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# **PEFA Handbook**

## **Volume III: Preparing the PEFA Report**

**Second edition**

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PEFA Secretariat  
Washington DC  
USA

## Table of contents

<b>PEFA ASSESSMENT HANDBOOK-PREFACE</b> .....	<b>3</b>
<b>Volume III: Preparing the PEFA report</b> .....	<b>4</b>
About Volume III.....	4
<b>Structure of the PEFA report</b> .....	<b>5</b>
<b>PEFA Check. Assessment management and quality assurance</b> .....	<b>7</b>
<b>Table of contents</b> .....	<b>7</b>
<b>Abbreviations and acronyms</b> .....	<b>7</b>
<b>Methodology</b> .....	<b>8</b>
<b>Executive summary</b> .....	<b>10</b>
<b>1. PFM Context</b> .....	<b>11</b>
1.1. Financial overview .....	11
1.2. Institutional arrangements for PFM .....	11
1.3. PFM Reform process .....	12
<b>2. Detailed analysis of PFM performance</b> .....	<b>14</b>
2.1. Pillar 1 .....	14
2.2. Pillar 2 .....	14
2.3. Pillar 3 .....	16
2.4. Pillar 4 .....	16
2.5. Pillar 5 .....	16
2.6. Pillar 6 .....	16
2.7. Pillar 7 .....	16
<b>3. Overall analysis of PFM performance</b> .....	<b>17</b>
3.1. PFM strengths and weaknesses	
3.2. Effectiveness of the internal control framework	
3.3. Performance changes since a previous assessment	
<b>Annex 1: Performance indicator summary</b> .....	<b>37</b>
<b>Annex 2: Summary of observations on the internal control framework</b> .....	<b>39</b>
<b>Annex 3: Sources of information</b> .....	<b>44</b>
<b>Annex 4: Tracking change in performance based on previous versions of PEFA</b> .....	<b>46</b>

# PEFA ASSESSMENT HANDBOOK

## Preface

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

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

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

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

The handbook is presented in four separate volumes:

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

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

# Volume III: Preparing the PEFA report

## About Volume III

The purpose of Volume III of the PEFA Handbook (the Handbook) is to provide PEFA users with expanded guidance on how to prepare a PEFA 2016 report following the public release of the Framework document on February 1, 2016.

Volume III expands on the PEFA 2016 framework document by providing supplementary guidance on all components of the expected structure of the report. It also provides a description of the information to be included in the report. Volume III includes also the PEFA report template to help the assessment teams in preparing the PEFA assessment reports by showing how information is to be recorded and presented in the report. The template can be used as a basic format for the content of their report.

Section 2 of Volume III includes guidance on how to assess performance changes between previous versions of the framework and PEFA 2016. This guidance is also available as a separate document *Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011* available at [www.pefa.org](http://www.pefa.org).

## *Purpose of the PEFA report*

As explained in the framework document, the PEFA report aims to provide a comprehensive and integrated assessment of a country's PFM performance based on an indicator-led analysis of the key elements of a PFM system. It also aims to assess the extent to which PFM performance has changed since earlier assessments. PEFA reports, when done well, provide a technically solid basis for supporting PFM reform dialogue and action planning. Relevant information is included in the body of the report. Annexes are generally used only to present large data tables and detailed information on matters such as internal financial control, but not to elaborate on the analysis and findings of the report.

The PEFA report is an assessment of current PFM performance. It does not include recommendations for reforms or action plans. Differences of views over the findings of the report between the government and other stakeholders involved in preparing the assessment can be accommodated by summarizing significant differences in an annex of the report.

PEFA reports are produced for government and are intended to inform their PFM and associated reform initiatives. To that end, it is crucial that governments are engaged in the assessment and provide input and comments throughout the process. It is expected that PEFA reports will be published by governments and available to interested people within and outside the country covered by a report. The PEFA website contains every report provided to the PEFA Secretariat since the program commenced and all reports published by governments are available to the public through the PEFA website.

## ***Structure of the PEFA Report***

The structure of the report is shown in the table of contents on the next page.

A table of contents and a list of abbreviations are provided at the beginning of the report, before the executive summary. Information on relevant details of the methodology is also provided, including the fiscal year, the currency used in the report, and its exchange rate with major international currencies such as USD or EUR.

Certain mandatory data tables are specified in section 1 of the report and for selected indicators, mandatory and recommended tables are presented in section 2. The tables should be filled in to the extent that the information is available. Assessors are not expected to undertake a major exercise to collect and process data for the mandatory tables. The focus should be on using readily available data to present an overview of central government and its operations, as a basis for comment in the report narrative.

## **RECOMMENDED STRUCTURE OF THE PEFA REPORT:**

### **PEFA CHECK**

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

### **1. PFM CONTEXT**

1.1. Financial overview

1.2. Institutional arrangements for PFM

1.3. Legal and regulatory arrangements for PFM

1.4. PFM Reform process

### **3. DETAILED ANALYSIS OF PFM PERFORMANCE**

Pillar1: Budget reliability

Pillar 2: Transparency of public finances

Pillar 3: Management of assets and liabilities

Pillar 4: Policy-based fiscal strategy and budgeting

Pillar 5: Predictability and control in budget execution

Pillar 6: Accounting and reporting

Pillar 7: External scrutiny and audit

### **3. OVERALL ANALYSIS OF PFM PERFORMANCE**

3.1. PFM strengths and weaknesses

3.2. Effectiveness of the internal control framework

3.3. Performance changes since a previous assessment

### **ANNEXES**

Annex 1: Performance indicator summary

Annex 2: Summary of observations on the internal control framework

Annex 3: Sources of information

Annex 4: Tracking changes in performance based on previous versions of PEFA (if a successive assessment)

Annex 5: Calculation of budget variances for PI-1, 2 and 3

# PEFA CHECK, ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

If the report is eligible, a PEFA Check endorsement as provided by the PEFA Secretariat will be inserted as a full page certification before the section on Assessment Management and Quality Assurance.

The section on Assessment Management and Quality Assurance describes the process of preparing the report, including:

- i. The organization(s) that initiated, commissioned and funded the assessment; or any other funding arrangements;
- ii. The extent to which government institutions and government officials were involved in the preparation of the report;
- iii. The roles and contributions of any other stakeholders in the assessment, e.g., oversight agencies such as Supreme Audit Institutions (SAI), legislature, development partners, and non-state actors such as civil society organizations, chamber of commerce, etc.

The section includes information on the assessment management and quality assurance arrangements established for planning and managing the PEFA assessment as presented in the box below. Additionally, the section should make reference to the PEFA CHECK requirements ([www.pefa.org](http://www.pefa.org)) and any other information relevant to the quality assurance process.

<p><b>BOX 1.1: Assessment management and quality assurance arrangements</b></p> <p><b>PEFA assessment management organization</b></p> <ul style="list-style-type: none"><li>• Oversight Team — Chair &amp; Members: [names &amp; organizations]</li><li>• Assessment Manager: [name and organization]</li><li>• Assessment Team Leader and Team Members: [name and organization for each]</li></ul> <p><b>Review of concept note and/or terms of reference</b></p> <ul style="list-style-type: none"><li>• Date of reviewed draft concept note and/or terms of reference:</li><li>• Invited reviewers: [name and organization for each one, or as group e.g. the Oversight Team]</li><li>• Reviewers who provided comments: [name and organization for each one, in particular the PEFA Secretariat and date(s) of its review(s) or as group e.g. the Oversight Team]</li><li>• Date(s) of final concept note and/or terms of reference:</li></ul> <p><b>Review of the assessment report</b></p> <ul style="list-style-type: none"><li>• Date(s) of reviewed draft report(s):</li><li>• Invited reviewers: [name and organization for each one, in particular the PEFA Secretariat and date(s) of its review(s) or as group e.g. the Oversight Team]</li><li>• Reviewers who provided comments: [name and organization for each one]</li></ul>
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The section on Assessment Management and Quality Assurance is following by a table of contents and list of abbreviations.

## METHODOLOGY

**This section briefly presents the main elements of methodology applied during the PEFA assessment**

**Type of assessment:** This should indicate whether the assessment (i) is a baseline or a successive exercise, and the version of the PEFA Framework that has been used; (ii) is a self or a joint assessment; and (iii) is a stand-alone assessment or is combined with any other analytical work.

**Number of indicators used:** This should specify how many performance indicators were used from the version of the PEFA Framework and, if relevant, provide a clear justification of why a specific dimension or an indicator is considered not applicable or why it was not used. In the latter, the indicator not to be used would normally have been identified, explained and agreed at the Concept Note (CN)/Terms of Reference (ToR) stage.

**Timeline/ Dates of mission:** Description of the timeline for the assessment is to be clearly defined.

**Years covered:** This should specify what are the last three completed fiscal years considered for the assessment, with a clear mention of whether there were audited.

**Cut-off date:** The cut-off date is the last date for which data included in the assessment was considered. This is crucial for identifying the “last completed fiscal year” as well as for the “last three completed years” referred to in many dimensions, and the critical date for consideration of circumstances applying “at the time of the assessment”, which is relevant to some dimensions. In addition, useful information received up to the date the report goes for final formatting and issue should be mentioned in footnotes and clearly state that this late information has not affected the score.

**Coverage:** The scope refers to the tier of government covered, which is typically a central government or one subnational government. The report further specifies the coverage of the assessment by explaining which institutional units (such budgetary and extrabudgetary units) and operations are covered and which are not. Setting the boundaries of the government being assessed concerns both the boundaries with other tiers of government and the boundaries with other parts of the general government sector, for example, institutional units outside central government such as public corporations. Any deviations from the coverage of central government or a subnational government specified in the coverage for each indicator must be explained and justified. In particular, the coverage of social security funds, sovereign wealth funds, and structured financing instruments such as PPPs shall be specified. Definition of the assessment coverage shall be consistent with the description of institutional units and fiscal operations, as provided in subsections 1.1 and 1.2 of the report.

**Sources of information:** The assessment team will need to collect information from officials from central finance agencies as well as from a variety of budgetary units and other institutional units. In order to obtain a fair representation of institutions within the resource constraints on the assessment team, the units from which information is to be collected need to be selected on an indicator by indicator basis. The basis for selecting government units from which information is collected is often specified in the guidance for individual indicators. The government units selected for an indicator should be described in the report within the narrative for each indicator, together with the method used for selecting a sample, where relevant.

Other sources of information used for the assessment are described in this section of the report. This would include documents obtained from, and interviews with, representatives of other levels of government, public corporations, private sector, nongovernmental organizations, and external finance institutions and development partners. These latter sources will be particularly useful for corroborating evidence provided by government units. A full list of



people interviewed and a full list of sources of information shall be provided in Annex 3 of the report. It is recommended that the sources of information are listed by indicator. See examples of presentation for Annex 3 A: List of related survey and analytical work; Annex 3 B: List of people who have been interviewed and provided information for the PFM performance; and Annex 3: C: Sources of Information by indicator.

**Country fiscal year:**

**Exchange rate:** This should specify the currency unit used in the country and the exchange rate against USD or EUR effective as of the relevant date.

# Executive summary

The objective of the executive summary is to provide an integrated and strategic overview of the findings of the report. The executive summary covers the impact of public financial management on three fiscal and budgetary outcomes: achievement of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. It summarizes the main changes in performance since any previous assessment.

The indicative length of this section is three pages of text plus up to two pages of graphs. In addition, the section includes a table, not exceeding one page, which gives an overview of the scores for each of the PEFA indicators (See Table 1: Overview of the scores of the PEFA indicators)<sup>1</sup>.

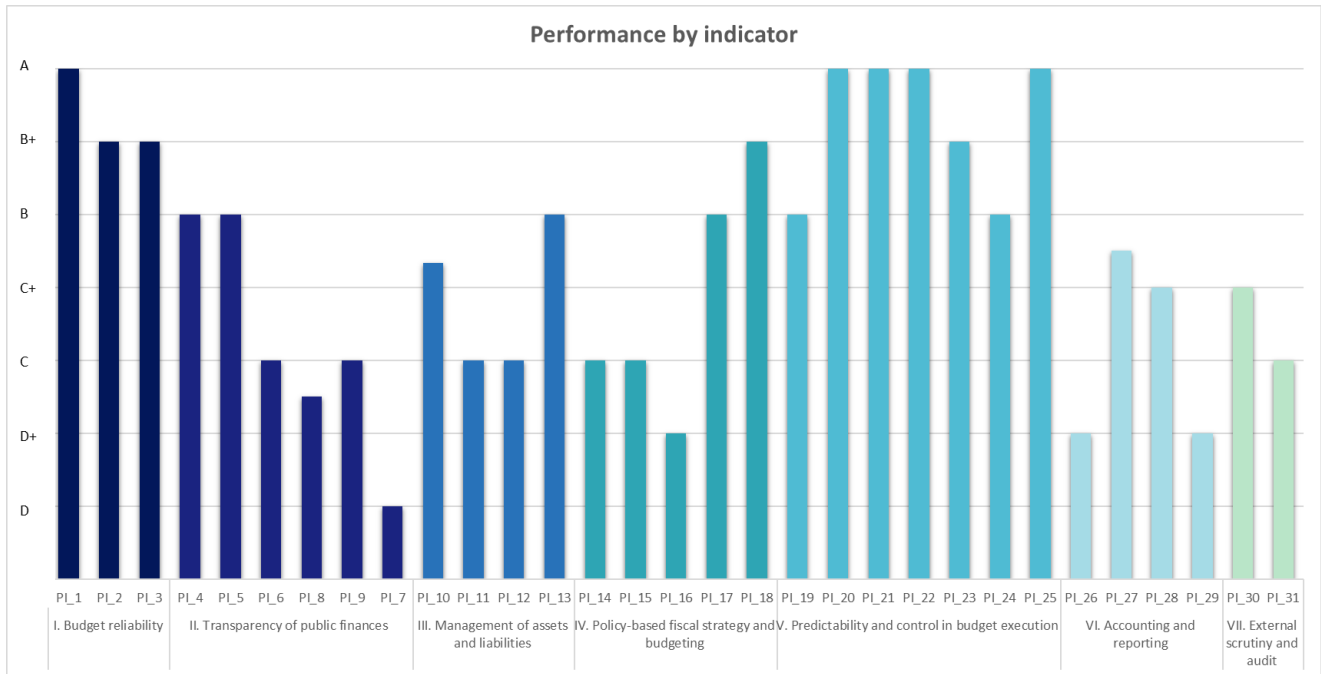
The executive summary presents a synopsis of the key information, data, and analysis presented in sections 1-5 of the report. It includes the following:

- **Purpose and management**  
A brief explanation of the main reason for the assessment and how it relates to the PFM reform agenda.
- **Main strengths and weaknesses of the PFM systems in country X**  
Brief description of the main findings of the assessment by using the main strengths and weaknesses (up to maximum five for each)

**Figure 1: Summary of PEFA scores by indicator**

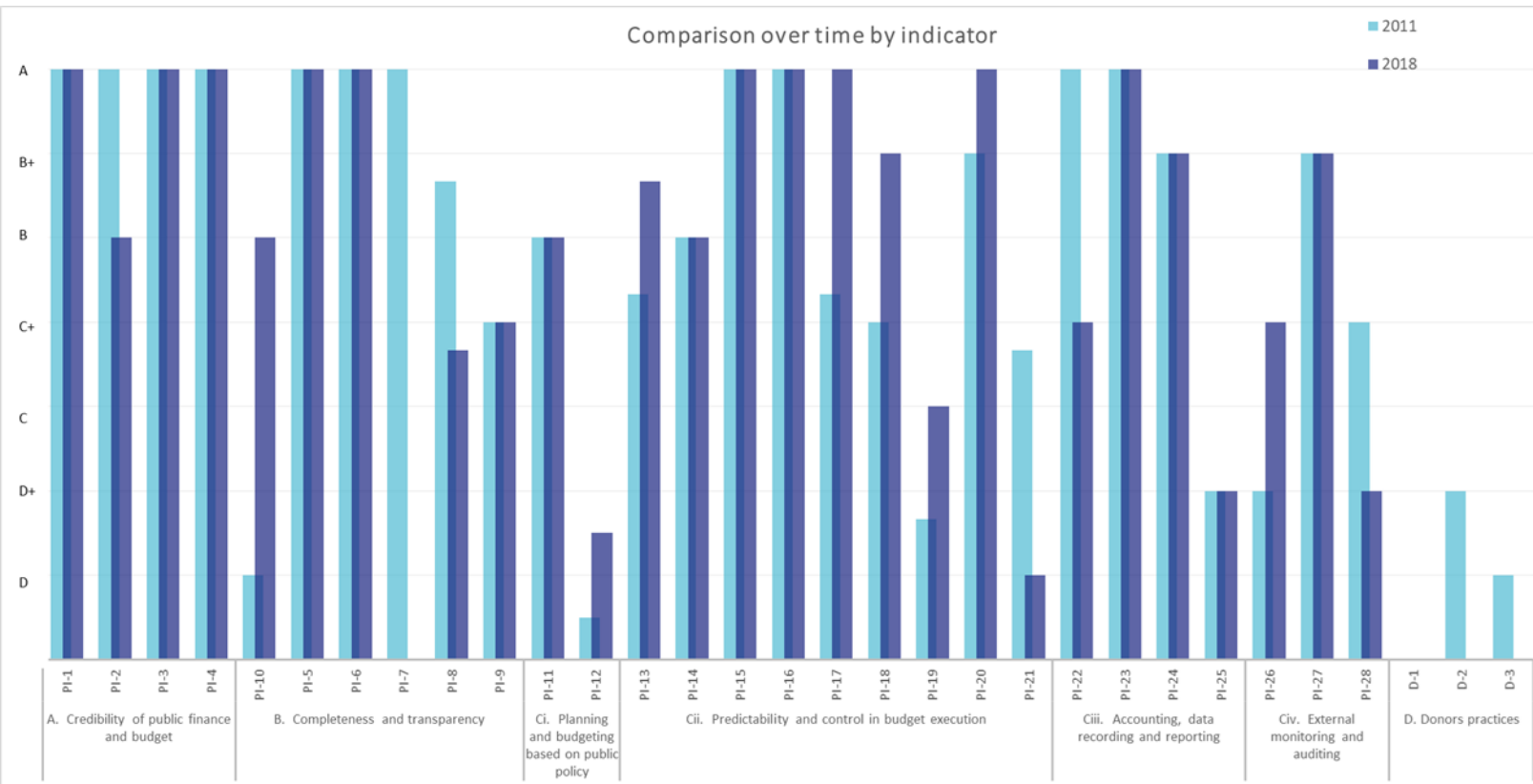
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<sup>1</sup> A more detailed table that sets out the scores at both indicator and dimension level, as well as a brief description of the requirements met is included in Annex 1. Performance indicator summary. Annex I also includes columns to capture scores from a previous assessment that used the PEFA 2016 methodology. However, annex 1 cannot be used to compare scores with a previous assessment that used the 2005 or 2011 versions of the framework. Tracking performance changes in these circumstances will require assessors to complete a supplementary annex (See Annex 4: Tracking changes in performance based on previous versions of PEFA). The supplementary annex should be prepared in compliance with the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 available at [www.pefa.org](http://www.pefa.org).)



- Impact of PFM performance on budgetary and fiscal outcomes**  
 Explanation of how PFM performance affects the three main fiscal and budgetary outcomes. This takes into account the specific economic, political and administrative structure of the country, and highlights the major strengths and weaknesses identified in the report that are likely to impact PFM performance.
- Performance changes since the previous PEFA assessment (if applicable)**  
 A summary of the main performance changes since any earlier PEFA assessment. This is also structured according to the seven pillars and the three main fiscal and budgetary outcomes.

**Figure 2: Comparison over time**



**Table 1: Overview of the scores of the PEFA indicators**

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
<b>I. Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1					
PI-2	Expenditure composition outturn	M1					
PI-3	Revenue outturn	M1					
<b>II. Transparency of public finances</b>							
PI-4	Budget classification	M1					
PI-5	Budget documentation	M1					
PI-6	Central government operations outside financial reports	M2					
PI-7	Transfers to subnational governments	M2					
PI-8	Performance information for service delivery	M2					
PI-9	Public access to fiscal information	M1					
<b>III. Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting.	M2					
PI-11	Public investment management	M2					
PI-12	Public asset management	M2					
PI-13	Debt management	M2					
<b>IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2					
PI-15	Fiscal strategy	M2					
PI-16	Medium-term Perspective in expenditure Budgeting	M2					
PI-17	Budget preparation process	M2					
PI-18	Legislative scrutiny of budgets	M2					
<b>V. Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2					
PI-20	Accounting for revenue	M1					
PI-21	Predictability of in-year resource allocation	M2					
PI-22	Expenditure arrears	M1					
PI-23	Payroll controls	M1					
PI-24	Procurement management	M2					
PI-25	Internal controls on non-salary expenditure	M2					
PI-26	Internal audit	M1					
<b>VI. Accounting and reporting</b>							
PI-27	Financial data integrity	M2					
PI-28	In-year budget reports	M1					
PI-29	Annual financial reports	M1					
<b>VII. External scrutiny and audit</b>							

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
PI-30	External audit	M1					
PI-31	Legislative scrutiny of audit reports	M1					

# 1. PFM Context in country X

The objective of this section is to provide information on the core characteristics of PFM in the country.

The indicative length of this section is six to ten pages.

## 1.1. Financial overview

This subsection describes the structure of the overall public sector and the central government respectively, in terms of the number of institutions involved and the financial importance of each segment. The information may be gathered from various sources such as government financial statistics, consolidated government accounts, and statistics or accounts for individual institutions. Data should cover the last completed fiscal year.

The information serves as a basis for understanding the coverage and boundaries of the assessment as presented in section 1.3 of the report. It also provides an opportunity to explain the relative importance of different segments of the public sector for the analysis in sections 2 and 3.

**TABLE 1.1: Structure of the public sector (number of entities and financial turn-over)**

Year	Public sector				
	Government subsector		Social security funds 1/	Public corporation subsector	
	Budgetary unit	Extrabudgetary units		Nonfinancial public corporations	Financial public corporations
Central	2/				
1 <sup>st</sup> tier subnational (State)					
Lower tier(s) of subnational					

1/ Depending on management control and funding arrangements, a social security fund is a public sector entity that may form part of a particular level of government or be classified as a separate sub-sector of the government sector (GFS 2014, para- graph 2.78).

2/ 'Budgetary central government' comprises all central government entities included in the central government budget.

This section includes a short comment on the main trends in aggregate fiscal discipline for the last three years.

**TABLE 1.2: Aggregate fiscal data**

	Central government actuals (in percent of GDP)		
	FY T-2	FY T-1	FY T
Total revenue			
—Own revenue			
—Grants			
Total expenditure			
—Noninterest expenditure			

—Interest expenditure			
Aggregate deficit (incl. grants)			
Primary deficit			
Net financing			
—External			
—Domestic			

The table should show the overall totals for the central government sector.  
If only budget data is included this should be specifically mentioned.

**TABLE 1.3: Financial structure of central government – actual expenditure (in currency units)**

Year	Central government			
	Budgetary unit	Extrabudgetary units	Social security funds	Total aggregated 1/
Revenue				
Expenditure				
Transfers to (-) and from (+) other units of general government				
Liabilities				
Financial assets				
Nonfinancial assets				

1/ Where available this should be the consolidated total, but other aggregation method may be used (with explanation).

## 1.2. Institutional arrangements for PFM

This subsection describes the responsibilities of the main entities involved in PFM, including those in the different branches of government (executive, legislative, and the judicial), those in the different tiers of government (central and subnational governments), and those in extrabudgetary units (where relevant with cross-reference to the data for relative importance of the different segments of the public sector as per subsection 2.3). Additional information on the broad responsibilities for public financial management between the central finance agencies (such as Ministry of Finance, Ministry of Economic Planning, Revenue Authority, the Central Bank, Supreme Audit Institution, etc.), and between the Ministry of Finance and the line ministries is included. The organizational structure and departmental responsibilities of the Ministry of Finance are described, with an organization chart, if available, to be included as an annex. Any recent changes in responsibilities are mentioned.

In particular, the subsection highlights the institutional structures that have been established as part of the internal control framework, including their respective roles and responsibilities.

This subsection should also highlight:

- i. The degree of centralization of the PFM system
- ii. The extent of earmarked revenue or extrabudgetary units
- iii. The type of control exercised by the external oversight bodies

## 1.3. Legal and regulatory arrangements for PFM

The report lists and summarizes the laws and regulations that determine the structure and guide the operation of the PFM system. Typically, the starting point is the country's constitution. It explains the distinction between the different branches of government (legislative, executive, judicial), the legal basis for different layers of



government (central, state, municipalities, etc.) and other organizational structures such as extrabudgetary units and public corporations. It describes the main laws governing PFM and the degree of integration or fragmentation of legislation covering different aspects of PFM such as budget management, revenue mobilization, investment and debt management, procurement, accounting, external oversight, etc. It also highlights important country-specific provisions. A brief description of recent changes made to the legal framework is included, if relevant.

**A subsection should also describe the legal and regulatory arrangements for the internal control system.** According to international standards<sup>2</sup>, internal control is an integral process designed to address risks and provide reasonable assurance that, in pursuit of the entity’s mission, the following general objectives are being achieved: (i) executing orderly, ethical, economical, efficient, and effective operations; (ii) fulfilling accountability obligations; (iii) complying with applicable laws and regulations; and (iv) safeguarding resources against loss, misuse and damage.

To achieve those general objectives, the internal control system should consist of five interrelated components: a control environment, risk assessment, control activities, information and communication, and monitoring. This integrated approach is designed for public entities to establish effective controls customized to their objectives and risks. It also provides a basis on which internal control can be described and evaluated. The description of the policies and the legal and regulatory arrangements for internal control in this subsection should be presented in relation to each of those five components.

This description should be preceded in section 1.2 by information about the institutional structure supporting the implementation of the internal control system. An overall indication of the effectiveness of the internal control framework is given in section 3.2. That section draws on both this subsection and the control activities included in the performance indicator assessments. Thus, subsection 1.2 and 1.3 should describe the design of the internal control framework and section 3.2 should evaluate whether it operates so as to achieve the intended objectives.

This subsection also explains any legal provisions and institutional structures for **public participation** in budget management, complementary to the role of the legislature as the representative of citizens’ interests. **If no such legal provisions or institutional structures exist, this should be noted in the report.**

**Table 1.4: Main PFM laws and regulations**

PFM area	Law/ regulation	Brief description and coverage
All	Constitution	
Planning		
Budgeting		
Accounting		
Audit		
Intergovernmental fiscal relations		
Parliament		
Internal control		
Internal control		
Procurement		

<sup>2</sup> International Organization of Supreme Audit Institutions, “Guidelines for Internal Control Standards for the Public Sector” (INTOSAI GOV 9100).

PFM area	Law/ regulation	Brief description and coverage
<b>Public participation</b>		

### 1.4. PFM Reform process

This section provides an overview of the government’s overall approach to PFM reform, including the existence, origins, and structure of a PFM reform program or any alternative approach used such as parallel, independent, or institution-specific reform and capacity development initiatives. The section also gives an overview of country’s main PFM priorities and progress made in strengthening the PFM system.

## 2. Detailed analysis of PFM performance

*The objective of this section is to provide an assessment of the key elements of the PFM system, as captured by the pillars, the indicators and the dimensions.*

The indicative length for this section is 30-40 pages.

The structure of the section is based on the seven pillars as follows:

- Pillar 1: Budget reliability
- Pillar 2: Transparency of public finances
- Pillar 3: Management of assets and liabilities
- Pillar 4: Policy-based fiscal strategy and budgeting
- Pillar 5: Predictability and control in budget execution
- Pillar 6: Accounting and reporting
- Pillar 7: External scrutiny and audit

Each subsection discusses the findings per pillar and per relevant indicators. For example, subsection on transparency of public finances focuses on PI-4 to PI-9. Reporting follows the numerical order of the indicators.

Each pillar will present the following elements:

- **What does the pillar measure?**
- **Overall performance:** Key strengths and weaknesses of PFM as identified by the performance indicators of the pillars will be summarized. Where applicable the narrative for each pillar should highlight any improvements or deterioration in overall performance between the period being assessed and a previous assessment. It should also note any apparent links between the main strengths and weakness of the pillar and specific reform initiatives undertaken or planned.
- **Analysis:** The analysis aims at identifying the implications of PFM strengths and weaknesses, with introduction of possible underlying causes identified during the PEFA assessment. The analysis captures the interdependence between the indicators within each pillar. It also examines the links between indicators across the pillars in order to explain how performance of certain functions depends on the performance of others (see next page -Interdependence between indicators).

Each indicator is reported separately and discusses the assessment of the elements described below. Guidance related to this section is also provided by:

- **The PEFA Framework**<sup>3</sup>. A specific part is dedicated to the PEFA report (see PEFA Framework, pages 94 and 95).
- **Volume II of the PEFA Handbook: PEFA Assessment Fieldguide**<sup>4</sup>. Each indicator presents measurement guidance both at the indicator and at the dimension level, with some elements dealing with narrative part.

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<sup>3</sup> <http://pefa.org/sites/default/files/resources/downloads/49357-PEFA-Framework-E-v2.pdf>

<sup>4</sup> <http://pefa.org/sites/default/files/resources/downloads/PEFA%20Handbook%20Volume%202%20-%20second%20edition%20publication.pdf>

Color codes for scores are inserted below and can be used throughout the report

A
B
C
D

The table below highlights possible interdependence to guide the analysis. The table should not be included in the report.

Indicator/dimension	Interdependence
<b>Pillar I- Budget reliability</b>	
<b>PI-1. Aggregate expenditure outturn</b>	
1.1. Aggregate expenditure outturn	PI-11.3; PI-14.2; PI-15.1; PI-16.1; PI-18.4; PI-21.2
<b>PI-2. Expenditure composition outturn</b>	
2.1. Expenditure composition outturn by function	PI-11.3; PI-14.2; PI-15.1; PI-16.1; PI-18.4; PI-21.4
2.2. Expenditure composition outturn by economic type	PI-11.3; PI-14.2; PI-15.1; PI-16.1; PI-18.4; PI-21.4
2.3. Expenditure from contingency reserves	<b>PI-16.1</b>
<b>PI-3. Revenue outturn</b>	PI-19 PI-20
3.1. Aggregate revenue outturn	<b>PI-14.2; PI-15.1</b>
3.2. Revenue composition outturn	<b>PI-14.2; PI-15.1</b>
<b>Pillar II-Transparency of public finances</b>	
<b>PI-4. Budget classification</b>	PI-5: Element 4
4.1 Budget classification	PI-28.1
<b>PI-5. Budget documentation</b>	PI-9 : Element 1 Element 4: PI-4 Element 6: PI-14.1 Element 7: PI-13.1 Element 8: PI-12.1 Element 9: PI-10.3 Element 10: PI-15.1 Element 11: PI-16.1 (for expenditure)
5.1 Budget documentation	
<b>PI-6. Central government operations outside financial reports</b>	PI-29
6.1. Expenditure outside financial reports	
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
<b>PI-7. Transfers to subnational governments</b>	
7.1. System for allocating transfers	
7.2. Timeliness of information on transfers	
<b>PI-8. Performance information for service delivery</b>	
8.1. Performance plans for service delivery	
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	

8.4. Performance evaluation for service delivery	
<b>PI- 9. Public access to fiscal information</b>	
9.1. Public access to fiscal information	Element 1: PI-5 Element 3: PI-28 Element 5: PI-30 Element 9: PI-14.1
<b>Pillar III-Management of assets and liabilities</b>	
<b>PI-10. Fiscal risk reporting</b>	
10.1. Monitoring of public corporations	PI-12.1
10.2. Monitoring of sub-national government	
10.3. Contingent liabilities and other fiscal risks	PI-5: Element 9 PI-12.1
<b>PI- 11. Public investment management</b>	
11.1. Economic analysis of investment proposals	
11.2. Investment project selection	
11.3. Investment project costing	
11.4. Investment project monitoring	
<b>PI-12. Public asset management</b>	
12.1. Financial asset monitoring	PI-5: Element 8 PI-10.1 PI-10.3
12.2. Nonfinancial asset monitoring	
12.3. Transparency of asset disposal.	
<b>PI-13. Debt management</b>	
13.1. Recording and reporting of debt and guarantees	PI-5: Element 7
13.2. Approval of debt and guarantees	
13.3. Debt management strategy	
<b>Pillar IV-Policy-based fiscal strategy and budgeting</b>	
<b>PI-14. Macroeconomic and fiscal forecasting</b>	
14.1. Macroeconomic forecasts	PI-5: Element 6 PI-9: Element 9
14.2. Fiscal forecasts	PI-16.4
14.3. Macro-fiscal sensitivity analysis	
<b>PI-15. Fiscal strategy</b>	
15.1. Fiscal impact of policy proposals	PI-5: Element 10
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	
16.1. Medium-term expenditure estimates	PI-5: Element 11 (for expenditure)
16.2. Medium-term expenditure ceilings	
16.3. Alignment of strategic plans and medium-term budgets	
16.4 Consistency of budgets with previous year's estimates	PI-14.2

<b>PI-17. Budget preparation process</b>	
17.1. Budget calendar	
17.2. Guidance on budget preparation	
17.3. Budget submission to the legislature	
<b>PI-18. Legislative scrutiny of budgets</b>	
18.1. Scope of budget scrutiny	
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	
18.4. Rules for budget adjustments by the executive	
<b>Pillar V-Predictability and control in budget execution</b>	
<b>PI-19. Revenue administration</b>	PI-3 PI-20
19.1. Rights and obligations for revenue measures	
19.2. Revenue risk management	
19.3. Revenue audit and investigation	
19.4. Revenue arrears monitoring	
<b>PI-20. Accounting for revenues</b>	PI-3 PI-19
20.1. Information on revenue collections	
20.2. Transfer of revenue collections	
20.3. Revenue accounts reconciliation	
<b>PI-21. Predictability of in-year resource allocation</b>	
21.1. Consolidation of cash balances	
21.2. Cash forecasting and monitoring	
21.3. Information on commitment ceilings	
21.4. Significance of in-year budget adjustments	
<b>PI-22. Expenditure arrears</b>	
22.1. Stock of expenditure arrears	PI-1
22.2. Expenditure arrears monitoring	
<b>PI-23. Payroll controls</b>	
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
<b>PI-24. Procurement</b>	
24.1. Procurement monitoring	
24.2. Procurement methods	
24.3. Public access to procurement information	
24.4. Procurement complaints management	
<b>PI-25. Internal controls on non-salary expenditure</b>	
25.1. Segregation of duties	
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
<b>PI-26. Internal audit</b>	

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	
<b>Pillar VI-Accounting and reporting</b>	
<b>PI-27. Financial data integrity</b>	
27.1. Bank account reconciliation	
27.2. Suspense accounts	
27.3. Advance accounts	
27.4. Financial data integrity processes	
<b>PI-28. In-year budget reports</b>	
28.1. Coverage and comparability of reports	PI-4.1
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
<b>PI-29. Annual financial reports</b>	PI-6 PI-30.1 PI-30.2 PI-31 (all dimensions)
29.1. Completeness of annual financial reports	
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
<b>Pillar VII-External scrutiny and audit</b>	
<b>PI-30. External audit</b>	PI-9: Element 5
30.1. Audit coverage and standards	PI-29
30.2. Submission of audit reports to the legislature	PI-29
30.3. External audit follow up	
30.4. Supreme Audit Institution independence	
<b>PI-31. Legislative scrutiny of audit reports</b>	
31.1. Timing of audit report scrutiny	PI-29
31.2. Hearings on audit findings	PI-29
31.3. Recommendations on audit by the legislature	PI-29
31.4. Transparency of legislative scrutiny of audit reports	PI-29

## Indicator led analysis under each pillar

The indicator led analysis should include the following elements.

**What does the PI measure?** For each performance indicator, this will briefly quote the description provided in the PEFA Framework.

**Summary of scores table:** This subsection should be presented as specified below.

Indicator/Dimension	Score
PI-#. Indicator Title (M1 or M2)	A

#.1 Dimension 1 Title	B
#.2 Dimension 2 Title	C
...	D

**General description of the characteristics of the indicator within the scope covered:** This subsection should describe the institutional and organizational arrangements and the legislation relevant to the subject being assessed by the indicator. Regarding institutional and organizational arrangements, the narrative may in particular highlight the case when the subject being assessed involves a large number of significant entities or is highly decentralized, as complete information on that subject may be impractical to collect as a result. This description would support the use of a sampling methodology. Regarding legislation, this section may for instance justify any country or region specific definition set out by the regulation that would differ from the definition of the PEFA Framework (e.g. expenditure arrears, major investment projects, etc.).

**Recent or ongoing reform activities:** The activities relevant to the indicator would include reforms that:

- may already have impacted performance
- have been implemented but where evidence for their impact is not yet available may be under implementation, or
- are to start during the time of the assessment.

The report does not attempt to assess reform relevance or success and is limited to noting possible links between performance and reform. Reference to government reform plans or description of existing conditions agreed by development partners (i.e., reform measures yet to be implemented) are not considered evidence for status or progress of reform efforts.

## Assessment of each dimension of the indicator

### Performance level and evidence for scoring of each dimension

For each dimension, this subsection may be presented as specified in the PEFA 2016 Framework (page 94).

- The text gives a clear understanding of the actual performance of each of the PFM dimensions captured by the indicators and the rationale for its scoring. Each dimension of the indicator is discussed in the text and addressed in a way that enables understanding of the specific score (A, B, C or D) achieved for the dimension.
- The report indicates the factual evidence, including quantitative data, which has been used to substantiate the assessment. The information is specific wherever possible, for example, in terms of quantities, dates, and time spans.
- Any issues in relation to the timeliness or reliability of data and evidence is noted.
- If insufficient information has been obtained either for a whole indicator or one of its dimensions, the text explicitly mentions it.

The performance dimension narrative also refers to the mandatory elements and can be enhanced by using the specific guidelines described below.

### Possible causes of PFM performance identified during the PEFA assessment



As for pillars, this subsection describes the possible causes of PFM performance highlighted during the PEFA assessment. These causes may be partial. Findings on performance informing the PEFA scores should be complemented by a further analysis covering underlying causes.

### **Performance change since a previous PEFA assessment**

Performance change over time is reported for each dimension in cases where an earlier PEFA assessment has taken place. This is intended to capture the dynamic aspects of the reform process and capacity development in the country while retaining sufficient rigor in assessing ongoing changes<sup>5</sup>.

Reporting on performance change over time involves:

- Presentation of evidence for each dimension and indicator score compared with the previous score.
- Highlighting comparability issues in relation to the previous assessment, such as differences in coverage, changes in definitions related to the subject, different interpretation of data, etc., so that the robustness of the evidence of change is fully disclosed.
- Explanation of changes in performance that may not be captured by a change of the score but are nevertheless evidenced. These may include a performance change for one or more scoring requirements for a dimension or the fact that the overall indicator score may not have changed despite changes in one or more dimensions scores.

This subsection is to be used **only in successive assessments where both the previous and the current assessment use the PEFA 2016 Framework**. If an assessment is undertaken applying PEFA 2016 while the previous assessment used the 2011 or the 2005 version of the framework, please refer to the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 at [www.pefa.org](http://www.pefa.org).

## **Mandatory tables**

The PEFA Framework 2016 introduces mandatory tables: For instance,

- Calculation sheets for PI-1, 2 and 3

As a reminder, the calculation sheets for PI-1. Aggregate expenditure outturn and PI-2. Expenditure composition can be found at the PEFA website ([www.pefa.org](http://www.pefa.org)) at: <http://pefa.org/resources/calculation-sheets-pefa-performance-indicators-pi-1-pi-2-and-pi-23-november-2018>

The calculation sheet for PI-3. Revenue outturn, can also be found at PEFA website at: <http://pefa.org/resources/calculation-sheet-revenue-composition-outturn-pi-3-2-november-2018>

As per good practice, the tables presenting the results for PI-1, 2 and 3 are expected to be inserted as an Annex to support the scores given.

A detailed explanation on how to use the calculation sheets for PI-1, 2 and 3 is provided in the PEFA report template, Section 2, PI-1, PI-2 and PI-3.

- PI-12, Table 12.1: Categories of nonfinancial assets, as described in *the PEFA Framework*, page 40.

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<sup>5</sup> The level of performance of the PFM system, as captured by the indicators, reflects a combination of historical, political, institutional, and economic factors and is not necessarily representative of recent or **on-going efforts made by government to improve PFM performance**. Improvement in the indicator scores may take several years due to the size of steps between scores in PEFA indicators and dimensions. This is why the PEFA report proposes the inclusion of commentary on progress made in improving PFM performance as captured by the dimensions.

A template for each mandatory table is provided in the PEFA report template under the corresponding dimension.

## Recommended tables

In addition to mandatory tables, different types of tables, i.e. summary tables, and summary boxes for checklist, etc., may be inserted to support the scoring and facilitate the report reading. Specific guidance is provided in the PEFA report template for each dimension where a table could be used. For instance:

- PI-6. Central government operations outside financial reports.
- PI-7.1. System for allocating transfers.
- PI-8. Performance information for service delivery.
- PI-10. Fiscal risk reporting, Table 10.1: Financial reports of public corporation.
- PI-11. Public investment management.
- PI-15. Fiscal Strategy: Table 15.2: Fiscal impact of policy proposals.
- PI-16.4. Consistency of budgets with previous year's estimates.

The assessment of most indicators combines multiple requirements. In such cases, for easy reference, the report could present the evidence used and the results of the assessment in a **summary table**. The list of indicators/ dimensions that could use a summary table is the following:

- PI- 17.1 Budget calendar.
- PI-17.3 Budget submission to the legislature.
- PI-18.3 Timing of budget approval.
- PI-20.1 Information on revenue collections.
- PI-20.2 Transfer of revenue collection.
- PI-20.3 Revenue accounts reconciliation.
- PI-21.1 Consolidation of cash balances.
- PI-22.1 Stock of expenditure arrears.
- PI-22.2 Expenditure arrears monitoring.
- PI-27.1 Bank account reconciliation.
- PI-27.2 Suspense accounts.
- PI-27.3 Advance accounts.
- PI-28.2 In-year budget report.
- PI-30.2 Submission of audit reports to the legislature.
- PI- 31.1 Timing of audit report scrutiny.

In some instances, indicators/ dimensions are assessed on the basis of a list of elements, for each of which specific requirements need to be met. In such cases, for easy reference, the report could present the evidence used and the results of the assessment in a summary box for checklists. The list of indicators/ dimensions that could use a summary box is following:

- PI-5. Budget documentation
- PI-9. Public access to fiscal information
- PI-24.3 Public access to procurement information
- PI-24.4 Procurement complaints management
- PI-30.4 Supreme Audit Institution independence

A template for each recommended table is provided in the PEFA report template under the corresponding dimension.

For each dimension, it would be useful to end the description by a short sentence stating the score given. For instance, ***“Hence, the score for the present dimension is ...”*** or ***“Based on the analysis and supporting evidence, the score for the present dimension is...”***.

## 3. Overall analysis of PFM performance

The objective of this section is to present an integrated analysis on the basis of information provided in the preceding section 2 and to state overall conclusions on the performance of PFM. In particular, the analysis seeks to build on the assessment of the PFM performance across the seven pillars from Section 2 and explain how this affects the government's ability to deliver the intended fiscal and budgetary outcomes, and to identify the main weaknesses of PFM that need to be addressed.

The indicative length of this section is six to ten pages.

### 3.1. PFM strengths and weaknesses

This subsection analyzes the extent to which the performance of the assessed PFM system appears to be supporting or affecting the overall achievement of three important fiscal and budgetary outcomes.

The subsection builds on the strengths and weaknesses identified across the seven pillars of PFM performance (section 2 of the PEFA report.) It also identifies the links between the performance of different areas of PFM and the ability to deliver the three main fiscal and budgetary outcomes. This subsection explains why the weaknesses identified in PFM performance across the seven pillars would be a concern for the government by drawing into the analysis the specific country characteristics and policy objectives that are relevant to the three main outcomes.

The analysis is organized along the three main fiscal and budgetary outcomes. However, the assessment does not examine the extent to which the intended outcomes are achieved, for example, whether revenue measures and expenditures incurred through the budget have their desired effect on spurring economic growth, reducing poverty, or achieving other policy objectives. Rather it assesses the extent to which the PFM system constitutes an enabling factor for achieving the planned fiscal and budgetary outcomes.

This analysis integrates PFM system performance measured by the performance indicators, information on relevant economic country features, the government's fiscal policy objectives, the structure of the public sector and characteristics of the PFM (Section 1 of the PEFA report), as well as any other factors which have an impact on PFM performance.

In sum, the analysis provides a story line, concluded by highlighting the three or four main weaknesses of the PFM system that appear to be the most important to address in order to support the government's pursuit of its fiscal and budgetary objectives.

Results highlighted in this subsection could be presented in a table. The table would highlight main strengths and weaknesses as identified per pillar and the impact on the ability to deliver the three budgetary outcomes. The table may be used as a basis to draw main conclusions on PFM strengths and weaknesses without going into too much detail. It is not intended to include a comprehensive list of issues and implications of indicators for each of the outcomes but is more indicative of the kinds of issues that could be important, amongst many others that may vary between locations and systems.

**TABLE 3.1.1 : PEFA performance indicators and the three budgetary outcomes**

Indicator/dimension	Aggregate fiscal discipline	Strategic allocation of resources	Efficient service delivery
<b>Pillar one: Budget reliability</b>			
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.			
<b>PI-1. Aggregate expenditure outturn</b>	X	Aggregate expenditure and revenue outturns and composition that deviates significantly from the approved budget undermines fiscal discipline and the ability of governments to control the total budget.	Reliable revenue forecasts and expenditure allocations are essential for the government to effectively and predictably allocate resources to strategic policy priorities.
<b>PI-2. Expenditure composition outturn</b>	X		
<b>PI-3. Revenue outturn</b>	X		
<b>Pillar two: Transparency of public finances.</b>			
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.			
<b>PI-4. Budget classification</b>		A robust classification system and comprehensive and publicly available annual budget documentation enables budget decisions, transactions and the performance of service delivery programs to be monitored throughout the budget's formulation, execution, and reporting cycle which is essential for providing the executive and legislature a complete picture of central government public finances.	Transparent and comprehensive budget management information, including the performance of service delivery programs, strengthens accountability of government for budget allocation decisions, including transfers to lower levels of government, that are consistent with the country's social and economic priorities.
<b>PI-5. Budget documentation</b>			
<b>PI-6. Central government operations outside financial reports</b>	X		
<b>PI-7. Transfers to subnational governments</b>			
<b>PI-8. Performance information for service delivery</b>			
<b>PI-9. Public access to fiscal information</b>			
<b>Pillar three: Management of assets and liabilities.</b>			
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.			
<b>PI-10. Fiscal risk reporting</b>	X	The effectiveness and efficiency of public investment is a key determinant in maximizing its impact and helping to support government's social and economic development objectives.	Sound public investment management promotes operational efficiency by supporting projects and programs that deliver outputs and outcomes in a cost-efficient manner.
<b>PI-11. Public investment management</b>	X		
<b>PI-12. Public asset management</b>	X		
<b>PI-13. Debt management</b>	X		

		<p>recurrent costs) within sustainable fiscal limits.</p> <p>The size and management of government assets and liabilities (in particular debt and guarantee obligations) can have a substantial impact on a country's capacity to maintain fiscal discipline.</p> <p>The size and management of debt and guarantee obligations can have a substantial impact on a country's capacity to maintain fiscal discipline.</p>		<p>Failure to monitor and manage financial liabilities may create unnecessarily high debt service costs diverting resources from the government's social and economic priorities.</p>		<p>Information on assets not used or needed, allows government timely decisions on whether it is more efficient to transfer them to other users or exchange for different assets of greater value for more efficient service delivery.</p>
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**Pillar four: 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.

<b>PI-14. Macroeconomic and fiscal forecasting</b>	X	<p>Robust and verifiable macroeconomic and fiscal projections are essential to support the development of a predictable and sustainable fiscal strategy that supports aggregate fiscal discipline.</p> <p>Adherence to a clear fiscal strategy ensures that budget policy decisions align with fiscal targets.</p> <p>Medium term budgeting supports aggregate fiscal discipline by establishing forward year estimates that provide the baseline for future budget ceilings and allocations.</p>		<p>Robust macroeconomic and fiscal forecasts, a fiscal strategy that sets clear fiscal policy objectives, and a medium-term perspective in budgeting enable governments to more effectively plan budget allocations in accordance with priorities.</p> <p>An orderly budget process is necessary to provide government the information and time necessary to prioritize budget allocations among competing demands.</p> <p>Legislative scrutiny enables the government to be held accountable for its budget policy decisions.</p>		<p>Medium term budgeting provides greater predictability in budget allocations that supports budget units to plan resource use more efficiently.</p> <p>Legislative scrutiny can highlight potential inefficiencies in resources allocated for service delivery.</p>
<b>PI-15. Fiscal strategy</b>	X		X			
<b>PI-16. Medium-term perspective in expenditure budgeting</b>	X		X		X	
<b>PI-17. Budget preparation process</b>			X			
<b>PI-18. Legislative scrutiny of budgets</b>			X			

**Pillar five: 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.

<b>PI-19. Revenue administration</b>		<p>Efficient administration and accurate recording and reporting of tax and nontax revenue collections is important to ensure all revenue is collected in accordance with relevant laws to</p>	X	<p>A predictable revenue base and flow of resources to budget units helps ensure those priorities are implemented.</p> <p>Weak payroll controls can also</p>	X	<p>Frequent and unpredictable in-year adjustments can undermine the efficient delivery of services.</p> <p>The existence of arrears can be an indication that budget</p>
<b>PI-20. Accounting for revenues</b>			X			
<b>PI-21. Predictability of in-year resource allocation</b>	X				X	
<b>PI-22. Expenditure arrears</b>	X					
<b>PI-23. Payroll controls</b>					X	

<b>PI-24. Procurement</b>		support the government's budget framework.		undermine allocative efficiency if they result in unintended expansion of payroll costs (crowding out expenditures on other priorities) or unmet obligations to employees.	X	allocations are insufficient to meet the service levels expected.
<b>PI-25. Internal controls on non-salary expenditure</b>	X	Expenditure arrears can have a significant impact on fiscal discipline because they constitute a failure in controlling commitments and making payments when obligations are due.		Internal audit provides assurance that systems are operating to achieve government objectives efficiently and effectively.	X	Weak payroll controls can lead to a higher wage bill than planned resulting in higher costs per output.
<b>PI-26. Internal audit</b>		Effective expenditure and payroll controls ensure resources are used are consistent with approved allocations.			X	A well-functioning procurement system improves the efficiency of service delivery by ensuring better value for money of government purchases. Internal audit helps identify weaknesses and inefficiencies in internal control and operations.
<b>Pillar six: Accounting and reporting.</b>						
Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.						
<b>PI-27. Financial data integrity</b>		The integrity of financial data and the availability of comprehensive annual financial reports and regular in-year reporting are important to ensure that budgets are executed as intended within approved fiscal targets.		Reliable fiscal data and reporting on financial information is important for ensuring resources are allocated, as intended, to the government strategic priorities.	X	Reliable fiscal data and reporting on financial information is an important part of internal control and a foundation for good information for efficiently managing service delivery.
<b>PI-28. In-year budget reports</b>	X		X		X	
<b>PI-29. Annual financial reports</b>					X	
<b>Pillar seven: External scrutiny and audit.</b>						
Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.						
<b>PI-30. External audit</b>		Reliable and extensive external audit, and legislative scrutiny of those audits provides assurance that information in financial reports is accurate.		Reliable and extensive external audit and legislative scrutiny ensures governments are accountable for allocating resources in accordance with the approved budget.	X	Reliable and extensive external audit and legislative scrutiny is important for identifying inefficiencies in government programs and service delivery.
<b>PI-31. Legislative scrutiny of audit reports</b>					X	

### 3.2. Effectiveness of the internal control framework

An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the four control objectives: (i) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (ii) accountability obligations are fulfilled; (iii) applicable laws and regulations are complied with; and (iv) resources are safeguarded against loss, misuse and damage.

The analysis of the internal control system should assess the extent to which it contributes to the achievement of those four control objectives, based on available information. This section should provide a unified and coherent overview of how effectively the internal control system operates. This is done by drawing on relevant findings related to the internal control arrangements and activities, and by structuring the information around the five internal control components identified by international standards:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

The internal control framework approach to designing and operating internal control systems is a useful tool to build an integrated assessment and to highlight areas insufficiently addressed or where irregularities or errors might be more significant. It also helps to identify whether the control system goes beyond the traditional approach focused on isolated control activities.

The assessment should draw on relevant documentation collected for the preceding sections of the report and conclusions leading to the scoring of the indicator set. It should build on the description of the design of internal controls (through legal, regulatory and institutional arrangements, in Section 1 of the PEFA report) as well as the individual assessment of specific control activities as covered by a significant number of performance indicators (without being exhaustive: PI-6, 8, 10, 11, 12, 13, 16, 19, 21, 22, 23, 24, 25, 27, 28 in Section 2).

This section should also draw on recent evaluations of the effectiveness of internal control issued by internal audit, external audit, or other external bodies to the extent that such reports exist. Reports on the functioning of internal control issued by government may equally be useful. Cross-country assessments of governance by international organizations may also provide useful inputs to the assessment if they provide insight into the establishment and performance of the government's internal control framework.

Detailed findings concerning the main elements of the five internal control components are summarized in a table (Annex 2) that also highlights any gaps in coverage of the control components by the assessed internal control system.

External oversight mechanisms contribute to monitoring of the effectiveness of the internal control system and to putting pressure on the executive to improve it. Such mechanisms include, e.g., undertaking systems audits, review of audits by the legislature, follow-up systems for the executive's implementation of remedial measures, and providing public access to relevant reports and debates. Such activities therefore serve as reinforcement mechanisms and form part of the analysis of effectiveness of the control systems. The interaction between the external oversight and the internal control system shall therefore be considered in the analysis.



The analysis in this subsection also aims at reaching an impression of how internal controls contribute to addressing the risks related to achieving each of the three main fiscal and budgetary outcomes. To facilitate this analysis, assessors should consider how internal control elements of each individual indicator dimension contribute to each of the three main fiscal/budgetary outcomes.

The effectiveness of internal control also offers a perspective on the reliability of data obtained from government systems and therefore contributes to explaining the degree of confidence with which conclusions may be drawn on the basis of indicator assessments which rely on such data.

### 3.3. Performance changes since a previous assessment

**This section introduces a dynamic perspective on PFM performance and its impact on achieving the three fiscal/budgetary outcomes.** It is relevant only to successive assessments. It draws on the description of change in performance included in the analysis of each indicator and the overview of performance changes provided in section 2 and the summary table in Annex 1, where the previous assessment used PEFA 2016. If there is no previous assessment or the previous assessment uses a different version of the PEFA framework, annex 1 will only provide information related to the current assessment.

Separate guidance is provided for previous assessments that used a different version of PEFA (see the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 available on [pefa.org](http://pefa.org)). For comparisons with previous assessments that used a different version of PEFA a **supplementary annex** using indicators of the previous version is required as set out in the separate guidelines.

An assessment of how the changes since the previous assessment are likely to strengthen the ability to achieve of the three fiscal and budgetary outcomes and address the main weaknesses in this respect marks the conclusion of this subsection.

## Annex 1: Performance indicator summary

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment. It also includes columns to capture scores from a previous assessment where the PEFA 2016 methodology was applied. However, annex 1 cannot be used to compare scores with a previous assessment that used the 2005 or 2011 versions of the framework. Tracking performance changes in these circumstances will require assessors to complete a supplementary annex (*See Annex 4: Tracking changes in performance based on previous versions of PEFA*). The supplementary annex should be prepared in compliance with the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 at [www.pefa.org](http://www.pefa.org).)

Annex 1: Performance indicator summary- example

Current assessment for Pefalia applying PEFA 2016 Framework- PEFA 2016			Previous assessment (applying PEFA 2016 Framework) No previous assessment in Pefalia using PEFA 2016 Framework	
Indicator/dimension	Score	Description of requirement met	Score	Explanation of change (including comparability issues)
<b>I. Budget reliability</b>				
<b>PI-1. Aggregate expenditure outturn</b> 1.1 Aggregate expenditure outturn	<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>PI-2. Expenditure composition outturn</b> 2.1. Expenditure composition outturn by function	<b>D+</b>			
	<b>D</b>	Variance in expenditure composition by functional classification was more than 15% in the last three years.		
2.2. Expenditure composition outturn by economic type	<b>C</b>	Variance in expenditure composition by economic classification was less than 15% in at least		

		two of the last three years.		
2.3. Expenditure from contingency reserves	A	Pefalia does not use a significant contingency reserve as it was on average 2.2 percent of the annual budget over the review period.		

## Annex 2: Summary of observations on the internal control framework

Information for this annex should be drawn from the PEFA assessment only. No new information should be collected. Where there is no information to provide a summary of findings, the table should include the words ‘no information available from the PEFA assessment’.

This summary complements the general description of the internal control framework provided regarding the institutional arrangements and the legal and regulatory arrangements as described under subsection 1.

- as described under

As explained under subsection 3.2 of the present Volume, the objective of the table presented under this Annex is bi-fold:

- Summarize the detailed findings concerning the five internal control components, and
- Highlight any gaps in coverage of those control components.

Guidance related to this section is provided in the PEFA Framework, under subsection 4.2 *Effectiveness of the internal control framework*, pages 96 and 97, and on page 102

<http://pefa.org/sites/default/files/resources/downloads/49357-PEFA-Framework-E-v2.pdf>

Annex 2: Summary of observations on the internal control framework- example<sup>6</sup>

Internal control components and elements	Summary of observations
<p><b>1. Control environment</b></p>	<p>There is a strong regulatory framework. Pefalia Constitution, Article XI, provides a strong imperative through its provisions on the accountability of public officers, supported by comprehensive Government instructions in the Administrative Code, National Guidelines on Internal Control Systems (NGICS), and Government Internal Audit Manual. These instructions provide standards to guide each government agency in developing its detailed and comprehensive system of internal controls. Agency characteristics such as mandate, functions, nature of activities, operating environment, human resource profile, size, and organizational structure will have to be considered in developing or improving the individual controls. A strong and responsive internal control system is an essential component of an organization’s internal and external processes.</p> <p>This regulatory framework is shown to be effective by the results assessed for PI-23 and PI-25 on internal controls over payroll and non-salary expenditure, which were rated “B+”. PI-25.3 on compliance with payment rules and procedures was</p>

<sup>6</sup> Examples of tables can also be found in the following PEFA 2016 public reports:

<https://pefa.org/sites/default/files/PH-Jun16-PFMPR-Public%20with%20PEFA%20Check-Meth16.pdf> (in English)

<https://pefa.org/sites/default/files/ID-May18-PFMPR-Public%20with%20PEFA%20Check.pdf> (in English)

<https://pefa.org/sites/default/files/TG-Jul16-PFMPR-Public%20with%20PEFA%20Check.pdf> (in French)

	<p>rated “B”, and the assessment found that most payments comply with regular payment procedures. The CoA-conducted audits identify instances of non-compliance, which need to be corrected; but in the majority of cases, these exceptions are not the main causes of qualified opinions on the annual accounts. They are therefore not considered to seriously compromise the control environment as a whole but are significant in some cases. A more comprehensive, integrated, computerized accounting system for processing government transactions can provide a user-friendly set of controls that are applied automatically to prevent instances of failure.</p>
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	<p>The Administrative Code of Pefalia states that public officers and employees must at all times be accountable to the people; serve them with utmost responsibility, integrity, loyalty, and efficiency; act with patriotism and justice; and lead modest lives. This principle relates to accountability, norms of conduct and ethical standards, and performance of the management and staff, including the manner by which an agency operates and provides public service.</p>
1.2 Commitment to competence	<p>The Administrative Code of Pefalia requires Government employees to commit and demonstrate competence in the conduct of their duties and responsibilities. Each one, from the head of agency to the rank and file, must work for the achievement of the agency’s objectives. They must show full support for internal control and the continual improvement of systems and processes that would increase the efficiency and effectiveness of the agency.</p>
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	<p>The Administrative Code of Pefalia provides that all resources of the Government shall be managed, expended, or utilized in accordance with law and regulations and safeguarded against loss or wastage through illegal or improper disposition to ensure efficiency, economy, and effectiveness in government operations. The responsibility to take care that such policy is faithfully adhered to rests directly with the head of the government agency.</p>
1.4 Organisational structure	<p>The Administrative Code of Pefalia provides the basis for Government organization structures. The Code organizes departments on the basis of major functions to achieve simplicity, economy, and efficiency in government operations and minimize duplication and overlapping of activities. Adequate authority shall be delegated to subordinate officials. Administrative decisions and actions shall, as much as feasible, be at the level closest to the public. The organizational structure is to provide the framework within which the activities of an agency are planned, executed, controlled, and reviewed. It is to consider key areas of authority and responsibility and the appropriate lines of reporting.</p>
1.5 Human resource policies and practices	<p>Departments have human resource development services with divisions for staff development, employees’ benefits and payroll. The Administrative Code of Pefalia provides for entrance based on competitive examination, or based on highly technical qualifications; and for advancement through merit and fitness. There is periodic and continuing review of the performance through the performance evaluation promulgated by the Civil Service Commission (CSC). There is also a policy on discipline.</p>
<b>2. Risk assessment</b>	<p>For departments and agencies, the NGICS requires effective and efficient systems of risk management and internal control for PFM. It mandates the establishment of standards on risk management in public service organizations. It has a section on risk assessment with specifications on risk identification, analysis and evaluation.</p> <p>PI 19 revenue administration included an assessment of the approach to revenue risk management and rated it B for both BIR and BoC. For Government-owned or controlled corporation (GOCCs) annual performance agreements set out the components of internal control. The agreements include a charter statement and a</p>

	strategy map, together with identification of indicators for measurement of performance. For LGUs summarized risks are identified and presented in annual Fiscal Risks Statements.
2.1 Risk identification	The NGICS includes - The purpose of doing risk identification is to generate a comprehensive list of risks based on factors that might enhance, prevent, degrade or delay the achievement of the general control objectives. This will include identifying the risks in case of not pursuing an opportunity. Comprehensive identification is very important because a risk that is not identified will not be included in the next step of analysing risks.
2.2 Risk assessment (significance and likelihood)	The NGICS includes - After the identification, it is necessary to consider possible causes and scenarios that would show what consequences can occur. All significant causes should be considered to estimate the risk.
2.3 Risk evaluation	The NGICS includes - This is about developing an understanding of the risk and providing an input to risk evaluation and to decisions on whether risks need to be responded to, as well as on the most appropriate response strategies and methods. The objective of evaluating risks is to assist in coming up with a decision on which risks need treatment based on the results of the risk analysis.
2.4 Risk appetite assessment	The NGICS includes - An organization should apply risk identification tools and techniques, which are suited to its objectives and capabilities, and to the risks faced.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	The NGICS includes - Risk evaluation may lead to a decision to undertake further analysis or a decision not to treat the risk in any way but maintain existing risk controls (INTOSAI Guidelines for Internal Control Standards for the Public Sector). Responses to risks can be divided into the four categories. In some instances, risks can be transferred, tolerated or terminated. However, in most instances, the risk will have to be treated. The results of risk evaluation are an input to prioritizing treatment implementation. Risk evaluation may lead to a decision to undertake further analysis or a decision not to treat the risk in any way but maintain existing risk controls (INTOSAI Guidelines for Internal Control Standards for the Public Sector). The NGICS gives some illustrations on risk treatment.
<b>3. Control activities</b>	The NGICS has a section setting out control activities. In PI-25, internal control was examined. It was found that the Accounting Division, in charge of recording and keeping the books, is usually under the Financial Management Service and is separate from the Administrative Service, which normally handles the cashing function. Procurement is also a separate function that works alongside the Bids and Awards Committee. Functions and responsibilities, as well as clear procedures in handling transactions, are also outlined in Volume 1 of the New Government Accounting System (NGAS) Manual and the Government Accounting Manual for National Government Agencies.
3.1 Authorization and approval procedure	The CoA-prepared Government Accounting Manual sets out the systems of authorization, policies, standards, and accounting procedures and reports used by the agencies to control operations and resources and enable the various units to meet their objectives. These systems and work processes are integral to the operations of agencies and are to be consistently applied by all units in the public service. These procedures or activities are implemented in order to achieve the control objectives of safeguarding resources, ensuring the accuracy of data and enabling adherence to laws, policies, rules and regulations.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	The NGICS sets out the usual internal control components, including segregation of duties. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This includes separating the

	<p>assignment of responsibilities for processing, reviewing, recording, custody, and approval/authorization of certain transactions.</p> <p>PI-25.1 segregation of duties is rated “A”. Segregation of duties exists throughout the process. Management override of controls occurs in some instances but not the majority.</p>
3.3 Controls over access to resources and records	<p>The NGICS sets out the usual internal control instructions for access over resources, assets, and facilities.</p> <p>PI-27.4, financial data integrity processes, is rated “C”. While access to records is restricted, often there is no audit trail; and the quality and reliability of financial reporting process is low due the absence of an integrated accounting and reporting system for government transactions. The practice of using spreadsheets that lack built-in controls for preparation of financial reports reduces assurance of financial data integrity.</p>
3.4 Verifications	<p>The NGICS sets out the usual internal control instructions for verification — review of transactions to check the propriety and reliability of documentation, costing, or mathematical computation. It includes checking the conformity of acquired goods and services with agreed quantity and quality specifications. The verification procedures should be built-in in every transaction. This is an internal checking procedure to avoid errors or fraud.</p>
3.5 Reconciliations	<p>The NGICS sets out the usual internal control instructions for reconciliation of financial and non-financial data. Operating procedures of every office require that the cash records of the accounting and the cash units should be regularly reconciled. PI-27.1, bank account reconciliation, was rated “D”. While monthly bank reconciliation statements are prescribed per law, issues of non-preparation, delayed submission, and non-recording of reconciling items are substantial as per CoA audit reports that cite unreliable cash balances.</p>
3.6 Reviews of operating performance	<p>The NGICS includes the evaluation of agency performance, which covers the financial position and results of operation of an agency. The Administrative Code provides that the President, through the Secretary of Budget and Management, shall evaluate on a continuing basis the quantitative and qualitative measures of agency performance.</p>
3.7 Reviews of operations, processes and activities	<p>The NGICS includes the Organizational Performance Indicator Framework, which is a useful tool in expenditure and budget accountability. The Framework directs resources of an agency toward its major final outputs that are linked to sectoral and societal goals.</p>
3.8 Supervision (assigning, reviewing and approving, guidance and training)	<p>The NGICS provides that supervision and control includes the authority to act directly whenever a specific function is entrusted by law or regulation to a subordinate. It provides guidance on administrative supervision.</p>
<b>4. Information and communication</b>	<p>A performance evaluation system guidebook is used for GOCCs.</p>
<b>5. Monitoring</b>	<p>In departments and agencies, monitoring of internal control is dealt with in the NGICS covering ongoing monitoring and the work of the Internal Audit Service. Monitoring the internal control activities themselves should be clearly distinguished from reviewing the operations of a unit, which is an internal control activity performed by the unit and its management.</p> <p>PI-26, Internal Audit, found that internal audit has been formally established in most agencies and that audit programs are largely completed, but with delays. The performance is rated “C+”.</p> <p>Monitoring of GOCCs is exercised through a quarterly report to the Government. Monitoring of LGUs is exercised through a substantial performance monitoring system with multiple indicators, including fiscal risks, financial position, and debts. The performance indicator on fiscal risk reporting for GOCCs and LGUs is rated “B”.</p>

	Audited annual reports for these entities are usually published by CoA within 9 months of year-end.
5.1 Ongoing monitoring	In the agency structure, the Financial and Management Service is tasked to assist agency management in the ongoing monitoring of internal controls by regular management surveys of the organizational structure, human resource, and operations. Control in government departments and agencies, according to NGICS, includes checking the completeness of transaction documents and reports. Transaction documentation has to be complete in order to substantiate the transaction. Operational and financial reports are tools for monitoring performance, subsequent planning, and decision-making. These reports have to be checked at the source and by the management of the operating unit concerned. These reports have to be certified for accuracy by management of the office concerned before they are submitted to the report users.
5.2 Evaluations	In the agency structure, the Internal Audit Service is mandated to conduct a separate evaluation or appraisal of the internal control system to determine whether internal controls are well designed and properly operated. The Internal Audit Service in departments and equivalent agencies shall consist of two divisions: Management Audit Division and Operations Audit Division. External review is carried out by the Commission on Audit. The Constitution, as well as the Administrative Code, provides that where the internal control system of the audited agencies is inadequate, CoA may adopt such measures, including temporary or special pre-audit as necessary and appropriate to correct the deficiencies.
5.3 Management responses	PI-26.4 examined response to internal audits and was rated "B". Internal audit reports provide recommendations that are presented to the head of the audited unit. Management response is solicited to indicate corresponding action plan, and a formal response is received in most instances within 12 months. However the report is not shared beyond the audited unit with, for example, the oversight agencies (DBM, DoF, and CoA).



## Annex 3: Sources of information

The annex lists every document from which information for the assessment has been used, such as legislation, government policy papers, budget documents, reports and statistics, as well as recent surveys and analytical work at national, regional or international level. This annex has three components:

- Annex 3A – is used for related surveys and analytical work.
- Annex 3B – lists the persons who have been interviewed and provided information for the PFM Performance Report, indicating the institutions they represent and their respective positions
- Annex 3C – contains a table explaining the sources of information used to extract evidence for scoring each indicator.

An example of each of the three annexes is provided below.

### Annex 3 A: List of related surveys and analytical work – example

No	Institution	Document title	Date	
1	WB	Education Public Expenditure Tracking Survey (PETS)	11-03-2016	www.worldbank.org
2	OBI	Open Budget Survey	27-11-2015	www.internationalbudget.org
3	INTOSAI-IDI	SAI PMF Report	15-05-2015	www.ao.pefalia.org
4	IMF	Fiscal Transparency Report	25-02-2016	www.imf.org

### Annex 3 B: List of people interviewed – example

No	Institution	Department	Person	Position
1	Ministry of Finance	Fiscal Policy & Planning Office		Planning Officer
2	Ministry of Finance	Treasury Directorate		Director
3	Ministry Public Works	Projects Department		Deputy Director
3	Ministry of Education	Budget Division		Chief Administrative Officer
4	SAI	General Directorate		Deputy Auditor General
5	Legislature	Budget Commission		Chair
6	Chamber of Commerce			President
7	Development Partner			

### Annex 3 B: Sources of information by indicator – example

Indicator		Score	Sources
PI-1	Aggregate expenditure out-turn	A	Fiscal Data from MoF; IFMIS data base Annual and quarterly fiscal outturn reports for FY 2013, 2014, 2015
PI-2	Expenditure composition outturn	C	Laws that approved Annual Budgets for FY 2013, 2014 and 2015
PI-3	Revenue outturn	B	
PI-4	Budget classification	B	Classifications and Chart of Accounts manuals and COA mapping guidelines, March 2012 Budget Classification of revenues, expenditures and financing

Indicator		Score	Sources
PI-5	Budget documentation	A	Budget Estimates for FY2015 Budget Speech 2015 Annual financial statements 2014

## Annex 4: Tracking change in performance based on previous versions of PEFA

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment. This annex should present comparisons with previous assessments that used the 2005 or 2011 versions of the framework and should be prepared in compliance with the Guidance on reporting performance changes in PEFA 2016 from previous assessments that applied PEFA 2005 or PEFA 2011 at [www.pefa.org](http://www.pefa.org).

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
<b>A. PFM-OUT-TURNS: Credibility of the Budget</b>				
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	C	Deviation deteriorated from -9.3% in 2011/12, -10.5% in 2012/13 and 17.9% in 2013/14	Aggregate budget credibility deteriorated.
PI-2 Composition of expenditure out-turn compared to original approved budget	D+	D+		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	Variance for 2011/12 was 20.7%, 2012/13 17.6% and 23% in 2013/14	In 2007/08 variance was 19.3%, for 2008/09 14.9% and 2009/10 30.6%
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	Contingency only 2.5% of expenditure	Contingency was nil during the 2010 report review period
PI-3 Aggregate revenue out-turn compared to original approved budget	B	D	Deviation -3.1% in 2011/12, -8.2% in 2012/13 and -16.2% in 2013/14	Deviation was 2007/08 +4%, 2008/09 -7%, and 2009/10 -4%

