debt and guarantees.

## HLG–2.3 Monitoring of subnational governments

### Scoring

Score	Minimum requirements for scores
<b>A</b>	Annual financial statements <sup>4</sup> for <b>all</b> subnational governments are submitted to the central government within three months of the end of the fiscal year. A consolidated report on the financial position of <b>all</b> subnational governments is produced at least annually.
<b>B</b>	Annual financial statements for <b>most</b> subnational governments are submitted to the central government within six months of the end of the fiscal year.
<b>C</b>	Annual financial statements of the <b>majority</b> of subnational governments are submitted to the central government within nine months of the end of the fiscal year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	See HLG–2, Fiscal rules and monitoring of fiscal position
<b>SAMPLING</b>	See HLG–2, Fiscal rules and monitoring of fiscal position
<b>COVERAGE</b>	Central government and the SNG being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENT</b>	<ul style="list-style-type: none"> <li>➤ Date of submission to the central government of the annual financial statements or reports of each subnational government.</li> <li>➤ Consolidated CG reports of the financial position of subnational governments.</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which information on financial performance, including the central government’s potential exposure to fiscal risks, is available through the annual financial statements of subnational governments. It also assesses whether the central government produces an annual, consolidated report on the financial performance of the SNG sector. The net fiscal position of subnational governments should be monitored, at least on an annual basis, with essential information on fiscal risks reported to the CG official responsible for SNG oversight.

<sup>4</sup> The dimension does not require for the annual financial statements of the SNGs to be audited.



# Pillar One: Budget Reliability

## PI-I- AGGREGATE EXPENDITURE OUTTURN

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

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.
<b>B</b>	Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.
<b>C</b>	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ The aggregated expenditure outturn and the approved aggregated budget expenditure for each of the last three completed fiscal years.</li> <li>➤ For calculation of this indicator, assessors should use the spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>

### Dimension measurement guidance

Aggregate expenditure “originally approved” is the total amount of expenditure approved by the subnational council, presented in the subnational government budget documentation and fiscal reports. Aggregate expenditure includes planned expenditures and those incurred as a result of

exceptional events-which may be met from contingency votes. Expenditures funded by transfers to the subnational government, approved by the national legislature should be included. Expenditures financed by windfall revenues, including privatization, should be included and noted in the supporting fiscal tables and narrative. Expenditures financed externally by loans or grants should be included, if reported in the budget, along with contingency vote(s) and interest on debt (if the SNG has authority to borrow). Expenditure assigned to suspense accounts, which are under the control of the SNG, is not included in the aggregate. However, if amounts are held in suspense accounts at the end of any year that could affect the scores if included in the calculations, they can be included. In such cases the reason(s) for inclusion must be clearly stated in the PEFA report.

In a narrative, assessors should comment on any general deviations, as well as those due to lower execution rates in investment (and how they influence overall deviation). The methodology for calculating this dimension is provided in a spreadsheet on the PEFA website [www.pefa.org](http://www.pefa.org). Calculations for the dimension should be included in the assessment report as an Annex.

## PI-2- EXPENDITURE COMPOSITION OUTTURN

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

***Dimension 2.1: Expenditure composition outturn by function***

***Dimension 2.2: Expenditure composition outturn by economic type***

***Dimension 2.3: Expenditure for contingency reserves***

### ***Indicator measurement guidance***

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

Actual expenditure outturns can deviate from the originally approved budget for reasons unrelated to the accuracy of forecasts—for example, a major macroeconomic shock. The calibration accommodates one unusual or ‘outlier’ year and focuses on deviations from the forecast that occur in two or more of the three years covered by the assessment for dimensions 2.1 and 2.2. Dimension 2.3 uses data from all three of the last completed fiscal years.

# PI-2.1 Expenditure composition outturn by function

*Scoring*

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

<b>APPLICABILITY</b>	The dimension is applicable for all assessments at SNG level, provided that the budget and budget reports have an administrative and/or functional classification.
<b>NO APPLICABILITY</b>	If the SNG budgets and executions report are not presented by functional and administrative classification, this dimension is rated NA.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main functional classifications or for each of the 20 largest budget heads in the administrative classification.</li> <li>➤ If the number of main budget heads exceed or is less than 20, the composition variance should be assessed against the largest heads that together make up 75% of the budget, with the residual heads (excluding contingency items) aggregated into one line.</li> <li>➤ Data are needed for each of the last three completed fiscal years.</li> </ul> <p>For calculation of this dimension, assessors should use the spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</p>

*Dimension measurement guidance*

The dimension measures the difference between the original budget approved by the subnational council and end-of-year outturn in expenditure composition, by functional and program classification, during the last three years, excluding contingency items, and interest on debt. Other expenditures should be included- for example, expenditures funded by transfers to the subnational government, approved by the national legislature, expenditure incurred as a

result of exceptional events, expenditures financed by windfall revenues including privatization, SNGs subsidies, and donor funds reported in the budget.

At the administrative level, the subnational budget can be organized according to the agency or department that will implement the work for which the funds are provided, such as the health or water department, the education agency, the waste management department, etc. Thus, differences should be calculated for the main budgetary heads/ administrative entities that are responsible for management of the particular public service or function/program, that are included in the originally approved budget by the subnational council. If a functional classification based on GFS/COFOG is used, differences should be based on the main functions which are applicable at subnational level (excluding functions such as defense, public order and safety, and environmental protection which may be outside the subnational government responsibility and managed by the higher-level government). Where a functional classification not based on GFS/COFOG is used, the measurement of difference should be based on the main heads approved by the subnational council. If a program basis is used, the program-based categories should be at the same level at which they were voted by the subnational council.

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

## PI-2.2 Expenditure composition outturn by economic type

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Variance in expenditure composition by economic classification was less than 5% in at least two of the last three years.
<b>B</b>	Variance in expenditure composition by economic classification was less than 10% in at least two of the last three years.
<b>C</b>	Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable in all assessments at SNG level, provided that the budget and budget reports have an economic classification.
<b>NO APPLICABILITY</b>	If the SNG budgets and executions report are not presented by economic classification, this dimension is rated NA.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main economic classifications for each of the last three completed fiscal years.</li> <li>➤ The calculation of variance should use the second (two-digit) level of the GFS classification or a similar system. If a different classification is used, the level of aggregation should be comparable to the two-digit GFS classification.</li> </ul> <p>For calculation of this dimension, assessors should use the spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</p>

### Dimension measurement guidance

The dimension measures the difference between the original budget approved by the subnational council and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt (if the subnational government has authority to borrow) but excluding contingency items. Expenditures funded by transfers to the subnational government, approved by the national legislature should be included.

The scope of expenditure is the same as for dimension 2.1, with the addition of interest on debt (if the subnational government has authority to borrow), as this is one of the categories of

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

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

# PI-2.3 Expenditure from contingency reserves

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.
<b>B</b>	Actual expenditure charged to a contingency vote was averaging between 3% and 6%, inclusive, of the original budget.
<b>C</b>	Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable in all SNG PEFA assessments. If there is no contingency reserve, the dimension score is A.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ The actual expenditure charged to a contingency heading (either as a separate vote, or as a subvote typically under the SNG MoF (finance department/unit), with a clearly marked title such as ‘contingency reserves’) for each of the last three completed fiscal years.</li> <li>➤ The spreadsheet provided on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>) for dimension 2.1 can also be used to assist with the calculations for this dimension.</li> </ul>

*Dimension measurement guidance*

The dimension measures the average amount of subnational expenditure(s) actually charged to the contingency reserve as a percentage of the total budget approved by the subnational council (including expenditures funded by transfers to the subnational government and approved by the national legislature).

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

# PI-3- REVENUE OUTTURN

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

**Dimension 3.1: Aggregate revenue outturn**

**Dimension 3.2: Revenue composition outturn**

<b>APPLICABILITY</b>	<p>For the application of this indicator, the revenues to be assessed are all own source revenues of the subnational government (excluding transfers which are assessed in HLG1), which may include:</p> <ul style="list-style-type: none"> <li>➤ Revenue collected by subnational governments directly and retained by them. Revenues are collected directly when the subnational government has full control (i.e., full authority and autonomy) of its revenue and of how the overall management of revenue collection is carried out.</li> <li>➤ Shared revenues collected and retained by subnational governments, which refer to (i) individual taxes or a pool of taxes (general revenue sharing) and (ii) tax-base sharing (e.g., each level of government has a specific tax such as income tax).</li> <li>➤ Subnational revenues that are collected on behalf of the subnational government by a higher-level revenue authority (these are neither transfers nor shared revenues). This is the case when by law all revenues are collected by a public accountant belonging to the central government and when subnational governments might delegate tax administration to a higher-level government for efficiency or other reasons. Sometimes the higher-level government keeps a percentage, for example to compensate for the costs incurred.</li> </ul>
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<p>PI.3.1:</p> <ul style="list-style-type: none"> <li>➤ The actual end-of-year revenue and the originally budgeted revenue, for each of the last three completed fiscal years.</li> </ul> <p>PI.3.2:</p>

- The value of revenue in the original approved budget, by category at the GFS three-digit level, or comparable classification, and the end-of-year outturn for the same categories for each of the last three completed fiscal years.

# PI-3.1 Aggregate revenue outturn

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Actual revenue was between 97% and 106% of budgeted revenue in at least two of the last three years.
<b>B</b>	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.
<b>C</b>	Actual revenue was between 92% and 116% of budgeted revenue in at least two of the last three years.
<b>D</b>	Performance is less than required for a C score.

*Dimension measurement guidance*

This dimension assesses the change in revenue between the original approved budget and end-of-year outturn. It refers to own source revenues that legally and exclusively belong to the subnational government.

When revenue is collected by a higher-level revenue authority on behalf of the subnational government, information should be provided on the extent to which the subnational entity has autonomy in administering those revenues.

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

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

# PI-3.2 Revenue composition outturn

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Variance in revenue composition was less than 5% in two of the last three years.
B	Variance in revenue composition was less than 10% in two of the last three years.
C	Variance in revenue composition was less than 15% in two of the last three years.
D	Performance is less than required for a C score.

*Dimension measurement guidance*

The dimension measures the variance in revenue composition during the last three years. It includes actual revenue by category compared to the original budget approved by the subnational council using level three (3 digits) of GFS 2014 classification or a classification that can produce consistent documentation according to comparable hierarchical levels and coverage. This dimension attempts to capture the accuracy of forecasts of the revenue structure and the ability of the subnational government to collect the amounts of each category of revenues as intended.

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



# Pillar two: Transparency of public finances

## PI-4- BUDGET CLASSIFICATION

This indicator assesses the extent to which the budget and accounts classification used by the SNG is consistent with international standards. There is one dimension for this indicator.

### Scoring

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

### APPLICABILITY

At the SNG level there are three possible scenarios regarding the legal framework for budget classification, including:

- The legal and regulatory framework for budget classification is the same for all sectors of CG, including CG and SNG entities. When the legal and regulatory framework for budget

	<p>classification is set by the general government, the SNGs authority is constrained. In this case, the SNG has no direct control on this framework, and it is obliged to adhere to it, and it cannot modify it;</p> <ul style="list-style-type: none"> <li>➤ Specific classification standards are defined for the whole sub-national government (e.g. association of municipalities) and are mandatory for the sub-national level;</li> <li>➤ The legal and regulatory framework for budget classification of the SNGs relates to the entity type. In this case, the SNG entity has the authority/autonomy to decide on its budget classification.</li> </ul> <p>In the case of set of assessments in a given country and at the same tier of government, this indicator could be used only once for scenarios 1 and 2 above. However, for each assessment, compliance with national framework or specific standards defined for the subnational level as a whole should be verified. For scenario 3, the indicator should be used separately for all assessed SNGs.</p>
<b>COVERAGE</b>	Budgetary units of subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Information on the content and application of classifications applied and evidence that the classification is actually used in the budget documents and the chart of accounts.</li> <li>➤ Where the classification differs from the GFS system, information on bridging methodologies and examples of statistics produced using the bridging methodologies should be requested, if such conversions are made. Statistics could include national accounts statistics.</li> </ul>

### ***Dimension measurement guidance***

This indicator assesses the classification system used for formulation, execution, and reporting of the SNG budget. A robust classification system allows transactions to be tracked throughout the subnational budget’s formulation, execution, and reporting cycle according to administrative unit, economic category, function/subfunction, or program. For assessing the indicator, the existing legal and regulatory framework for budget classification(s) for the public sector in general and for Central Government and SNG entities in particular should be analyzed along with the chart of accounts (the accounting classification). Attention should be given to any potential significant difference between the legal frameworks used at the central level and at SNG level.

The GFS classification provides a recognized international framework for the economic and functional classification of transactions: revenues and expenditures are broken down into four and three classification levels, respectively. Although no international standard for programmatic

classification exists, this type of classification can be an important tool in budget formulation, management, and reporting. The way it is applied should be explained in the report narrative if the highest score is assigned on this basis.

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

Scoring is the same as for the central government. However, at the subnational level some of the 10 main functions of COFOG and the 69 sub-functions may not be applicable e.g. defense, public order and safety, and environmental protection and may be outside subnational government responsibility as they are managed by the HLG.

The SNG should not get a lower score in the case of the absence of functions performed by HLGs. Score A will be assigned when all applicable main functions (10 main functions, minus those identified non-applicable) and sub-functions (69 sub-functions, minus those under the non-applicable functions) are used for the formulation, execution and reporting of the budget. All the other elements to assign an A are the same as for Central Government assessment. Otherwise, a lower score will be assigned.

# PI-5- BUDGET DOCUMENTATION

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

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Budget documentation fulfills 10 elements, including every basic element (1–4).
<b>B</b>	Budget documentation fulfills 7 elements, including at least 3 basic elements (1–4).
<b>C</b>	Budget documentation fulfills at least 3 basic elements (1–4).
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last budget submitted to the subnational council.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Evidence that the 12 data elements listed are included in the subnational annual budget proposal and supporting documentation has been submitted to the subnational council for scrutiny and approval.</li> <li>➤ If the documents are not provided with the subnational budget proposal, evidence is needed that a) they were provided in advance to the subnational council; and b) that all details required for that element are included and thereby are sufficiently relevant to support decisions on the budget.</li> </ul>

### Dimension measurement guidance

Annual budget documentation refers to the executive’s budget proposals for the next fiscal year with supporting documents, as submitted to the subnational council for scrutiny and approval. The set of documents provided by the executive should allow a complete picture of the subnational government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years.

The dimension scoring requirements refer to the number of elements that are included in the last annual budget proposals submitted by the subnational government. The full specification of the information benchmark must be met to be counted in the score.

The elements are as follows:

### **Basic elements**

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

### **Additional elements**

5. Deficit financing, describing its anticipated composition.
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.
9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.
11. Documentation on the medium-term fiscal forecasts.
12. Quantification of tax expenditures.

All four **basic** elements are applicable at the subnational level. However, some of the additional elements— 5, 6, and 7—may not be applicable:

- *Element 5* will not be applicable where a subnational government is not permitted to have a budget deficit.
- *Element 6* relating to macroeconomic assumptions will not be applicable at the subnational level if such data are already included in the higher-level budget documentation and/or where collection and analysis of such data are not feasible or appropriate given the size, scope, or structure of the subnational government.
- *Element 7* will not be applicable where a subnational government does not have authority to borrow.

Assessors should determine the applicability of the elements to be included on a case-by-case basis and provide reasons for their inclusion or exclusion from the assessment under this indicator. If one or more of the additional elements (of the eight) are not relevant, scoring of this indicator should be done on a pro rata basis.

Scoring will need to be adjusted to reflect the number of the additional elements applicable to the subnational government.

<b>Scores</b>	<b>1 non-applicable element</b>	<b>2 non-applicable elements</b>	<b>3 non-applicable elements</b>
<b>A</b>	4 basic elements 5 additional elements	4 basic elements 4 additional elements	4 basic elements 3 additional elements
<b>B</b>	3 basic elements 3 additional elements	3 basic elements 2 additional elements	3 basic elements 1 additional element
<b>C</b>	3 basic elements	3 basic elements	3 basic elements
<b>D</b>	Less than 3 basic elements		

## PI-6- SUBNATIONAL GOVERNMENT OPERATIONS OUTSIDE FINANCIAL REPORTS

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

***Dimension 6.1: Expenditure outside financial reports***

***Dimension 6.2: Revenue outside financial reports***

***Dimension 6.3: Financial reports of extrabudgetary units***

### ***Indicator measurement guidance***

Ex-post financial reports available to the subnational government should cover all budgetary and extrabudgetary activities of subnational government to allow a complete picture of revenue and expenditures across both categories (extra budgetary and budgetary). This should be the case even if expenditure and revenue of extrabudgetary units and expenditure and revenue related to extrabudgetary activities of budgetary units of the SNG are insignificant or if such revenues and expenditures are included in subnational government ex post financial reports.

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

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

# PI-6.1 Expenditure outside financial reports

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Expenditure outside subnational government financial reports is less than 1% of total expenditure of budgetary units of subnational government.
<b>B</b>	Expenditure outside subnational government financial reports is less than 5% of total expenditure of budgetary units of subnational government.
<b>C</b>	Expenditure outside subnational government financial reports is less than 10% of total expenditure of budgetary units of subnational government.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Evidence of expenditure not recorded in ex post subnational government financial reports.</li> <li>➤ The total of such expenditure to be calculated as a percentage of total expenditure of budgetary units of the subnational government.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the amount of expenditure incurred by budgetary and extrabudgetary units (including social security funds) at the subnational level but not reported in the SNG financial reports. Such expenditures may include those from fees and charges collected by subnational budgetary and extrabudgetary units outside the approved budget (such as voluntary school fees or medical registration fees), as well as expenditures on externally funded projects undertaken by or on behalf of the subnational government, where these are not reported in subnational financial reports.

# PI-6.2 Revenue outside financial reports

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Revenue outside subnational government financial reports is less than 1% of total revenue of budgetary units of subnational government.
<b>B</b>	Revenue outside subnational government financial reports is less than 5% total revenue of budgetary units of subnational government.
<b>C</b>	Revenue outside subnational government financial reports is less than 10% of total revenue of budgetary units of subnational government.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Evidence of revenue not recorded in ex-post subnational government financial reports.</li> <li>➤ The total of such revenue to be calculated as a percentage of total revenue of budgetary units of subnational government.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) at the subnational level but not reported in the SNG financial reports. Such revenues may include those received by subnational extrabudgetary units from budgetary transfers (including from higher-level governments) or other revenues, revenues from donor-funded projects, and fees and charges outside the type or amounts approved by the budget (such as voluntary school fees or medical registration fees), where any of these are not reported in subnational financial reports.

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

### *Supplementary guidance for dimensions 6.1 and 6.2*

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

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

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

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

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

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

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

Entity	Type of revenue outside SNG financial reports	Estimated amount of revenue reported outside SNG financial reports	Type of expenditure reported outside SNG financial reports	Estimated amount of expenditure reported outside SNG financial reports	Evidence and reporting
<b>Extrabudgetary Units</b>					
<b>Health centers</b>	Medical registration fees	\$	Minor equipment; Vehicles; Meal allowances	\$	Revenues from registering medical professionals are retained by authority and not recorded in FMIS. Authority maintains bookkeeping accounts for retained revenues
<b>Municipal slaughterhouse</b>	Fees for cattle slaughter	\$	Equipment	\$	Bookkeeping records
<b>Municipal markets authority</b>	Fees for booths at the market	\$	Booths' equipment	\$	Counterfoils
<b>Etc.</b>					
<b>Operations of Budgetary Units outside SNG financial reports</b>					
<b>Directorate for facilities</b>	Direct grant for extension of the sewer system funded by development partner	\$			MoU between SNG and development partner. Separate budgetary unit bank a/c. Quarterly report to development partner
<b>Directorate for schools</b>	Voluntary school fees collected from parents by institutions.	\$	Books		School bookkeeping only. No financial reports. Quantity unknown

# PI-6.3 Financial reports of extrabudgetary units

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Financial reports of <b>all</b> extrabudgetary units, containing full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and supported by a reconciled cash flow statement, are submitted to subnational government annually within three months of the end of the fiscal year
<b>B</b>	Financial reports of <b>most</b> extrabudgetary units, containing information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations, are submitted to subnational government annually within six months of the end of the fiscal year.
<b>C</b>	Financial reports of the <b>majority</b> of extrabudgetary units, including information on revenue, expenditure, and cash balances are submitted to subnational government annually within nine months of the end of the fiscal year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments, unless the SNG does not have extrabudgetary units.
<b>SAMPLING:</b>	If the SNG being assessed has more than ten extrabudgetary units (EBU), for the purpose of this dimension, sampling could be used by focusing on the ten most important EBUs (measured by expenditure).
<b>COVERAGE</b>	Extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Evidence of the submission of financial reports by extrabudgetary units to the subnational government.</li> <li>➤ Date of submission of financial reports by extrabudgetary units to the subnational government.</li> </ul>

*Dimension measurement guidance*

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

This dimension does not cover public corporations whether or not they are engaged in market or non-market activities.

## PI-7- TRANSFERS TO SUBNATIONAL GOVERNMENTS

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

### *Dimension 7.1: System for allocating transfers*

### *Dimension 7.2: Timeliness of information on transfers*

#### *Indicator measurement guidance*

The indicator examines the arrangements for providing transfers from the assessed SNG to lower-tier of the subnational governments and the timeliness of information on those transfers. Financial reporting by lower-tier of the subnational governments and fiscal risks to the assessed SNG from lower-tier of the subnational governments are addressed in PI-10.

When applied to a subnational assessment, the indicator should refer to lower levels of a subnational government (if any). This means that relevant fiscal transfers will be those between the assessed SNG and lower level of subnational government (top down). For example, a subnational PEFA assessment at the state level in a federation may examine transfers to local districts or councils, whereas one at the district level may look at transfers from district to towns and villages, etc.

The lower levels of governments that receive such transfers from an SNG must meet the definition of SNG provided in the PEFA Framework: any level of government below the national level (state/provincial or regional and local), provided these entities have the authority to own assets, incur liabilities, and/or engage in transactions in their own right. The right to borrow is not a requirement for classification as a subnational government in the PEFA Framework.

If a lower tier SNG does not meet that definition, it will not be included in the scope of the present indicator. For the purpose of the PEFA assessment:

- when the transfer fully covers the budget of that lower level, the latter could be considered as a deconcentrated unit of the SNG;

- when the transfer partially covers the budget of that lower level, the latter may be considered as an extrabudgetary unit as defined under PI-6, provided all other requirements are met in addition to partial funding.

# PI-7.1 System for allocating transfers

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The horizontal allocation of <b>all</b> transfers to lower-tier of the subnational governments from higher-level government is determined by transparent, rule-based systems.
<b>B</b>	The horizontal allocation of <b>most</b> transfers to lower-tier of the subnational governments from higher-level government is determined by transparent, rule-based systems.
<b>C</b>	The horizontal allocation of <b>some</b> transfers to lower-tier of the governments from higher-level government is determined by transparent, rule-based systems.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<ul style="list-style-type: none"> <li>➤ If there is no lower-tier of subnational government or if there are no transfer from the assessed SNG to the lower-tiers of SNG, this dimension and the following one will be not applicable (NA).</li> <li>➤ When rules for transfers from the SNG to a lower level of SNG are set by CG, this indicator might be applied only once for a set of assessment in a given country.</li> </ul>
<b>COVERAGE</b>	Subnational government and the lower-tier subnational governments, which have direct financial relationships to the SNG being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Legislation governing the horizontal rule-based system or other arrangements for determining the horizontal allocation of transfers to lower-tier of the subnational governments for each type of transfer.</li> <li>➤ Calculate proportion (weighted average by value of transfers) for which horizontal allocations among lower-tier of the subnational governments are determined by transparent rules and rule-based system as a percentage of all transfers from the SNG to the relevant lower-tier subnational government(s).</li> </ul>

*Dimension measurement guidance*

This dimension assesses the extent to which transparent, rule-based systems are applied to budgeting and the actual allocation of conditional and unconditional transfers. Transfers to support lower-level subnational expenditure can be made in the form of unconditional grants, where their final use is determined by the subnational government through its budgets, or through conditional (earmarked) grants to the lower-level subnational government to implement selected service-delivery and expenditure responsibilities—for example, by function or program,

typically in accordance with an agreed-upon regulatory or policy standard. The overall level of grants (that is, the vertical allocation) will usually be determined by policy decisions at the discretion of a higher government level (including the level of central government) or as part of constitutional negotiation processes and is not assessed by this indicator. However, clear criteria for the distribution of grants among subnational governments—for example, formulae for the horizontal allocation of funds—are needed to ensure allocative transparency and medium-term predictability of funds available for planning and budgeting of expenditure programs by subnational governments. Every fiscal transfer from the SNG being assessed to lower-tier of the subnational governments should be taken into consideration. If different formulae or criteria are used for different elements of transfers, the overall assessment may be made on a value-based weighted average.

# PI-7.2 Timeliness of information on transfers

*Scoring*

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

<b>APPLICABILITY</b>	<ul style="list-style-type: none"> <li>➤ If there is no lower-tier of subnational government or if there are no transfers from the assessed SNG to the lower-tiers of SNG, the dimension will be not applicable (NA).</li> <li>➤ When information sent to the lower-tier of SNGs follows a nationally established calendar, the dimension could be applied only once for a set of assessments in a given country.</li> </ul>
<b>COVERAGE</b>	Subnational government and the lower-tier subnational governments, which have direct financial relationships to the SNG being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Content of information provided to lower-tier SNGs on their annual transfers (to determine whether it is sufficiently clear and detailed).</li> <li>➤ The date on which the lower-tier subnational government administrators are provided formal information on the transfers from the assessed SNG.</li> <li>➤ The date on which the lower-tier subnational government administrations must submit their budget proposals for final approval.</li> <li>➤ Calculation of period between the two dates for A and B ratings.</li> </ul>

### *Dimension measurement guidance*

This dimension assesses the timeliness of reliable information provided to lower-tier of SNG on their allocations from the SNG being assessed for the coming year. Information on transfers to lower-tier subnational budgets should be regulated by the higher-level government's annual budget calendar, which should provide reliable information on the allocations early in the budget cycle.

The expression 'generally adhered to' means that the calendar is respected for the most part of the actions and their related timing. While a delay of a couple of days in a given date(s) may be acceptable, assessors need to identify whether at least the majority of the stages (actions) and timing in the budget calendar were met or nearly met while keeping in mind the requirement of at least six weeks (score A) and four weeks (score B) for the lower-tier of SNGs to meaningfully complete their budget planning. Equally important, is to determine whether the key actions (stages) of the process and corresponding timing are followed. This indicator is assessed in accordance with the higher-level government's budget calendar.

The expression 'clear and sufficiently detailed information' means that the lower tier of SNG should be provided with the total amount of the annual transfers, amount of each allocation, and planned disbursement schedule for each allocation.

## PI-8- PERFORMANCE INFORMATION FOR SERVICE DELIVERY

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

*Dimension 8.1: Performance plans for service delivery*

*Dimension 8.2: Performance achieved for service delivery*

*Dimension 8.3: Resources received by service delivery units*

*Dimension 8.4: Performance evaluation for service delivery*

### *Indicator measurement guidance*

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

# PI-8.1 Performance plans for service delivery

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Information is published annually on policy or program objectives, key performance indicators, outputs to be produced, <u>and</u> the outcomes planned for <b>most</b> subnational government ministries (or departments), disaggregated by program or function.
<b>B</b>	Information is published annually on policy or program objectives, key performance indicators, <u>and</u> outputs to be produced <u>or</u> the outcomes planned for <b>most</b> subnational government ministries (or departments).
<b>C</b>	Information is published annually on the activities to be performed under the policies or programs for the <b>majority</b> of subnational government ministries (or departments) <u>or</u> a framework of performance indicators relating to the outputs or outcomes of the <b>majority</b> of subnational government ministries (or departments) is in place.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	<p>Budgetary and extrabudgetary units of the subnational government.</p> <p>In the case of delegated services, which are managed and financed by other tiers of government, they may be included if the subnational government significantly finances and implements such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.</p>
<b>TIME PERIOD</b>	Performance indicators and planned outputs and outcomes for the next fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Published information on measurable performance indicators of outputs and outcomes for service delivery for each subnational government ministry (or department) that devotes expenditure to service delivery for the budget year.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the extent to which key performance indicators for the planned outputs and outcomes of programs and services that are financed through the budget are included in the executive’s budget proposals or related documentation, at the function, program or entity level. For the purpose of this indicator, performance plans and results relate to programs and services delivered directly by the subnational government and its entities, both budgetary and

extrabudgetary units. This will include programs and services funded by CG transfers and from own revenue. Subnational governments should specify the planned outputs and outcomes of programs and services that they fund or implement from all funding sources.

For programs and services managed by one level of government but funded by another level of government, the assessment should identify the responsibilities for publishing reporting plans and reporting results.

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

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

# PI-8.2 Performance achieved for service delivery

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Information is published annually on the quantity of outputs produced <u>and</u> outcomes achieved for <b>most</b> subnational government ministries (or departments) disaggregated by program or function.
<b>B</b>	Information is published annually on the quantity of outputs produced <u>or</u> the outcomes achieved for <b>most</b> subnational government ministries (or departments).
<b>C</b>	Information is published annually on the activities performed for the <b>majority</b> of subnational government ministries (or departments).
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	<p>Budgetary and extrabudgetary units of the subnational government.</p> <p>Delegated services which are managed and financed by other tiers of government, they may be included if the subnational government significantly finances and implements such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.</p>
<b>TIME PERIOD</b>	Outputs and outcomes of the last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Published information on actual quantity of outputs produced or delivered, and evidence of measurable progress on outcomes, associated with the programs or services delivered by each subnational government ministry (or department) for the last completed fiscal year.</li> <li>➤ Published information on activities performed in relation to service delivery that are undertaken by each subnational government ministry (or department) for the last completed fiscal year.</li> </ul>

*Dimension measurement guidance*

This dimension examines the extent to which performance results for outputs and outcomes are presented either in the executive’s budget proposals or in an annual report or other public document, in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget.

It measures the results (i.e., outputs and outcomes) achieved by the programs and services delivered directly by the subnational government and its entities, both budgetary and extrabudgetary units. This will include programs and services funded from all funding sources.

# PI-8.3 Resources received by service delivery units

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Information on resources received by frontline service delivery units is collected and recorded for at least two large subnational government ministries (or departments), disaggregated by source of funds. A report compiling the information is prepared at least annually.
<b>B</b>	Information on resources received by frontline service delivery units is collected and recorded for at least one large subnational government ministry (or department). A report compiling the information is prepared at least annually.
<b>C</b>	A survey carried out in one of the last three years provides estimates of the resources received by service delivery units for at least one large subnational government ministry (or department).
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	If frontline service delivery units are deconcentrated units of the CG or from another higher level of government, this dimension will be not applicable (NA).
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government. Delegated services, which are managed and financed by other tiers of government, they may be included if the subnational government significantly finances and implements such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Resources received by the service delivery units of at least two large subnational government ministries (or departments).</li> <li>➤ Reports compiling information on resources received by source of funding for the relevant subnational ministries.</li> </ul>

*Dimension measurement guidance*

The dimension measures the extent to which information is available on the level of resources actually received by service delivery units (such as schools and primary health clinics) of at least two large subnational government ministries (or departments) and the source of those funds. The dimension assesses the resources received by service-delivery units managed at the subnational level, from all funding sources. The information captured on resources by the selected subnational government ministry, or equivalent budget institution, should support the comparison of service performance with the actual resources received. The reasons for selecting

the ministry (or equivalent budget institution) for this dimension should be explained in the report narrative.

# PI-8.4 Performance evaluation for service delivery

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published for <b>most</b> subnational government ministries (or departments) at least once within the last three years.
<b>B</b>	Evaluations of the efficiency and effectiveness of service delivery have been carried out and published for the <b>majority</b> of subnational government ministries (or departments) at least once within the last three years.
<b>C</b>	Evaluations of the efficiency or effectiveness of service delivery have been carried out for <b>some</b> subnational government ministries (or departments) at least once within the last three years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government. Delegated services, which are managed and financed by other tiers of government, they may be included if the subnational government significantly finances and implements such services through reimbursements or earmarked grants or uses other tiers of government as implementing agents.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	For each subnational government ministry (or department) devoting expenditure on service delivery, information on the number and coverage of: <ul style="list-style-type: none"> <li>➤ Evaluation reports</li> <li>➤ Performance audit reports, including those of sub-national external auditor and national SAIs (where applicable)</li> <li>➤ Functional reviews</li> <li>➤ Spending reviews, including those implemented by development partners</li> <li>➤ Internal audit reports</li> </ul>

*Dimension measurement guidance*

This dimension considers the extent to which the design of public services and the appropriateness, efficiency, and effectiveness of those services is assessed in a systematic way through program or performance evaluations. The evaluations are considered within the scope

of this dimension if they cover *all* or a material part of service delivery or if they are cross-functional and incorporate service delivery functions. Independent evaluations in this context are those undertaken by a body that is separate from, and not subordinate to, the body that delivers the service. It could be a part of the same unit that has a separate reporting line to the CEO, or a senior management committee. For example, it could be a department with specific responsibilities for independent evaluation or review across the unit, including an internal audit department. Such evaluations may also be undertaken by the government's external auditor and may be called 'performance audits.' Performance audits are included in this dimension and are not covered in PI-30: External audit. In the case of a subnational government, the evaluation may be undertaken by a local directorate or organization with a mandate across entities, or by a national organization with a similar mandate, or by the government external auditor, or a combination of those arrangements.

The dimension relates to evaluations of the performance of programs and services delivered and funded by the subnational government. It includes programs and services funded from all funding sources.

# PI-9- PUBLIC ACCESS TO FISCAL INFORMATION

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

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The government makes available to the public seven elements, including all five basic elements, in accordance with the specified time frames.
<b>B</b>	The government makes available to the public five elements, including at least four basic elements, in accordance with the specified time frames.
<b>C</b>	The government makes available to the public four basic elements, in accordance with the specified time frames.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The indicator is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Evidence of the basic and additional data elements listed in the dimension measurement guidance made available to the public.</li> <li>➤ The timeframe compared with the requirements specified in the list of elements.</li> </ul>

**Dimension measurement guidance**

Fiscal transparency depends on whether information on subnational government fiscal plans, positions, and performance is easily accessible to the general public. Public access is defined as availability without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific country circumstances. Justification provided by government for limits on access, where applicable, should be noted in the report. Access to fiscal information at the subnational level refers to access of the general public in the area where the SNG has authority. Justification provided by subnational government for limits on access, where applicable, should be noted in the report.

Public access to the following information is considered critical

**Basic elements**

- 1. Annual executive budget proposal documentation.** A complete set of executive budget

proposal documents (as presented by the SNG in PI-5) is available to the public within one week of the executive's submission of them to the subnational council.

2. **Enacted budget.** The annual budget law approved by the subnational council is publicized within two weeks of passage of the law.
3. **In-year budget execution reports.** The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.
4. **Annual budget execution report.** The report is made available to the public within six months of the fiscal year's end.
5. **Audited annual financial report, incorporating or accompanied by the external auditor's report.** The reports are made available to the public within twelve months of the fiscal year's end

#### **Additional elements**

6. **Prebudget statement.** The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.
7. **Other external audit reports.** All nonconfidential reports on SNG consolidated operations are made available to the public within six months of submission.
8. **Summary of the budget proposal.** Either (i) a clear, simple summary of the executive budget proposal is publicly available within two weeks of the executive budget proposal's submission to the subnational council, or (ii) the enacted budget understandable by the nonbudget experts, often referred to as a 'citizens' budget,' and where appropriate translated into the most commonly spoken local language(s), is publicly available within one month of the budget's approval.

If external audits are the responsibility of a supreme audit institution (SAI) at a higher government level, the ability to make element 5 (Audited annual financial report) and element 7 (Other external audit reports) available to the public may not be under the control of the subnational government being assessed. If the subnational government is subject to audit by a SAI outside its jurisdiction, this should be explained in the narrative. If the audit reports have been made available to the subnational government, then these should be available to the public.

Scoring will need to be adjusted to reflect the number of "basic" and "additional" elements that are applicable to the subnational government under assessment. It should also take into account any adjustments involving the substitution of supplementary elements for non-applicable additional elements. If one or more of the elements are not applicable, and are not replaced by supplementary elements, scoring of this indicator should be done on a pro-rata basis.

<b>Scores</b>	<b>Element 5 non-applicable</b>	<b>Element 7 non-applicable</b>	<b>Element 5 and 7 non-applicable</b>
<b>A</b>	4 basic elements 2 additional elements	5 basic elements 1 additional element	4 basic elements 1 additional element
<b>B</b>	3 basic elements 2 additional elements	4 basic elements 1 additional element	3 basic elements 1 additional element
<b>C</b>	3 basic elements 1 additional element	4 basic elements	3 basic elements
<b>D</b>	Less than required for a C score		

## PI-9bis PUBLIC CONSULTATION

This indicator assesses the extent to which the subnational government conducts public consultation in preparing the budget, designing service delivery programs, and planning investments. It contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

- ***Dimension 9bis.1: Public consultation in budget preparation***
- ***Dimension 9bis.2: Public consultation in the design of service delivery programs***
- ***Dimension 9bis.3: Public consultation in investment planning***

### ***Indicator measurement guidance***

Good public consultation practices can help SNGs to be more accountable and responsive to their communities and improve the public's perception of SNG performance and the value that the public receives from their SNG.

### ***Key terms used:***

*Public consultation* refers to the variety of ways in which citizens and the general public, including civil society organizations and other nonstate actors, interact directly with public authorities by means of face-to-face communications, including using electronic methods of communication, deliberation, or decision making or by written forms of communication using electronic or paper media. Consultation ranges from one-off consultations to ongoing and institutionalized relationships that leave records which are available to the public.<sup>5</sup>

*Public access* is defined as availability without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific SNG circumstances. Justification provided by the SNG for limits on access, where applicable, should be noted in the report.

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5. GIFT, "Principles of Public Participation in Fiscal Policy," December 2015.

# PI-9bis.I Public consultation in budget preparation

## Scoring

Score	Minimum requirements for scores
A	Public consultation in budget preparation is conducted prior to approval of the budget by the subnational council. The subnational government publishes a summary of the inputs received and an explanation of how those inputs have been taken into account. Public consultation is facilitated by the availability of accessible reader-friendly and understandable information on the budget proposal. The process satisfies criteria of timeliness and inclusiveness.
B	Public consultation in budget preparation is conducted prior to approval of the budget by the subnational council. Public consultation is facilitated by the availability of accessible reader-friendly and understandable information on the budget proposal. The process allows sufficient time for the public to provide inputs in each phase.
C	Public consultation in budget preparation is conducted prior to approval of the budget by the subnational council.
D	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments. .
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last budget submitted to the subnational council.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Dates and duration of public consultations for preparation of the budget proposal.</li> <li>➤ Budget proposal information (documents, briefs, summaries) that is provided to constituencies prior to public consultations and the means used to disseminate it.</li> <li>➤ The summary of inputs received during the public consultation and an explanation of how those inputs have been taken into account. Information on whether the summary has been published or not.</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which *public consultation* has been conducted in preparing the budget proposal. It requires public consultation to have been organized prior to the approval of the budget by the subnational council. Public consultation might be organized at an early stage of budget preparation by the executive and when the budget is scrutinized by the subnational council. To promote public consultation, *accessible* readable-friendly and understandable information on the budget proposal has to have been made available to the public. At the end of

the public consultation, a summary of the inputs received and an explanation of how those inputs have been taken into consideration should be published.

PI-18.2, Legislative procedure for budget scrutiny, assesses the extent to which the subnational council's procedures for reviewing budget proposals include arrangements for public consultation, while this dimension assesses whether consultation has actually taken place with the public.

***Key terms used:***

*Timeliness* means that the public consultation process allows sufficient time in the budget and policy cycles for the public to provide inputs in each phase; engage early while a range of options is still open; and, where desirable, allow for more than one round of engagement.

*Inclusiveness* means that the government pro-actively uses multiple mechanisms to reach out to engage citizens and non-state actors, including traditionally excluded and vulnerable groups and individuals, and voices that are seldom heard.

## PI-9bis.2 Public consultation in the design of service delivery programs

### Scoring

Score	Minimum requirements for scores
A	Public consultation has been conducted at least once within the last three years to identify the needs for <b>most</b> service delivery programs. The subnational government has published a summary of the inputs received and an explanation of how those inputs have been taken into account. Key findings of user feedback covering <b>most</b> service delivery programs have been published within the last three years. Public consultation process has been inclusive.
B	Public consultation has been conducted at least once within the last three years to identify the needs for the <b>majority</b> of service delivery programs. The subnational government has published a summary of the inputs received. Key findings of user feedback covering the <b>majority</b> of service delivery programs have been published within the last three years.
C	Public consultation has been conducted at least once within the last three years to identify the needs for <b>some</b> service delivery programs. At least one formal mechanism is available for service users to provide feedback on the services provided.
D	Performance is less than required for a C score.

<b>Applicability</b>	This dimension is applicable for all SNG PEFA assessments.
<b>Coverage</b>	Budgetary and extrabudgetary units of the subnational government
<b>Time period</b>	Last three completed fiscal years
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Dates and duration of the public consultations conducted for the design of the service delivery programs.</li> <li>➤ Information that is provided to constituencies prior to public consultations and the means used to disseminate it.</li> <li>➤ A summary of the inputs received during the public consultation and an explanation of how those inputs have been taken into account, whether the summary is published or not.</li> <li>➤ The published findings of the user satisfaction survey(s) that covers service delivery program(s).</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which the design of service delivery programs, or the redesign of existing programs, has benefited from public consultation to meet citizens' needs and wants. The service delivery programs to be assessed are those for which the subnational

government has autonomy in deciding the quantity of service to be delivered, the quality, user fees, or delivery methods. Covering every service delivery program included in the budget can be demanding for the SNGs so it is important to focus on **most** for an A score **majority** for a B score and **some** for a C score service delivery programs (for example, health centers, primary education, housing, waste management) for which the subnational government has organized a public consultation to identify the needs of citizens, civil society organizations, and other nonstate actors. Inputs from the public consultation relating, for example, to the quantity and quality of services, tariffs, localization, or delivery methods, should be documented and published by the SNG. The documentation should explain how the SNG has taken into account the inputs from the public consultation.

In addition, arrangements should be put in place to enable user feedbacks. Feedback can be collected through formal mechanisms such as focus groups, user surveys, townhalls or other means. This feedback should be conducted at least once within the last three completed fiscal years covering at least the service delivery programs being assessed by the dimension. Key findings of the feedback should be made publicly available.

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

For this dimension, *inclusive* means that the government pro-actively uses multiple mechanisms to reach out to engage citizens and non-state actors, including traditionally excluded and vulnerable groups and individuals, and voices that are seldom heard.

# PI-9bis.3 Public consultation in investment planning

## Scoring

Score	Minimum requirements for scores
A	During preparation of major investment projects, a public consultation is conducted for <b>most</b> major investment projects managed and decided by the subnational government. The consultation document includes a summary of the key results of the economic analysis. The subnational government publishes a summary of the inputs received. Public consultation process has been inclusive.
B	During preparation of major investment projects, public consultation is conducted for the <b>majority</b> of major investment projects managed and decided by the subnational government. The consultation document includes a summary of the key results of the economic analysis. The subnational government publishes a summary of the inputs received.
C	During preparation of major investment projects, public consultation is conducted for <b>some</b> major investment projects managed and decided by the subnational government.
D	Performance is less than required for a C score.

<b>Applicability</b>	This indicator covers <i>major investment projects</i> (as defined in PI-11, Public investment management) managed and decided by the subnational government, including those funded from transfers and other external revenue sources. <i>Major investment projects</i> that are decided by the central government should not be included in the assessment, even though they are co-funded by the SNG and therefore included in the budget.
<b>Coverage</b>	Budgetary and extrabudgetary units of the subnational government.
<b>Time period</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Dates and duration of the public consultations conducted by the executive during preparation of the major investment projects assessed by this dimension</li> <li>➤ A summary of inputs received during the public consultation. whether published or not.</li> <li>➤ Documented summary of the key results of the economic analysis.</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which public consultation has been conducted for the major investment projects (a definition of major investment projects is provided under PI-11:

Public Investment Management) managed and decided by the SNG. The consultation should take place during preparation of the major investment projects. A clear summary of the major investment projects and key results of the economic analysis should be provided at the beginning of the consultation and should be the subject of public consultation. For scores A and B, the assessed SNG should document the inputs received during the public consultation in a report, which should be published. In some SNGs the above may be undertaken through consultation on investment plans and/or capital budgets.

The economic analysis which is mentioned for A and B scores correspond to the definition provided under dimension PI-11.1. In particular, appraisals based on economic analysis should include analysis of economic externalities—sometimes referred to as social or economic costs and policy benefits—and health and environmental impacts.



# Pillar three: Management of assets and liabilities

## PI-10: FISCAL RISK REPORTING

This indicator measures the extent to which fiscal risks to subnational government are reported. Fiscal risks can arise from financial positions of lower-tier(s) of subnational governments or public corporations, and or contingent liabilities and other fiscal risks. This indicator contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

*Dimension 10.1: Monitoring of public corporations*

*Dimension 10.2: Monitoring of subnational governments*

*Dimension 10.3: Contingent liabilities and other fiscal risks*

### PI-10.1 Monitoring of public corporations

#### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
A	Audited annual financial statements for <b>all</b> public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by subnational government annually.
B	Audited annual financial statements are published for <b>most</b> public corporations within six months of the end of the fiscal year.
C	Subnational government receives financial reports from <b>most</b> public corporations within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments, if the assessed subnational government controls and/or own shares of public corporations.
<b>NO APPLICABILITY</b>	If the assessed subnational government does not control or own any share in a public corporation, the dimension will be NA.
<b>SAMPLING:</b>	Sampling could be used and cover the 10 most important public corporations assessed by value of shares owned by the subnational government. Sampling technique will be decided by the assessment manager subject to agreement by the assessed SNG.
<b>COVERAGE</b>	SNG controlled and/or owned and shared public corporations.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Date of submission to supervising subnational government ministry (or department) and date of publication of the annual financial statements of each public corporation for the most recent fiscal year completed</li> <li>➤ Information on whether the annual financial statements of each public corporation is audited.</li> <li>➤ Consolidated fiscal reports of public corporations or whole of SNG consolidated fiscal reports.</li> </ul>

### ***Dimension measurement guidance***

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

Some public corporations may be owned by different levels of government. If the financial statements are sent to another level than the SNG subject to the assessment, the corresponding requirement for a score C is not fulfilled. The score would be D and not NA. However, if the other level forwards the financial statements to the SNG within the prescribed timeframe, then the score could be higher than C, depending on the percentage of the total equity of SNGs owned public corporation, the publication status and the existence of a consolidated report.

All public corporations are covered by this dimension, whether or not they are engaged in market or non-market activities.

The total value of equity of public corporations is the basis for assessing the materiality. To calculate the materiality, the total value of equity has to be weighted by the percentage of shares owned by the subnational government.

A consolidated report prepared by the central government and published by either the central government or the subnational government will fulfill the requirement for an A score if it addresses the fiscal risk arising from all the public corporations owned by the subnational government.

# PI-10.2 Monitoring of subnational governments

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Audited annual financial statements for <i>all</i> lower-tier subnational governments of the SNG being assessed are published within nine months of the end of the fiscal year. A consolidated report on the financial position of all subnational governments is published at least annually.
<b>B</b>	Audited annual financial statements for <i>most</i> lower-tier subnational governments of the SNG being assessed are published at least annually within nine months of the end of the fiscal year.
<b>C</b>	Unaudited reports on the financial position and performance of the <i>majority</i> of lower-tier subnational governments of the SNGs being assessed are published at least annually within nine months of the end of the fiscal year.
<b>D</b>	Performance is less than required for a C score.

**APPLICABILITY**

If there is no lower-tier of subnational government or if there are no budgetary transfers from the assessed SNG to the lower-tiers of SNG, this dimension is not applicable (NA).

The lower levels of government subject of this dimension must meet the definition of SNG provided in the PEFA Framework: Any level of government below the national level (state/provincial or regional and local), provided these entities have the authority to own assets, incur liabilities, and/or engage in transactions in their own right. The right to borrow is not a requirement for treatment as a subnational government in the PEFA Framework.

If a lower level does not meet that definition, it will not be included in the scope of the present dimension. For the purpose of the PEFA assessment:

- when the transfer fully covers the budget of that lower level, the latter could be considered as a deconcentrated unit of the SNG;
- when the transfer partially covers the budget of that lower level, the latter may be considered as an extrabudgetary unit as defined under PI-6, provided all other requirements are met in addition to partial funding.

If PI-7 is not applicable, this dimension is also NA.

<b>SAMPLING:</b>	Sampling can be used and cover the 10 most important lower tier SNGs of the SNG being assessed. They could be selected by the value of expenditures. Sampling technique will be decided by the assessment manager subject to agreement by the assessed SNG.
<b>COVERAGE</b>	Lower-tier of subnational governments that have direct financial relations with the SNG.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Date of submission to supervising SNG ministry (or department) and date of publication of the annual financial statements or reports of each lower- tier subnational governments, including whether they are audited.</li> <li>➤ Consolidated fiscal reports of lower-tier subnational governments and frequency of publication based on the last report published.</li> </ul>

### **Dimension measurement guidance**

This dimension assesses the extent to which information on financial performance, including the HLG’s potential exposure to fiscal risks, is available through the audited annual financial statements of the lower-tiers of subnational government. The dimension measures the extent to which higher-level subnational governments monitor those at a lower level. A consolidated report on the financial position of *all* lower-tiers of subnational government prepared by the central government and published by either the central or the subnational government would fulfill the requirement to score A if it addresses specifically the fiscal risk arising from the lower-tier of subnational governments to the assessed SNG.

To evaluate this dimension, the audit entity in charge of carrying out audits of the annual financial statements of the lower-tiers of the subnational government should first be clearly identified, and several key points should be documented, including whether the subnational government depends on an audit office which is different from the Supreme Audit Institution (SAI) in charge of auditing central government accounts.

If the SAI responsible for the external audit of higher-level entities also audits lower-tiers of the subnational government, through local or regional offices, a specialized unit of chamber of the SAI or even the same units than those in charge of central government, then the relationship of the subnational government to the SAI should be explained, including how audit work is carried out.

# PI-10.3 Contingent liabilities and other fiscal risks

*Scoring*

Score	Minimum requirements for scores
<b>A</b>	A report is published by the subnational government that quantifies and consolidates information on public private partnerships and other significant explicit contingent liabilities. Other fiscal risks are identified.
<b>B</b>	The subnational government quantifies public private partnerships and other significant explicit contingent liabilities in a report. Other fiscal risks are identified.
<b>C</b>	The subnational government identifies the contingent liabilities in a report.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable if the assessed subnational government has PPP and/or other contingent liabilities.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Reports on contingent liabilities by the SNG and by individual SNG entities.</li> <li>➤ Consolidated report on contingent liabilities and information on the frequency of publication.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the monitoring and reporting of contingent liabilities for which the SNG is responsible, including those of its extrabudgetary units. Contingent liabilities of a subnational government may also become the contingent liabilities of a higher-level government, and vice-versa. While this dimension is intended to assess the SNG, the narrative should identify what entity is ultimately responsible for such liabilities should the subnational government not be able to fulfill its legal obligations.

This dimension covers all explicit contingent liabilities. However, while it is not required to quantify any implicit contingent liabilities, quantification is required for all public private partnerships and the other explicit contingent liabilities when they are significant.

The PEFA report narrative should identify any major implicit fiscal risks faced by the SNG. In some cases, the subnational government may participate with the central government or other subnational governments in programs that generate a contingent liability (e.g. crop insurance programs, PPPs). The liability should be quantified according to the involvement of the subnational government in the program.

Significant contingent liabilities are defined as those with a potential cost in excess of 0.5 percent of total expenditures of the budgetary units of the SNG being assessed and for which an additional appropriation by the subnational council would be required. Dimension 10.3 does not assess explicit contingent liabilities arising from public corporations or lower-tier subnational governments as they are assessed under dimensions 10.1 and 10.2 respectively. To list the significant contingent liabilities, assessors should first identify the legal framework covering contingent liabilities arising from SNG programs and any entity responsible, if any, for monitoring and reporting such liabilities. Then, they should select the significant ones (as defined for the purpose of this dimension)

The public-private partnerships (PPP) are defined as a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. PPPs typically do not include service contracts or turnkey construction contracts, which are categorized as public procurement projects, or the privatization of utilities where there is a limited ongoing role for the public sector.

# PI-I I- PUBLIC INVESTMENT MANAGEMENT

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

***Dimension 11.1: Economic analysis of investment proposals***

***Dimension 11.2: Investment project selection***

***Dimension 11.3: Investment project costing***

***Dimension 11.4: Investment project monitoring***

<b>APPLICABILITY</b>	For the purpose of this indicator when applied to subnational governments, “major investment projects” are defined as projects meeting the following criteria: <ul style="list-style-type: none"> <li>➤ The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and/or</li> <li>➤ The project is among the largest 10 projects (by total investment cost) of the subnational government.</li> </ul>
<b>No APPLICABILITY:</b>	If there are no major investment project as defined above the indicator will not be applicable (NA).
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government being assessed. Investment projects co-funded by central government are covered by this indicator if the subnational government participates in the selection process and is in charge of their implementation.
<b>TIME PERIOD</b>	Last completed fiscal year.

# PI-I I.1 Economic analysis of investment proposals

*Scoring*

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

<b>APPLICABILITY</b>	<i>See indicator.</i>
<b>COVERAGE</b>	<i>See indicator</i>
<b>TIME PERIOD</b>	<i>See indicator</i>
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ List of investment projects approved in the last completed fiscal year with relevant data to identify them as ‘major’ as per PEFA criteria.</li> <li>➤ Guidelines established either at the national or subnational level to conduct economic analysis.</li> <li>➤ Economic analysis documentation of major investment projects approved in the last completed fiscal year.</li> <li>➤ Documentation of the economic analyses review process by an agency other than the sponsoring agency.</li> <li>➤ Documented publication of economic analyses results.</li> </ul>

**Dimension measurement guidance**

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

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

Appraisals based on economic analysis should include analysis of economic externalities—sometimes referred to as social or economic costs and policy benefits—and health and environmental impacts. Social or economic costs refer to the total costs to society of an economic

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

Economic analyses of subnational government should be conducted in accordance with established guidelines, which can be established either at the national or at the subnational levels. When both exist, any possible inconsistencies between subnational and higher-level of government guidelines should be noted in the PEFA report narrative. An approved set of guidelines for carrying out economic analyses helps ensure that a standard methodology for the project appraisal process is in place and is used systematically across major investment projects. The guidelines should also include a requirement for the results of the appraisal process for major investment projects to be published.

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

To ensure objectivity, the appraisal should be reviewed by an entity other than the sponsoring entity. At the subnational level, the sponsoring entity can be the equivalent of a line ministry (department, agency or division) or an agency in charge of infrastructure, investment projects or a technical division.

The economic analyses used to inform decisions on project proposals should be current enough to be meaningful. Outdated analyses, such as those for which market conditions have shifted considerably, are not likely to form a useful base for decision making.

# PI-I 1.2 Investment project selection

## Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Prior to their inclusion in the SNG budget, <b>all</b> major investment projects are prioritized by an entity in the SNG on the basis of published standard criteria for project selection.
<b>B</b>	Prior to their inclusion in the SNG budget, <b>most</b> major investment projects are prioritized by an entity in the SNG on the basis of standard criteria for project selection.
<b>C</b>	Prior to their inclusion in the SNG budget, <b>some</b> of the major investment projects are prioritized by an entity in the SNG.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<i>See indicator</i>
<b>COVERAGE</b>	<i>See indicator</i>
<b>TIME PERIOD</b>	<i>See indicator</i>
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Documentation of subnational government’s review of major investment projects before inclusion of projects in the budget.</li> <li>➤ Documentation on publication and adherence to standard criteria for project selection.</li> <li>➤ Details of standard criteria for project selection.</li> </ul>

## Dimension measurement guidance

This dimension assesses the extent to which the project-selection process prioritizes investment projects against clearly defined criteria to ensure that selected projects are aligned with subnational government priorities. Rigorous and transparent arrangements for the selection of investment projects aim to strengthen the efficiency and productivity of public investments. It requires that subnational governments carry out an independent review of the major investment project appraisals before including projects in the budget submitted to the subnational council. It also requires that subnational governments publish and adhere to standard criteria for project selection. “Prioritization by an entity” refers to a subnational entity.

Standard criteria are a set of formal procedures adopted by government and used for every project or group of related major investment projects with common characteristics within and across governmental units. For the purpose of this dimension, prioritization of major investment projects should be performed in accordance with the standard criteria; and for score A, standard criteria need to be publicly available.

# PI-I 1.3 Investment project costing

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Projections of the total life-cycle cost of major investment projects, including both capital and recurrent costs together with a year-by-year breakdown of the costs for at least the next three years, are included in the budget documents.
<b>B</b>	Projections of the total capital cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years, are included in the budget documents.
<b>C</b>	Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<i>See indicator</i>
<b>COVERAGE</b>	<i>See indicator</i>
<b>TIME PERIOD</b>	<i>See indicator</i>
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Rules and methodologies on investment project costing, issued by the assessed SNG or an HLG.</li> <li>➤ Budget projections for investment projects, supported by a cash flow forecast, financing plan, and operation/maintenance costs over the full life of the investment.</li> <li>➤ Medium-term budget data on project implementation (recurrent costs, maintenance costs).</li> </ul>

**Dimension measurement guidance**

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

Life cycle or total or full costs of major investment projects should include design, development, implementation, operation, maintenance, and disposal costs over the full life cycle of the investment, broken down annually. The dimension does not require the calculation of net present value. Life cycle costs refer to the sum of all the costs of a major investment project,

including consumption of fixed capital, overheads, and the costs of activities related to the project but performed by entities other than the entity responsible for the project.

Costing information should be included in subnational budget documents. Assessors should evaluate whether the documentation surrounding the subnational budget includes medium-term projections of investment projects on a full-cost basis, and the degree to which the budget process for capital and recurrent spending is integrated.

# PI-I 1.4 Investment project monitoring

*Scoring*

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

<b>APPLICABILITY</b>	<i>See indicator</i>
<b>COVERAGE</b>	<i>See indicator</i>
<b>TIME PERIOD</b>	<i>See indicator</i>
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ A comparison of projections with data on the actual execution of major investment projects at different stages (time, amount spent, physical progress, etc.), published in budget documentation or elsewhere.</li> <li>➤ Evidence of the existence of, and compliance with, implementation procedures in the form of audit findings or quality assurance reports.</li> </ul>

**Dimension measurement guidance**

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

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

Standard procedures and rules refer to a set of formal guidelines adopted by government that are used in the implementation of every project or group of related major investment projects with common characteristics within and across central governmental units.

Monitoring and reporting arrangements should be managed by the subnational government. Monitoring should cover all major investment projects managed by the subnational government from the point of approval and throughout implementation. It is compliant with the methodology when standard procedures and rules for project implementation used by the subnational government are issued by the central government.

# PI-12- PUBLIC ASSET MANAGEMENT

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

*Dimension 12.1: Financial asset monitoring*

*Dimension 12.2: Nonfinancial asset monitoring*

*Dimension 12.3: Transparency of asset disposal*

## PI-12.1 Financial asset monitoring

*Scoring*

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

<b>APPLICABILITY</b>	If subnational government owns financial assets and the records on the holdings are maintained by a higher level of government with no control from the subnational government, the dimension will be not applicable (NA).
<b>COVERAGE</b>	Budgetary units of the subnational government being assessed.  <i>Coverage has been narrowed compared to the CG PEFA framework, which covers budgetary and extrabudgetary units of the SNG being assessed.</i>
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	➤ Value of financial assets under each class and information on the method(s) of valuation used.

- |  |   |
|--|---|
|  | ➤ Published document or set of documents covering the performance of the portfolio of financial assets and information on the frequency of publication. |
|--|---|

### ***Dimension measurement guidance***

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

Information on financial assets, for the purposes of this indicator should be cross-checked against government financial reports as assessed in PI-29. Annual financial reports and the reporting of public corporations in PI-10. Fiscal risk reporting. Financial assets categories include<sup>6</sup>:

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

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

Records should be maintained by the subnational government. It means that the subnational government should be able to access, capture and modify the records related to their financial assets. A centralized recording system maintained by an agent from a higher level of government will qualify, provided the agent is able to access, capture and modify the records on behalf of and at the request of the subnational government, based on information sent by the subnational government.

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<sup>6</sup> GFS Manual 2014, page 403.

# PI-12.2 Nonfinancial asset monitoring

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The subnational government maintains a register of its holdings of fixed assets, land, and (where relevant) subsoil assets, including information on their usage and age, which is published at least annually.
<b>B</b>	The subnational government maintains a register of its holdings of fixed assets, including information on their usage and age, which is published. A register of land, and (where relevant) subsoil assets is also maintained.
<b>C</b>	The subnational government maintains a register of its holdings of fixed assets and collects partial information on their usage and age.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	If subnational government owns nonfinancial assets and the records are maintained by a higher level of government with no access, ability to modify or capture by the subnational government, the dimension will be not applicable (NA).
<b>COVERAGE</b>	Budgetary units of the subnational government being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Register(s) of fixed assets, possibly with information on their usage and age.</li> <li>➤ Published document or set of documents related to one or more nonfinancial asset categories mentioned above.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the features of nonfinancial asset monitoring for budgetary units of the subnational government being assessed. Reporting on nonfinancial assets should identify the assets and their use. Maintaining a register of fixed assets is a basic requirement; up-to-date registers allow the subnational government to better utilize assets such as infrastructure and to plan investment programs and maintenance. If there are significant nonfinancial assets held by public corporations, this should be reported in the narrative for this dimension. The dimension does not require valuation for nonfinancial assets.

As for dimension 12.1, records should be maintained by the subnational government. It means that the subnational government should be able to access, capture and modify the records related to their fixed assets – and all other nonfinancial assets they may monitor. A centralized recording system maintained by an agent from a higher level of government will qualify, provided the agent is able to access, capture and modify the records on behalf of and at the request of the subnational government, based on information sent by the subnational government.

# PI-12.3 Transparency of asset disposal

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the subnational council for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.
<b>B</b>	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.
<b>C</b>	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	It is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	<p>Budgetary units of the subnational government being assessed.</p> <p><i>Coverage has been narrowed compared to the CG PEFA framework which covers: (i) budgetary and extrabudgetary units of the SNG as regards to the financial assets; and (ii) budgetary units of the subnational government as regards to the nonfinancial assets.</i></p>
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Rules and regulations related to transfer or disposal of financial and nonfinancial assets.</li> <li>➤ Set of documents submitted to the subnational council for information or approval.</li> <li>➤ Reports containing details of transfers and disposal of assets.</li> </ul>

***Dimension measurement guidance***

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

Procedures and rules for transfer and disposal of assets include formal directions or regulations relating to the authority and responsibility for taking such action, and the methods to be used for transfer or disposal, recording or publication of the results. These are considered to be established

when the procedures and rules are formally recorded in laws, regulations or directions from appropriate authorities.

Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established either by the subnational government, or a higher level of government, or both.

For an A score, "*subnational council*" designates the legislature function at the subnational level of government subject to the assessment. Submission of information to a legislature performing at a higher level of government would not qualify for an A rating.

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

# PI-13- DEBT MANAGEMENT

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

*Dimension 13.1: Recording and reporting of debt and guarantees*

*Dimension 13.2: Approval of debt and guarantees*

*Dimension 13.3: Debt management strategy*

## PI-13.1 Recording and reporting of debt and guarantees

*Scoring*

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

<b>APPLICABILITY</b>	The dimension will be applicable if: <ul style="list-style-type: none"> <li>➤ the subnational government is authorized to borrow or to issue guarantees, and</li> <li>➤ when the stock of debt and guaranteed is deemed significant by the assessment manager.</li> </ul>
<b>NO APPLICABILITY:</b>	When recording and reporting of debt and guarantees is undertaken by CG or any higher level of government, the dimension will be not applicable (NA).

<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government being assessed.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Reports to identify how complete and updated the records are and evidence that debt records are reconciled along with information on how frequently.</li> <li>➤ The most recent debt management and statistical reports and information on how frequently they are issued.</li> </ul>

### *Dimension measurement guidance*

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

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

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

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

Complete government debt records mean that debt data cover all material domestic and foreign debt and credit guarantees of the central government. Reconciliation of debt records is undertaken to ensure that the same amounts are recorded in the government’s debt records and

the creditor's institutional records, irrespective of whether the reconciliation process is conducted by the central bank, the MoF, or subnational government that maintains government debt records.

This dimension and the other dimensions for this indicator refer to debt and guarantees contracted **directly** by subnational governments and serviced by the subnational government. Whether or not the debt is authorized or guaranteed by the higher-level government or central government is not relevant to assessing this dimension.

# PI-13.2 Approval of debt and guarantees

## Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity Annual borrowing must be approved by the subnational government or subnational council.
<b>B</b>	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity. Annual borrowing must be approved by the subnational government or subnational council.
<b>C</b>	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the subnational government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable if: <ul style="list-style-type: none"> <li>➤ the subnational government is authorized to borrow or to issue guarantees, and</li> <li>➤ when the stock of debt and guarantees is deemed significant by the assessment manager.</li> </ul>
<b>NO APPLICABILITY</b>	<ul style="list-style-type: none"> <li>➤ If the SNG being assessed is not authorized to borrow, the dimension will be not applicable (NA).</li> <li>➤ When primary legislation grants the powers of approval of debt and guarantees to the CG level or another HLG, the dimension will be not applicable (NA).</li> </ul>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government being assessed.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Primary and secondary legislation for government debt management, including provisions for approving loans; issuing loan guarantees and undertaking debt related transactions and</li> </ul>

	<p>documented policies; operational procedures and guidelines for approval, management, monitoring and reporting of these transactions and annual borrowing provisions.</p> <ul style="list-style-type: none"> <li>➤ Documented procedures for undertaking debt management transactions.</li> <li>➤ Evidence of approval by government or the subnational council for annual borrowing plans.</li> </ul>
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***Dimension measurement guidance***

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

Primary legislation authorizing the subnational government to incur debt may be enacted at the subnational or higher level (including that of the central government), within the confines of the national constitution and restrictions imposed by the central government. Similarly, policies and procedures may be issued by either the subnational government or higher-level government (including the central government).

# PI-13.3 Debt management strategy

*Scoring*

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

<b>APPLICABILITY</b>	<p>The dimension will be applicable if:</p> <ul style="list-style-type: none"> <li>➤ the subnational government is authorized to borrow or to issue guarantees, and</li> <li>➤ when the stock of debt and guaranteed is deemed significant by the assessment manager or the subnational government intends to contract significant debt during the current budget year.</li> </ul> <p>For the purpose of this dimension, only the debt strategy prepared by the SNG is assessed.</p>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government being assessed.
<b>TIME PERIOD</b>	At time of assessment, with reference to the last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ The most recent SNG Debt Management Strategy; the most recent report on Debt Management Strategy implementation.</li> <li>➤ Information on the SNG process of Debt Management Strategy formulation and approval.</li> <li>➤ Legal requirements for publication of the annual report on debt management.</li> <li>➤ Annual report on debt management.</li> </ul>

### *Dimension measurement guidance*

This dimension assesses whether the subnational government has prepared a debt management strategy (DMS) with the long-term objective of contracting debt within robust cost–risk trade-offs. Such a DMS should cover at least the medium term (three to five years), and it should include a description of the existing debt portfolio’s composition and evolution over time. The DMS should consider the market risks being managed—particularly the interest rate, exchange rate, and refinancing/rollover risks—and the future environment for debt management in terms of fiscal and debt projection.

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

When there is no stock of debt or the subnational government has not borrowed during the last three completed fiscal years, difference between an A and a B score relies on the consistency of the annual borrowing plan of the budget year with the debt management strategy. When the SNG is allowed to borrow only on the domestic market, the foreign currency risk is not relevant for the debt management strategy and the absence of this requirement should not affect scoring.



# Pillar four: Policy-based fiscal strategy and budgeting

## PI-14. MEDIUM-TERM BUDGET STRATEGY

This indicator measures the ability of the SNG to prepare budget estimates on the basis of a fiscal strategy, the impact of economic context and policy changes. It assesses the ability of the subnational government to develop a medium-term budget that is aligned with the strategic plans for service delivery. It also examines the extent to which annual budgets are derived from medium-term estimates. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

***PI-14.1: Underlying forecasts for medium-term budget***

***PI-14.2: Fiscal impact of policy proposals***

***PI-14.3: Medium-term expenditure and revenue estimates***

***PI-14.4: Consistency of budget with previous year's estimates***

<b>Applicability</b>	The indicator is applicable to all SNG assessments. However, for states, provinces, and the most important subnational governments, depending on the country's economic, political, and administrative context, the assessment manager can choose to apply the corresponding Central Government indicators: PI-14: Macroeconomic and fiscal forecasting, PI-15: Fiscal strategy and PI-16: Medium-term perspective in expenditure budgeting.
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# PI-14.1 Underlying forecasts for medium-term budget

## Scoring

Score	Minimum requirements for scores
A	Estimates of revenue and expenditure for the budget year and two following fiscal years are based on a subnational fiscal strategy, sectoral strategies, and information on transfers, revenue, and expenditure assignments and on key demographic and macroeconomic indicators. Estimates together with the underlying assumptions are included in the budget documentation submitted to the subnational council.
B	Estimates of revenue and expenditure for the budget year are based on information on transfers, revenue, and expenditure assignments and on key demographic and macroeconomic indicators. Estimates together with the underlying assumptions are included in the budget documentation submitted to the subnational council.
C	Estimates of revenue and expenditure for the budget year are based on information on transfers, revenue, and expenditure assignments.
D	Performance is less than required for a C score.

<b>APPLICABILITY</b>	See description at indicator level
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last budget submitted to the subnational council.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Documentation of fiscal strategy (if issued as a separate document) and information on how it has been used for estimating revenue and expenditure.</li> <li>➤ Documentation of sector strategies, and information on how they have been used for estimating expenditure and revenue.</li> <li>➤ Key demographic and macroeconomic indicators and information on how they have been used for estimating expenditure and revenue.</li> <li>➤ Submission of estimates of revenue and expenditure to the subnational council.</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which estimates of revenue and expenditure for the budget year and two following fiscal years are prepared by taking into account the economic context. Key demographic and economic indicators, such as inflation rates, interest rates, and gross domestic product growth, that are produced by the central government, the subnational government itself, or some other reliable institution help the subnational government to forecast

revenue and expenditure. When available, relevant regional or local economic indicators are likely to be used instead of national ones.

Expenditure and revenue should also be estimated on the basis of the information on transfers, expenditure, and revenue assignments provided by central government. When such information is not provided or is provided only after the budget is prepared, this requirement is considered satisfied.

Estimation of expenditure and revenue should refer to an SNG fiscal strategy, which goes beyond fiscal rules set by the central government. An SNG fiscal strategy can include numerical objectives, targets or policy parameters (such as the level of fiscal balance), aggregate SNG expenditures or revenues, and changes in the stock of financial assets and liabilities. A fiscal strategy may be presented as a formal statement or plan, specified as targets within the annual budget documentation, or as a fiscal rule established through legislation.

Sector strategies should also be considered when annual budget and medium-term perspectives are prepared. The CG can prepare sector strategies that contain elements related to SNGs. The dimension assesses whether such strategies exist and are referred to during the budget preparation process. It does not assess either their content or the extent to which the budget is aligned to them.

In addition, countries that have introduced multiannual program or performance-based budgeting at both national and SNG level may use different terminology and methods for developing, costing, and implementing medium-term plans. Therefore, assessors should substitute references to medium-term programs, or other performance-based budget categories, in place of strategic and sectors plans in this indicator, where appropriate.

Finally, all of the reference documents and information used to prepare the budget and medium-term expenditure perspective are included in the budget documentation and submitted to the subnational council.

This dimension complements PI.5 by examining in more details the information on the basis of which the government produces estimates of the revenues and expenditures.

# PI-I 4.2 Fiscal impact of policy proposals

## Scoring

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

<b>APPLICABILITY</b>	See description at indicator level.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last budget submitted to the subnational council.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Policy proposals submitted by ministries/departments during annual budget process.</li> <li>➤ Policy proposals submitted by ministries/departments outside the budget process.</li> <li>➤ Evidence that policy proposals are fully costed and include the recurrent costs of capital investment projects for the budget year and the following two fiscal years.</li> </ul>

## Dimension measurement guidance

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

The fiscal impact of policy proposals should be documented. With regard to revenue policy, assessors should focus on proposals with significant and direct impact on revenue, including, for example, changes in the rates and coverage of property tax, income tax, business tax, and creation or assignment of a new revenue source. Revenue policy proposals should specify the estimated revenue impact for the budget year and the two following fiscal years. As for expenditure policy proposals, only significant changes are covered by the dimension, such as

capital investment projects and their associated recurrent costs, assignment of new policies, and change in the rate or coverage of subsidies.

Details of the costs and assumptions of policy proposals approved by government should be included in the budget documentation submitted to the elected council.

## PI-14.3 Medium-term expenditure and revenue estimates

### Scoring

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

<b>APPLICABILITY</b>	See description at indicator level.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last budget submitted to the subnational council.
<b>DATA REQUIREMENTS</b>	Medium-term budget estimates for the budget year and the two following fiscal years disaggregated by administrative, economic, and program or functional classification

### Dimension measurement guidance

This dimension assesses the extent to which medium-term expenditure estimates are prepared and updated as part of the annual budget process. The preparation of medium-term estimates is intended to strengthen fiscal discipline and improve the predictability of budget allocations. Medium-term estimates should be disaggregated by high-level administrative, program (or functional), and economic classification. For administrative or program (or functional) classification, estimates should be at a level of detail that identifies the service delivery program or department. The revenues should be disaggregated by type of revenue at a level of detail that differentiates an SNG's own revenue from transfers and shared revenues.

If dimension 14.3 is scored D, then dimension 14.4 will be NA.

## PI-I 4.4 Consistency of the budget with previous year's estimates

### Scoring

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

<b>Applicability</b>	See description at indicator level.
<b>Sampling</b>	Sampling can be used by focusing on the five most important departments or programs (by expenditure) of the SNG being assessed.
<b>Coverage</b>	Budgetary units of the subnational government.
<b>Time period</b>	The “last medium-term budget” relates to the budget approved by the subnational council for the last completed fiscal year, and “the current medium-term budget” relates to the budget approved by the subnational council for the current fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Budget proposal.</li> <li>➤ Last medium-term budget and current medium-term budget.</li> <li>➤ Explanation of variations between the last medium-term budget and the current medium-term budget.</li> </ul>

### Dimension measurement guidance

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

references to changes in macroeconomic conditions, revision of important variables and coefficients, and changes to government policy and expenditure priorities.

# PI-17- BUDGET PREPARATION PROCESS

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

*Dimension 17.1: Budget calendar*

*Dimension 17.2: Guidance on budget preparation*

*Dimension 17.3: Budget submission to the subnational council*

## PI-17.1 Budget calendar

*Scoring*

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

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments, even when the budget calendar is set by CG.
<b>SAMPLING</b>	For the purpose of this dimension, sampling could be used by focusing on the 5 largest budgetary units (by expenditure).
<b>COVERAGE</b>	Budgetary units of the subnational government being assessed.
<b>TIME PERIOD</b>	Last budget submitted to the subnational council.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Budget calendar.</li> <li>➤ Number of weeks budgetary units are allotted to complete their detailed estimates.</li> <li>➤ Actual dates (timing) of the stages (actions) in the budget preparation process, compared to the dates in the budget calendar.</li> <li>➤ Content of the circulars relating to the preparation of detailed estimates.</li> </ul>

### *Dimension measurement guidance*

This dimension assesses whether a budget calendar exists for the subnational government, and the extent to which it is adhered to. For the purpose of this indicator, budgetary units are those that are directly charged with responsibility for implementing the budget, in line with expenditure policies, and that directly receive funds or authorization to spend from the subnational council (e.g. education department). Subnational government units that report to and received budgetary funds through a parent SNG budgetary unit should not be included in the assessment (e.g. elementary schools). Budgetary units of a SNGs may be called ministries, secretariats, directorates, departments, services, etc. The assessors should specify what is considered as a budgetary unit according to the above definition.

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

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

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

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

# PI-17.2 Guidance on budget preparation

*Scoring*

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

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government being assessed.
<b>TIME PERIOD</b>	Last budget submitted to the subnational council.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Budget circular.</li> <li>➤ Date of cabinet approval of budget circular compared to the date the MoF issues the budget circular to budgetary units.</li> <li>➤ Date of cabinet approval of ceilings when they are not approved with the budget circular.</li> <li>➤ Date of MoF transmission of ceilings to budgetary units when they are not approved with the budget circular.</li> </ul>

*Dimension measurement guidance*

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

The subnational government should issue a budget circular(s) to the relevant subnational budgetary units. The circular should set out the budget procedures for the preparation of the

subnational budget including any procedures and interactions involving the higher-level government. The processes and guidance on the preparations of budget submissions and issues in and approval of ceilings presented in the budget circular should be analyzed in detail, taking into account interrelationships between subnational and higher-level governments.

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

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

# PI-17.3 Budget submission to the subnational council

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The executive has submitted the annual budget proposal to the subnational council at least two months before the start of the fiscal year in each of the last three years.
<b>B</b>	The executive has submitted the annual budget proposal to the subnational council at least two months before the start of the fiscal year in two of the last three years and submitted it before the start of the FY in the third year.
<b>C</b>	The executive has submitted the annual budget proposal to the subnational council at least one month before the start of the fiscal year in two of the last three years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government being assessed.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	➤ Specific dates of submission to the subnational council of the annual budget proposals in the last three fiscal years.

*Dimension measurement guidance*

This dimension assesses the timeliness of the submission of the subnational budget to the subnational council. Timing may be affected by any delays in the higher-level approval of budget transfers to the subnational government. Such delays, outside the control of the SNG, should be discussed and highlighted in the narrative section of the report.

# PI-18- LEGISLATIVE SCRUTINY OF BUDGETS

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

*Dimension 18.1: Scope of budget scrutiny*

*Dimension 18.2: Legislative procedures for budget scrutiny*

*Dimension 18.3: Timing of budget approval*

*Dimension 18.4: Rules for budget adjustment by the executive*

## PI-18-I Scope of budget scrutiny

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The subnational council’s review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.
<b>B</b>	The subnational council’s review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue.
<b>C</b>	The subnational council’s review covers details of expenditure and revenue.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable to all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Budget documents reviewed by subnational council.</li> <li>➤ Details of matters covered by the subnational council’s review, such as records of meetings, findings and committee reports.</li> </ul>

### Dimension measurement guidance

This dimension assesses the scope of legislative scrutiny. Such scrutiny should cover review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as the specific details of expenditure and revenue estimates\_including estimates of costs of completing past approved policies and/or projects according to originally promised timelines and costs of implementing education or health services to meet standards/guidelines in place. In certain jurisdictions, the review may be undertaken in two or more stages, possibly involving a gap between review of medium-term aspects and review of the details of estimates for the next fiscal year. In the absence of a subnational council that performs legislative scrutiny functions, this dimension would score a D because the requirements of a C would not be met.

Legislative scrutiny at the subnational level refers to the relevant subnational council, parliament, assembly, council, or any equivalent body (and not to the national or federal parliament).

Fiscal policies relate to those of the subnational government. The extent of autonomy with regard to fiscal policies will be determined by the level, timing, and degree of autonomy over revenues, including transfers received from the higher-level government, and the capacity of the subnational government to incur fiscal deficits and undertake borrowing.

The relevant narrative of the PEFA report should include information on whether a functioning subnational council exists and provide a quick overview of its role in the budget process, including what documents it reviews. The report should also highlight the extent of review by the subnational council, i.e., whether the documents are actively scrutinized, debated, and commented on or are simply noted. For an explanation of medium-term fiscal forecasts refer to PI-14.1.

# PI-18-2 Legislative procedures for budget scrutiny

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The subnational council’s procedures to review budget proposals are approved by the subnational council in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. They also include internal organizational arrangements, such as committees, technical support, and negotiation procedures.
<b>B</b>	The subnational council’s procedures to review budget proposals are approved by the subnational council in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements such as committees, technical support, and negotiation procedures.
<b>C</b>	The subnational council’s procedures to review budget proposals are approved by the subnational council in advance of budget hearings and are adhered to.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all subnational governments, even if procedures are set by CG.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Records of SNG legislative sessions and decisions.</li> <li>➤ Content of SNG or CG procedures for reviewing budget proposals.</li> <li>➤ How and when the procedures were approved/issued.</li> <li>➤ Confirmation that procedures were adhered to, or information on non-adherence.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the extent to which the procedures of the subnational council are established and adhered to. This includes public consultation arrangements as well as internal organizational arrangements, such as legislature committee, technical support, and negotiation procedures. The existence and timing of relevant procedures should be verified by reference to any standing orders and written procedures and records of subnational legislative sessions and decisions that show that they have been followed.

In case the subnational council’s procedures are set by CG, it is not required that the subnational council has formally adopted the procedures.

# PI-18-3 Timing of budget approval

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The subnational council has approved the annual budget before the start of the year in each of the last three fiscal years.
<b>B</b>	The subnational council has approved the annual budget before the start of the year in two of the last three fiscal years, with a delay of up to one month in the third year.
<b>C</b>	The subnational council has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all subnational governments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	Date of budget approval by the subnational council in each of the last three fiscal years.

*Dimension measurement guidance*

The dimension assesses whether, over the last three years, the subnational budget had been approved by the subnational council before the commencement of the fiscal year. The deadline is important so that budgetary units know at the beginning of the fiscal year what resources they will have at their disposal for service delivery. The time available for scrutiny is largely determined by the timing of the submission of the executive’s budget proposals to the legislature, as assessed in PI-17. Budget preparation process.

The PEFA report narrative for this dimension should clearly specify the actual time that the legislature has spent in reviewing the budget proposal, as well as the exact timing of the budget’s approval each year. The report should focus on the last three fiscal years to ascertain whether the budget was approved before the start of the fiscal year, and may explain the reason for delay, if relevant.

# PI-18-4 Rules for budget adjustment by the executive

*Scoring*

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

<b>APPLICABILITY</b>	Applicable to all subnational governments. If there is no functioning subnational council, or equivalent body, this dimension will not be applicable (NA).
<b>COVERAGE</b>	Budgetary units of the subnational government
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Procedures and rules for in-year budget amendments by the executive.</li> <li>➤ Confirmation that procedures were adhered to, or information on non-adherence.</li> </ul>

*Dimension measurement guidance*

The dimension covers subnational legislative rules on budget adjustments that apply to subnational executive virements. Such amendments constitute a common feature of annual budget processes. To avoid undermining the credibility of the original budget, any authorization of amendments by the executive must adhere to clearly defined rules. The rules may be part of annual budget legislation or part of ongoing legislative provisions such as an organic budget law.

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

With regard to the clarity of rules for in-year adjustments, in order not to undermine the significance of the approved budget, the authorization of amendments that can be done by the executive must be clearly defined, usually in the budget code, and follow the rules which should indicate the scope and procedures for: (i) adjustments to budgetary units’ own budget ceilings

that do not require prior MoF (finance department) approval; (ii) adjustments that require prior MoF but not cabinet or subnational council approval; (iii) adjustments that require cabinet but not subnational council approval; and (iv) adjustments that require prior approval by the subnational council. There should also be clearly defined rules limiting the executive's discretion to present amendments to budget appropriations for retroactive approval by the subnational council (also refer to PI-21.4). There must also be evidence that the rules are being complied with.

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



# Pillar five: Predictability and control in budget execution

## PI-19 TAX ADMINISTRATION

This indicator focuses on the administration of the SNG core taxes. This indicator assesses the procedures used to collect and monitor the core taxes of the subnational government. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

***Dimension 19.1: Rights and obligations for tax measures***

***Dimension 19.2: Property tax register and valuation***

***Dimension 19.3: Tax risk management, audit and investigations***

***Dimension 19.4: Tax arrears monitoring***

### ***Indicator measurement guidance***

Subnational tax administrations are typically found in a state, province, canton or lander, within a national structure, or municipalities or local authorities in a city. Many subnational tax administrations contribute to a significant percentage of the subnational entity's total tax revenues that are not subventions from the national budget. In some cases, the tax policy and tax legislations are set by at the national level, often with inputs from, or some room for adjustment at the subnational level. In some other cases, the subnational legislature is itself competent to set its own tax policy and legislation with respect to the subnational taxes that the country's constitution prescribes.

This indicator focuses on the administration of *core taxes*, which would serve as proxies for all subnational taxes. For the purpose of this indicator, core taxes of the SNG are the major direct and indirect taxes, including those (a) administered and collected directly by the SNG and/or (b) administered directly by the SNG but collected by a higher-level government or agency; that account for 75 percent or more of the total tax revenues of the SNG. Inclusion of many small revenue-generating taxes would overly complicate the assessment process.

For instance, if the income tax and sales tax together amount to 75 percent or more of the total subnational tax revenues administered directly by the SNG, these two taxes will be considered as core taxes for that subnational entity. Typically, the number of taxes to be included in the assessment at the subnational level will not exceed three or four.

The constituents of core taxes may vary from one subnational entity to another. For instance, the withholding of wages at the subnational level may be called a “professional tax.” For subnational entities that are municipalities or local authorities, the main own-source tax revenues typically consist of a regional sales tax, property tax, property transfer tax (or duties), motor vehicle tax (or road tax), and entertainment tax. While in some subnational entities levies on roads and entertainment may be classified as taxes in some others they may be classified as fees and charges. The definition of core taxes does not include non-tax revenues such as, parking fees, other fees, revenues from licenses and permits, profits from commercial activities conducted by the subnational entity, or from rental income, interest, dividends or sale of assets.

Although royalties can be classified as nontax revenues, if they are collected by the tax administration and not by the line ministries and form a significant part (25 percent or more) of total subnational revenues, they should be included as a core tax.

If core taxes are administered and collected by a higher-level government entity on behalf of the SNG, and revenues transferred to the SNG, this indicator will be not applicable (NA).

Materiality is based on “the *core taxes* of the SNG” that account for ***most, majority, etc.*** of the total tax revenues of the SNG”. For example, for an A score it will require that all taxes classified as core taxes (which account for a minimum of 75 percent of the total tax revenues of the SNG), would meet the requirements as set forth for an A score-***most*** materiality by value. For a B score, it will require that those core taxes (which account for more than 50 percent of the total tax revenues of the SNG), would meet the requirements as set forth for a B score-***majority*** materiality by value.

# PI-19.1 Rights and obligations for tax measures

*Scoring*

Score	Minimum requirements for scores
<b>A</b>	For the <b>all core taxes</b> of the subnational government, multiple channels are used to provide taxpayers with easy access to comprehensive, up-to-date information on the main tax obligation areas and on rights, including, as a minimum, redress processes and procedures.
<b>B</b>	For the <b>majority</b> of <b>core taxes</b> of the subnational government, taxpayers are given access to comprehensive, up-to-date information on the main tax obligation areas and on rights including, as a minimum, redress processes and procedures.
<b>C</b>	For the <b>majority</b> of <b>core taxes</b> of the subnational government, taxpayers are given access to information on the main tax obligation areas and on rights including, as a minimum, redress processes and procedures.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable to core taxes if (a) the subnational government administers and collects them directly or (b) the subnational government administers them, but a higher-level government or agency collects them.
<b>NOT APPLICABLE</b>	The dimension is not applicable if the subnational government relies on revenues from noncore taxes, such as <ul style="list-style-type: none"> <li>➤ Nontax revenues, such as royalties (unless they are collected by the tax administration itself).</li> <li>➤ User charges and fees, revenues from licenses and permits, profits from commercial activities conducted by the subnational entity, or profits from rental income, interest, dividends, or sale of assets.</li> <li>➤ Shared taxes, which the higher-level government collects through its revenue authority and for which it has sharing arrangements with the subnational government. (i.e. if core taxes are administered and collected by a higher-level government entity on behalf of the SNG, and revenues transferred to the SNG).</li> </ul>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At the time of assessment.
<b>DATA REQUIREMENTS</b>	For core taxes at the subnational level: <ul style="list-style-type: none"> <li>➤ Information provided to taxpayers on their tax compliance obligations, and rights, including, as a minimum, redress processes and procedures.</li> </ul>

- Notes on whether the information provided to taxpayers is comprehensive, up to date, and easy to access.
- The main means by which information is provided.

#### *Dimension measurement guidance*

This dimension assesses the extent to which the subnational government provides taxpayers of the core taxes with access to information about their rights and obligations as well as access to administrative procedures and processes that allow redress, such as a fair and independent body outside of the general legal system (ideally a “tax court”) that is able to consider appeals.

For this dimension:

‘Comprehensive’ refers to the range of information available to taxpayers to explain, in clear terms, what their obligations and rights are in respect to the main tax obligation areas. The four main tax obligation areas are:

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

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

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

‘Easy access’ is the ease by which the taxpayers can obtain information and advice from revenue administration, including considerations such as timeliness, cost and time spent finding the information. For subnational governments in countries with widespread public use of the Internet, ‘ease’ of acquiring information will be assessed largely by reference to the range of self-help information available on line, and the ease by which taxpayers can navigate the website(s) of the revenue authority to get the information they need. On the other hand, in subnational government where a very low percentage of the population use computers and the internet, ‘ease’ will be assessed by reference to accessibility of other service delivery channels such as walk-in and telephone enquiry centers.

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

# PI-19.2 Property tax register and value assessment

*Scoring*

Score	Minimum requirements for scores
<b>A</b>	Properties and land plots are recorded in the register, which is accurate and comprehensive. The register contains data on cadastral number, address or location, area, use, property rights, and assessed value. The register is directly linked to the taxpayer registration system. Assessed property value contained in the register is close to market value.
<b>B</b>	Properties and land plots are recorded in the register, which is accurate and comprehensive. The register contains data on cadastral number, address or location, area, use, property rights, and assessed value. The register is linked to the taxpayer registration system. Assessed property value contained in the register is based on actual value that is less than 10 years old.
<b>C</b>	Properties and land plots are recorded in the register, which might be incomplete.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	If the property tax register is administered and maintained by the CG or another higher-level government, with no administrative involvement from the subnational government, the dimension is not applicable (NA) for the subnational government being assessed.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment, with a retrospective view of 10 years for property value reassessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Information contained in the register.</li> <li>➤ Evidence of the timing at which the property assessment process took place, the assessment technique used, and the coverage of SNG territory.</li> <li>➤ Evidence that the register is linked to the taxpayer registration system.</li> <li>➤ For scores A and B, reliable information on validity of valuation methodologies and data integrity.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the extent to which the collection from property tax and property transfer tax (in case of sale or inheritance) benefits from a comprehensive and accurate tax base. The property registers should be uniform within a jurisdiction. The register should include information on parcels and buildings, property rights, property use, and property value. The direct link between the property register and the register of taxpayers is key for maximizing collection and taxation by ensuring that every property corresponds to an identified taxpayer.

The direct link between the register and a geographic information system provides a means for ensuring that it covers all of the subnational territory.

Property assessment requires uniform valuations approximating market values. To ensure that assessed values are correlated with market values, property values, either of individual properties or of an area, need to be reassessed regularly through self-assessment or mass reassessment.

Contrary to PI-12.2, the register should cover all properties, which are subject to property tax. In PI-12.2, the register only covers the public lands and buildings owned by the subnational government.

## PI-19.3 Revenue risk management, audit and investigations

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	For the <b>all core taxes</b> of the subnational government, a structured and systematic approach for assessing and prioritizing compliance risk, is used. A documented compliance improvement plan exists comprising mitigation activities in respect of identified high risks covering <b>all</b> core taxes. <b>All</b> planned audit and investigations have been completed.
<b>B</b>	For the <b>majority of core taxes</b> of the subnational government, a structured and systematic approach for assessing and prioritizing compliance risk, is used. A documented compliance improvement plan exists comprising mitigation activities in respect of identified high risks covering <b>most</b> core taxes. <b>Most</b> planned audit and investigations have been completed.
<b>C</b>	For the <b>majority of core taxes</b> of the subnational government, a partly structured and systematic approach for assessing and prioritizing compliance risk, is used. The <b>majority</b> of planned audit and investigations have been completed.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable to core taxes as defined if (i) the subnational government administers and collects them directly; and/or (ii) the subnational government administers them, but a higher-level government or agency collects.
<b>NOT APPLICABLE</b>	The dimension will not be applicable if the subnational government rely on revenues from non-core taxes, such as: <ul style="list-style-type: none"> <li>➤ non-tax revenues such as royalties (unless it is collected by the tax administration itself).</li> <li>➤ user charges and fees, revenues from licenses and permits, profits from commercial activities conducted by the subnational entity, or from rental income, interest, dividends or sale of assets.</li> <li>➤ Shared-taxes: the central (or other higher-level) government collects taxes through its revenue authority and has sharing arrangements with the subnational government.</li> </ul>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	For core taxes at subnational level: <ul style="list-style-type: none"> <li>➤ Information on the procedures and approach used to assess and prioritize compliance risks for core taxes; and whether</li> </ul>

	<p>it covers (i) all core taxes; and (ii) taxpayers' four main compliance obligations (i.e. registration, filing, payment, and refund).</p> <ul style="list-style-type: none"> <li>➤ The existence of a compliance improvement plan covering core taxes.</li> <li>➤ The completion rate of audit and fraud investigations (i.e., a comparison of those planned and those conducted).</li> </ul>
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***Dimension measurement guidance***

This dimension assesses the extent to which a structured and systematic approach is used for assessing and prioritizing compliance risk for the core taxes administered and collected directly by the subnational government. Modern revenue administration at both national and local level relies increasingly on self-assessment and uses risk-based processes to ensure compliance. Resource constraints are likely to dictate that revenue administration processes are focused on identifying payers and transactions with the largest potential risk of noncompliance. An efficient risk management process contributes to minimizing evasion and irregularities in revenue administration as well as lowering the cost of collection for revenue collecting agencies and cost of compliance for payers.

This dimension also assesses whether a documented compliance improvement plan exists comprising mitigation activities (i.e. tax clearance certification) in respect of identified high risks covering *core taxes* and the extent to which planned audit and fraud investigations have been completed. Sound audit and fraud investigation systems must be in place to ensure that once risks have been identified, there is follow-up to minimize revenue leakage. More serious issues of noncompliance involve deliberate attempts at payment evasion and fraud. This may involve collusion with representatives within a revenue administration. The ability of the revenue administration to identify, investigate, successfully prosecute, and impose penalties in major evasion and fraud cases on a regular basis is essential for ensuring that payers comply with their obligations.

# PI-19.4 Tax arrears monitoring

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The stock of total <i>core tax</i> arrears at the end of the last completed fiscal year is below 10 percent of the total core tax revenue collection for the year, and the value of core tax arrears older than 12 months are less than 25 percent of the value of all core tax arrears for the year.
<b>B</b>	The stock of total <i>core tax</i> arrears at the end of the last completed fiscal year is below 20 percent of the total core tax revenue collection for the year, and the value of core tax arrears older than 12 months are less than 50 percent of the value of all core tax arrears for the year.
<b>C</b>	The stock of total <i>core tax</i> arrears at the end of the last completed fiscal year is below 40 percent of the total core tax revenue collection for the year, and the value of core tax arrears older than 12 months are less than 75 percent of the value of all core tax arrears for the year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable to core taxes as defined if (i) the subnational government administers and collects them directly; and/or (ii) the subnational government administers them, but a higher-level government or agency collects.
<b>NOT APPLICABLE</b>	The dimension will not be applicable if the subnational government rely on revenues from non-core taxes, such as: <ul style="list-style-type: none"> <li>➤ Non-tax revenues such as royalties (unless it is collected by the tax administration itself).</li> <li>➤ User charges and fees, revenues from licenses and permits, profits from commercial activities conducted by the subnational entity, or from rental income, interest, dividends or sale of assets.</li> <li>➤ Shared-taxes: the central (or other higher-level) government collects taxes through its revenue authority and has sharing arrangements with the subnational government.</li> </ul>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ The stock of total core tax arrears at the end of the last completed fiscal.</li> <li>➤ The total core tax revenue collection for the last completed fiscal year.</li> <li>➤ The value of core tax arrears older than 12 months.</li> </ul>

### *Dimension measurement guidance*

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

# PI-20 ACCOUNTING FOR REVENUE

This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling revenue accounts. It contains the following three dimensions and uses **M1 (WL)** method for aggregating dimensions scores.

*Dimension 20.1: Information on revenue collections*

*Dimension 20.2: Transfers of revenue collections*

*Dimension 20.3: Tax accounts reconciliation*

## PI-20.1 Information on revenue collection

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	An agency at the subnational level obtains revenue data at least monthly from entities collecting <b>all</b> subnational government revenue. This information is broken down by revenue type and is consolidated into a report.
<b>B</b>	An agency at the subnational level obtains revenue data at least monthly from entities collecting <b>most</b> subnational government revenue. This information is broken down by revenue type and is consolidated into a report.
<b>C</b>	An agency at the subnational level obtains revenue data at least monthly from entities collecting the <b>majority</b> of subnational government revenue and consolidates the data.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>The dimension will be applicable if the subnational government rely on the following revenue sources:</p> <ul style="list-style-type: none"> <li>➤ Revenue collected by subnational governments directly and retained by them;</li> <li>➤ Shared revenues retained by subnational governments;</li> <li>➤ Subnational revenues that are collected on behalf of the subnational government by a higher-level revenue authority (these are neither transfers nor shared revenues).</li> </ul>
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	The coverage of this indicator is the same as PI.3 which covers all subnational government own source of revenues (excluding the transfers which are covered in HLG1).
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Evidence that information (reports, bank statements) is received on all revenue by an agency at the subnational level, through systems or separate reports.</li> <li>➤ Evidence that information on revenue data is broken down by revenue type and consolidated into a report.</li> </ul>

***Dimension measurement guidance***

This dimension assesses the extent to which an agency (department or a body with similar responsibilities) of the subnational government coordinates revenue administration activities and collects, accounts for, and reports timely information on collected revenue.

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

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

# PI-20.2 Transfer of revenue collection

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Entities collecting <i>most</i> subnational government revenue transfer the collections directly into accounts controlled by the Treasury or transfer the collections daily to the Treasury or other designated agency.
<b>B</b>	Entities collecting <i>most</i> subnational government revenue transfer the collections to the Treasury or other designated agency at least weekly.
<b>C</b>	Entities collecting <i>most</i> subnational government revenue transfer the collections to the Treasury or other designated agency at least every two weeks.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>The dimension will be applicable if the subnational government rely on the following revenue sources, including:</p> <ul style="list-style-type: none"> <li>➤ Revenue collected by subnational governments directly and retained by them;</li> <li>➤ Shared revenues retained by subnational governments;</li> <li>➤ Subnational revenues that are collected on behalf of the subnational government by a higher-level revenue authority (these are neither transfers nor shared revenues).</li> </ul> <p>The coverage of this indicator is the same as PI.3 which covers all subnational government own source of revenues (excluding the transfers which are covered in HLG1).</p>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<p>For the revenues of the subnational government assessed by this dimension:</p> <ul style="list-style-type: none"> <li>➤ Information on the approach(es) to transferring revenue collections to the Treasury at the subnational level or other designated agencies.</li> <li>➤ The promptness of transfers to the Treasury at the subnational level or other designated agencies.</li> </ul>

### *Dimension measurement guidance*

This dimension assesses the promptness of collected revenues being transferred to the subnational treasury or other designated agencies. If the country has a Treasury Single Account (TSA) the dimension measures the promptness of transfers to the SNG subaccount in the TSA.

The subnational government may have its own treasury system or may share use of a central treasury with the entire public sector. A national treasury may also extend coverage of a treasury single account to subnational levels through regional treasuries or equivalent payment agencies.

# PI-20.3 Tax accounts reconciliation

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	For the <b>all core taxes</b> of the subnational government, complete reconciliation of assessments, collections, arrears, and transfers to Treasury or other designated agencies, is undertaken at least quarterly within four weeks of the end of quarter.
<b>B</b>	For the <b>most core taxes</b> of the subnational government, complete reconciliation of assessments, collections, arrears, and transfers to Treasury or other designated agencies, is undertaken at least half-yearly within eight weeks of the end of the half-year.
<b>C</b>	For the <b>most core taxes</b> of the subnational government, complete reconciliation of collections and transfers to Treasury or other designated agencies, is undertaken at least annually within 2 months of the end of the year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable to core taxes as defined if (i) the subnational government administers and collects them directly; and/or (ii) the subnational government administers them, but a higher-level government or agency collects.
<b>NOT APPLICABLE</b>	The dimension will not be applicable if the subnational government rely on revenues from non-core taxes, such as: <ul style="list-style-type: none"> <li>➤ Non-tax revenues such as royalties (unless it is collected by the tax administration itself).</li> <li>➤ User charges and fees, revenues from licenses and permits, profits from commercial activities conducted by the subnational entity, or from rental income, interest, dividends or sale of assets.</li> <li>➤ Shared-taxes: the central (or other higher-level) government collects taxes through its revenue authority and has sharing arrangements with the subnational government.</li> </ul>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	For the core taxes at subnational level: <ul style="list-style-type: none"> <li>➤ Comprehensiveness, frequency, and timeliness of reconciliation undertaken for core taxes. It relates to aggregate amounts of assessments/charges, collections, arrears, and transfers to (and receipts by) the Treasury or other designated agencies.</li> </ul>

*Dimension measurement guidance*

This dimension covers the core taxes and assesses the extent to which aggregate amounts related to assessments, collections, arrears, and transfers to (and receipts by) the subnational treasury or another designated agency take place regularly and are reconciled in a timely manner.

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

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

*Dimension 21.1: Consolidation of cash balances*

*Dimension 21.2: Cash forecasting and monitoring*

*Dimension 21.3: Information on commitment ceilings*

*Dimension 21.4: Significance of in-year budget adjustments*

### PI-21.1 Consolidation of cash balances

#### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	<i>All</i> bank and cash balances are consolidated on a daily basis.
<b>B</b>	<i>All</i> bank and cash balances are consolidated on a weekly basis.
<b>C</b>	<i>Most</i> cash balances are consolidated on a monthly basis.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable in all SNGs.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Number of SNG bank accounts managed by the Treasury and other budgetary units, and their balance.</li> <li>➤ Number of SNG accounts included in the TSA for which balances are calculated and consolidated by the Treasury.</li> <li>➤ Frequency of the consolidation of SNG bank account balances.</li> </ul>

#### Dimension measurement guidance

The dimension assesses the extent to which the subnational MoF, finance department or other similar entity, can identify and consolidate cash balances of the subnational government as a basis for informing the release of funds. The consolidation process can be an autonomous one for the subnational government or can be linked to the central government.

Use of a treasury single account (TSA), or accounts that are centralized at a single bank, usually the central bank, facilitates the consolidation of bank accounts. The subnational government may have its own treasury system or may share use of a central treasury with the entire public sector. A national treasury may also extend coverage of a treasury single account to subnational levels through regional treasuries or equivalent payment agencies and a SNG subaccount in the central TSA.

A TSA is a bank account or a set of linked accounts through which the government transacts every receipt and payment. The control and reporting on individual transactions should be achieved through the accounting system, allowing the Treasury to delink management of cash from control of individual transactions. Achieving regular consolidation of multiple bank accounts not held centrally will generally require making timely electronic clearing and payment arrangements with the government's bankers. The narrative of the report should include a discussion of the arrangements used in the assessed jurisdiction.

Consolidation of cash balances exists when the subnational 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.

# PI-21.2 Cash forecasting and monitoring

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
<b>B</b>	A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.
<b>C</b>	A cash flow forecast is prepared for the fiscal year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	Evidence of the preparation of cash flow forecasts by a central entity and frequency of updates.

*Dimension measurement guidance*

The dimension refers to cash-flow forecasts prepared at the subnational level and monitored by an MoF, directorate of finance, treasury, or equivalent body. Effective cash flow planning, monitoring, and management by the Treasury facilitates the predictability of the availability of funds for budgetary units. This will require reliable forecasts of cash inflows and outflows, both routine and nonroutine that are linked to the budget implementation and commitment plans of individual budgetary units. Nonroutine outflows are expenditures that do not take place on a regular monthly or annual basis, such as the cost of holding elections or discrete capital investments.

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

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

It is necessary to establish the extent to which the subnational governments are autonomous in the process of cash-flow forecasting and monitoring. The subnational government may depend

on transfers from the higher-level government, and this may impact the extent to which cash flows are forecasted and monitored if information from the higher-level government is untimely. Where relevant, forecasts of cash inflows should include revenue from subnational sources and, if applicable, planned transfers from the higher-level government. These forecasts should also reflect subnational expenditures.

The subnational government may also not have its own treasury, and therefore may not fully control the process of forecasting and monitoring cash flow, and may be unable to plan and commit to expenditures. The report should highlight how the lack of autonomy reflects on the performance measured by that dimension.

# PI-21.3 Information on commitment ceilings

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Budgetary units are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations and cash/commitment releases.
<b>B</b>	Budgetary units are provided reliable information on commitment ceilings at least quarterly in advance.
<b>C</b>	Budgetary units are provided reliable information on commitment ceilings at least one month in advance.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	Evidence of the existence, and frequency of the issuance of commitment ceilings for budgetary units of the subnational government.

*Dimension measurement guidance*

The dimension assesses the reliability of in-year information available to budgetary units on ceilings for expenditure commitment for specific periods. Predictability for budgetary units as to the availability of funds for commitment is necessary to facilitate planning of activities and procurement of inputs for effective service delivery and to avoid disruption of the implementation of these plans once they are under way. In certain systems, funds are released by the subnational MoF (or finance department) to budgetary units in stages throughout the budget year. In others, the passing of the annual budget law grants the full authority to commit and spend from the beginning of the year.

However, the subnational MoF, Treasury, or other agency, may in practice impose constraints on budgetary units in incurring new commitments and making related payments, when cash flow problems arise. For commitments to be considered reliable, the amount of funds for commitment or spending made available to an entity for a specific period should not be reduced during that period. Adherence of budgetary units to ceilings for expenditure commitment and payments is not assessed here but is covered by PI-25.2 on effectiveness of expenditure commitment controls. PI-22 on expenditure arrears management is also relevant because it has implications for the effectiveness of commitment controls.

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

For this dimension:

‘Commitment’ means an obligation to effect a future payment subject to the fulfillment of certain conditions (contractual or otherwise). There are two main types of commitments:

- (i) specific commitments are those commitments that will require a single payment or a definitive series of payments over a determinate period of time. These include contracts for goods and services, or any similar arrangement, and occur when a formal action is taken by a line ministry, such as placing an order for supply of goods and services, issuing a local purchase order or awarding a contract,
- (ii) continuing commitments are those that will require a series of payments or settlement actions over an indeterminate period of time, and might not involve a specific contract. These include wages, utilities, scholarships, entitlement payments, and other similar arrangements.

# PI-21.4 Significance of in-year adjustments

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a transparent and predictable way.
<b>B</b>	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a fairly transparent way.
<b>C</b>	Significant in-year budget adjustments to budget allocations are frequent, and are partially transparent.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Requests and approvals of significant budget adjustments (e.g. supplementary estimates and virements between budget entities).</li> <li>➤ Timing and communication on adjustments from central units to other budgetary units.</li> <li>➤ Fiscal impact of budget adjustments.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the frequency and transparency of adjustments to budget allocations. Subnational governments may need to make in-year adjustments to allocations in the light of unanticipated events that affect revenues or expenditures such as additional transfers from a higher level of government. Specifying in advance a mechanism that relates such adjustments to budget priorities in a systematic and transparent manner minimizes the impact of adjustments on predictability and on the integrity of originally approved budget allocations. For example, particular votes or budget lines that are declared to be high priority may be specified as protected from adjustment if revenue is less than expected. In contrast, in some systems adjustments may take place without clear rules or guidelines, or may be undertaken informally, for example, through imposition of delays on new commitments.

While some budget adjustments could take place administratively with little impact on expenditure composition outturn at higher levels of aggregation in the administrative, functional and economic budget classifications, other more significant changes may alter the actual composition at such aggregated classification levels. The significance of these adjustments is assessed in relation to the percentages specified in the PI-2 rating criteria. Rules for when the subnational council should be involved in such in-year budget amendments are assessed in PI-18.4 and are not covered here.

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

The adjustments to be considered for this dimension are only those that are instigated by the subnational MoF (or department with a corresponding mandate)—and not the virements within approved limits (in accordance with arrangements established as per PI-18) between budget lines for a single budget entity (instigated by the entity itself and typically of insignificant value).

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

# PI-22- EXPENDITURE ARREARS

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

*Dimension 22.1: Stock of expenditure arrears*

*Dimension 22.2: Expenditure arrears monitoring*

## PI-22.1 Stock of expenditure arrears

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The stock of expenditure arrears is no more than 2% of total expenditure in at least two of the last three completed fiscal years.
<b>B</b>	The stock of expenditure arrears is no more than 6% of total expenditure in at least two of the last three completed fiscal years.
<b>C</b>	The stock of expenditure arrears is no more than 10% of total expenditure in at least two of the last three completed fiscal years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Level of expenditure arrears at end of each fiscal year.</li> <li>➤ Total expenditures of the budgetary units of the SNG for each fiscal year.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the stock of expenditure arrears under the purview of the subnational government. The stock is preferably identified at the end of the fiscal year and compared to total expenditure for the considered fiscal year. Assessors should comment on any recent change in the stock over the period under consideration. The PEFA report narrative for this dimension should mention any known significant stocks of arrears within subnational government units

outside BCG or extensive delays in payment of those obligations, even though none of them is included in the stock to be assessed for scoring.

Arrears are overdue debt, liabilities, or obligations. Expenditure payment arrears are expenditure obligations that have been incurred by government, for which payment to an employee, supplier, contractor, or loan creditor is overdue. This constitute a form of nontransparent financing. Subnational regulations or practices may specify when an unpaid claim is classified as arrears. If a local practice is applied to measuring the stock of arrears, then its content and basis should be described in the narrative. An unpaid claim or obligation becomes an arrear when it has not been paid at the date stipulated in the contract or in the corresponding law or financial regulation. Definitions and regulations can be established either by the subnational government, or a higher level of government, or both.

The definition should cover all types of arrears such as those to employees (wages, salaries), contractors (fees), suppliers (for the purchase of goods and services) and to creditors (short-, medium-and long-term loans).

# PI-22.2 Expenditure arrears monitoring

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Data on the stock, age, and composition of expenditure arrears is generated quarterly within four weeks of the end of each quarter.
<b>B</b>	Data on the stock and composition of expenditure arrears is generated quarterly within eight weeks of the end of each quarter.
<b>C</b>	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>This dimension is applicable for all SNG PEFA assessments.</p> <p>If the monitoring of expenditure arrears is performed by the CG (i.e. public accountant system), the dimension is not applicable (NA) for the SNG being assessed.</p>
<b>SAMPLING</b>	<p>If the monitoring of expenditure arrears is performed by the CG (i.e. public accountant system), for a set of SNG PEFA assessments, the assessment manager has the choice between:</p> <ul style="list-style-type: none"> <li>➤ Not to use the dimension (NU)</li> <li>➤ Use the dimension and assess it on the basis of a representative samples of SNGs. <i>See add-on How to get a full overview of the PFM performance at subnational level</i></li> </ul>
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	At the time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Information on how expenditure arrears are defined and through what means (legislation, tender documents, contracts, court decisions).</li> <li>➤ Recent data report(s) on expenditure arrears that indicate stock, composition and age profiles.</li> <li>➤ Frequency and delay of generating such reports during the past twelve months.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the monitoring of expenditure arrears under the purview of the subnational government. It focuses on which aspects of subnational expenditure arrears are monitored and how frequently and quickly the information is generated.

The stock of arrears refers to the total value of arrears. The age of arrears refers to the length of time between when the arrears were incurred and the date of their recording. The composition of arrears refers to the segregation of arrears by responsible entity and type of arrears, such as

arrears for goods and services, salary payments, pension payments, statutory transfers, court judgements etc.

If there are no arrears, an A rating would be justified as long as it can be reasonably demonstrated that the commitment and payment control systems are complete and functional, and that reliable and complete information is available to suggest that the amount of arrears is nil.

## PI-23- PAYROLL CONTROLS

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of nonsalary internal controls, PI-25. This indicator contains the following four dimensions and uses the **M1 (WL)** method for aggregating dimension scores.

*Dimension 23.1: Integration of payroll and personnel records*

*Dimension 23.2: Management of payroll changes*

*Dimension 23.3: Internal control of payroll*

*Dimension 23.4: Payroll audit*

### PI-23.1 Integration of payroll and personnel records

#### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.
<b>B</b>	The payroll is supported by full documentation for <b>all</b> changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
<b>C</b>	Reconciliation of the payroll with personnel records takes place at least every six months. Staff hiring and promotion is checked against the approved budget prior to authorization.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at the SNG level when payroll is covered by SNG budget.
<b>NOT APPLICABLE</b>	Not applicable if the SNG does not administer its payroll and all staff members' payroll is covered by the budget of another level of government.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	➤ Documentation of payroll changes and corresponding personnel records.

- Documentation of the procedures applied and demonstration of the process for dealing with changes to personnel records and reconciliation of payroll and personnel records.
- Information on the timing of reconciliations.

### *Dimension measurement guidance*

The dimension assesses the degree of integration between SNG personnel, payroll, and budget data. The payroll should be underpinned by a personnel database that provides a list of staff to be paid every pay period. This list should be verified against the approved establishment list, or other approved staff list on which budget allocations are based, as well as against individual personnel records or staff files. Controls should also ensure that staff employment and promotion is undertaken within approved personnel budget allocations.

For the purpose of this dimension, directly linked means that for any change in the personnel database affecting the payroll status of an employee, a corresponding change is automatically made in the payroll, without human intervention.

A clear and detailed description of the entire integration process and the relevant roles and responsibilities should be included (including for funding and payment).

If the subnational government is responsible for only part of the subnational payroll, with the remaining part under the purview of a higher level of government, the assessment of this indicator will cover only that part of the payroll for which the subnational government is responsible. The notion of responsibility refers to full or partial responsibility in the payroll execution from the subnational government budget.

## PI-23.2 Management of payroll changes

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare. If reliable data exists, it shows corrections in a maximum of 3% of salary payments.
<b>B</b>	Personnel records and payroll are updated at least quarterly and require <i>a few</i> retroactive adjustments.
<b>C</b>	Personnel records and payroll are updated at least quarterly and require <i>some</i> retroactive adjustments.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at the SNG level when payroll is covered by the SNG budget.
<b>SAMPLING</b>	Sampling can be used if there is a lack of external or internal reports to evidence the magnitude of retroactive adjustments.
<b>NOT APPLICABLE</b>	Not applicable if the SNG does not administer its payroll and all staff members' payroll is covered by the budget of another level of government.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Frequency and timing of updating of personnel records and payroll data.</li> <li>➤ Information (ideally, documented) on the number and size of retroactive adjustments.</li> <li>➤ Delay in the number of days from a change in personnel status to personnel records and payroll data are updated.</li> </ul>

### Dimension measurement guidance

This dimension assesses the timeliness of changes to personnel and payroll data. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail.

Retroactive adjustments refer to changes in the payroll following relevant changes in personnel status, or as a result of errors, and that require supplementary compensation or clawback of payments that the employee is not entitled to. Lacking timeliness of changes to the payroll will lead to payment arrears to staff, ref. PI-22.

If the subnational government is responsible for only part of the subnational payroll, with the remaining part under the purview of a higher level of government, the assessment of this indicator will cover only that part of the payroll for which the subnational government is responsible. The notion of responsibility refers to full or partial responsibility in the payroll execution from the subnational government budget.

# PI-23.3 Internal control of payroll

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Authority to change records and payroll is restricted, results in an audit trail, and is adequate to ensure full integrity of data.
<b>B</b>	Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data.
<b>C</b>	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at the SNG level when payroll is covered by the SNG budget.
<b>NOT APPLICABLE</b>	Not applicable if the SNG does not administer its payroll and all staff members’ payroll is covered by the budget of another level of government.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Procedures establishing roles and responsibilities.</li> <li>➤ Evidence that the established procedures are applied.</li> <li>➤ HRMS log queries.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the controls that are applied to the making of changes to personnel and payroll data. Effective internal controls should: (i) restrict the authority to change records and payroll; (ii) require separate verification; and (iii) require production of an audit trail that is adequate to maintain a permanent history of transactions together with details of the authorizing officers.

The PEFA report narrative should include commentary on whether the internal controls are applied and highlight any weakness in their application. Full integrity of data means that processes ensure that all data is considered accurate. High integrity means that processes ensure that most data is considered accurate.

An audit trail enables checks to be made on individual accountability, intrusion detection, and problem analysis. Good audit trails are meant to provide information on who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated.

# PI-23.4 Payroll audit

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	A strong system of annual payroll audits exists to expose control weaknesses and identify ghost workers.
<b>B</b>	A payroll audit covering all SNG entities has been conducted at least once in the last three completed fiscal years (whether in stages or as one single exercise).
<b>C</b>	Partial payroll audits or staff surveys have been undertaken within the last three completed fiscal years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at the SNG level when payroll is covered by the SNG budget.
<b>NOT APPLICABLE</b>	Not applicable if the SNG does not administer its payroll and all staff members’ payroll is covered by the budget of another level of government.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Dates of payroll audit events during the last three fiscal years.</li> <li>➤ Coverage, scope and auditors of each event.</li> <li>➤ Action taken on audit findings.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the degree of integrity of the payroll. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps, and identify control weaknesses.

A payroll audit should include both a documentation check, to ensure that everyone on the payroll is appropriately documented and authorized to receive a particular amount of pay, and a physical verification that payees exist and are identified before payment.

The PEFA report narrative should explain which auditors have undertaken payroll audits, and the coverage (in terms of institutions and personnel) and scope of these audits (e.g., whether they included on-site physical verification, were based on national citizen identification systems, or had a more limited scope).

A ‘strong’ audit system – as required for an A rating – implies that payroll audits are conducted regularly and appropriate action has been taken by the audited entities to address the weaknesses identified by the auditors.

The payroll audit may be conducted by different kinds of entities: subnational internal audit units, internal audit units of CG, external audit, HR department of the SNG, Ministry of Home Affairs, etc.

# PI-24- PROCUREMENT

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of this indicator covers every procurement of good, services, civil works, and major equipment investments, whether classified as recurrent or capital investment expenditures. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

*Dimension 24.1: Procurement monitoring*

*Dimension 24.2: Procurement methods*

*Dimension 24.3: Public access to procurement information*

*Dimension 24.4: Procurement complaints management*

## PI-24.1 Procurement monitoring

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for <b>all</b> procurement methods for goods, services and works.
<b>B</b>	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for <b>most</b> procurement methods for goods, services and works.
<b>C</b>	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for the <b>majority</b> of procurement methods for goods, services and works.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>Applicable at the SNG level if:</p> <ul style="list-style-type: none"> <li>➤ The SNG is in charge of maintaining records and databases for procurement contract;</li> <li>➤ A Database is a CG system but SNGs <u>have</u> access and can autonomously manage their own records.</li> </ul>
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	<ul style="list-style-type: none"> <li>➤ When the database is a CG system but the SNG <u>does not have</u> access and cannot autonomously manage the records, or when CG is in charge of procurement for the SNGs the dimension will be not applicable (NA) for the SNG being assessed.</li> </ul> <p>When procurement operations are undertaken by both the SNG (e.g., for operations under a threshold) and a CG agency, the dimension is applicable if data are available from the national agency, otherwise not applicable (NA).</p>
<b>SAMPLING</b>	<p>When the database is a CG system but SNGs <u>do not have</u> access and cannot autonomously manage the records, or when CG is in charge of procurement for the SNGs, for a set of SNG PEFA assessments, the assessment manager has the choice between:</p> <ul style="list-style-type: none"> <li>➤ Not to use the dimension (NU).</li> <li>➤ Use the dimension and assess it on the basis of a representative samples of SNGs. <i>See add-on How to get a full overview of the PFM performance at subnational level</i></li> </ul>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Data bases or reports with information on what has been procured, the value of procurement, and who has been awarded the contracts.</li> <li>➤ Information on the accuracy and completeness of data.</li> </ul>

### ***Dimension measurement guidance***

This dimension assesses the extent to which prudent monitoring and reporting systems are in place within government to ensure value for money and promote fiduciary integrity. *Completeness* refers to the information on contracts awarded. The accuracy and completeness of information can be assessed by reference to audit reports.

For this dimension, the expression ‘data are accurate and complete’ means ‘as identified’ by third party assurance, which can be either subnational or from another level of government, e.g., auditors, including SAIs, procurement directorate, national procurement agency, ministry of home affairs, etc.

If there is a lack of external reports to evidence the accuracy and completeness of databases, assessors may rely on a sample. If the assessment focusses on a specific (set of) service delivery function(s), assessors may decide to focus on that function/those functions for the assessment of this dimension.

# PI-24.2 Procurement methods

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
	The total value of contracts awarded through competitive methods in the last completed fiscal year represents:
<b>A</b>	80% or more of total value of contracts
<b>B</b>	70% or more of total value of contracts
<b>C</b>	60% or more of total value of contracts
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable when the SNG is in charge of its procurement operations.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	Data bases or reports with information on contracts awarded through competitive and non-competitive methods and value.

*Dimension measurement guidance*

This dimension assesses the procurement methods used by the subnational government and analyzes the percentage of the total value of subnational contracts awarded with and without competition. A good procurement system ensures that procurement uses competitive methods, except low-value procurement under an established and appropriate threshold. This includes situations in which other methods are effectively restricted by regulations or where the provisions to apply other methods are used sparingly. It covers only procurement awarded and managed by the subnational government.

For this dimension, the focus is to assess the actual use of competitive methods (interalia methods that promote open participation of potential providers). Assessors need to identify (i) the extent of use of competitive methods, (ii) whether there is a threshold, and, if so, (iii) the threshold above which open competition is the default method. In addition, assessors need to identify concerns, if any, regarding the reliability of data on procurement methods and the value of contracts (e.g., statements on data completeness and accuracy by internal or external auditors), as assessed under dimension 24.1. The assessors are encouraged to mention in the narrative the percentage of the total value of contracts carried out under the set threshold for which open competition is the default method.

# PI-24.3 Public access to procurement information

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
	Key procurement information to be made available to the public comprises: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics
<b>A</b>	Every key procurement information element is complete and reliable for government units representing <b>all</b> procurement operations and is made available to the public in a timely manner.
<b>B</b>	At least four of the key procurement information elements are complete and reliable for government units representing <b>most</b> procurement operations and are made available to the public in a timely manner.
<b>C</b>	At least three of the key procurement information elements are complete and reliable for government units representing the <b>majority</b> of procurement operations and are made available to the public.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Legal and regulatory framework for procurement.</li> <li>➤ Information on government procurement plans, bidding opportunities, contract awards, resolution of procurement complaints, and annual procurement statistics.</li> </ul>

*Dimension measurement guidance*

The dimension reviews the level of public access to complete, reliable, and timely procurement information at the subnational level. It covers only procurement managed by the subnational government.

Public dissemination of information on procurement processes and their outcomes are also key elements of transparency. In order to generate timely and reliable data, a good information system will capture data on procurement transactions and will be secure. Information should be accessible without restriction, without requirement to register, and free of charge. Public access to procurement information is defined as posting on official websites unless otherwise justified by country circumstances.

For this dimension the expression ‘complete and reliable’ means as identified by third-party assurance—i.e., auditors such as SAIs, the procurement directorate, firms, etc. The expression ‘in a timely manner’ means that procurement information has been made available (and remains so) within a time frame useful to the people most

Information published in a national or a higher-level of government’s media may comply with the dimension requirement if local citizens, civil society organizations and businesses can access it easily. For instance, a link on the subnational government website may redirect to the national government website or the nationwide newspaper containing the bidding opportunities that can easily be found within the territory of the subnational government.

## PI-24.4 Procurement complaints management

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
	Complaints are reviewed by a body that: (1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions (2) does not charge fees that prohibit access by concerned parties (3) follows processes for submission and resolution of complaints that are clearly defined and publicly available (4) exercises the authority to suspend the procurement process (5) issues decisions within the timeframe specified in the rules/regulations, and (6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)
<b>A</b>	The procurement complaint system meets every criterion.
<b>B</b>	The procurement complaint system meets criterion (1), and three of the other criteria.
<b>C</b>	The procurement complaint system meets criterion (1), and one of the other criteria.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	➤ When the procurement complaint body is a subnational entity: applicable at the SNG level.
<b>NOT APPLICABILITY</b>	➤ When the procurement complaint body is a national entity, applicable only once for a set of assessments.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Legal and regulatory framework of the complaint body addressing the requirements of the dimension 24.4.</li> <li>➤ Data with number of complaints received and resolved (settled in favor of complainants and procuring entities respectively).</li> <li>➤ Fees charged, if any (refer criterion 2).</li> </ul>

### Dimension measurement guidance

This dimension assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism for subnational procurement. It covers only procurement managed by the subnational government. A good procurement system offers stakeholders access to such a mechanism as part of the control system, usually in addition to the general court system. To be effective, submission and resolution of complaints must be processed in a fair, transparent, independent, and timely manner. The timely resolution of complaints is necessary to allow contract awards to be effectively reversed where required. It sets limits on remedies tied

to profit/loss and costs associated with bid or proposal preparation after contract signatures. A good process also includes the ability to refer the resolution of the complaints to an external higher authority for appeal. The narrative discussion of this indicator should include the evidence required for rating the dimension and a discussion of qualitative aspects of the performance of the system, such as the independence of the complaints mechanism and the protection afforded to complainants.

To be effective, the submission and resolution of complaints against subnational procurement must be processed in a fair, transparent, independent, and timely manner. The process may involve a separate body at the subnational or a higher government level that reviews complaints on behalf of the subnational government. As mentioned above, for those situations, assessment of the dimension should be done at the national level, and only once in a case of a set of assessments. For the criterion 5, the timeliness of issuance of decisions should be assessed on the basis of the sample of assessed subnational governments.

# PI-25- INTERNAL CONTROLS ON NONSALARY EXPENDITURE

This indicator measures the effectiveness of general internal controls for nonsalary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The present indicator contains the following three dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

*Dimension 25.1: Segregation of duties*

*Dimension 25.2: Effectiveness of expenditure commitment controls*

*Dimension 25.3: Compliance with payment rules and procedures*

## PI-25.1 Segregation of duties

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down.
<b>B</b>	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for <b>most</b> key steps while further details may be needed in a few areas.
<b>C</b>	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension will be applicable to all SNG PEFA assessments.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	Prescribed rules, regulations or procedures establishing segregation of duties.

### Dimension measurement guidance

The dimension assesses the existence of the segregation of duties for the control of nonsalary expenditure at the subnational level (irrespective of who set the rules). Segregation of duties is a fundamental element of internal control to prevent an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their

duties. The main incompatible responsibilities to be segregated are: (a) authorization; (b) recording; (c) custody of assets; and (d) reconciliation or audit. For example:

- The staff preparing procurement tenders should not be the same as those evaluating bids.
- The persons who sign a contract should not be the same as those recording it in the system.
- The person authorizing the payment should not be the one making the payment.

For countries with systems derived from Napoleonic heritage, the existence of segregation of duties between an authorizing officer and an accountant general as usually defined in national regulations (e.g., '*Code de comptabilité publique*' in francophone countries) is not enough to justify an A rating. This type of regulation defines general principles that are part of the assessment scope, but for instance does not handle the segregation of duties within the services of the authorizing officer (e.g., what about the segregation between legal commitment and budget commitment?).

Rules applicable to segregation of duties can be established either by the subnational government or a higher level of government, or both. Duties can be performed either by staff from the subnational government, or by an agent from another level of government.

The report should provide a clear explanation of when the subnational government has limited (or no) autonomy in guiding the process of expenditure control and other internal rules and procedures.

# PI-25.2 Effectiveness of expenditure commitment controls

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Comprehensive expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations.
<b>B</b>	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for <b>most</b> types of expenditure.
<b>C</b>	Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension is applicable for all SNG PEFA assessments. Rules applicable to expenditure commitment controls can be established either by the subnational government or a higher level of government, or both. Controls can be performed either by staff from the subnational government, or by an agent from another level of government.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Information on commitment controls and associated compliance and assurance arrangements.</li> <li>➤ Error rates or rejection rates in routine financial transactions as reported by government financial controllers and /or internal or external audit bodies.</li> <li>➤ Cross-check information with data from PI.22.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the effectiveness of controls on subnational government expenditure commitments. This process is singled out as a separate dimension of this indicator due the importance of such controls for ensuring that the government’s payment obligations remain within the limits of annual budget allocations (as revised) and within projected cash availability, thereby avoiding creation of expenditure arrears (refer to PI-22). Governments with comprehensive fiscal rules and access to well-developed debt markets may face no constraints in financing cash flow fluctuations and so may limit commitments only in relation to annual budget appropriations, whereas governments operating in different environments may need to issue commitment limits to spending agencies for much shorter periods, based on actual cash available and robust short-term forecasts, ref. PI-21.2 and 21.3.

Assessors need to establish if there are different systems of commitment control at national and subnational level (e.g., where government is extensively decentralized) and different types of expenditure (e.g., for one-off contracts, indefinite contracts such as rent and utilities, ad hoc staff compensation/allowances, etc.). Assessors should determine the extent to which expenditure is covered by commitment controls that effectively limit commitments to projected cash availability and approved budget allocations.

The report should specify if the subnational government has limited (or no) autonomy in guiding the process of expenditure controls and other internal rules and procedures that apply to the subnational government.

# PI-25.3 Compliance with payment rules and procedures

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	<i>All</i> payments are compliant with regular payment procedures. <i>All</i> exceptions are properly authorized in advance and justified.
<b>B</b>	<i>Most</i> payments are compliant with regular payment procedures. The <i>majority</i> of exceptions are properly authorized and justified.
<b>C</b>	The <i>majority</i> of payments are compliant with regular payment procedures. The <i>majority</i> of exceptions are properly authorized and justified.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	This dimension is applicable for all SNG PEFA assessments.  Rules applicable to payments and exceptions can be established either by the subnational government or a higher level of government, or both.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Prescribed procedures, regulations or rules establishing the segregation of duties applicable to payment procedures and exemptions.</li> <li>➤ Evidence that procedures are complied with.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the extent of compliance with the payment control rules and procedures at the subnational level based on available evidence. To evaluate this dimension, the assessors should refer to the information management system, the Treasury department records, or any other records of the subnational MoF (or finance department) or subnational line ministries (or departments). A sampling approach can be applied, using the five major budgetary units as measured by gross expenditure in the last completed fiscal year. If the data are not available or are decentralized, assessors could rely on internal or external audit reports or any other reports which could provide the best available estimates.

As for the first two dimensions, rules applicable to payments and exceptions can be established either by the subnational government or a higher level of government, or both. National regulations may not have been adapted to local context, thus reducing their relevance, or there may be contradictions between local and national regulations and confusion regarding their jurisdiction.

# PI-26- INTERNAL AUDIT

This indicator assesses the standards and procedures applied in internal audit. It contains the following four dimensions and uses the **M1 (WL)** method for aggregating dimension score:

*Dimension 26.1: Coverage of internal audit*

*Dimension 26.2: Nature of audits and standards applied*

*Dimension 26.3: Implementation of internal audit and reporting*

*Dimension 26.4: Response to internal audits*

## PI-26.I Coverage of internal audit

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Internal audit is operational for <i>all</i> subnational government entities.
<b>B</b>	Internal audit is operational for subnational government entities representing <i>most</i> of total budgeted expenditures and for subnational government entities collecting <i>most</i> of budgeted government revenue.
<b>C</b>	Internal audit is operational for subnational government entities representing the <i>majority</i> of budgeted expenditures and for subnational government entities collecting the <i>majority</i> of budgeted government revenue.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>If there is no internal audit function at the SNG level, the score for dimension 26.1 would be D. NA would be entered for dimensions 26.2, 26.3, and 26.4. The aggregate indicator score in this case would be D.</p> <p>If a higher-level entity is responsible for the internal audit function of a subnational government (partially or totally), because the subnational government has partial (or no) autonomy in undertaking this function, the dimension will not be applicable (NA).</p>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.

<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Regulations, laws and procedures relating to internal audit.</li> <li>➤ Internal audit reports of budgetary and extrabudgetary units.</li> </ul>
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***Dimension measurement guidance***

The dimension assesses the extent to which subnational government entities are subject to internal audit. This is measured as the proportion of total planned expenditure or revenue collection of the subnational entities covered by annual internal audit activities, whether or not substantive audit work is carried out. Typical features of an operational audit function are the existence of laws, regulations and/or procedures, and the existence of audit work programs, audit documentation, reporting, and follow-up activities leading to the achievement of the internal audit objectives, as described in international standards. The exact nature of audit in each country or subnational government may vary. The assessor will need to make a judgment about whether the arrangements and activities occurring constitute sufficient evidence of operational audit.

For this dimension, materiality is assessed by the relative weight (expenditure and revenue) of subnational government entities where an internal audit function is operational. If for instance, an internal audit function is operational in only the department of Finance, the department of Health, and the department of Agriculture. These three departments collect 95% of total revenue but represent 81% of expenditure, the dimension will be scored B as an internal audit is operational in entities representing all revenue and most expenditure.

If the internal audit function is being performance by a higher-level government, the indicator is not applicable (NA) for the SNG being assessed. However, assessors should mention in the PEFA assessment report the extent and characteristics of the internal audit function performed by the higher-level of government.

# PI-26.2 Nature of audits and standards applied

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function and audit activities meet professional standards, including focus on high risk areas.
<b>B</b>	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls.
<b>C</b>	Internal audit activities are primarily focused on financial compliance.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>If there is no internal audit function at the SNG level, the score for dimension 26.1 would be D. NA would be entered for dimensions 26.2, 26.3, and 26.4. The aggregate indicator score in this case would be D.</p> <p>If the internal audit function is being performed by a higher-level government, the indicator is not applicable (NA) for the SNG being assessed.</p>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Documented rules regulations and procedures on internal audit.</li> <li>➤ Evidence of internal audits focuses on the evaluation of adequacy and effectiveness.</li> <li>➤ Evidence of internal audit standards being applied.</li> <li>➤ Quality assurance procedures for internal audit.</li> <li>➤ Comparison of actual audit functions and activities with professional standards.</li> </ul>

*Dimension measurement guidance*

This dimension assesses the nature of subnational internal audits performed and the extent of adherence to professional standards. When audit activities focus only on financial compliance (reliability and integrity of financial information and compliance with rules and procedures) the internal audit function provides limited assurance of the adequacy and effectiveness of internal controls. A wider approach as well as evidence of a quality assurance process is required to show adherence to professional standards.

Evaluation of the adequacy and effectiveness of internal controls requires analysis of the impact of controls, whether their impact is consistent with policy and operational objectives, and whether the controls are sufficient and most suitable to meet the intended objectives.

Internal audits may be undertaken by the subnational government, a higher-level government, or not at all. When internal audits of the subnational government are carried out by a higher-level government or by a combination of central and subnational internal auditors, the assessment should discuss implications for the audits' coverage and ability to assess systemic issues.

# PI-26.3 Implementation of internal audits and reporting

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Annual audit programs exist. <b>All</b> programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
<b>B</b>	Annual audit programs exist. <b>Most</b> programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
<b>C</b>	Annual audit programs exist. The <b>majority</b> of programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>If there is no internal audit function at the SNG level, the score for dimension 26.1 would be D. NA would be entered for dimensions 26.2, 26.3, and 26.4. The aggregate indicator score in this case would be D.</p> <p>If the internal audit function is being performed by a higher-level government, the indicator is not applicable (NA) for the SNG being assessed.</p>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	Documentary evidence of an annual internal audit program (e.g., plan) and completed internal audits.

*Dimension measurement guidance*

The dimension assesses specific evidence of an effective subnational internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports.

The expression ‘appropriate parties’ includes the audited entity and any other parties to whom the internal auditors are required to submit their reports, as set out in laws, regulations, etc. Such parties may include the MoF, the department of finance of the SNGs and the SAI.

The entities to receive the report at the subnational level are the audited entity, the MOF (or its equivalent, such as the entity in charge of the budget), and the SAI. Some local legislation may require the audit report to be sent to the subnational legislative council (or to the president of subnational executive).

# PI-26.4 Response to internal audits

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Management provides a full response to audit recommendations for <b>all</b> entities audited within twelve months of the report being produced.
<b>B</b>	Management provides a partial response to audit recommendations for <b>most</b> entities audited within twelve months of the report being produced.
<b>C</b>	Management provides a partial response to audit recommendations for the <b>majority</b> of entities audited.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>If there is no internal audit function at the SNG level, the score for dimension 26.1 would be D. NA would be entered for dimensions 26.2, 26.3, and 26.4. The aggregate indicator score in this case would be D.</p> <p>If the internal audit function is being performed by a higher-level government, the indicator is not applicable (NA) for the SNG being assessed.</p>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Audit reports used for the assessment should have been issued in the last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	Documentary evidence of management response to internal audit recommendations and information on timing of the response.

*Dimension measurement guidance*

The dimension assesses the extent to which action is taken by subnational government management on internal audit findings and recommendations. This is of critical importance since lack of action on recommendations undermines the rationale for the internal audit function. Response means that management provides comments on the auditors' recommendations and takes appropriate action to implement them where necessary. Internal audit validates whether the response provided is appropriate, i.e., 'full'.



# Pillar six: Accounting and reporting

## PI-27- FINANCIAL DATA INTEGRITY

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

*Dimension 27.1. Bank account reconciliation*

*Dimension 27.2. Suspense accounts*

*Dimension 27.3. Advance accounts*

*Dimension 27.4. Financial data integrity processes*

### PI-27.1 Bank account reconciliation

#### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Bank reconciliation for <b>all</b> active subnational government bank accounts takes place at least weekly at aggregate and detailed levels, usually within one week from the end of each week.
<b>B</b>	Bank reconciliation for <b>all</b> active subnational government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
<b>C</b>	Bank reconciliation for <b>all</b> active subnational government bank accounts takes place at least quarterly, usually within 8 weeks from the end of each quarter.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at the SNG level if bank accounts are under the control of the SNG.  When bank accounts are operated by CG, the dimension will not be applicable (NA) for the SNG being assessed.
<b>SAMPLING</b>	When bank accounts are operated by CG, in the case of a set of SNG PEFA assessments, the assessment manager has two options: <ul style="list-style-type: none"> <li>➤ Not to use the dimension (NU).</li> <li>➤ Use the dimension and assess it on the basis of a representative samples of SNGs. <i>See add-on How to get a full overview of the PFM performance at subnational level.</i></li> </ul>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment covering the precedent year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Frequency of reconciliation of SNG Treasury managed bank accounts.</li> <li>➤ Number of days from end of reconciled period to the date reconciliation is completed for SNG Treasury managed bank accounts.</li> <li>➤ Frequency of reconciliation of government bank accounts not managed by SNG Treasury.</li> <li>➤ Number of days from end of reconciled period to the date reconciliation is completed for SNG bank accounts not managed by the SNG Treasury.</li> </ul>

### **Dimension measurement guidance**

This dimension assesses the regularity of bank reconciliation. There should be regular and timely comparisons between subnational government bank account transaction data and government cash books. The results of the comparisons should be reported, and action should be taken to reconcile any differences. Such reconciliation is fundamental to the integrity of the accounting records and the financial statements.

‘Reconciliation’ includes the identification of all mismatches and their amount (and their nature) between the government’s records of the accounting data held on its books and the government’s bank account data held by banks. The subsequent clearance could be a long process, which falls outside the scope of the time benchmarks indicated under this dimension in the PEFA Framework. Reconciliations are required on active accounts only, provided that the inactive accounts were reconciled while they were still active.

While a Treasury single account facilitates the reconciliation process, a TSA is not required in order to score A on this indicator.

# PI-27.2 Suspense accounts

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
<b>B</b>	Reconciliation of suspense accounts takes place at least quarterly, within two months from the end of each quarter. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
<b>C</b>	Reconciliation of suspense accounts takes place annually, within two months from the end of the year. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at SNG level if suspense accounts exist and are owned by the SNG.  If suspense accounts do not exist or are owned by the CG, this dimension will not be applicable (NA) for the SNG being assessed.
<b>SAMPLING</b>	If the suspense accounts are owned/held by the CG, in the case of a set of SNG PEFA assessment, the assessment manager has two options: <ul style="list-style-type: none"> <li>➤ Not to use the dimension (NU).</li> <li>➤ Use the dimension and assess it on the basis of a representative samples of SNGs. <i>See add-on How to get a full overview of the PFM performance at subnational level</i></li> </ul>
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment covering the precedent year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Frequency of reconciliation of suspense accounts.</li> <li>➤ Number of days from the end of the reconciled period to date of reconciliation is completed for suspense accounts.</li> </ul>

**Dimension measurement guidance**

This dimension assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis and cleared in a timely way. Failure to clear suspense accounts can distort financial reports and provide an opportunity for fraudulent or corrupt behaviors.

# PI-27.3 Advance accounts

## Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month. <b>All</b> advance accounts are cleared in a timely way.
<b>B</b>	Reconciliation of advance accounts takes place at least quarterly within two months from the end of each quarter. <b>Most</b> advance accounts are cleared in a timely way.
<b>C</b>	Reconciliation of advance accounts takes place annually, within two months from the end of the year. Advance accounts may frequently be cleared with delay.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at SNG level if advance accounts exist and are owned by the SNG.  If advance accounts do not exist or are owned by the CG, this dimension will not be applicable (NA) for the SNG being assessed.
<b>SAMPLING</b>	If the advance accounts are owned/held by the CG, in the case of a set of SNG PEFA assessments, the assessment manager has two options: <ul style="list-style-type: none"> <li>➤ Not to use the dimension (NU).</li> <li>➤ Use the dimension and assess it on the basis of a representative samples of SNGs. <i>See add-on How to get a full overview of the PFM performance at subnational level</i></li> </ul>
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment covering the precedent year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Nature of advance accounts.</li> <li>➤ Frequency and timeliness of reconciliation of advance accounts.</li> <li>➤ Timeliness of clearance of advances.</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which advance accounts are reconciled and cleared. Advances cover amounts paid to vendors under public procurement contracts as well as travel advances and operational imprests. In the case of public procurement contracts, clearing timelines will be compliant with contractual arrangements. Other clearing processes will follow national and SNG regulations.

Complete, accurate, reliable, and timely information is essential to support the internal controls system. Information relevant to assessment of this dimension is produced by many information

systems, encompassing people, processes, data, and IT. Those elements are dealt with under PI-23 for payroll and PI-25 for commitments and payments of non-salary expenditure.

# PI-27.4 Financial data integrity process

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Access and changes to records is restricted and recorded, and results in an audit trail. There is an operational body, unit or team in charge of verifying financial data integrity.
<b>B</b>	Access and changes to records is restricted and recorded, and results in an audit trail.
<b>C</b>	Access and changes to records is restricted and recorded.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable in all cases if the SNG can implement financial systems,
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Documentary evidence of rules, regulations or procedures guiding access to and recording of changes to records.</li> <li>➤ Evidence of the existence of a unit in charge of verifying financial data integrity. It can be an internal audit unit if it can be evidenced (from past internal audit programs) that it verifies effectiveness of internal controls over financial data.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the extent to which processes support the delivery of subnational financial information, as well as the accuracy and completeness of the data delivered. It focuses on two key aspects: access to subnational information including read-only and changes to records by creation and modification; and the existence of a body, unit, or team in charge of verifying data integrity.

Audit trails enable individual accountability, intrusion detection, and problem analysis. Good audit trails are meant to provide information on who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated.

This dimension is focused on the integrity of financial data only. Separate systems for other types of data may exist and be linked to or overlap with financial data systems, e.g., personnel and payroll data (ref. PI-23) and procurement data (ref. PI-24). Assessors should as far as possible ensure that such data systems are assessed separately under the respective indicators and highlight potential overlaps where such separation is not practical.

# PI-28 IN-YEAR BUDGET REPORTS

This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains the following three dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

*Dimension 28.1. Coverage and comparability of reports*

*Dimension 28.2. Timing of in-year budget reports*

*Dimension 28.3. Accuracy of in-year budget reports*

## PI-28.1 Coverage and comparability of reports

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Coverage and classification of data allows direct comparison to the original budget. Information includes <i>all</i> items of budget estimates. Expenditures made from transfers to de-concentrated units within the subnational government are included in the reports.
<b>B</b>	Coverage and classification of data allows direct comparison to the original budget with partial aggregation. Expenditures made from transfers to de-concentrated units within the subnational government are included in the reports.
<b>C</b>	Coverage and classification of data allows direct comparison to the original budget for the main administrative headings.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all SNG assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	Budget execution reports compared with authorized budgets, including transfers and activities of deconcentrated units.

*Dimension measurement guidance*

The dimension assesses the extent to which subnational financial information is reported within a given year, and in a form that is easily compared to the original budget.

Information must include all items of the original budget. It means that in year reports must be presented at the same level of disaggregation as the budget. A few items could be presented at a more aggregate level than the budget, provided their amount represents less than 10% of the total expenditure.

‘Partial aggregation’ means any situation between score A requirement and a C requirement (presentation limited to the main administrative headings).

How responsibility for the reports’ preparation is divided between a subnational directorate of finance and line directorates (or equivalent bodies) will depend on the type of accounting and payment system in operation (centralized, deconcentrated, or devolved).

The deconcentrated units referred to in the requirements to score A and B are only the deconcentrated units of the subnational government.

When SNG or CG do not prepare in-year budget reports, or the reports prepared by the CG are not made available to the SNG, this dimension is scored D. In each case, the remaining dimensions under this indicator are scored NA.

# PI-28.2 Timing of in-year budget reports

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Budget execution reports are prepared monthly, and issued within two weeks from the end of each month.
<b>B</b>	Budget execution reports are prepared quarterly, and issued within four weeks from the end of each quarter.
<b>C</b>	Budget execution reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks from the end of each quarter.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all SNG assessments.
<b>NOT APPLICABLE</b>	Not applicable when there is no in-year budget report.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Frequency of in-year budget execution reports.</li> <li>➤ Number of days following end of period that budget report is disseminated within the government.</li> <li>➤ Availability of reports or ability to generate reports.</li> </ul>

*Dimension measurement guidance*

The dimension assesses whether in-year budget reports of the subnational government are submitted in a timely manner and accompanied by an analysis and commentary on budget execution. The report should highlight the nature of the relationship between the subnational and higher-level governments, and the impact this may have on the timeliness of in-year budget reports.

‘Issued’ means produced and made available to the relevant staff and officials of the subnational government. When CG produces SNG’s in-year budget reports but does not provide them to the SNG, the dimension will be scored D.

# PI-28.3 Accuracy of in-year budget reports

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	There are no material concerns regarding data accuracy. An analysis of budget execution is provided by whatever budget classifications are in use. Information on expenditure is covered at both commitment and payment stages.
<b>B</b>	There may be concerns regarding data accuracy. Data issues are highlighted in the report and the data is consistent and useful for analysis of budget execution. An analysis of the budget execution is provided on at least a half-yearly basis. Expenditure is captured at least at payment stage.
<b>C</b>	There may be concerns regarding data accuracy. Data is useful for analysis of budget execution. Expenditure is captured at least at payment stage.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all SNG assessments.
<b>NOT APPLICABLE</b>	Not applicable when there is no in-year budget reports.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Budget execution reports including details of how reports are compiled.</li> <li>➤ Identification of information on payments and commitments in reports.</li> <li>➤ Information on revisions and adjustments made after reports have been finalized.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the accuracy of the information submitted in in-year budget report, including whether expenditure for both the commitment and the payment stage is provided. The report should highlight the nature of the relationship between the subnational and higher-level governments, and the impact this may have on the accuracy of in-year budget reports.

When CG produces SNG’s in-year budget reports but does not provide them to the SNG, the dimension will be scored D.

When in-year budget reports are prepared by SNGs but do not include information on payment stage because payment information is not submitted by CG, this dimension is scored D and the score is flagged as under mixed responsibility between the CG and the SNG.

# PI-29 ANNUAL FINANCIAL REPORTS

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains the following three dimensions and uses the **M1 (WL)** method for aggregating dimension scores:

*Dimension 29.1. Completeness of annual financial reports*

*Dimension 29.2. Submission of reports for external audit*

*Dimension 29.3. Accounting standards*

## PI-29.1 Completeness of annual financial reports

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Financial reports for budgetary units of subnational government are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and are supported by a reconciled cash flow statement.
<b>B</b>	Financial reports for budgetary units of subnational government are prepared annually and are comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations.
<b>C</b>	Financial reports for budgetary units of subnational government are prepared annually, and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all SNG assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	Annual financial reports compared with the approved budget.

### *Dimension measurement guidance*

This dimension assesses the completeness of financial reports. Annual financial reports should include an analysis providing for a comparison of the outturn with the initial subnational government budget. Financial reports should include full information on revenue, expenditure, assets, liabilities, guarantees, and long-term obligations. This information can be either incorporated into financial reports in a modified cash or accrual-based system, or presented by way of notes or ad hoc reports, as is often done in a cash-based system. The usefulness of reports depends on whether they are compiled after the clearance of any suspense accounts and after advance and bank account reconciliation, as assessed in PI-27.

The reports of the budgetary units of the subnational government could be considered for this dimension provided that a comparison with the approved budget is feasible (i.e., in details and for at least 90% of budgetary units' expenditure) and they contain the required information. The financial reports should include all cost centers (ministries or equivalent, departments or equivalents, agencies or equivalent, service-delivery units) under subnational jurisdiction.

Names and forms of financial reports depend on what the countries use such as 'Compte de gestion', 'compte administratif' in francophone countries. To be considered as financial reports for this dimension, these reports must fulfill the requirements of comparability and coverage of the set of data required for each score and be prepared by the subnational government.

# PI-29.2 Submission of reports for external audit

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Financial reports for budgetary units of subnational government are submitted for external audit within 3 months of the end of the fiscal year.
<b>B</b>	Financial reports for budgetary units of subnational government are submitted for external audit within 6 months of the end of the fiscal year.
<b>C</b>	Financial reports for budgetary units of subnational government are submitted for external audit within 9 months of the end of the fiscal year.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all SNG assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last annual financial report submitted for audit.
<b>DATA REQUIREMENTS</b>	Number of days following the end of the fiscal year that the financial report was submitted for external audit during the last year.

*Dimension measurement guidance*

The dimension assesses the timeliness of submission of reconciled year-end subnational financial reports for external audit. Application of the framework at the central government level calls for submission of the financial statements to the audit entity to precede the submission to the subnational council. However, in some cases the statements need to be first approved by the subnational council (or equivalent review body) prior to being submitted for external audit. In this case, the process of submission to the subnational council and (then) for external audit should be described in detail, with a particular emphasis on timeliness. The actual data of submission is the date on which the external auditor considers the report complete and available for audit.

To be considered as a financial report, the report must include at least information on expenditure, revenue, and cash balances and be comparable to the budget.

Any delay in submitting the financial reports for audit should be measured using the last annual financial report submitted for audit. However, if at the time of the assessment it is established that more than nine months have lapsed since the end of the last fiscal year, and the financial report for that year has not yet been submitted for audit, the score is also D. If the initial version of the report is rejected by the auditor, or if additional information is requested by the auditor

before it is accepted, this will extend the timeframe (consistent with PI-30). The time should be measured from the end of the fiscal year to the date that an acceptable report is submitted to the auditor.

# PI-29.3 Accounting standards

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Accounting standards applied to financial reports for the SNG are consistent with the country’s legal framework, which is in line with international accounting standards. The standards used in preparing annual financial reports are disclosed.
<b>B</b>	Accounting standards applied to financial reports for the SNG are consistent with the country’s legal framework’s and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.
<b>C</b>	Accounting standards applied to financial reports for the SNG ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all SNG assessments.
<b>COVERAGE</b>	Budgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three years’ financial reports.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Evidence of accounting standards being used and applied; any gaps between the standards applied by the SNG and national accounting standards are explained.</li> <li>➤ Notes on the financial reports relating to the standards applied.</li> </ul>

*Dimension measurement guidance*

The dimension measures the extent to which the basis of recording subnational operations relies on accounting standards and is transparent and consistent over time. This dimension differs from the one applicable to central governments as it measures the compliance of the subnational government with the accounting standards set by the central government. The dimension assesses the incorporation of international standards within the national ones for an A score.



# Pillar seven: External scrutiny and audit

## PI-30 EXTERNAL AUDIT

This indicator examines the characteristics of external audit. This indicator is used when the external audit of subnational governments is performed by the national supreme audit institution or its regional offices. It contains the following four dimensions and uses the **M1 (WL)** method for aggregating dimension scores.

*Dimension 30.1: Audit coverage*

*Dimension 30.2: Submission of the audit reports to the subnational council*

*Dimension 30.3: External audit follow-up*

*Dimension 30.4: Independence of the public audit institution in charge of subnational governments*

### *Indicator measurement guidance*

Reliable and extensive external audit is an essential requirement for ensuring accountability and transparency in the use of public funds. While one dimension focuses on the independence of the external audit function, the first three dimensions focus on audit of the subnational government's annual financial reports. Considering that the external audits are performed differently depending on the model of the supreme audit institution, the first three dimensions cover different types of audits (financial and compliance audits and jurisdictional control). Certain aspects of a performance audit should also be included in an audit function, but this issue is covered in PI-8.4, Performance evaluation for service delivery.

## PI-30.1 Audit coverage

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Financial reports of <b>all</b> subnational government entities have been audited at least once during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
<b>B</b>	Financial reports of <b>most</b> subnational government entities have been audited at least once during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
<b>C</b>	Financial reports of the <b>majority</b> of subnational government entities have been audited at least once during the last three completed fiscal years. The audits have highlighted any relevant significant issues.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable to all SNG assessments.
<b>SAMPLING</b>	For an overall picture of the external audit of subnational, <i>see add-on How to get a full overview of the PFM performance at subnational level.</i>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Audit of SNG financial reports.</li> <li>➤ Evidence on the extent to which materiality has been met.</li> <li>➤ Issues that have been highlighted by the audit reports.</li> </ul>

### Dimension measurement guidance

The dimension assesses the extent to which the subnational government entities (both budgetary and extrabudgetary units) have been covered by the external audit. Different kinds of audits satisfy this requirement as long as they imply that the financial reports are covered by the audit: financial audits, compliance audits and jurisdictional controls<sup>7</sup>. It is required that an audit of the subnational government entities has been performed at least once during the last three completed fiscal years and it should cover total expenditures, revenues, liabilities and assets. The audits have highlighted any relevant material issues and systemic and control risks.

Materiality throughout the dimension is measured by the coverage of the audit in terms of expenditure of the subnational government entities.

<sup>7</sup> See INTOSAI P50 Principles of jurisdictional activities of SAIs, 2019

Audit works can be outsourced to other institutions than the SAI or its regional offices. To be compliant with the PEFA dimension, outsourced audits must fulfill the criteria set by INTOSAI in the SAI-Performance Measurement Framework (SAI-5), which requires that SAI should establish a system for monitoring the quality of outsourced audits.

# PI-30.2 Submission of audit reports to the subnational council

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Audit reports were submitted to the subnational council within three months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
<b>B</b>	Audit reports were submitted to the subnational council within six months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
<b>C</b>	Audit reports were submitted to the subnational council within nine months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable for all SNG PEFA assessments.
<b>SAMPLING</b>	For an overall picture of the external audit of subnational, see <i>add-on How to get a full overview of the PFM performance at subnational level.</i>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Date(s) of receipt of financial report(s) by the external auditor.</li> <li>➤ Date(s) of submitting the audit reports to the subnational council.</li> <li>➤ Calculation of the period between receipt by the auditor and submission to the subnational council.</li> <li>➤ Information on the causes for any delays in submitting the audited financial report to the subnational council.</li> </ul>

*Dimension measurement guidance*

The dimension assesses the timeliness of submission of the audit report(s) on financial reports and compliance audit reports to the local elected council, as a key element in ensuring timely accountability of the executive to the elected council and the public. This dimension requires delays in submission of audit reports to be measured from the date of the external auditor’s receipt of the relevant unaudited financial reports when a financial audit is involved. If financial reports provided to the external auditor are not accepted, but are returned for completion or corrections, the actual date of submission is the date on which the external auditor considers the financial reports complete and available for audit.

# PI-30.3 External audit follow-up

*Scoring*

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	There is clear evidence of effective and timely follow-up by the executive or the audited entity on audits for which follow-up was expected, during the last three completed fiscal years.
<b>B</b>	A formal, comprehensive, and timely response was made by the executive or the audited entity on audits for which follow-up was expected, during the last three completed fiscal years.
<b>C</b>	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the last three completed fiscal years.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	The dimension will be applicable for all SNG PEFA assessments.
<b>SAMPLING</b>	For an overall picture of the external audit of subnational, <i>see add-on How to get a full overview of the PFM performance at subnational level.</i>
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	Information on recommendations made by the auditor and responses from the SNG during the period.

*Dimension measurement guidance*

The dimension assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the subnational government. This dimension covers recommendations or observations made by both audits of financial reports and compliance audits. Evidence of effective follow up of the audit findings includes the issuance by the SNG executive of a formal written response to the audit findings indicating how these will be or already have been addressed, for example, a management letter. Reports on follow-up may provide evidence of implementation by summing up the extent to which the audited entities have cleared audit queries and implemented audit recommendations or observations. Note that follow-up to recommendations issued by the elected council is assessed separately under PI-31.

The terms ‘formal’ and ‘comprehensive’ imply a written response that systematically addresses the audit findings and recommendations; it does not imply that recommendations have necessarily been implemented.

An assessment of timeliness depends on the nature of the recommendation, but suggests that, at a minimum, the issue should not be repeated in the audit report for the following year.

# PI-30.4 Independence of the public audit institution in charge of subnational governments

## Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The public audit institution in charge of subnational governments operates independently from the executive with respect to procedures for appointment and removal of the Head of the institution, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the institution’s budget. This independence is assured by law. The institution has unrestricted and timely access to records, documentation and information.
<b>B</b>	The public audit institution in charge of subnational governments operates independently from the executive with respect to procedures for appointment and removal of the Head of the institution, the planning of audit engagements, and the approval and execution of the institution’s budget. The institution has unrestricted and timely access to records, documentation and information for most audited entities.
<b>C</b>	The public audit institution in charge of subnational governments operates independently from the executive with respect to the procedures for appointment and removal of the Head of the institution as well as the execution of the institution’s budget. The institution has unrestricted and timely access to the majority of the requested records, documentation and information.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	<p>When audit is performed by the SAI or a by a regional branch of the SAI, the dimension is applicable to the SAI. In case of a set of assessments, this dimension is applicable only once.</p> <p>When audit is performed by independent regional or local public audit office, the dimension is applicable to these audit offices.</p>
<b>COVERAGE</b>	Supreme Audit Institution or Regional Audit Offices.
<b>TIME PERIOD</b>	At time of assessment.
<b>DATA REQUIREMENTS</b>	➤ Constitution and/or law governing operation of SAIs or public audit offices.

### Dimension measurement guidance

The dimension assesses the independence of the public audit institution in charge of the subnational governments from the executive of central and subnational governments. It relates to the audit office that provides oversight to the subnational government, whether it is the SAI or a subnational public audit office. Independence is essential for an effective and credible

system of financial accountability and should be laid down in the constitution or comparable legal framework. In practice, independence is demonstrated by the arrangements for the appointment (and removal) of the Head of the public audit institution and members of collegial Institutions, noninterference in the planning and implementation of the public audit institution's audit work, and in the approval and disbursement procedures for the public audit institution's budget.

The public audit institution's mandate should cover every subnational government activity and enable the SAI to carry out a full range of audit activities, specifically financial, compliance and performance audits. The SAI should have unrestricted access to documents, records and information. It should be noted that performance audits are covered by PI-8, whereas PI-30 is focused on audits of the government's annual financial reports.

# PI-3 I- LEGISLATIVE SCRUTINY OF AUDIT REPORTS

This indicator focuses on legislative scrutiny of the audit reports of subnational government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the subnational council or (b) their parent or controlling unit must answer questions and take action on their behalf. It has the following four dimensions and uses the **M2 (AV)** method for aggregating dimension scores:

*Dimension 31.1. Timing of audit report scrutiny*

*Dimension 31.2. Hearings on audit findings*

*Dimension 31.3. Recommendations on audit by the subnational council*

*Dimension 31.4. Transparency of legislative scrutiny of audit reports*

## PI-3 I.1 Timing of audit report scrutiny

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	Scrutiny of audit reports on financial reports has been completed by the subnational council within three months from receipt of the reports.
<b>B</b>	Scrutiny of audit reports on financial reports has been completed by the subnational council within six months from receipt of the reports.
<b>C</b>	Scrutiny of audit reports on financial reports has been completed by the subnational council within twelve months from receipt of the reports.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at SNG level.  When audit reports are scrutinized by the national legislature, dimension 31.1 will be scored D. The remaining three dimensions under this indicator will be rated NA.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.

<b>DATA REQUIREMENTS</b>	Number of months taken for complete scrutiny of the external audit report by the subnational council after receipt of the report.
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***Dimension measurement guidance***

This dimension assesses the timeliness of subnational government council’s scrutiny, which is a key factor in the effectiveness of the accountability function. The scrutiny of the external audit reports has to be undertaken at the subnational level. If the audit reports are only scrutinized by the national legislature or a higher-level of government legislature, then the score is D and the remaining three dimensions under this indicator will be rated NA. Assessors should explain and highlight it in the narrative.

Responsibility for the legislative scrutiny of subnational audits (whether performed by a subnational or higher-level SAI) should be clearly analyzed. For example, if a higher-level legislature plays a role in scrutinizing external audit reports, the autonomy of the subnational government is limited in this regard. The report should explain and analyze the context in which audit reports are scrutinized.

# PI-31.2 Hearings on audit findings

## Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	In-depth hearings on key findings of audit reports take place regularly with responsible officers from <b>all</b> audited entities which received a qualified or adverse audit opinion or a disclaimer.
<b>B</b>	In-depth hearings on key findings of audit reports take place with responsible officers from <b>most</b> audited entities which received a qualified or adverse audit opinion or a disclaimer.
<b>C</b>	In-depth hearings on key findings of audit reports take place occasionally, covering <b>a few</b> audited entities which received a qualified or adverse audit opinion or a disclaimer OR may take place with department of finance officials only.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at SNG level.
<b>NOT APPLICABLE</b>	When audit reports are scrutinized by the national legislature, this dimension is NA, dimension 31.1 being scored D.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of a subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Records of hearings and audit reports for the last three completed fiscal years.</li> <li>➤ Records of attendance at hearings, particularly concerning the audited entities and SAI.</li> </ul>

### Dimension measurement guidance

This dimension measures the extent to which the subnational council conducts hearings on the findings of subnational audit reports. It assesses the level of legislative scrutiny of audits performed by a SAI or local audit office.

Hearings on key findings of external audit reports can only be considered ‘in-depth’ if they include representatives from the public audit institution in charge of subnational governments to explain the observations and findings as well as from the audited agency to clarify and provide an action plan to remedy the situation.

‘Occasionally’ in the context of C score means that hearings may be conducted for only a small number of entities (possibly in groups), may not follow a prearranged schedule, and may not follow a consistent pattern from year to year.

## PI-31.3 Recommendations on audit by subnational council

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	The subnational council issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.
<b>B</b>	The subnational council issues recommendations on actions to be implemented by the executive and follows up on their implementation.
<b>C</b>	The subnational council issues recommendations on actions to be implemented by the executive.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at SNG level.
<b>NOT APPLICABLE</b>	When audit reports are scrutinized by the national legislature, this dimension is NA, dimension 31.1 being scored D.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last three completed fiscal years.
<b>Data requirements</b>	<ul style="list-style-type: none"> <li>➤ Records of recommendations by the subnational council for actions to be taken by the executive.</li> <li>➤ Records of procedures for following up on recommendations.</li> <li>➤ Information on whether the procedures are followed.</li> </ul>

### Dimension measurement guidance

This dimension assesses the extent to which the subnational council issues recommendations and follows up on their implementation. It covers only the recommendations made by the subnational council to the subnational executive regarding the subnational audits. Based on the audit's reports, the subnational council may also make recommendations to the executive of higher-level of government or the central government. Such recommendations are not covered by the dimension but may be mentioned in the narrative part.

Systematically following up on implementation refers to a system for tracking recommendations that is used to record recommendations and action or lack of action taken on recommendations, and where for every recommendation, the executive and the legislature at the subnational level is notified during subsequent hearings whether recommendations have or have not been implemented.

## PI-31.4 Transparency of legislative scrutiny of audit reports

### Scoring

SCORE	MINIMUM REQUIREMENTS FOR SCORES
<b>A</b>	All hearings are conducted in public except for strictly limited circumstances such as discussions related to national security or similar sensitive discussions. Committee reports are debated in the full chamber of the subnational council and published on an official website or by any other means easily accessible to the public.
<b>B</b>	Hearings are conducted in public with a <i>few</i> exceptions in addition to national security or similar sensitive discussions. Committee reports are provided to the full chamber of the subnational council and published on an official website or by any other means easily accessible to the public.
<b>C</b>	Committee reports are published on an official website or by any other means easily accessible to the public.
<b>D</b>	Performance is less than required for a C score.

<b>APPLICABILITY</b>	Applicable at the SNG level.
<b>NOT APPLICABLE</b>	When audit reports are scrutinized by the national legislature, this dimension is NA, and dimension 31.1 will be scored D.
<b>COVERAGE</b>	Budgetary and extrabudgetary units of the subnational government.
<b>TIME PERIOD</b>	Last completed fiscal year.
<b>DATA REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>➤ Number of hearings on audit reports.</li> <li>➤ Number of hearings conducted in public.</li> <li>➤ Evidence that legislative committee reports on audits are debated in the full chamber of the subnational council and published in a publicly accessible form.</li> </ul>

### Dimension measurement guidance

This dimension assesses the transparency of the scrutiny functions in terms of public access. Opening committee hearings to the public facilitates public scrutiny of the proceedings and is also a good opportunity for a legislative committee to inform the public about its work. Hearings can be 'open' in a variety of ways, which range from allowing exceptional public access to the committee room to inviting members of the public to speak on a subject. Public scrutiny can also be achieved either by transmission of the proceedings by the mass media, i.e., radio or TV, which

allows citizens to follow what is currently happening in committees. Dimension 31.4 is focused on the existence of some form of general public access and does not specifically assess whether members of the public are invited to speak at hearings.

it relates to the hearings conducted by the subnational council on audit reports relating to subnational resources and activities. Committee reports can be published on a national website, providing if local citizens, civil society organizations and businesses can access it easily.

## **PART 4 THE PEFA REPORT**

### **4.1 Overview of the report structure**

As explained in the PEFA Framework document, the PEFA report aims to provide a comprehensive and integrated assessment of a country's public financial management (PFM) performance based on an indicator-led analysis of the key elements of the PFM system. It also aims to assess the extent to which PFM performance has changed since possible earlier PEFA assessments. Relevant information is included in the body of the report. Annexes are generally used only to present large data tables and detailed information; they are not used to elaborate on the analysis and findings of the report.

PEFA reports are produced for government and other stakeholders and are intended to inform PFM and associated reform initiatives. To that end, it is crucial that government are engaged in the assessment and to provide input and comments throughout the process. It is expected that governments will publish the PEFA reports and make them available to interested stakeholders within and outside the country or subnational government (SNG) covered by a report. The PEFA website contains every report provided to the PEFA Secretariat since the program commenced, and all published reports are available to the public through the PEFA website ([www.pefa.org](http://www.pefa.org)).

This part of the guidance provides an overview of the structure of PEFA reports for SNG assessments. It describes the information to be included and how the information should be recorded and presented in the report. Volume III, Preparing the PEFA report, of the PEFA handbook sets out a template and instructions for preparing the PEFA report. It is publicly available on the PEFA website, <http://pefa.org/resources/volume-iii-preparing-pefa-report-second-edition>.

Overall, the basic structure of a PEFA report is similar for both the national and subnational assessments, as detailed in box 4.1.1.

#### ***Box 4.1.1 Structure of the PEFA report***

**PEFA Check**

**SNG main facts**

**Assessment management and quality assurance**

**Table of contents**

**Abbreviations and acronyms**

## Methodology

### Executive summary

Rationale and purpose

Main strengths and weaknesses of the PFM systems

Impact of PFM performance on budgetary and fiscal outcomes

Performance changes since the previous PEFA assessment

*Impact of PFM performance on service delivery (optional)*

### 1. PFM and fiscal decentralization context

1.1. Financial overview

1.2. *Institutional arrangements for decentralization (optional)*

1.3. Institutional arrangements for PFM

1.4. *Arrangements for service delivery (optional)*

1.5. PFM reform process

### 2. Detailed analysis of PFM performance

SNG Pillar      Intergovernmental fiscal relations

Pillar I.        Budget reliability

Pillar II.        Transparency of public finances

Pillar III.       Management of assets and liabilities

Pillar IV.       Policy-based fiscal strategy and budgeting

Pillar V.        Predictability and control in budget execution

Pillar VI.       Accounting and reporting

Pillar VII.      External scrutiny and audit

### 3. Overall analysis of PFM performance

3.1. PFM strengths and weaknesses

3.2. Performance changes since a previous assessment

3.3. *Conclusions on service delivery (optional)*

### Annexes

Annex I. Performance indicator summary

Annex II. Sources of information

Annex III. Tracking changes in performance based on previous versions of PEFA (if a successive assessment)

Annex IV. Calculation of budget variances for PI–1, P1–2, and P1–3

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The main differences between the outline above and the guidance on the PEFA Framework document are as follows:

- *At the beginning of the PEFA report, an additional table summarizes the main facts related to the subnational government being assessed.*
- *Section 3.2, Effectiveness of the internal control framework, is removed, as it is its corresponding annex, Annex II, Summary of observations on the internal control framework.*
- *The content of part I, PFM context, is expanded to elaborate on the status of the fiscal decentralization, intergovernmental fiscal system and the arrangements for service delivery in the country (if the service delivery module will be used).*
- *The SNG pillar is added to section 2.*
- *If the service delivery module will be used, the analysis will be presented as an annex of the PEFA assessment report and the key findings will be summarized in section 3, Overall analysis of PFM performance, to elaborate on the conclusions regarding service delivery.*

## 4.2 SNG specificities in the report content

This subsection explains in more detail what is expected to be covered by the PEFA report for SNG assessments. When necessary, it also highlights the differences between a stand-alone assessment and a set of assessments.

### **Subnational main facts**

At the beginning of the report, in between the PEFA Check and the section on assessment management and quality assurance, the PEFA report should include a table summarizing the main facts describing the subnational government being assessed, following the template in table 3.2.1 below. Adding a map locating the SNG in the country may be useful.

**Table 4.2.1 Template for the main facts of the subnational government being assessed**

Name of the SNG	Detail
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<b><i>Tier of government</i></b>	The tier of government the SNG belongs to (name + first, second, or third tier)
<b><i>Population</i></b>	Number of inhabitants
<b><i>Main characteristics</i></b>	Rural, urban, capital city, economic capital, regional capital
<b><i>Economy</i></b>	The main economic activities of the SNG
<b><i>Services provided by the SNG</i></b>	The main public services delivered by the SNG

## ***Assessment management and quality assurance***

In this section, assessors should focus on the assessment management and quality assurance arrangements for the SNG(s) being assessed. Some parts of the assessment management and quality assurance arrangements may concern all SNGs for a set of assessments, for example, the role of donors or the central government. Some other parts will be specific to the subnational government being assessed. Assessors should clearly specify the general arrangements and the arrangements specific to the SNG being assessed, including the involvement of local authorities.

## ***Methodology***

All of the elements required to be included under the methodology section are similar and should be specific to the subnational government being assessed and reported in the PEFA assessment report.

When the assessment is part of a set of assessments, all the subnational governments assessed in parallel of the one that is the subject of the report should be listed, along with the tier of subnational government to which they belong.

## ***Executive summary***

The content of the executive summary is similar, including four subsections: rationale and purpose, main strengths and weaknesses of the PFM systems, impact of PFM performance on budgetary and fiscal outcomes, and changes in performance since the previous PEFA assessment. It also could summarize the impact of PFM performance on service delivery, if the service delivery add-on is part of the assessment.

In addition, the summary of the main strengths and weaknesses of the PFM system should highlight the respective responsibilities of the CG and SNG for performance.

## ***PFM and fiscal decentralization context***

## Financial overview

This subsection describes the overall SNG structure, including the number of institutions involved and the financial importance of each tier of SNGs. Only table 1.2 of the report (aggregate fiscal data) is mandatory; the other tables are optional. In addition, the number and financial importance of extrabudgetary units and public corporations should be mentioned.

## Institutional arrangements for decentralization (optional)

This subsection should be included when the subnational government being assessed is part of an assessment whose purpose is to prepare a PFM reform action plan for both SNGs and the CG (limited to SNG-related functions). In all other cases, it is optional.

The subsection may be the same in all of the reports when more than one SNG is being assessed in a country, except for the last point elaborated below.

This subsection addresses the following:

- Identify and describe the higher-level government legislation and regulations defining and guiding the SNG structure. It is important to name, date, and describe the laws on decentralization.
- Provide information on the number of government-level and administrative tiers and the average size of the population they serve in a table such as the example in table 3.2.2.

**Table 4.2.2 SNG–I Overview of subnational governance structure**

Government level or administrative tier	Corporate body?	Own political leadership?	Approves own budget?	Number of jurisdictions	Average population	Percentage of public expenditure	Percentage of public revenues	Percentage funded by transfers
<b>Central</b>	Yes	Yes	Yes	1	10 million	30	80	0
<b>State</b>	Yes	Yes	No	10	1 million	15	5	80
<b>Local 1</b>	Yes	Yes	Yes	100	100,000	35	15	30
<b>Local 2</b>	No	No	No	1,000	10,000	20	0	100

Note 1: Add more rows as needed to include all government levels or administrative tiers.

Note 2: Provide a footnote if the government level does not cover the entire territory (as in the case of municipalities) or if major asymmetries are present in the subnational governance structure.

- Based on the table, indicate which level of subnational government is the most significant in terms of the public expenditure and services delivered to the local communities;
- Identify the main responsibilities of the government level under consideration and their extent (for example, full responsibility for water and sanitation, school equipment, farm insurance) and explain where the assignment of these responsibilities is defined (for example, in law or a constitution). In addition, indicate precisely whether these assignments are generally accepted, clear, and followed in practice and whether these responsibilities are devolved, delegated, or shared with a higher-level government.
- Mention the extent to which the assessed subnational government complies fully or partially with its assignments, highlighting the responsibilities it does not undertake and those it implements beyond what the regulations require.

### ***Institutional arrangements for PFM***

The content of this subsection is similar to the content of section 2 of annex VI of this guidance. It has to be provided for all reports. For set of assessments, it will be the same in all of the reports.

### ***Arrangements for service delivery (optional)***

This subsection should be included when the subnational government being assessed is part of an assessment whose purpose is to prepare a PFM reform action plan for both SNGs and the CG (limited to SNG-related functions). In all other cases, it is optional.

The subsection may be the same in all of the reports when more than one SNG is being assessed in a country, except for the last point elaborated below.

This subsection addresses the following:

- Identify and describe the higher-level government legislation and regulations defining and guiding the SNG structure. It is important to name, date, and describe the laws on decentralization.
- Provide information on the number of government-level and administrative tiers and the average size of the population they serve in a table such as the example in table 3.2.2.

### ***Table 4.2.2 SNG–I Overview of subnational governance structure***

Government level or administrative tier	Corporate body?	Own political leadership?	Approves own budget?	Number of jurisdictions	Average population	Percentage of public expenditure	Percentage of public revenues	Percentage funded by transfers
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<b>State</b>	Yes	Yes	No	10	1 million	15	5	80
<b>Local 1</b>	Yes	Yes	Yes	100	100,000	35	15	30
<b>Local 2</b>	No	No	No	1,000	10,000	20	0	100

Note 1: Add more rows as needed to include all government levels or administrative tiers.

Note 2: Provide a footnote if the government level does not cover the entire territory (as in the case of municipalities) or if major asymmetries are present in the subnational governance structure.

- Based on the table, indicate which level of subnational government is the most significant in terms of the public expenditure and services delivered to the local communities;
- Identify the main responsibilities of the government level under consideration and their extent (for example, full responsibility for water and sanitation, school equipment, farm insurance) and explain where the assignment of these responsibilities is defined (for example, in law or a constitution). In addition, indicate precisely whether these assignments are generally accepted, clear, and followed in practice and whether these responsibilities are devolved, delegated, or shared with a higher-level government.
- Mention the extent to which the assessed subnational government complies fully or partially with its assignments, highlighting the responsibilities it does not undertake and those it implements beyond what the regulations require.

## **PFM reform process**

The content of this subsection is similar to the one described in volume III of the PEFA Handbook. However, if needed, it may be divided into two parts: a subsection focused on PFM reforms of the subnational government and a subsection focused on reforms undertaken by the central government regarding the decentralization and intergovernmental fiscal system in the country.

## **Detailed analysis of PFM performance**

For SNG assessments, the main differences with Volume III of the PEFA Handbook are the following:

1. **At the pillar level**, the summary of *overall performance* should highlight the respective responsibilities of the CG and SNG for performance.
2. **At the indicator level**, in the scoring box, in the short explanation of the dimension's performance, the situations where the SNG is not fully responsible for the performance are made clear by using a sentence such as *“the central government (or higher level of government) is responsible for the performance”* or *“the performance is the result of cumulative actions of both the SNG and CG (or other higher level of government).”*

## **Overall analysis of PFM performance PFM strengths and weaknesses**

The subsection is similar to the one described in Volume III of the PEFA Handbook. However, conclusions should highlight the distribution of responsibilities between the different levels of government.

## **Changes in performance since a previous assessment**

The subsection is similar to the one described in Volume III of the PEFA Handbook. However, conclusions should highlight the distribution of responsibilities between the different levels of government.

## **Conclusions on service delivery: Optional**

The subsection is optional. It needs to be provided when the assessment includes a service delivery approach. The subsection is built pillar by pillar. It summarizes the observations for each indicator and highlights the systemic strengths and weaknesses of the PFM systems related to service delivery. Each pillar should start by presenting the strengths and weaknesses of the PFM system and the extent to which they affect service delivery.

When observations on the service delivery units cannot be generalized because of the limited size of the sample, the section should present the findings and call for further analysis, using the following example of narrative: *“The visit to three primary schools (out of five) showed that the inventory of school books is flawed. The schools do not track the return of books at the end of the school year. Inventory is better held in middle schools. There has not been any internal nor external audit reports on this issue. Due to the limited size of the sample and lack of other*

*evidence, the assessment was unable to conclude on the management of inventory by the Department of Education and its service delivery units. Further analysis may be needed.”*

When conclusions for service delivery contradict those of the main report, the deviation should be explained, using a narrative along the following lines: *“Although for the whole municipality, the total value of contracts awarded through competitive methods amounted for 77 percent in 2018, it was only 52 percent for the contracts awarded by the Department of Health. It appears that the procurement of pharmaceutical products is not covered by the municipal procurement agency. Each health center and the two municipal hospitals has its own procurement unit, which uses simplified procedures. According to the Department of Finance, staff in charge of procurement in health service delivery units are not trained in public procurement methods.”*

## **Annexes**

Annexes in the PEFA report are similar to what is detailed in Volume III of the PEFA Handbook. Annex II, Sources of information, contains the list of documents collected and interviews conducted for the service delivery module.

In addition, when the assessment includes a service delivery approach, the report includes an annex devoted to summarizing the findings on service delivery. This annex is presented in a table organized by dimension and indicator. An example of this table and narrative is provided in the add-on on service delivery.

## PART 5 THE PEFA PROCESS

For most parts, the PEFA assessment process for subnational governments is similar to the one for central governments. In particular, the quality assurance arrangements and criteria to award the PEFA Check remain the same. However, for both stand-alone and set of assessments, the Concept note template is simplified. For set of assessments, two optional steps are introduced: the annex to the concept note and the consolidated report.

### 5.1 Concept note template

The concept note templates for a stand-alone and a set of assessments are provided, respectively, in annex IV, Concept note template for a stand-alone subnational PEFA assessment, and annex V, Concept note template for a set of subnational PEFA assessments, of the guidance.

The following features are important for a set of assessments:

- A detailed explanation of the methodology should be provided and presented in an annex to the concept note.
- The draft concept note subject to the peer review can be modified after the peer-review process has been completed. For example, the sample of subnational governments could be expanded, modified, or reduced, and the implementation schedule and resources could be adjusted. The revised version should be sent to the PEFA Secretariat for information only.
- One oversight committee should be established to oversee the set of assessments. The representation of subnational governments in the committee is highly recommended.
- Each of the subnational governments assessed should peer review the PEFA assessment report and concept note.
- The consolidated reports are not subject to the peer-review quality assurance process of the PEFA Secretariat (PEFA Check) but sharing consolidated reports with the PEFA Secretariat for feedback is highly recommended.
- Although assessment team members could differ from one assessment to another, making one person responsible for the whole set of assessments is recommended.

Table 5.1.1 summarizes what is expected to be covered by each section of the concept note for a stand-alone versus a set of assessments, with the main differences marked in red for easy reference.

**Table 5.1.1 What should be covered in each section of the concept note**

Section of the template	For a stand-alone assessment	For a set of assessments
<b>Purpose</b>	<ul style="list-style-type: none"> <li>➤ States the purpose(s) and use(s) of PEFA assessment</li> <li>➤ Mentions previous PEFA assessments</li> </ul>	<ul style="list-style-type: none"> <li>➤ States the purpose(s) and use(s) of PEFA assessment</li> <li>➤ <i>Indicates whether there will be a consolidated report</i></li> </ul>
<b>Sample</b>		<ul style="list-style-type: none"> <li>➤ <i>Provides basic information on the sample of SNGs (name, tier of government, population, total expenditure, existence of a previous PEFA)</i></li> <li>➤ <i>Explains the rationale of the sample</i></li> </ul>
<b>Scope and coverage</b>	<ul style="list-style-type: none"> <li>➤ Describes the structure of the SNG being assessed (number of budgetary units, extrabudgetary units, public corporations)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provides a general description of the organization of the public sector</li> </ul>
<b>Time period</b>	<ul style="list-style-type: none"> <li>➤ Provides the country's fiscal year, last three years covered, and cutoff date</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provides the country's fiscal year, last three years covered, and cutoff date</li> <li>➤ <i>Mentions whether the reference period and cutoff date will differ between the SNGs</i></li> </ul>
<b>Management, oversight, and quality assurance</b>	<ul style="list-style-type: none"> <li>➤ Explains how the assessment is funded</li> <li>➤ Describes the oversight team and peer reviewers</li> </ul>	<ul style="list-style-type: none"> <li>➤ Explains how the assessments are funded</li> <li>➤ <i>Describes the oversight team for the set of assessments and peer reviewers for each subnational government</i></li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>➤ Provides the composition of the assessment team and input days</li> <li>➤ Provides the total budget of the assessment</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provides the composition of the assessment teams and input days for each assessment along with the assessment leader (for all assessments)</li> <li>➤ <i>Provides the overall budget for the whole set of assessments</i></li> </ul>
<b>Methodology</b>	<ul style="list-style-type: none"> <li>➤ Explains (a) indicators that will be used, (b) whether there will be comparison over time, and (c) whether the service delivery module will be used</li> <li>➤ Describes the report's content</li> </ul>	<ul style="list-style-type: none"> <li>➤ <i>Explains that the methodology will be covered in the annex.</i></li> </ul>

PEFA assessment implementation schedule	<ul style="list-style-type: none"> <li>➤ Provides the implementation schedule for the assessment</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provides the implementation schedule for the set of assessments</li> <li>➤ <i>Details field work and post-field work for each subnational government</i></li> </ul>
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## 5.2 For set of assessments: the annex to the concept note

The process to be followed in preparing the assessment of a set of subnational governments should aim at streamlining the individual assessments of each subnational governments. It is done by the production of an annex to the concept note. This annex to the concept note should also prepare the application of the add-ons on service delivery and influence of CG, when it is decided to use these add-ons.

The annex to the concept note gathers some preliminary analyses conducted at an early stage of the process to define the scope of the assessment: service delivery approach, applicability of indicators, and influence of central government on performance. In particular, solid knowledge of how the PFM system and the delivery of public services are organized might be needed.

The additional analysis could be presented either at the concept note stage or later in the process.

### **Annex to the concept note**

The annex to the concept note aims to improve the preparation of an assessment, in particular, for a set of assessments. It sets the methodology to be applied:

1. *The selection of indicators or dimensions.*
2. *The applicability of indicators or dimensions.*
3. *The use of the add-on on service delivery approach.*
4. *The use of the add-on on the influence of the CG on performance.*

To do so, the annex to the concept note provides information and elaborates on the following (more detailed guidance is provided in annex IV, Content of the annex to the concept note):

1. *Fiscal decentralization system*
2. *Organization of the PFM system*
3. *Arrangements for service delivery*

*4. Set of dimensions or indicators to be applied.*

Preparation of an annex to the concept note is optional, as is what needs to be covered in the annex, depending on the purpose of the assessment, interest, and resources allocated. The PEFA Secretariat recommends preparing such an annex for a set of assessments to avoid repetition among reports, streamlining the process and content of multiple assessments, and enhancing the relevance of the synthesis based on the individual reports by providing additional information.

Preparing the annex to the concept note requires some additional work; for this reason, it can follow several timelines:

- 1. At the same time as the concept note*
- 2. After the concept note has been reviewed and finalized*
- 3. After the first assessment has been prepared and submitted for peer review, with the information needed gathered during the assessment.*

Since preparation of this annex is optional, it is not subject to a quality assurance (PEFA Check) process. The PEFA Secretariat will not issue official comments on the formal review. However, the PEFA Secretariat will work closely with the teams (assessment manager and assessment team) preparing the annex and will advise them accordingly (that is, regarding how to adjust the scope to the purposes of the assessment, what information or evidence to collect, how to frame potential add-ons to the report).

# Annex I. Concept note template for a standalone subnational PEFA assessment



## SNG PEFA assessment concept note for standalone assessments

### 1. Purpose

Briefly state the purpose of the assessment. Describe how results will be used to inform dialogue on PFM, and the development and implementation of PFM reform initiatives going forward. Note any previous PEFA assessment.

### 2. Scope and coverage

Specify which part of the public sector will be covered by the assessment. Typically, this will be the subnational government, except where PEFA indicators specifically refer to a smaller or wider range, such as the budgetary units of the subnational government.

Please complete the following table on budgetary units, the ten largest extrabudgetary units and ten largest public corporations by expenditure.

**Table 1. Structure of the public sector**

Budgetary units	Extrabudgetary units	Public corporations

### 3. Time period

Country fiscal year:	
Last three fiscal years covered:	
Time of assessment (planned cut-off):	

### 4. Management, oversight and quality assurance

Specify how the assessment will be funded.

Please, complete the following tables.

**Table 2. Oversight team**

Name, position and organization	Role
Name, position and organization of Chairperson	Chair of oversight team (should be government representative)
List other oversight team members (government officials and, as appropriate, development partner representatives)	Oversight team member

**Table 3. Peer reviewers (for both CN and Final Report) – Name of organization**

Government representative
PEFA Secretariat
Organization 1
Organization 2

## 5. Resources

Table 4. Staffing					
Team member	Organization	Area of expertise	Preparatory work (days)	Field work (days)	Post-field work (days)
Team leader:					
Expert 1:					
Expert 2:					
Expert 3:					
<b>Total input days</b>					

Table 5: Financial resources			
Type of expenditure	Days/Unit	Days/Unit cost	Amount
Salaries			
Consultant fees			
Travel costs			
Translation costs			
Other costs			
<b>Total costs</b>			

## 6. Methodology

<p><b>6.1. Set of indicators</b> Specify whether the whole set of SNG indicators, included HLG 1 and 2, the public participation indicator, the simplified budget preparation indicator will be used. For those indicators that will not be used, briefly explain the reasons.</p>
<p><b>6.2. Comparison over time</b> Indicate whether there will be a comparison over time.</p>
<p><b>6.3. Service delivery</b> Specify whether additional information will be provided on the impact of PFM functions on service delivery programs.</p>
<p><b>6.4. Report content</b> Mention whether the optional section of the report format will be included in the report: section 3.2 Effectiveness of the internal control framework</p>

## 7. PEFA assessment implementation schedule

Table 6. PEFA assessment implementation schedule		
Task	Deliverable	Date(s)
<b>Preparatory work</b>		
• Finalization of the concept note/terms of reference	Concept note	
• Initial data request	Data request issued to responsible units	
<b>Field work</b>		
• PEFA methodology workshop	Workshop delivery	
• Data collection and interviews	All necessary data obtained	
• Presentation of draft report and initial findings to authorities	Presentation initial findings	
<b>Post-field work</b>		
• Peer review	Comments recorded and considered, draft revised	
• Presentation of final report to authorities	Final report	
• Publication of final report	Publication	
<b>Planned post-PEFA assessment activity</b>		

• PFM reform dialogue based on PEFA assessment findings	Briefing on the relevance of PEFA to government policy priorities	
• Development of a PFM action plan or reform program	PFM action plan	

# Annex II. Concept note template for a set of subnational PEFA assessments



## SNG PEFA assessment concept note for a set of assessments

### 1. Purpose

Briefly state the purpose of the set of assessments. Describe how results will be used to inform dialogue on PFM or on fiscal decentralization, and the development and implementation of PFM or fiscal decentralization reform initiatives going forward. Indicate whether the purpose is to provide specific evaluation of the impact of PFM on the delivery of public services.

Indicate whether the set of assessments will lead to a consolidated report.

### 2. Sample

Briefly describe the sample of subnational governments covered by the assessment and explain the reasons why those subnational governments have been selected.

**Table 1. Sample of SNGs**

Name	Tier of government	Population	Total expenditure	Previous PEFA?

### 3. Scope and coverage

Describe the scope and coverage of the assessments: How are the budgetary units of the SNGs organized? Do the subnational governments have extrabudgetary units? Do they control or own shares in public corporations? Typically, the scope of the PEFA assessment covers budgetary and extrabudgetary units of the subnational government.

### 4. Time period

Country fiscal year:	
Last three fiscal years covered:	
Time of assessment (planned cut-off):	

### 5. Management, oversight and quality assurance

Specify how the assessment will be funded.

Please, complete the following tables.

Table 2. Oversight team	
Name, position and organization	Role
Name, position and organization of Chairperson	Chair of oversight team (should be a representative of a subnational government)
List other oversight team members (officials of all of the assessed subnational governments, central government officials and, as appropriate, development partner representatives)	Oversight team member
Table 3. Peer reviewers (for both CN and Final Report)	
Name of organization	For all SNGs/for one specific SNG
PEFA Secretariat	All SNGs
Central government	All SNGs
International organization 1	All SNGs
SNG1 representative	SNG 1
International organization 2	SNG 1
SNG 2 representative	SNG 2
International organization 3	SNG 2

## 6. Resources

Table 4. Staffing (per SNG)					
Team member	Organization	Area of expertise	Preparatory work (days)	Field work (days)	Post-field work (days)
Assessment leader					
Subnational government #1					
Team leader					
Expert 1:					
Expert 2:					
Subtotal input days					
Subnational government #2					
Team leader					
Expert 1:					
Expert 2:					
Subtotal input days					
<b>Total input days</b>					
Table 5: Total financial resources (all SNGs)					
Type of expenditure	Days/Unit	Days/Unit cost	Amount		
Salaries					
Consultant fees					
Travel costs					
Other costs					
<b>Total costs</b>					

## 7. PEFA assessment implementation schedule

Table 6. PEFA assessment implementation schedule		
Task	Deliverable	Date(s)
<b>Preparatory work</b>		
• Finalization of the concept note/terms of reference	Concept note	
• Initial data request	Data request issued to responsible units	
<b>Field work (SNG1)</b>		
• PEFA methodology workshop	Workshop delivery	
• Data collection and interviews	All necessary data obtained	

• Presentation of draft report and initial findings to authorities	Presentation initial findings	
<b>Field work (SNG2)</b>		
• PEFA methodology workshop	Workshop delivery	
• Data collection and interviews	All necessary data obtained	
• Presentation of draft report and initial findings to authorities	Presentation initial findings	
<b>Post-field work (SNG 1)</b>		
• Peer review	Comments recorded and considered, draft revised	
• Presentation of final report to authorities	Final report	
• Publication of final report	Publication	
<b>Post-field work (SNG 2)...</b>		
• Peer review	Comments recorded and considered, draft revised	
• Presentation of final report to authorities	Final report	
• Publication of final report	Publication	
<b>Planned post-PEFA assessment activity</b>		
• Production of the consolidated report		
• PFM reform dialogue based on PEFA assessment findings	Briefing on the relevance of PEFA to government policy priorities	
• Development of a PFM action plan or reform program	PFM action plan	

# Annex III. Content of the annex to the concept note

Depending on the purpose of the assessment, the annex to the concept note, provided when the first concept note is issued or later in the process, might contain the following elements.

## Information on the institutional context

The institutional context can be described based on the four pillars of fiscal decentralization:

- Expenditure assignment
- Revenue assignment
- Intergovernmental transfers
- Subnational borrowing and debt.

Intergovernmental transfers and subnational borrowing are captured, respectively, by indicators HLG–1 and HLG–2. Expenditure and revenue assignment are covered indirectly by the budget indicators.

The institutional background determines the design of the intergovernmental financial system and ultimately affects the outcome of the process of fiscal decentralization reform. A key aspect when describing the institutional context is the level of autonomy for subnational governments (SNGs). Because of its complexity, the autonomy of SNGs cannot be captured by PEFA indicators. This analysis will feed both the definition of the scope of the assessment and the consolidated report.

## Information on the PFM system

Organization of the public financial management (PFM) system—in particular, the division of competencies between the central and subnational levels of government—is key for preparing the assessment and for analyzing which level of government is responsible for performance. The annex to the concept note should describe the key features of the fiscal decentralization system applied to the level of decentralization to which the assessed subnational government belongs, in particular,

- The arrangements for preparing and adopting the budget (adoption by the subnational council, right of subsequent modification by a higher-level government)
- The arrangements for holding accounts (part of the national treasury, bank accounts in their own name, requirement to hold accounts in the central bank)
- The extent to which SNGs can procure their own supplies and capital infrastructure
- The right to borrow and guarantee debts
- The composition of financial resources collected and received by the SNG—in particular, the transfers from higher-level government (unconditional grants, earmarked grants) and own revenue (tax revenue, nontax revenue)
- The ability of SNGs to increase revenues (right to set the rate and basis of local taxes)
- The extent to which SNGs are able to appoint their staff, including higher-level staff (chief administration officer, chief financial officer, internal auditors).

To complement this information, the annex should describe the share of responsibility between the SNG and the central government (CG) or higher level of subnational government concerning the following PFM functions:

- Payment
- Revenue administration
- Performance arrangements for service delivery involving the subnational government
- Monitoring of public corporations
- Monitoring of lower tiers of subnational governments
- Public investment
- Management, monitoring, and recording of assets
- Debt management
- Macroeconomic forecasting
- Cash monitoring and forecasting
- Payroll
- Procurement
- Internal audit
- Financial reporting.

In addition to the description of administrative capacities, information on human capacities could be provided because human capacities often determine the level of performance. In particular, the following elements could be mentioned:

- Staff appointment (competitive procedures)
- Staff development
- Number of professionally qualified staff
- Staff remuneration.

## Applicability of the dimensions

Based on the previous subsections of the annex to the concept note and conditions of applicability described in part 2 of the guidance, this section provides a table presenting the dimensions that are not systematically applied in all assessments (not used, not applicable, used only once) and providing a brief rationale. For example,

Dimension	Application or use	Rationale
HLG-2 Fiscal rules and monitoring of fiscal position	Used	Assessments are used to inform intergovernmental fiscal system reform.
PI-3.1 Revenue outturn	Not used	Own revenues are insignificant (7% of revenue on average).
PI-6.3 Financial reports of extrabudgetary units	Not used	SNGs do not have extrabudgetary units.
PI-12.2 Nonfinancial asset monitoring	Used	The CG maintains the records of nonfinancial assets, but assessment is used to inform reform of the intergovernmental fiscal system.
PI-24.4 Procurement complaints management	Used only once	The procurement complaint body is a CG entity.

## Service delivery Module

The annex to the concept note presents the public services delivered by the subnational government that will be subject to the service delivery module and describes their main features. An extensive description could present the different activities, indicating the following for each:

- Expenditure
- Nature of funding (earmarked transfers, fees, non-earmarked transfers, own revenue)
- Autonomy of the SNG in setting the modality, quantity, and quality of services
- Service delivery units (budgetary unit of the SNG, extrabudgetary unit of the SNG, CG service delivery unit)
- Staff in charge of delivering the service
- Modalities used to deliver the service (in-house, public-private partnerships, public corporations)
- The extent to which the SNG contributes to the investments.

Examples of public services are described in the following table, using the questions mentioned above.

## Description of service delivery programs using a set of questions

Service or activities	Nature of funding	Autonomy of SNG	Service delivery unit or modalities	Staff in charge	Investment
Fairs, markets, and slaughterhouses					
Fairs and markets	General resources	CG is responsible for sanitary regulation; SNG is responsible for market and fair policy, infrastructure construction, maintenance, organization, and collection of fees	SNG department for fairs and markets	SNG staff	The SNG is in charge of Investment decisions and management
Slaughterhouse	Rents covering investment, maintenance	CG is responsible for sanitary regulation; SNG is responsible for investment, maintenance, and operation	Delegated to a public corporation owned and controlled by SNG	Public corporation staff	SNG is in charge of infrastructure decisions and management; public corporation is in charge of equipment
Primary education					
School building and maintenance	1. Earmarked for construction 2. General resources for maintenance	CG decides where and when to build schools and develop capacities; SNG is in charge of investment appraisal, investment monitoring, and maintenance plan	SNG department of infrastructure is in charge of construction; local units of the SNG education department are in charge of maintenance; school housekeeper is in charge of cleaning	SNG staff is in charge of investment appraisal and monitoring, maintenance, and cleaning	SNG is in charge of investment management
Sports at school	General resources (own resources, unconditional transfers)	CG is in charge of sports curriculum, hiring of sports teachers, construction and maintenance of infrastructure,	SNG education department is in charge of investment and sports curriculum; SNG education local units are in charge of	SNG staff	SNG is in charge of investment decisions and management

		and purchase of sports equipment	maintenance and management of sports teachers		
Curriculum	Teachers are paid by the CG	CG is in charge of competency	National education territorial unit	Teachers are CG staff	NA

In addition to the description of PFM functions performed by the subnational government, the description of service delivery will help the assessment manager either to limit the scope of the PEFA to the dimensions contributing to service delivery (when the impact of PFM on service delivery is the sole purpose of the assessment) or to focus the assessment of the dimension on a particular service or add questions to the regular PEFA assessment.

## Annex IV. Data required and sources

SNG PEFA Assessment: Data required and sources			
PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
<b>SNG Pillar. Intergovernmental fiscal relations</b>			
<b>HLG-1: Transfers from higher-levels of government</b>			
HLG-1.1 Outturn of transfers from higher-levels of government	<ul style="list-style-type: none"> <li>From higher-levels to subnational governments, the aggregated transfer outturn and the approved aggregated transfer for each of the last three completed fiscal years</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document, approved by subnational council showing details of transfers from HLG,</li> <li>Annual budget execution report or annual financial statements</li> <li>CG document providing information on transfers to SNG</li> </ul>	
HLG-1.2 Transfers composition outturn	<ul style="list-style-type: none"> <li>From higher-levels to subnational governments, the aggregated earmarked grants outturn and the approved budget for aggregated earmarked grants for each of the last three completed fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>Document of the agreed disbursement timetable between the higher-level government and subnational government</li> <li>CG document providing information on transfers to SNG</li> <li>Actual disbursement and respective timeliness.</li> <li>Calendar of the disbursement</li> </ul>	
HLG-1.3 Timeliness of transfers from higher-levels of government	<ul style="list-style-type: none"> <li>Document of the agreed disbursement timetable between the higher-level government and subnational government.</li> <li>Actual disbursement and respective timeliness.</li> </ul>	<ul style="list-style-type: none"> <li>Document presenting information on the transfers for the fiscal year and the following two fiscal years;</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
		<ul style="list-style-type: none"> <li>Document presenting explanation of changes between the current and previous year.</li> </ul>	
HLG-1.4 Predictability of transfers	<ul style="list-style-type: none"> <li>Document presenting information on the amount and composition of transfers for the current fiscal year and the following two fiscal years.</li> <li>Document explaining any changes in the amount and composition of transfers between the current year and the previous year.</li> </ul>	<ul style="list-style-type: none"> <li>CG document providing multiyear information on transfers to SNG</li> <li>CG medium-term budget and documentation</li> <li>SNG medium-term budget and documentation</li> </ul>	
<b>HLG-2: Fiscal rules and monitoring of fiscal position</b>			
HLG-2.1 Fiscal rules for subnational governments	<ul style="list-style-type: none"> <li>Description of the fiscal rules, including exemptions, sanctions, and enforcement mechanisms.</li> <li>Evidence on the share of SNGs (materiality by value as defined by the PEFA framework) that have respected the fiscal rules.</li> </ul>	<ul style="list-style-type: none"> <li>Document, laws, and regulations presenting the fiscal rules established by the CG for the SNGs.</li> <li>Sample of annual reports from SNG</li> <li>MoF, SAI, Agency in charge of SNGs</li> </ul>	
HLG-2.2 Debt rules for subnational governments	<ul style="list-style-type: none"> <li>Description of the national rules, including subnational debt ceilings, exemptions, sanctions, and enforcement mechanisms.</li> <li>Evidence on the share of SNGs (materiality by value as defined by the PEFA framework) that have respected the debt ceiling.</li> </ul>	<ul style="list-style-type: none"> <li>Documents, laws, or regulations presenting the national rules for subnational government borrowing.</li> <li>Sample of annual reports from SNG</li> <li>MoF, SAI, Agency in charge of SNGs</li> </ul>	
HLG-2.3 Monitoring of subnational governments	<ul style="list-style-type: none"> <li>Date of submission to the central government of the annual financial statements or reports of each subnational government.</li> </ul>	<ul style="list-style-type: none"> <li>Sample of annual reports from SNG</li> <li>MoF, SAI, Agency in charge of SNGs</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	<ul style="list-style-type: none"> <li>Consolidated CG reports of the financial position of subnational governments.</li> </ul>		
<b>Pillar I. Budget reliability</b>			
<b>PI-1: Aggregate expenditure out-turn</b>			
1.1 Aggregate expenditure out-turn	<ul style="list-style-type: none"> <li>The aggregated expenditure outturn and the approved aggregated budget expenditure for each of the last three completed fiscal years.</li> <li>For calculation of this indicator, assessors should use the spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/documentation /estimates approved by the subnational council;</li> <li>Annual budget execution report or Comparative Statement of Budget and Actual Results.</li> </ul>	
<b>PI-2: Expenditure composition out-turn</b>			
2.1 Expenditure composition outturn by function	<ul style="list-style-type: none"> <li>The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main functional classifications or for each of the 20 largest budget heads in the administrative classification.</li> <li>If the number of main budget heads exceed or is less than 20, the composition variance should be assessed against the largest heads that together make up 75% of the budget, with the residual heads (excluding contingency items) aggregated into one line.</li> <li>Data are needed for each of the last three completed fiscal years.</li> <li>For calculation of this dimension, assessors should use the spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/documentation /estimates approved by the subnational council</li> <li>Annual budget execution report or annual financial statements</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>PEFA 2016 Performance Indicator</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
2.2 Expenditure composition outturn by economic type	<ul style="list-style-type: none"> <li>The expenditure composition of the end-of-year outturn and of the originally approved budget for each of the main economic classifications for each of the last three completed fiscal years.</li> <li>The calculation of variance should use the second (two-digit) level of the GFS classification or a similar system. If a different classification is used, the level of aggregation should be comparable to the two-digit GFS classification.</li> <li>For calculation of this dimension, assessors should use the spreadsheet on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>).</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/documentation /estimates approved by the subnational council</li> <li>Annual budget execution report or annual financial statements</li> </ul>	
2.3 Expenditure from contingency reserves	<ul style="list-style-type: none"> <li>The actual expenditure charged to a contingency heading (either as a separate vote, or as a subvote typically under the SNG MoF (finance department/unit), with a clearly marked title such as 'contingency reserves') for each of the last three completed fiscal years.</li> <li>The spreadsheet provided on the PEFA website (<a href="http://www.pefa.org">www.pefa.org</a>) for dimension 2.1 can also be used to assist with the calculations for this dimension.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/documentation /estimates approved by the subnational council</li> <li>Annual budget execution report or annual financial statements</li> </ul>	
<b>PI-3: Revenue out-turn</b>			
3.1 Aggregate revenue outturn	<ul style="list-style-type: none"> <li>The actual end-of-year revenue and the originally budgeted revenue, for each of the last three completed fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/documentation/estimates approved by the subnational council</li> <li>Annual budget execution report or audited annual financial statements</li> <li>Information on revenue outturn for the most recent completed fiscal year may also</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
		<p>be presented in the budget estimates document</p> <ul style="list-style-type: none"> <li>The budget originally approved by the legislature on which budgetary units base their annual expenditure plans at the commencement of the fiscal year.</li> </ul> <p><i>(The above information should be available from the DoF. Information on the main sources of revenue may also be available from the revenue authorities, including national revenue authorities for revenue collected by them on the behalf of SNG, although they may not be responsible for some sources of revenue about which data are required.)</i></p>	
3.2 Revenue composition outturn	<ul style="list-style-type: none"> <li>The value of revenue in the original approved budget, by category at the GFS three-digit level, or comparable classification, and the end-of-year outturn for the same categories for each of the last three completed fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/documentation/estimates approved by the subnational council</li> <li>Annual budget execution report or audited annual financial statements</li> <li>Information on revenue outturn for the most recent completed fiscal year may also be presented in the budget estimates document</li> </ul>	
<b>Pillar II: Transparency of public finances</b>			
<b>PI-4 Budget classification</b>			

**SNG PEFA Assessment: Data required and sources**

<b>PEFA 2016 Performance Indicator</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
4.1 Budget classification	<ul style="list-style-type: none"> <li>Information on the content and application of classifications applied and evidence that the classification is actually used in the budget documents and the chart of accounts.</li> <li>Where the classification differs from the GFS system, information on bridging methodologies and examples of statistics produced using the bridging methodologies should be requested, if such conversions are made. Statistics could include national accounts statistics.</li> </ul>	<ul style="list-style-type: none"> <li>Relevant national legislation and regulations identifying the application of the classification</li> <li>Annual budget document and financial reports provided by the DoF for the last completed fiscal year</li> <li>Copy of the chart of accounts used for the last completed fiscal year</li> </ul>	
<b>PI-5 Budget documentation</b>			
5.1 Budget documentation	<ul style="list-style-type: none"> <li>Evidence that the 12 data elements listed are included in the subnational annual budget proposal and supporting documentation has been submitted to the subnational council for scrutiny and approval.</li> <li>If the documents are not provided with the subnational budget proposal, evidence is needed that a) they were provided in advance to the subnational council; and b) that all details required for that element are included and thereby are sufficiently relevant to support decisions on the budget.</li> </ul>	<ul style="list-style-type: none"> <li>National law or regulations covering mandatory documents of subnational budgets</li> <li>Last annual budget proposal submitted to the subnational council.</li> <li>Supporting documentation for the budget</li> <li>Additional documentation relating to the budget submitted to the legislature prior to the budget proposal</li> </ul>	
<b>PI-6 Subnational government operations outside financial reports</b>			
6.1 Expenditure outside financial reports	<ul style="list-style-type: none"> <li>Evidence of expenditure not recorded in ex post subnational government financial reports.</li> <li>The total of such expenditure to be calculated as a percentage of total expenditure of budgetary units of the subnational government.</li> </ul>	<ul style="list-style-type: none"> <li>Information from the DoF, audit institution in charge of subnational governments, national MoF or agency in charge of SNGs, and others about government bank accounts that are not managed by the Treasury</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
		<ul style="list-style-type: none"> <li>Financial records of departments and extrabudgetary units not reported in subnational government financial reports (e.g., bookkeeping and/or petty cash records, invoices, bank statements, etc.)</li> </ul>	
6.2 Revenue outside financial reports	<ul style="list-style-type: none"> <li>Evidence of revenue not recorded in ex-post subnational government financial reports.</li> <li>The total of such revenue to be calculated as a percentage of total revenue of budgetary units of subnational government.</li> </ul>	<ul style="list-style-type: none"> <li>Information from the DoF, audit institution in charge of subnational governments, national MoF or agency in charge of SNGs, and others about government bank accounts that are not managed by the Treasury</li> <li>Financial records of departments and extrabudgetary units not reported in subnational government financial reports (e.g., bookkeeping and/or petty cash records, invoices, bank statements, etc.)</li> </ul>	
6.3 Financial reports of extrabudgetary units	<ul style="list-style-type: none"> <li>Evidence of the submission of financial reports by extrabudgetary units to the subnational government.</li> <li>Date of submission of financial reports by extrabudgetary units to the subnational government.</li> </ul>	<ul style="list-style-type: none"> <li>Annual financial reports of extrabudgetary units</li> <li>Correspondence with central agency regarding financial reports</li> </ul>	
<b>PI-7 Transfers to sub-national governments</b>			
7.1 System for allocating transfers	<ul style="list-style-type: none"> <li>Horizontal rule-based system or other arrangements for determining the horizontal allocation of transfers to subnational governments for each type of transfer.</li> <li>Calculate proportion (weighted average by value of transfers) for which horizontal allocations among lower-tier of the subnational governments are determined by</li> </ul>	<ul style="list-style-type: none"> <li>Legislation or rules governing transfers from the assessed level of SNG to lower tier of SNGs.</li> <li>Annual budget documents to be obtained from DoF, or specific agency in charge of the lower tier of subnational governments</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
	transparent rules and rule-based system as a percentage of all transfers from the SNG to the relevant lower-tier subnational government(s).		
7.2 Timeliness of information on transfers	<ul style="list-style-type: none"> <li>Content of information provided to lower-tier SNGs on their annual transfers (to determine whether it is sufficiently clear and detailed).</li> <li>The date on which the lower-tier subnational government administrators are provided formal information on the transfers from the assessed SNG.</li> <li>The date on which the lower-tier subnational government administrations must submit their budget proposals for final approval.</li> <li>Calculation of period between the two dates for A and B ratings.</li> </ul>	<ul style="list-style-type: none"> <li>Legislation or rules governing transfers from the assessed level of SNG to lower tier of SNGs.</li> <li>Annual budget documents to be obtained from DoF, or specific agency in charge of the lower tier of subnational governments</li> </ul>	
<b>PI-8 Performance information for service delivery</b>			
8.1 Performance plans for service delivery	<ul style="list-style-type: none"> <li>Published information on measurable performance indicators of outputs and outcomes for service delivery for each subnational government ministry (or department) that devotes expenditure to service delivery for the budget year.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document and/or supporting budget documentation.</li> <li>Department budget statements and/or performance plans.</li> <li>Other documents on service delivery plans containing performance information</li> </ul>	
8.2 Performance achieved for service delivery	<ul style="list-style-type: none"> <li>Published information on actual quantity of outputs produced or delivered, and evidence of measurable progress on outcomes, associated with the programs or</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/s and/or supporting budget documentation</li> <li>Department budget statements or annual reports</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	<p>services delivered by each subnational government ministry (or department) for the last completed fiscal year.</p> <ul style="list-style-type: none"> <li>Published information on activities performed in relation to service delivery that are undertaken by each subnational government ministry (or department) for the last completed fiscal year.</li> </ul>	<ul style="list-style-type: none"> <li>Other documents on service delivery plans containing performance information</li> </ul>	
8.3 Resources received by service delivery units	<ul style="list-style-type: none"> <li>Resources received by the service delivery units of at least two large subnational government ministries (or departments).</li> <li>Reports compiling information on resources received by source of funding for the relevant subnational ministries.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget documents;</li> <li>Annual financial statements;</li> <li>In-year budget execution reports</li> <li>Financial reports or statements of donor organizations</li> <li>Budget management system or accounting system</li> </ul>	
8.4 Performance evaluation for service delivery	<ul style="list-style-type: none"> <li>For each subnational government ministry (or department) devoting expenditure on service delivery, information on the number and coverage of:</li> <li>Evaluation reports</li> <li>Performance audit reports, including those of sub-national external auditor and national SAIs (where applicable)</li> <li>Functional reviews</li> <li>Spending reviews, including those implemented by development partners</li> <li>Internal audit reports</li> </ul>	<ul style="list-style-type: none"> <li>Line departments</li> <li>Audit institution in charge of the SNG</li> <li>Internal audit department</li> <li>DoF</li> </ul>	
<b>PI-9 Public access to fiscal information</b>			

**SNG PEFA Assessment: Data required and sources**

<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
9.1 Public access to fiscal information	<ul style="list-style-type: none"> <li>Evidence of the basic and additional data elements listed in the dimension measurement guidance made available to the public.</li> <li>The timeframe compared with the requirements specified in the list of elements.</li> </ul>	<ul style="list-style-type: none"> <li>Listed documents may be accessible from the DoF, Audit Institution in charge of the SNG, and procurement authority.</li> <li>Access should be corroborated through availability at government bookshops, official websites, public libraries, notice boards, and public interest groups such as governance NGOs, chamber of commerce.</li> </ul>	
<b>PI-9 bis Public consultation</b>			
9bis.1 Public consultation in budget preparation	<ul style="list-style-type: none"> <li>Dates and duration of public consultations conducted by the executive for preparation of the budget proposal.</li> <li>Budget proposal information (documents, briefs, summaries) that is provided to constituencies prior to public consultations and the means used to disseminate it.</li> <li>The summary of inputs received during the public consultation and an explanation of how those inputs have been taken into account. Information on whether the summary has been published or not.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/s and/or supporting budget documentation</li> <li>Meeting notice or announcement of the public consultation</li> <li>Documentation attached to the consultation announcement</li> <li>Reports of the public consultation</li> <li>Information may be accessible from the DoF, or department in charge of citizen engagement</li> </ul>	
9bis.2 Public consultation in the design of service delivery programs	<ul style="list-style-type: none"> <li>Dates and duration of the public consultations conducted for the design of the service delivery programs.</li> <li>Information that is provided to constituencies prior to public consultations and the means used to disseminate it.</li> <li>A summary of the inputs received during the public consultation and an explanation of how those inputs have been taken into account, whether the summary is published or not.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/s and/or supporting budget documentation</li> <li>Meeting notice or announcement of the public consultation</li> <li>Documentation attached to the consultation announcement</li> <li>Reports of the public consultation</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
	<ul style="list-style-type: none"> <li>The published findings of the user satisfaction survey(s) that covers service delivery program(s).</li> </ul>	<ul style="list-style-type: none"> <li>Annual reports of the departments in charge of service delivery</li> <li>Information may be accessible from the DoF, departments in charge of service delivery, or department in charge of citizen engagement</li> </ul>	
9bis.3 Public consultation in investment planning	<ul style="list-style-type: none"> <li>Dates and duration of the public consultations conducted by the executive during preparation of the major investment projects assessed by this dimension</li> <li>A summary of inputs received during the public consultation, whether published or not.</li> <li>Documented summary of the key results of the economic analysis.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget document/s and/or supporting budget documentation</li> <li>Meeting notice or announcement of the public consultation</li> <li>Documentation attached to the consultation announcement</li> <li>Reports of the public consultation</li> <li>Pluriannual Investment Plans</li> <li>Annual reports of the departments in charge of investments</li> <li>Information may be accessible from the DoF, departments in charge of investment, or department in charge of citizen engagement</li> </ul>	
<b>Pillar III: Management of assets and liabilities</b>			
<b>PI-10 Fiscal risk reporting</b>			
10.1 Monitoring of public corporations	<ul style="list-style-type: none"> <li>Date of submission to supervising subnational government department and date of publication of the annual financial statements of each public corporation for the most recent</li> </ul>	<ul style="list-style-type: none"> <li>A list of public corporations, and data on dates of submission, publication and audit should be compiled by the DoF, national agency in charge of subnational</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	fiscal year completed, including information on whether each one is audited. <ul style="list-style-type: none"> <li>Consolidated fiscal reports of public corporations or whole of SNG consolidated fiscal reports.</li> </ul>	governments, or Audit Institution in charge of SNGs	
10.2 Monitoring of subnational governments	<ul style="list-style-type: none"> <li>Date of submission to supervising SNG department and date of publication of the annual financial statements or reports of each lower- tier subnational governments, including whether they are audited.</li> <li>Consolidated fiscal reports of lower-tier subnational governments and frequency of publication based on the last report published.</li> </ul>	<ul style="list-style-type: none"> <li>DoF</li> <li>Agency in charge of the lower tier of subnational governments</li> <li>Triangulation with information from selected subnational governments</li> </ul>	
10.3 Contingent liabilities and other fiscal risks	<ul style="list-style-type: none"> <li>Reports on contingent liabilities by the SNG and by individual SNG entities.</li> <li>Consolidated report on contingent liabilities and information on the frequency of publication.</li> </ul>	<ul style="list-style-type: none"> <li>Annual financial statements</li> <li>Financial or other reports of budgetary units</li> <li>DoF</li> </ul>	
<b>PI-11 Public investment management</b>			
11.1 Economic analysis of investment proposals	<ul style="list-style-type: none"> <li>List of investment projects approved in the last completed fiscal year with relevant data to identify them as 'major' as per PEFA criteria.</li> <li>Guidelines established either at the national or subnational level to conduct economic analysis.</li> <li>Economic analysis documentation of major investment projects approved in the last completed fiscal year.</li> <li>Documentation of the economic analyses review process by an agency other than the sponsoring agency.</li> <li>Documented publication of economic analyses results.</li> </ul>	<ul style="list-style-type: none"> <li>National guidelines to conduct economic analysis</li> <li>Department of finance/planning</li> <li>Line departments and agencies</li> <li>Agency in charge of public investments, if any</li> <li>Audit Institution in charge of SNG</li> <li>Development partners when there are major investment projects financed by external funds</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
11.2 Investment project selection	<ul style="list-style-type: none"> <li>Documentation of subnational government’s review of major investment projects before inclusion of projects in the budget.</li> <li>Documentation on publication and adherence to standard criteria for project selection.</li> <li>Details of standard criteria for project selection.</li> </ul>	<ul style="list-style-type: none"> <li>Department of finance/planning</li> <li>Line departments and agencies</li> <li>Agency in charge of public investments, if any</li> <li>Audit Institution in charge of SNG</li> <li>Development partners when there are major investment projects financed by external funds</li> </ul>	
11.3 Investment project costing	<ul style="list-style-type: none"> <li>Rules and methodologies on investment project costing, issued by the assessed SNG or an HLG.</li> <li>Budget projections for investment projects, supported by a cash flow forecast, financing plan, and operation/maintenance costs over the full life of the investment.</li> <li>Medium-term budget data on project implementation (recurrent costs, maintenance costs).</li> </ul>	<ul style="list-style-type: none"> <li>Legislation on public investment</li> <li>Annual budget documentation</li> <li>Medium-term expenditure framework, if available</li> <li>Department of finance/planning</li> <li>Line departments and agencies</li> <li>Agency in charge of public investments, if any</li> <li>Audit Institution in charge of SNG</li> <li>Development partners when there is major investment projects financed by external funds</li> </ul>	
11.4 Investment project monitoring	<ul style="list-style-type: none"> <li>A comparison of projections with data on the actual execution of major investment projects at different stages (time, amount spent, physical progress, etc.), published in budget documentation or elsewhere.</li> <li>Evidence of the existence of, and compliance with, implementation procedures in the form of audit findings or quality assurance reports.</li> </ul>	<ul style="list-style-type: none"> <li>Guidelines on monitoring public investments</li> <li>Databases</li> <li>Project monitoring reports</li> <li>Department of finance/planning</li> <li>Line departments and agencies</li> <li>Agency in charge of public investments, if any</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
		<ul style="list-style-type: none"> <li>• Audit Institution in charge of SNG</li> <li>• Development partners when there is major investment projects financed by external funds</li> </ul>	
<b>PI-12 Public asset management</b>			
12.1 Financial asset monitoring	<ul style="list-style-type: none"> <li>• Value of financial assets under each class and information on the method(s) of valuation used</li> <li>• Published document or set of documents covering the performance of the portfolio of financial assets and information on the frequency of publication</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidated financial statements, including notes relating to the holdings of financial assets.</li> <li>• Asset management agency, if any.</li> <li>• Budget and extrabudgetary units holding financial assets</li> <li>• DoF, Treasury</li> <li>• Internal audit units</li> <li>• Audit institution in charge of SNG</li> <li>• National MoF or national agency in charge of financial asset management</li> </ul>	
12.2 Nonfinancial asset monitoring	<ul style="list-style-type: none"> <li>• Register(s) of fixed assets, land and (where relevant) subsoil assets, possibly with information on their usage and age</li> <li>• Published document or set of documents related to one or more nonfinancial asset categories above mentioned</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidated financial statements, including notes relating to the holdings of financial assets.</li> <li>• Asset management agency, if any.</li> <li>• Budget and extrabudgetary units holding financial assets</li> <li>• DoF, Treasury</li> <li>• Internal audit units</li> <li>• Audit institution in charge of SNG</li> <li>• National MoF or national agency in charge of nonfinancial asset management</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
12.3 Transparency of asset disposal	<ul style="list-style-type: none"> <li>Rules and regulations related to transfer or disposal of financial and nonfinancial assets</li> <li>Set of documents submitted to the subnational council for information or approval</li> <li>Reports containing details of transfers and disposal of assets</li> </ul>	Financial reports from various possible sources including: <ul style="list-style-type: none"> <li>Asset management agency, if any</li> <li>Budget and extrabudgetary units</li> <li>DoF</li> <li>National MoF or Ministry in charge of SNGs</li> <li>Treasury</li> <li>Internal audit units</li> <li>Audit institution in charge of SNG</li> </ul>	
<b>PI-13 Debt management</b>			
13.1 Recording and reporting of debt and guarantees	<ul style="list-style-type: none"> <li>Reports to identify how complete and updated the records are and evidence that debt records are reconciled along with information on how frequently.</li> <li>The most recent management and statistical reports and information on how frequently they are issued.</li> </ul>	<ul style="list-style-type: none"> <li>DoF</li> <li>Treasury</li> <li>National MoF or Ministry in charge of SNGs</li> <li>Debt management office</li> <li>Debt management entities</li> </ul>	
13.2 Approval of debt and guarantees	<ul style="list-style-type: none"> <li>Primary and secondary legislation for government debt management, including provisions for approving loans; issuing loan guarantees and undertaking debt related transactions and documented policies; operational procedures and guidelines for approval, management, monitoring and reporting of these transactions and annual borrowing provisions.</li> <li>Documented procedures for undertaking debt management transactions.</li> </ul>	<ul style="list-style-type: none"> <li>DoF</li> <li>National MoF or Ministry in charge of SNGs</li> <li>Debt management office</li> <li>Debt management entities</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
	<ul style="list-style-type: none"> <li>Evidence of approval by government or the legislature for annual borrowing plans.</li> </ul>		
13.3 Debt management strategy	<ul style="list-style-type: none"> <li>The most recent SNG Debt Management Strategy; the most recent report on Debt Management Strategy implementation.</li> <li>Information on the SNG process of Debt Management Strategy formulation and approval.</li> <li>Legal requirements for publication of the annual report on debt management.</li> <li>Annual report on debt management.</li> </ul>	<ul style="list-style-type: none"> <li>DoF</li> <li>National MoF or Ministry in charge of SNGs</li> <li>Treasury</li> <li>Debt management office</li> <li>Debt management entities</li> </ul>	
<b>Pillar IV: Policy-based fiscal strategy and budgeting</b>			
<b>PI-14 Medium-term budget strategy</b>			
14.1 Underlying forecasts for medium-term budget	<ul style="list-style-type: none"> <li>Documentation of fiscal strategy (if issued as a separate document) and information on how it has been used for estimating revenue and expenditure.</li> <li>Documentation of sector strategies, and information about how they have been used for estimating expenditure and revenue.</li> <li>Key demographic and macroeconomic indicators and how they have been used for estimating expenditure and revenue.</li> <li>Submission of estimates of revenue and expenditure to the subnational council.</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget documents</li> <li>Annual budget circular</li> <li>Policy and analytical advice to government</li> <li>DoF working papers</li> <li>Fiscal strategy</li> <li>Budget speech</li> <li>Information on transfers provided to the SNG by the CG</li> </ul>	
14.2 Fiscal impact of policy proposals	<ul style="list-style-type: none"> <li>Policy proposals submitted by ministries/departments during annual budget process.</li> </ul>	<ul style="list-style-type: none"> <li>DoF</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
	<ul style="list-style-type: none"> <li>• Policy proposals submitted by ministries/departments outside the budget process.</li> <li>• Evidence that policy proposals are fully costed and include the recurrent costs of capital investment projects for the budget year and the following two fiscal years.</li> </ul>		
14.3 Medium-term expenditure and revenue estimates	<ul style="list-style-type: none"> <li>• Medium-term budget estimates for the budget year and the two following fiscal years disaggregated by administrative, economic, and program or functional classification</li> </ul>	<ul style="list-style-type: none"> <li>• Annual budget estimates</li> </ul>	
14.4 Consistency of budget with previous year's estimates	<ul style="list-style-type: none"> <li>• Budget proposal.</li> <li>• Last medium-term budget and current medium-term budget.</li> <li>• Explanation of variations between the last medium-term budget and the current medium-term budget.</li> </ul>	<ul style="list-style-type: none"> <li>• DoF</li> <li>• Annual budget documents</li> <li>• Large sector departments</li> </ul>	
<b>PI-17 Budget preparation process</b>			
17.1 Budget calendar	<ul style="list-style-type: none"> <li>• Budget calendar</li> <li>• Number of weeks budgetary units are allotted to complete their detailed estimates</li> <li>• Actual dates (timing) of the stages (actions) in the budget preparation process, compared to the original dates in the budget calendar</li> <li>• Content of the circulars relating to the preparation of detailed estimates</li> </ul>	<ul style="list-style-type: none"> <li>• DoF (budget division), corroborated by finance officers of large spending budgetary units</li> </ul>	
17.2 Guidance on budget preparation	<ul style="list-style-type: none"> <li>• Budget circular</li> <li>• Date of cabinet approval of budget circular compared to the date the DoF issues the budget circular to budgetary units</li> <li>• Date of cabinet approval of ceilings when they are not approved with the budget circular</li> </ul>	<ul style="list-style-type: none"> <li>• DoF (budget division), corroborated by the cabinet (e.g., memoranda) and large spending budgetary units</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	<ul style="list-style-type: none"> <li>Date of DoF transmission of ceilings to budgetary units when they are not approved with the budget circular</li> </ul>		
17.3 Budget submission to the subnational council	<ul style="list-style-type: none"> <li>Specific dates of submission to the legislature of the annual budget proposals for the last three fiscal years.</li> </ul>	<ul style="list-style-type: none"> <li>DoF (budget division), corroborated by the legislature (budget/finance commission)</li> </ul>	
<b>PI-18 Legislative scrutiny of budgets</b>			
18.1 Scope of budget scrutiny	<ul style="list-style-type: none"> <li>Budget documents reviewed by the subnational council</li> <li>Details of matters covered by the subnational council's review, such as records of meetings, findings and committee reports</li> </ul>	<ul style="list-style-type: none"> <li>Budget director, secretary or chair of budget committee(s) of subnational council, corroborated by advocacy, civil society organizations/representatives, and interest groups</li> </ul>	
18.2 Legislative procedures for budget scrutiny	<ul style="list-style-type: none"> <li>Records of SNG legislative sessions and decisions</li> <li>Content of SNG or CG procedures for reviewing budget proposals</li> <li>How and when the procedures were approved/issued</li> <li>Confirmation that procedures were adhered to, or information on non-adherence</li> </ul>	<ul style="list-style-type: none"> <li>Committees of the subnational council, corroborated by advocacy, civil society organizations/representatives, and interest groups</li> </ul>	
18.3 Timing of budget approval	<ul style="list-style-type: none"> <li>Date of budget approval by the subnational council in each of the last three fiscal years</li> </ul>	<ul style="list-style-type: none"> <li>DoF (budget department), corroborated by the subnational council (budget/finance commissions)</li> </ul>	
18.4 Rules for budget adjustment by the executive	<ul style="list-style-type: none"> <li>Procedures and rules for in-year budget amendments by the executive</li> <li>Confirmation that procedures were adhered to, or information on non-adherence</li> </ul>	<ul style="list-style-type: none"> <li>Committees of the subnational council, corroborated by advocacy, civil society organizations/representatives, and interest groups</li> <li>Internal and/or external audit reports</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
<b>Pillar V: Predictability and control in budget execution</b>			
<b>PI-19 Revenue administration</b>			
19.1 Rights and obligations for revenue measures	<p>For core taxes at the subnational level:</p> <ul style="list-style-type: none"> <li>Information provided to taxpayers on their tax compliance obligations, and rights, including, as a minimum, redress processes and procedures.</li> <li>Notes on whether the information provided to taxpayers is comprehensive, up to date, and easy to access.</li> <li>The main means by which information is provided.</li> </ul>	<ul style="list-style-type: none"> <li>Tax code and other revenue legislation.</li> <li>Agency in charge of subnational tax or subnational government’s websites and publications with information on key obligations and rights</li> <li>Customized information products tailored to the needs of key taxpayer segments</li> <li>Documented procedures of the entities collecting SNG core taxes</li> <li>The best information sources are the tax authorities, including national ones, and investment and promotion agencies. Information should also be triangulated with taxpayer and business associations, chamber/s of commerce, etc.</li> </ul>	
19.2 Property tax register and valuation	<ul style="list-style-type: none"> <li>Information contained in the register.</li> <li>Evidence of the timing at which the property assessment process took place, the assessment technique used, and the coverage of SNG territory.</li> <li>Evidence that the register is linked to the taxpayer registration system.</li> <li>For scores A and B, reliable information on validity of valuation methodologies and data integrity.</li> </ul>	<ul style="list-style-type: none"> <li>Land and property register</li> <li>Internal and external audit reports</li> <li>DoF, subnational or national agency in charge of tax collection, department in charge of lands and properties</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
19.3 Tax risk management, audit and investigations	<p>For core taxes at subnational level:</p> <ul style="list-style-type: none"> <li>Information on the procedures and approach used to assess and prioritize compliance risks for core taxes; and whether it covers (i) all core taxes; and (ii) taxpayers' four main compliance obligations (i.e. registration, filing, payment, and refund).</li> <li>The existence of a compliance improvement plan covering core taxes.</li> <li>The completion rate of audit and fraud investigations (i.e., a comparison of those planned and those conducted).</li> </ul>	<ul style="list-style-type: none"> <li>Documented risk management approach used by tax authorities to assess and prioritize compliance risks</li> <li>A register of identified compliance risks for each taxpayer segment (and for large- and medium-sized payers at a minimum)</li> <li>Documented compliance improvement plan</li> <li>Status reports on progress in the implementation of planned risk-mitigation activities and audit and fraud investigations</li> </ul>	
19.4. Tax arrears monitoring	<ul style="list-style-type: none"> <li>The stock of total core tax arrears at the end of the last completed fiscal.</li> <li>The total core tax revenue collection for the last completed fiscal year.</li> <li>The value of core tax arrears older than 12 months.</li> </ul>	<ul style="list-style-type: none"> <li>Tax collection authority records such as a documented report on (i) the stock of tax arrears; and (ii) tax arrears older than 12 months</li> </ul>	
<b>PI-20 Accounting for revenue</b>			
20.1 Information on revenue collections	<ul style="list-style-type: none"> <li>Evidence that information (reports, bank statements) is received on all revenue by an agency at the subnational level, through systems or separate reports.</li> <li>Evidence that information on revenue data is broken down by revenue type and consolidated into a report.</li> </ul>	<ul style="list-style-type: none"> <li>Entities/revenue authorities collecting SNG revenue</li> <li>Subnational treasury or other designated revenue recipients</li> </ul>	
20.2 Transfer of revenue collections	<p>For the revenues of the subnational government assessed by this dimension:</p>	<ul style="list-style-type: none"> <li>Entities/revenue authorities collecting SNG revenue, the Subnational treasury or other designated revenue recipients</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	<ul style="list-style-type: none"> <li>Information on the approach(es) to transferring revenue collections to the Treasury at the subnational level or other designated agencies.</li> <li>The promptness of transfers to the Treasury at the subnational level or other designated agencies.</li> </ul>		
20.3 Tax accounts reconciliation	<p>For the core taxes at subnational level:</p> <ul style="list-style-type: none"> <li>Comprehensiveness, frequency, and timeliness of reconciliation undertaken for core taxes. It relates to aggregate amounts of assessments/charges, collections, arrears, and transfers to (and receipts by) the Treasury or other designated agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Entities/revenue authorities collecting SNG revenue</li> <li>Subnational treasury or other designated revenue recipients</li> </ul>	
<b>PI-21 Predictability of in-year resource allocation</b>			
21.1 Consolidation of cash balances	<ul style="list-style-type: none"> <li>Number of SNG bank accounts managed by the Treasury and other budgetary units, and their balance.</li> <li>Number of SNG accounts included in the TSA for which balances are calculated and consolidated by the Treasury.</li> <li>Frequency of the consolidation of SNG bank account balances.</li> </ul>	<ul style="list-style-type: none"> <li>Subnational treasury</li> <li>Budgetary units</li> </ul>	
21.2 Cash forecasting and monitoring	<ul style="list-style-type: none"> <li>Evidence of the preparation of cash flow forecasts by a central entity and frequency of updates.</li> </ul>	<ul style="list-style-type: none"> <li>MoF and/or Subnational treasury</li> <li>Budgetary units</li> </ul>	
21.3 Information on commitment ceilings	<ul style="list-style-type: none"> <li>Evidence of the existence, and frequency of the issuance of commitment ceilings for budgetary units of the subnational government.</li> </ul>	<ul style="list-style-type: none"> <li>Subnational treasury</li> <li>Budgetary units</li> </ul>	
21.4 Significance of in-year budget adjustments	<ul style="list-style-type: none"> <li>Requests and approvals of significant budget adjustments (e.g. supplementary estimates and virements between budget entities).</li> </ul>	<ul style="list-style-type: none"> <li>MoF</li> <li>Budgetary units</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	<ul style="list-style-type: none"> <li>• Timing and communication on adjustments from central units to other budgetary units.</li> <li>• Fiscal impact of budget adjustments.</li> </ul>		
<b>PI-22 Expenditure arrears</b>			
22.1 Stock of expenditure arrears	<ul style="list-style-type: none"> <li>• Level of expenditure arrears at end of each fiscal year.</li> <li>• Total expenditures of the budgetary units of the SNG for each fiscal year.</li> </ul>	<ul style="list-style-type: none"> <li>• Subnational treasury</li> <li>• Budget division</li> <li>• Government accounting office</li> <li>• Budgetary units</li> <li>• Debt management office</li> <li>• Chamber of commerce/Industry and other private sector representatives for triangulation</li> </ul>	
22.2 Expenditure arrears monitoring	<ul style="list-style-type: none"> <li>• Information on how expenditure arrears are defined and through what means (legislation, tender documents, contracts, court decisions).</li> <li>• Recent data report(s) on expenditure arrears that indicate stock, composition and age profiles.</li> <li>• Frequency and delay of generating such reports during the past twelve months.</li> </ul>	<ul style="list-style-type: none"> <li>• Subnational treasury</li> <li>• Budget division</li> <li>• Budgetary units</li> <li>• Government accounting office</li> <li>• Debt management office</li> </ul>	
<b>PI-23 Payroll controls</b>			
23.1 Integration of payroll and personnel records	<ul style="list-style-type: none"> <li>• Documentation of payroll changes and corresponding personnel records</li> <li>• Documentation of the procedures applied and demonstration of the process for dealing with changes to personnel records and reconciliation of payroll and personnel records</li> </ul>	<ul style="list-style-type: none"> <li>• Personnel management directorate or department.</li> <li>• Accountant division</li> <li>• Finance officers of budgetary units and agencies</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>PEFA 2016 Performance Indicator</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
	<ul style="list-style-type: none"> <li>Information on the timing of reconciliations</li> </ul>	<ul style="list-style-type: none"> <li>Audit institution in charge of SNGS to triangulate information</li> </ul>	
23.2 Management of payroll changes	<ul style="list-style-type: none"> <li>Frequency and timing of updating of personnel records and payroll data.</li> <li>Information (ideally, documented) on the number and size of retroactive adjustments.</li> <li>Delay in the number of days from a change in personnel status to personnel records and payroll data are updated.</li> </ul>	<ul style="list-style-type: none"> <li>Personnel management directorate or department</li> <li>Accountant division</li> <li>Finance officers of budgetary units and agencies</li> <li>Audit institution in charge of SNGS to triangulate information</li> <li>Staff union to triangulate information</li> </ul>	
23.3 Internal control of payroll	<ul style="list-style-type: none"> <li>Procedures establishing roles and responsibilities.</li> <li>Evidence that the established procedures are applied.</li> <li>HRMS log queries.</li> </ul>	<ul style="list-style-type: none"> <li>Personnel management directorate or department.</li> <li>Accountant division</li> <li>Finance officers of budgetary units and agencies</li> <li>Audit institution in charge of SNGS to triangulate information</li> <li>Audit units to triangulate information</li> </ul>	
23.4 Payroll audit	<ul style="list-style-type: none"> <li>Dates of payroll audit events during the last three fiscal years.</li> <li>Coverage, scope and auditors of each event.</li> <li>Action taken on audit findings.</li> </ul>	<ul style="list-style-type: none"> <li>Personnel management directorate or department</li> <li>Accountant division.</li> <li>Finance officers of budgetary units and agencies.</li> <li>Audit institution in charge of SNGS to triangulate information.</li> <li>Audit units to triangulate information</li> </ul>	
<b>PI-24 Procurement management</b>			

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<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
24.1 Procurement monitoring	<ul style="list-style-type: none"> <li>Data bases or reports with information on what has been procured, the value of procurement, and who has been awarded the contracts.</li> <li>Information on the accuracy and completeness of data.</li> </ul>	<ul style="list-style-type: none"> <li>DoF or entities where procurement monitoring has been centralized.</li> <li>National agency in charge of procurement database when SNG can access it and manage their own records</li> </ul>	
24.2 Procurement methods	<ul style="list-style-type: none"> <li>Data bases or reports with information on contracts awarded through competitive and non-competitive methods and value.</li> </ul>	<ul style="list-style-type: none"> <li>DoF or entities where the procurement monitoring has been centralized.</li> <li>National agency in charge of procurement database when SNG can access it and manage their own records</li> </ul>	
24.3 Public access to procurement information	<ul style="list-style-type: none"> <li>Legal and regulatory framework for procurement.</li> <li>Information on government procurement plans, bidding opportunities, contract awards, resolution of procurement complaints, and annual procurement statistics.</li> </ul>	<ul style="list-style-type: none"> <li>As in dimension 24.1, plus procurement data publicly available in official websites</li> <li>Corroborations from civil society organizations/representatives or business associations (e.g., chambers of commerce)</li> </ul>	
24.4 Procurement complaints management	<ul style="list-style-type: none"> <li>Legal and regulatory framework of the complaint body addressing the requirements of the dimension 24.4.</li> <li>Data with number of complaints received and resolved (settled in favor of complainants and procuring entities respectively).</li> <li>Fees charged, if any (refer criterion 2).</li> </ul>	<ul style="list-style-type: none"> <li>Procurement complaints body, audit institution in charge of SNGs, civil society organizations/representatives or business associations (e.g., chamber of commerce)</li> <li>Internal and external audit reports</li> <li>Meetings with civil society organizations/representatives and private sector</li> </ul>	
<b>PI-25 Internal controls on non-salary expenditure</b>			
25.1 Segregation of duties	<ul style="list-style-type: none"> <li>Prescribed rules, regulations or procedures establishing segregation of duties</li> <li>Evidence that rules are complied with</li> </ul>	<ul style="list-style-type: none"> <li>Budget division</li> <li>Accounting division</li> <li>Subnational treasury</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

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<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
		<ul style="list-style-type: none"> <li>• Audit institution in charge of the SNGs</li> <li>• Internal audit</li> <li>• Regulations and guidance on accounting and payment processing</li> </ul>	
25.2 Effectiveness of expenditure commitment controls	<ul style="list-style-type: none"> <li>• Information on commitment controls and associated compliance and assurance arrangements.</li> <li>• Error rates or rejection rates in routine financial transactions as reported by government financial controllers and /or internal or external audit bodies.</li> <li>• Cross-check information with data from PI.22</li> </ul>	<ul style="list-style-type: none"> <li>• DoF (internal audit)</li> <li>• Subnational treasury</li> <li>• Accounting division</li> <li>• Heads and finance officers of major budgetary units</li> <li>• Audit institution in charge of the SNGs</li> </ul>	
25.3 Compliance with payment rules and procedures	<ul style="list-style-type: none"> <li>• Prescribed procedures, regulations or rules establishing the segregation of duties and payment procedures</li> <li>• Evidence that procedures are complied with</li> </ul>	<ul style="list-style-type: none"> <li>• Budget division</li> <li>• Accounting division</li> <li>• Subnational treasury</li> <li>• Audit institution in charge of the SNGs</li> <li>• Internal audit.</li> <li>• Regulations and guidance on accounting and payment processing</li> <li>• Information system</li> </ul>	
<b>PI-26 Internal audit</b>			
26.1 Coverage of internal audit	<ul style="list-style-type: none"> <li>• Regulations, laws and procedures relating to internal audit</li> <li>• Internal audit reports of budgetary and extrabudgetary units</li> </ul>	<ul style="list-style-type: none"> <li>• DoF (internal audit)</li> <li>• Accounting division</li> <li>• Heads and finance officers of major budgetary units</li> <li>• Audit institution in charge of the SNGs</li> </ul>	
26.2 Nature of audits and standards applied	<ul style="list-style-type: none"> <li>• Documented rules regulations and procedures on internal audit (national and subnational)</li> </ul>	<ul style="list-style-type: none"> <li>• DoF (internal audit)</li> <li>• Accounting division</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
	<ul style="list-style-type: none"> <li>Evidence of internal audits focused on the evaluation of adequacy and effectiveness</li> <li>Evidence of internal audit standards being applied</li> <li>Quality assurance procedures for internal audit</li> <li>Comparison of actual audit functions and activities with professional standards</li> </ul>	<ul style="list-style-type: none"> <li>Heads and finance officers of major budgetary units</li> <li>Audit institution in charge of the SNGs</li> </ul>	
26.3 Implementation of internal audits and reporting	<ul style="list-style-type: none"> <li>Documentary evidence of an annual internal audit program (e.g. plan) and completed internal audits</li> </ul>	<ul style="list-style-type: none"> <li>DoF (internal audit)</li> <li>Accounting division</li> <li>Heads and finance officers of major budgetary units</li> <li>Audit institution in charge of the SNGs</li> </ul>	
26.4 Response to internal audits	<ul style="list-style-type: none"> <li>Documentary evidence of management response to internal audit recommendations and information on timing of the response</li> </ul>	<ul style="list-style-type: none"> <li>DoF (internal audit)</li> <li>Accounting division</li> <li>Heads and finance officers of major budgetary units</li> <li>Audit institution in charge of the SNGs</li> </ul>	
<b>Pillar VI: Accounting and reporting</b>			
<b>PI-27 Financial data integrity</b>			
27.1 Bank account reconciliation	<ul style="list-style-type: none"> <li>Frequency of reconciliation of subnational treasury managed bank accounts</li> <li>Number of days from end of reconciled period to date reconciliation is completed for subnational treasury managed bank accounts</li> <li>Frequency of reconciliation of government bank accounts not managed by subnational treasury</li> </ul>	<ul style="list-style-type: none"> <li>Subnational treasury</li> <li>Accounting division</li> <li>Audit institution in charge of the SNGs</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>SNG PEFA Assessment: Data required and sources</b>			
<b>PEFA 2016</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
<b>Performance Indicator</b>			
	<ul style="list-style-type: none"> <li>Number of days from end of reconciled period to date reconciliation is completed for government bank accounts not managed by the subnational treasury</li> </ul>		
27.2 Suspense accounts	<ul style="list-style-type: none"> <li>Frequency of reconciliation of suspense accounts</li> <li>Number of days from end of reconciled period to date reconciliation is completed for suspense accounts</li> </ul>	<ul style="list-style-type: none"> <li>Subnational treasury</li> <li>Accounting division</li> <li>Audit institution in charge of the SNGs</li> </ul>	
27.3 Advance accounts	<ul style="list-style-type: none"> <li>Nature of advance accounts</li> <li>Frequency and timeliness of reconciliation clearance of advance accounts</li> <li>Timeliness of clearance of advances</li> </ul>	<ul style="list-style-type: none"> <li>Subnational treasury</li> <li>Accounting division</li> <li>Audit institution in charge of the SNGs</li> </ul>	
27.4 Financial data integrity processes	<ul style="list-style-type: none"> <li>Documentary evidence of rules, regulations or procedures access to and recording of changes to records (both national and subnational rules)</li> <li>Evidence of the existence of a unit in charge of verifying financial data integrity</li> </ul>	<ul style="list-style-type: none"> <li>Budget division</li> <li>Subnational treasury</li> <li>Accounting division</li> <li>Audit institution in charge of the SNGs</li> <li>Internal audit</li> </ul>	
<b>PI-28 In-year budget reports</b>			
28.1 Coverage and comparability of reports	<ul style="list-style-type: none"> <li>Budget execution reports compared with authorized budgets, including transfers and activities of deconcentrated units</li> </ul>	<ul style="list-style-type: none"> <li>Accounting division corroborated by audit institution in charge of the SNGs</li> <li>Subnational treasury or DoF</li> </ul>	
28.2 Timing of in-year budget reports	<ul style="list-style-type: none"> <li>Frequency of in-year budget execution reports</li> <li>Number of days following end of period that budget report is disseminated within the government</li> <li>Availability of reports or ability to generate reports</li> </ul>	<ul style="list-style-type: none"> <li>Accounting division corroborated by audit institution in charge of the SNGs</li> <li>Subnational treasury or DoF</li> </ul>	
28.3 Accuracy of in-year budget reports	<ul style="list-style-type: none"> <li>Budget execution reports including details of how reports are compiled</li> </ul>	<ul style="list-style-type: none"> <li>Accounting division corroborated by audit institution in charge of the SNGs</li> </ul>	

SNG PEFA Assessment: Data required and sources			
PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	<ul style="list-style-type: none"> <li>• Identification of information on payments and commitments in reports</li> <li>• Information on revisions and adjustments made after reports have been finalized</li> </ul>		
<b>PI-29 Annual financial reports</b>			
29.1 Completeness of annual financial reports	<ul style="list-style-type: none"> <li>• Annual financial reports compared with the approved budget</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting division corroborated by audit institution in charge of the SNGs</li> </ul>	
29.2 Submission of reports for external audit	<ul style="list-style-type: none"> <li>• Number of days following the end of the fiscal year that the financial report was submitted for external audit during the last year</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting division corroborated by audit institution in charge of the SNGs</li> <li>• National MoF or agency in charge of SNGs (or their deconcentrated units)</li> </ul>	
29.3 Accounting standards	<ul style="list-style-type: none"> <li>• Evidence of accounting standards being used and applied; any gaps between the standards applied by the SNG and national accounting standards are explained.</li> <li>• Notes on the financial reports relating to the standards applied.</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting division corroborated by audit institution in charge of the SNGs</li> <li>• National MoF or agency in charge of SNGs (or their deconcentrated units)</li> </ul>	
<b>Pillar VII: External scrutiny and audit</b>			
<b>PI-30 External audit</b>			
30.1 Audit coverage	<ul style="list-style-type: none"> <li>• Audit of SNG financial reports.</li> <li>• Evidence on the extent to which materiality has been met.</li> <li>• Issues that have been highlighted by the audit reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit institution in charge of the SNGs, corroborated by the SNG, national MoF or agency in charge of SNGs</li> </ul>	
30.2 Submission of audit reports to the subnational council	<ul style="list-style-type: none"> <li>• Date(s) of receipt of financial report(s) by the external auditor.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit institution in charge of the SNGs, corroborated by the SNG, national MoF or agency in charge of SNGs</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

PEFA 2016 Performance Indicator	Data required	Data sources	Data Provided (Y/N)
	<ul style="list-style-type: none"> <li>• Date(s) of submitting the audit reports to the subnational council</li> <li>• Calculation of the period between receipt by the auditor and submission to the subnational council.</li> <li>• Information on the causes for any delays in submitting the audited financial report to the subnational council.</li> </ul>	<ul style="list-style-type: none"> <li>• Information on submission of reports for audit can also be corroborated with the DoF, or national MoF or agency in charge of SNGs.</li> </ul>	
30.3 External audit follow-up	<ul style="list-style-type: none"> <li>• Information on recommendations made by the auditor and responses from the SNG during the period</li> </ul>	<ul style="list-style-type: none"> <li>• Audit institution in charge of the SNGs, corroborated by the SNG, national MoF or agency in charge of SNGs</li> </ul>	
30.4 Independence of the public audit institution in charge of subnational governments	<ul style="list-style-type: none"> <li>• Constitution and/or law governing operation of SAIs or public audit offices.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit institution in charge of the SNGs</li> <li>• Legislation</li> <li>• External reports on audit institution independence and financial governance</li> </ul>	
<b>PI-31 Legislative scrutiny of audit reports</b>			
31.1 Timing of audit report scrutiny	<ul style="list-style-type: none"> <li>• Number of months taken for complete scrutiny of the external audit report by the legislature after receipt of the report</li> </ul>	<ul style="list-style-type: none"> <li>• Audit institution in charge of the SNGs, DoF, subnational council, corroborated by civic interest groups</li> </ul>	
31.2 Hearings on audit findings	<ul style="list-style-type: none"> <li>• Records of hearings and audit reports for the last three completed fiscal years</li> <li>• Records of attendance at hearings, particularly concerning the audited entities and audit institution in charge of SNGs</li> </ul>	<ul style="list-style-type: none"> <li>• Respective committees of the subnational council, audit institution in charge of the SNGs, and the DoF, corroborated by civic interest groups</li> </ul>	
31.3 Recommendations on audit by the subnational council	<ul style="list-style-type: none"> <li>• Records of recommendations by the subnational council for actions to be taken by the executive</li> <li>• Records of procedures for following up on recommendations</li> <li>• Information on whether the procedures are followed.</li> </ul>	<ul style="list-style-type: none"> <li>• Audit institution in charge of the SNGs</li> <li>• Subnational council</li> </ul>	

**SNG PEFA Assessment: Data required and sources**

<b>PEFA 2016</b>  <b>Performance Indicator</b>	<b>Data required</b>	<b>Data sources</b>	<b>Data Provided (Y/N)</b>
31.4 Transparency of legislative scrutiny of audit reports	<ul style="list-style-type: none"> <li>• Number of hearings on audit reports</li> <li>• Number of hearings conducted in public</li> <li>• Evidence that legislative committee reports on audits are debated in the full chamber of the legislature and published in a publicly accessible form</li> </ul>	<ul style="list-style-type: none"> <li>• Subnational council corroborated by audit institution in charge of the SNGs and civic interest groups.</li> </ul>	

