



# Framework for assessing public financial management

Improving public financial management. Supporting sustainable development.

PEFA is a tool for assessing the status of public financial management. A PEFA assessment provides a thorough, consistent and evidence-based analysis of PFM performance at a specific point in time. The PEFA methodology can be reapplied in successive assessments to track changes over time.

2016 marks the most comprehensive upgrade to the PEFA framework since it was first published in 2005.

## The framework

The PEFA framework provides the foundation for evidence-based measurement of countries' PFM systems. A PEFA assessment measures the extent to which PFM systems, processes and institutions contribute to the achievement of desirable budget outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

### Performance indicators and dimensions

The PEFA framework assesses and reports on the strengths and weaknesses of public financial management using 31 performance indicators that are further disaggregated into 94 dimensions.

### Scoring methodology

The performance of each indicator and dimension is measured against a four point ordinal scale from A to D. The highest score, A, is warranted if evidence clearly demonstrates that an internationally-recognized level of good performance is achieved. The D score indicates that performance is below the basic level. Indicators with more than one dimension are scored according to either the lowest score amongst its dimensions (M1, the weakest link) or the average of its dimension scores (M2, average score).

## The seven pillars

The 31 indicators are grouped into seven pillars of performance focusing on essential features of an effective PFM system which provide the foundation for a PEFA assessment.



### Pillar One

Budget reliability



### Pillar Two

Transparency of public finances



### Pillar Three

Management of assets and liabilities



### Pillar Four

Policy-based fiscal strategy and budgeting



### Pillar Five

Predictability and control in budget execution



### Pillar Six

Accounting and reporting



### Pillar Seven

External scrutiny and audit



## PILLAR ONE

# Budget reliability

The government budget is realistic and implemented as intended. This is measured by comparing actual revenues and expenditures with the original budget.

## PILLAR ONE: PERFORMANCE INDICATORS

### PI - 1. Aggregate expenditure outturn

The extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports.

### PI - 2. Expenditure composition outturn

The extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition, and use of contingency reserves.

### PI - 3. Revenue outturn

The change in revenue between the original approved budget and end-of-year outturn.

“ PEFA enables governments to identify how PFM systems can be improved in a way that encourages countries to achieve their development goals. PEFA has reinforced the importance of effectively managing domestic public finances in reaching sustainable development goals.”

– PEFA Partner



## PILLAR TWO

# Transparency of public finances

Information on public financial management 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.

## PILLAR TWO: PERFORMANCE INDICATORS

### PI - 4. Budget classification

The extent to which the government budget and accounts classification is consistent with international standards.

### PI - 5. Budget documentation

The comprehensiveness of information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.

### PI - 6. Central government operations outside financial reports

The extent to which government revenue and expenditure are reported outside central government financial reports.

### PI - 7. Transfers to subnational governments

The transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it.

### PI - 8. Performance information for service delivery

The service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out and if information is collected and reported on resources received by service delivery units.

### PI - 9. Public access to fiscal information

The comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical.



### PILLAR THREE

# 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.



## PILLAR THREE: PERFORMANCE INDICATORS

### PI - 10. Fiscal risk reporting

The extent to which fiscal risks to central government are reported.

### PI - 11. Public investment management

The extent to which the government conducts economic appraisals, selects, projects the costs, and monitors the implementation of public investment projects, with emphasis on the largest and most significant projects.

### PI - 12. Public asset management

The ability of the government to manage and monitor its assets and ensure the transparency of asset disposal.

### PI - 13. Debt management

Whether satisfactory management practices, records, and controls are in place to ensure efficient and effective management of domestic and foreign debt and guarantees.

“As a result of PEFA assessments, significant improvements have been made to the annual budget documents provided to the legislature and public including the presentation of a multi-year budget estimates, a statement of government priorities, information on the performance of government services, and the production of a citizen’s guide to the budget.”

– PEFA user



#### 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.

## PILLAR FOUR: PERFORMANCE INDICATORS

### PI - 14. Macroeconomic and fiscal forecasting

The ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations.

### PI - 15. Fiscal strategy

The analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

### PI - 16. Medium-term perspective in expenditure budgeting

The extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

### PI - 17. Budget preparation process

The effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

### PI - 18. Legislative scrutiny of budgets

The nature and scope of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to.



## 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.

## PILLAR FIVE: PERFORMANCE INDICATORS

### PI - 19. Revenue administration

The procedures used to collect and monitor central government revenues. It relates to the entities that administer central government revenues and agencies that administer revenues from other significant sources such as natural resources extraction.

### PI - 20. Accounting for revenue

The procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government.

### PI - 21. Predictability of in-year resource allocation

The extent to which the central ministry of finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

### PI - 22. Expenditure arrears

The extent to which there is a stock of arrears, and whether any systemic problem in this regard is being addressed and brought under control.

### PI - 23. Payroll controls

How the payroll for public servants is managed, how changes are handled, and how consistency with personnel records management is achieved.

### PI - 24. Procurement

Key aspects of procurement management, including transparency of arrangements, use of open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

### PI - 25. Internal controls on nonsalary expenditure

The effectiveness of general internal controls for nonsalary expenditures.

### PI - 26. Internal audit

The standards and procedures applied in internal audit.



## PILLAR SIX

# 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.

## PILLAR SIX: PERFORMANCE INDICATORS

### PI - 27. Financial data integrity

The extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes support the integrity of financial data.

### PI - 28. In-year budget reports

The comprehensiveness, accuracy and timeliness of information on budget execution. Consistency of in-year budget reports with budget coverage and classifications, which allows monitoring of budget performance and, if necessary, timely use of corrective measures.

### PI - 29. Annual financial reports

The extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards.

“ Having completed two assessments, we have been able to evaluate progress in strengthening our PFM system. Overall, ten indicators improved in score in the second assessment, and we are particularly proud of establishing a single treasury account and improving treasury operations in general.”

– PEFA user



## PILLAR SEVEN

# 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.



## PILLAR SEVEN: PERFORMANCE INDICATORS

### PI - 30. External audit

The characteristics of external audit, including the audit of the government's annual financial reports and the independence of the external audit function.

### PI - 31. Legislative scrutiny of audit reports

The extent to which legislative scrutiny of the audited financial reports of central government is timely, significant and transparent. It also assesses whether the legislature issues recommendations and follows up on their implementation.

“ The PEFA assessment led to a reform program that improved cash management and reduced the need for additional borrowing of the government resulting in significant savings to the budget. It has also made a difference in the way the government delivers services to the people.”

– PEFA Partner

# Dimensions

A complete list of the framework's 31 indicators and 94 dimensions.

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## PILLAR ONE

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### PI - 1. Aggregate expenditure outturn

1.1 Aggregate expenditure outturn

### PI - 2. Expenditure composition outturn

2.1 Expenditure composition outturn by function

2.2 Expenditure composition outturn by economic type

2.3 Expenditure from contingency reserves

### PI - 3. Revenue outturn

3.1 Aggregate revenue outturn

3.2 Revenue composition outturn

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## PILLAR TWO

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### PI - 4. Budget classification

4.1 Budget classification

### PI - 5. Budget documentation

5.1 Budget documentation

### PI - 6. Central government operations outside financial reports

6.1 Expenditure outside financial reports

6.2 Revenue outside financial reports

6.3 Financial reports of extrabudgetary units

## **PI - 7. Transfers to subnational governments**

7.1 System for allocating transfers

7.2 Timeliness of information on transfers

## **PI - 8. Performance information for service delivery**

8.1 Performance plans for service delivery

8.2 Performance achieved for service delivery

8.3 Resources received by service delivery units

8.4 Performance evaluation for service delivery

## **PI - 9. Public access to fiscal information**

9.1 Public access to fiscal information

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### **PILLAR THREE**

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## **PI - 10. Fiscal risk reporting**

10.1 Monitoring of public corporations

10.2 Monitoring of subnational governments

10.3 Contingent liabilities and other fiscal risks

## **PI - 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

## **PI - 12. Public asset management**

12.1 Financial asset monitoring

12.2 Nonfinancial asset monitoring

12.3 Transparency of asset disposal

## **PI - 13. Debt management**

13.1 Recording and reporting of debt and guarantees

13.2 Approval of debt and guarantees

13.3 Debt management strategy

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### **PILLAR FOUR**

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## **PI - 14. Macroeconomic and fiscal forecasting**

14.1 Macroeconomic forecasts

14.2 Fiscal forecasts

14.3 Macroeconomic sensitivity analysis

## **PI - 15. Fiscal strategy**

15.1 Fiscal impact of policy proposals

15.2 Fiscal strategy adoption

15.3 Reporting on fiscal outcomes

## **PI - 16. Medium-term perspective in expenditure budgeting**

16.1 Medium-term expenditure estimates

16.2 Medium-term expenditure ceilings

- 16.3 Alignment of strategic plans and medium-term budgets
- 16.4 Consistency of budgets with previous year's estimates

### **PI - 17. Budget preparation process**

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

### **PI - 18. Legislative scrutiny of budgets**

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

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## **PILLAR FIVE**

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### **PI - 19. Revenue administration**

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

### **PI - 20. Accounting for revenue**

- 20.1 Information on revenue collections

- 20.2 Transfer of revenue collections
- 20.3 Revenue accounts reconciliation

### **PI - 21. Predictability of in-year resource allocation**

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

### **PI - 22. Expenditure arrears**

- 22.1 Stock of expenditure arrears
- 22.2 Expenditure arrears monitoring

### **PI - 23. Payroll controls**

- 23.1 Integration of payroll and personnel records
- 23.2 Management of payroll changes
- 23.3 Internal control of payroll
- 23.4 Payroll audit

### **PI - 24. Procurement**

- 24.1 Procurement monitoring
- 24.2 Procurement methods
- 24.3 Public access to procurement information
- 24.4 Procurement complaints management

## **PI - 25. Internal controls on nonsalary expenditure**

- 25.1 Segregation of duties
- 25.2 Effectiveness of expenditure commitment controls
- 25.3 Compliance with payment rules and procedures

## **PI - 26. Internal audit**

- 26.1 Coverage of internal audit
- 26.2 Nature of audits and standards applied
- 26.3 Implementation of internal audits and reporting
- 26.4 Response to internal audits

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### **PILLAR SIX**

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## **PI - 27. Financial data integrity**

- 27.1 Bank account reconciliation
- 27.2 Suspense accounts
- 27.3 Advance accounts
- 27.4 Financial data integrity processes

## **PI - 28. In-year budget reports**

- 28.1 Coverage and comparability of reports
- 28.2 Timing of in-year budget reports
- 28.3 Accuracy of in-year budget reports

## **PI - 29. Annual financial reports**

- 29.1 Completeness of annual financial reports
- 29.2 Submission of reports for external audit
- 29.3 Accounting standards

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### **PILLAR SEVEN**

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## **PI - 30. External audit**

- 30.1 Audit coverage and standards
- 30.2 Submission of audit reports to the legislature
- 30.3 External audit follow-up
- 30.4 Supreme Audit Institution independence

## **PI - 31. Legislative scrutiny of audit reports**

- 31.1 Timing of audit report scrutiny
- 31.2 Hearings on audit findings
- 31.3 Recommendations on audit by the legislature
- 31.4 Transparency of legislative scrutiny of audit reports

# The PEFA Report

The PEFA report provides 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 assesses the extent to which PFM performance has changed since earlier assessments.

## Executive summary

### 1. Introduction

- 1.1 Rationale and purpose
- 1.2 Assessment management and quality assurance
- 1.3 Assessment methodology

### 2. Country background information

- 2.1 Country economic situation
- 2.2 Fiscal and budgetary trends
- 2.3 Legal and regulatory arrangements for PFM
- 2.4 Institutional arrangements for PFM
- 2.5 Other important features of PFM and its operating environment

### 3. Assessment of PFM performance

- 3.1 Budget reliability
- 3.2 Transparency of public finances
- 3.3 Management of assets and liabilities
- 3.4 Policy-based fiscal strategy and budgeting
- 3.5 Predictability and control in budget execution
- 3.6 Accounting and reporting
- 3.7 External scrutiny and audit

### 4. Conclusions on the analysis of PFM systems

- 4.1 Integrated assessment of PFM performance
- 4.2 Effectiveness of the internal control framework
- 4.3 PFM strengths and weaknesses
- 4.4 Performance changes since a previous assessment



## 5. Government PFM reform process

5.1 Approach to PFM reforms

5.2 Recent and on-going reform actions

5.3 Institutional considerations

### Annexes

Annex 1: Performance indicator summary

Annex 2: Summary of observations on the internal control framework

Annex 3: Sources of information

“ While perhaps not as immediately visible as building a new hospital or new school, strengthening public financial management should be a first order priority for countries and their development partners. Achieving the best possible value for money from public resources through transparent and accountable public finances is the most effective way of sustainably improving the range, quality, and access to essential public services for citizens, as well for promoting business investment and growth.”

– PEFA user



## PEFA Secretariat

1818 H Street NW  
Washington DC 20433, USA  
services@pefa.org  
pefa.org

PEFA was developed by seven PEFA Partners:

The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and United Kingdom, in collaboration with PEFA users and other international organizations.

