PEFA

Framework for assessing public financial management

Improving public financial management.
Supporting sustainable development.

Framework for assessing public financial management

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1818 H Street NW
Washington DC 20433, USA

PREFACE

Effective institutions and systems of public financial management (PFM) play a critical role in the implementation of national policies concerning development and poverty reduction. Good PFM is the linchpin that ties together available resources, delivery of services, and achievement of government policy objectives. If it is done well, PFM ensures that revenue is collected efficiently and used appropriately and sustainably.

The centrality of good PFM for effective global development has been acknowledged in many forums including United Nations commitments on financing for development and Sustainable Development Goals, and the Effective Institutions Platform. For instance, the representatives to the Addis Ababa Action Agenda in July 2015 committed themselves to addressing the challenge of financing and to creating an environment at all levels that enables sustainable development, building on the 2002 Monterrey Consensus and the 2008 Doha Declaration.

In accord with widespread international agreement on the importance of PFM, the Public Expenditure and Financial Accountability (PEFA) program was initiated in 2001 by seven international development partners: The European Commission, International Monetary Fund, World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom. In 2019, the Ministry of Finance of Slovak Republic and the Ministry of Finance of Grand Duchy of Luxembourg joined the PEFA partnership program. PEFA began as a means to harmonize assessment of PFM across the partner organizations. It was created to establish a standard methodology and reference tool for PFM diagnostic assessments. PEFA was also expected to provide a basis for dialogue on PFM reform strategies and priorities as well as a pool of information that could contribute more broadly to research and analysis of PFM. Since 2001 PEFA has become the acknowledged standard for PFM assessments. Mora than 600 PFM assessment reports from 151 countries have been completed as of October 1, 2019.

PEFA 2016 is a substantial upgrade from the previous version of PEFA, which was largely the same as the version introduced at the program's inception. PEFA 2016 acknowledges the changing landscape of PFM reforms and the evolution of good practices over the last decade. Experience has also identified areas for clarification and refinement that have been integrated with the core PEFA guidance. The upgrade has benefited from significant feedback from partners, users, beneficiaries, and observers of PEFA during global public consultation in 2014, followed by extensive testing during 2015. PEFA 2016 builds on the foundations of the 2005 and 2011 versions through the addition of four new indicators, the expansion and refinement of existing indicators, and a recalibration of baseline standards for good performance in many areas. PEFA 2016 introduces a stronger focus on the elements of internal financial control that can be observed in PEFA assessments, and establishes a clearer and more consistent structure for reporting PEFA findings. From the date of commencement, PEFA 2016 replaces PEFA 2011 as the framework to be applied for all new PEFA assessments.

This volume is the first of several documents produced by the PEFA Secretariat to explain and support the use of PEFA 2016. More detailed guidance and other information about PEFA is available on the website: www.pefa.org.

CONTENTS

PREFACE I

LIST OF ABBREVIATIONS AND ACRONYMS IV

PART 1: PEFA OVERVIEW 1

1.1. Introduction 1

1.2. Scope and coverage of the framework 2

1.3. The PEFA performance indicators 5

1.4. The PEFA report 5

1.5. Overall structure of PEFA 6

PART 2: PEFA PERFORMANCE INDICATORS 7

2.1. General guidance on scoring 7

2.2. Scoring of indicators with multiple dimensions 9

2.3. Specific guidance scoring for each indicator and dimension 11

Pillar I. Budget reliability 14

Pillar II. Transparency of public finances 20

Pillar III. Management of assets and liabilities 33

Pillar IV. Policy-based fiscal strategy and budgeting 44

Pillar V. Predictability and control in budget execution 55

Pillar VI. Accounting and reporting 73

Pillar VII. External scrutiny and audit 79

PART 3: THE PEFA REPORT 84

Executive summary 86

1. Introduction 87

2. Country background information 89

3: Assessment of PFM performance 94

4. Conclusions of the analysis of PFM systems 96

5. Government reform process 99

Annex 1. Performance indicator summary 101

Annex 2. Summary of observations on the internal control framework 102

Annex 3. Sources of information 103

LIST OF ABBREVIATIONS AND ACRONYMS

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

PART 1: PEFA OVERVIEW

1.1. Introduction

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) using quantitative indicators to measure performance. PEFA is designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time. The PEFA framework includes a report that provides an overview of the PFM system and evidence-based measurement against 31 performance indicators. It also provides an assessment of the implications for overall system performance and desirable public financial management outcomes. It provides a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring.

PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes. The PEFA methodology draws on international standards and good practices on crucial aspects of PFM, as identified by experienced practitioners. PEFA incorporates a PFM performance report for the subject government that presents evidence-based indicator scores and analyzes the results based on existing evidence. It emphasizes a country-led approach to performance improvement and the alignment of stakeholders around common goals.

PEFA reports outline the economic environment faced by the public sector, examine the nature of policy-based strategy and planning, and analyze how budget decisions are implemented. PEFA assessments examine the controls used by governments to ensure that resources are obtained and used as intended. PEFA provides a framework for assessment of transparency and accountability in terms of access to information, reporting and audit, and dialogue on PFM policies and actions. PEFA considers the institutions, laws, regulations, and standards used by governments in the PFM process. It also examines the results arising from the operation of PFM in key areas such as budget outturns, effectiveness of controls, and timeliness of reporting and audit.

Governments use PEFA to obtain a snapshot of their own PFM performance. PEFA offers a common basis for examining PFM performance across national and subnational governments. In addition to governments, other users of PEFA include civil society organizations and international development institutions. PEFA scores and reports allow all users of the information to gain a quick overview of the strengths and weaknesses of a country's PFM system. Users also see the implications of the overall performance results for the key goals of fiscal discipline, strategic resource allocation, and efficient service delivery. The PEFA analysis thereby contributes to dialogue on the need and priorities for PFM reform.

In addition to guidance for analysis and reporting, the PEFA program provides support, monitoring, and analysis of PEFA assessments. The PEFA Secretariat offers free advice on the use of PEFA as one of many sources of information for examining and improving PFM performance. This PEFA 2016 framework document provides an overview of the main features of the PEFA performance assessment framework, including scope of the framework, basic methodology for measuring PFM performance, and an outline for the content of PEFA reports. More detailed guidance for governments, project managers, assessors, and users of PEFA reports is provided on the PEFA website: www.pefa.org. Additional information on arrangements for transition from the 2011 version, specific matters relating to subnational government assessments, as well as other information is also available on the website.

1.2. Scope and coverage of the framework

What PEFA assesses

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their objectives. An open and orderly PFM system is one of the enabling elements needed for desirable fiscal and budgetary outcomes:

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

PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving these objectives. The seven pillars thereby define the key elements of a PFM system. They also reflect what is desirable and feasible to measure. The pillars are as follows:

I. **Budget reliability.** The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

II. **Transparency of public finances.** Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

III. **Management of assets and liabilities.** Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

IV. **Policy-based fiscal strategy and budgeting.** The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

V. **Predictability and control in budget execution.** The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

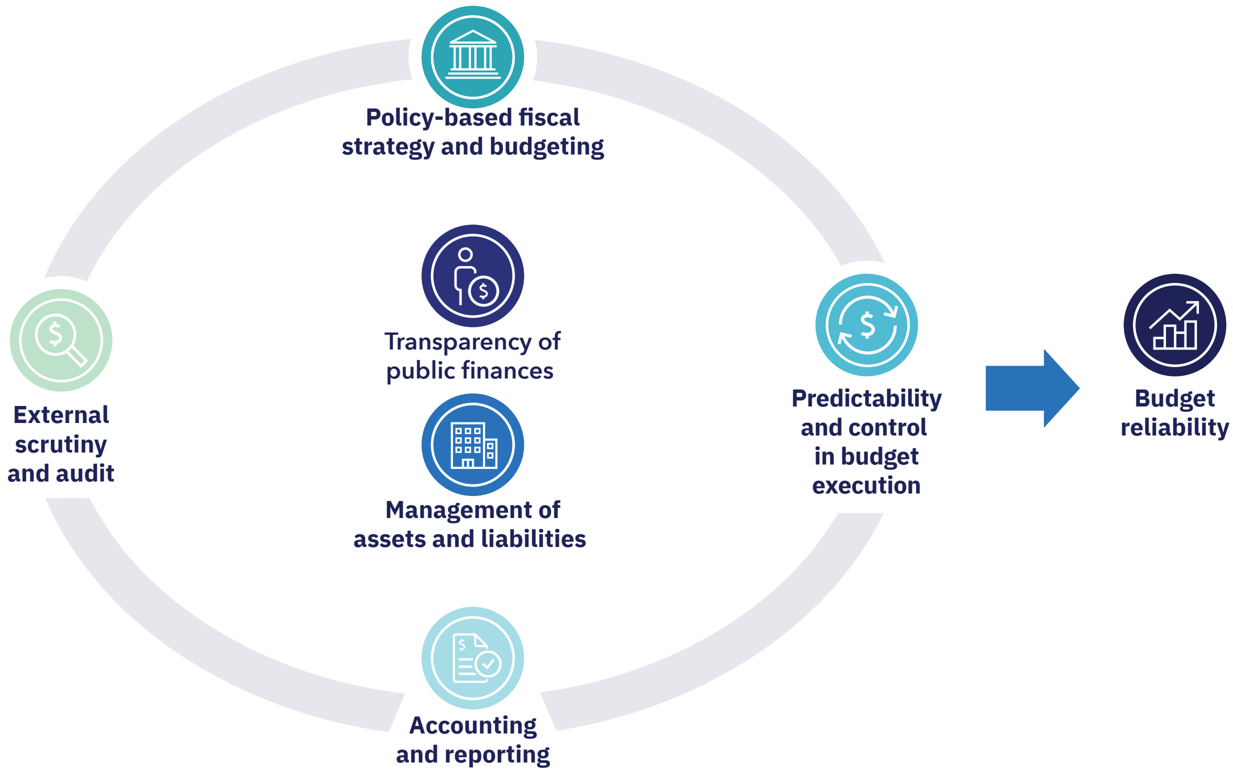
VI. **Accounting and reporting.** Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

VII. **External scrutiny and audit.** Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Figure 1 illustrates the interrelationship of the seven pillars of the PFM system.

Within the seven broad areas marked by these pillars, PEFA defines 31 specific indicators that focus on key measureable aspects of the PFM system. PEFA uses the results of the individual indicator calculations, which are based on available evidence, to provide an integrated assessment of the PFM system against the seven pillars of PFM performance. It then assesses the likely impact of PFM performance levels on the three desired budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

FIGURE 1: PEFA pillars and the budget cycle



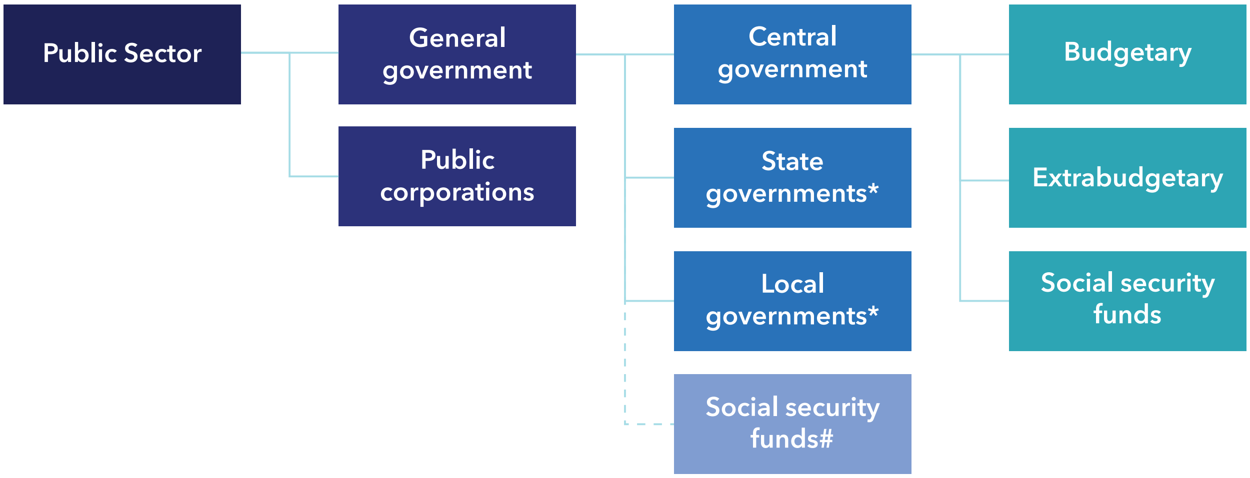
What institutions PEFA covers

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

Other parts of government, outside central government, that are identified in GFS include different administrative tiers with separate accountability mechanisms and their own PFM systems, such as budgets and accounting systems. These can include subnational governments such as state, provincial, regional, and local governments, including districts and municipalities. An abbreviated summary of the public sector components, as defined in the GFS 2014 manual, is provided in figure 2.

The PEFA indicator set is focused on the financial operations of the entire level of government covered by the assessment. For instance, activities of central government implemented outside the budget are included in the coverage of a small number of indicators and are referred to as expenditure and revenue of extrabudgetary units and expenditure and revenue related to the extrabudgetary activities of budgetary units—for example, in PEFA indicator PI-6. Public corporations are referred to in PI-10. Subnational governments with a direct relationship to central government are referred to in PI-7 and PI-10. The measurement guidance explains how each indicator relates to GFS categories, where relevant. PEFA examines operations outside of the government being assessed only to the extent that they have an impact on the fiscal performance of the central government.

FIGURE 2: The public sector and its main components, as defined by GFS and referred to in PEFA



Source: excerpt from IMF (2014), Government Finance Statistics Manual 2014, op. cit.

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

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

What PEFA does not include

The PEFA indicators focus on the operational performance of key elements of the PFM system rather than on all the various inputs and capabilities that may enable the PFM system to reach a certain level of performance. PEFA thus does not measure every factor affecting PFM performance, such as the legal framework or human resource capacities within the government. These are matters that should be taken into account, however, in addition to PEFA, as part of a dialogue on PFM reform after the PEFA report has been finalized. Further analysis, including more detailed examination of specific areas, may be required in addition to PEFA to explore the underlying factors affecting performance.

PEFA also does not involve fiscal or expenditure policy analysis that would determine whether fiscal policy is sustainable. It does not evaluate whether expenditures incurred through the budget ultimately have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. A more detailed analysis of data, or utilization of country-specific indicators, would be required for such an assessment. International organizations and research institutions have such tools at their disposal to perform more detailed analysis, such as public expenditure reviews (PER) performed by the World Bank. PEFA focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes.

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

For the purpose of a PEFA assessment elements of the defense, public order and safety function may not be included if information is not available. This pertains to many PEFA indicators, including PI-6, PI-12, PI-23 and PI-24.

1.3. The PEFA performance indicators

PEFA includes 31 performance indicators across the broad array of PFM activities performed by governments. The indicators are grouped under the seven pillars described in section 1.2:

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

Each pillar comprises a group of indicators that capture the performance of the key systems, processes, and institutions of government. Each indicator in turn includes one or more performance dimensions. A complete listing of the individual indicators and their constituent performance dimensions is provided on pages 11–12.

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

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

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

1.4. The PEFA report

The objective of the PEFA report is to provide an evidence-based assessment of PFM performance based on the indicator analysis and other crucial information in a concise and standardized manner. Information provided by the PEFA report should contribute to dialogue on systems reform.

The PEFA report includes the following:

- **An executive summary** presenting a brief overview of the main findings on systems performance and their implications for the government's ability to deliver the intended fiscal and budgetary outcomes.
- **An introduction** explaining the context, purpose, and process of preparing the report, specifying the institutional coverage.
- **An overview of relevant country-related information** that provides the context underpinning the indicator results and the overall PFM performance. This section includes a brief review of the country's economic situation and describes the public sector structure, the budgetary outcomes as measured by other analyses, and the legal and institutional PFM framework.
- **An assessment of performance in terms of the seven pillars of the PFM system.** This section contains the analysis and measurement of results in terms of the 31 indicators of PFM performance.
- **Conclusions of the crosscutting analysis** using information throughout the report to provide an integrated assessment of the country's PFM system. This section assesses the likely impact of PFM strengths and weaknesses on the three main fiscal and budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

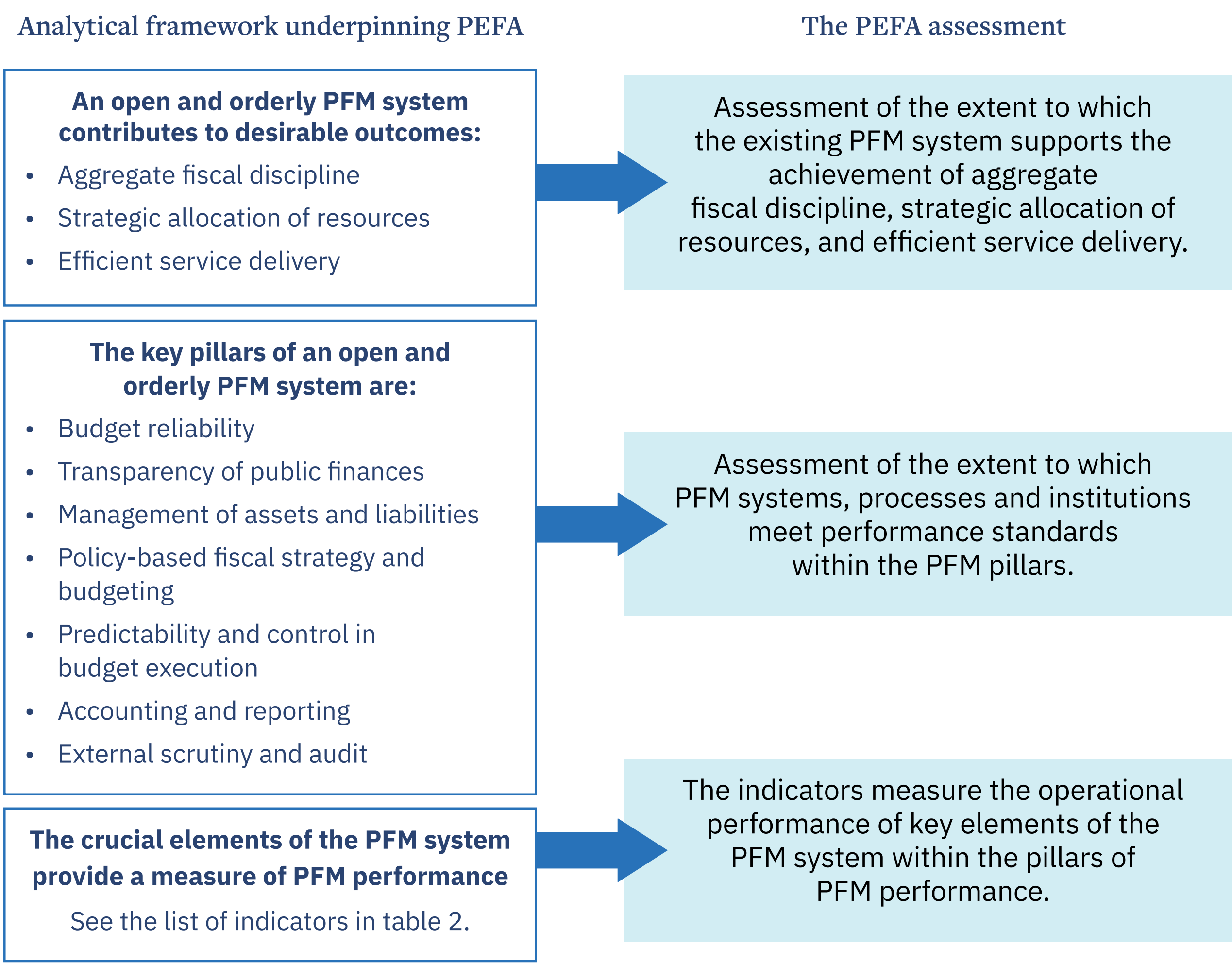
- **An overview of government initiatives to improve PFM performance.** This section summarizes the overall approach to PFM reform, including the recent and ongoing actions taken by government. It assesses the institutional factors that are likely to impact the planning of reform and its implementation in the future.

Part 3 provides additional information and guidance on the PEFA report.

1.5. Overall structure of PEFA

The structure of PEFA is as follows:

FIGURE 3: Overall structure of PEFA



PART 2: PEFA PERFORMANCE INDICATORS

2.1. General guidance on scoring

Scoring of the 31 performance indicators is the heart of the PEFA process. For each indicator, the score takes into account a number of dimensions, which are aggregated according to the methodology described in section 2.2. Each dimension is scored separately on a **four-point ordinal scale:** A, B, C, or D, according to precise criteria established for each dimension. In order to justify a particular score for a dimension, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met, the criteria are not satisfied and a lower score should be given that coincides with achievement of all requirements for the lower performance rating. A score of C reflects the basic level of performance for each indicator and dimension, consistent with good international practices. A score of D means that the feature being measured is present at less than the basic level of performance or is absent altogether, or that there is insufficient information to score the dimension.

2.1.1. Designation of D score for lack of sufficient information

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

2.1.2. Scoring where indicators are not applicable or not used

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

Not applicable (**NA**)**.** In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases "NA" is entered instead of a score. In cases where one or more dimensions of a multidimensional indicator are not applicable, the assessor proceeds as if the "not applicable" dimensions did not exist. In some cases, a D rating on an indicator or dimension can lead to NA on others. For example, if there is no internal audit function (PI-26.1), the other dimensions of PI-26 are NA because there will be nothing to assess for those dimensions in the absence of an internal audit function.

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

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

2.1.3. Time horizons

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

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

2.1.4. Materiality, size, and significance

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

- ***All*** refers to 90 percent or more (by value).
- ***Most*** refers to 75 percent or more (by value).
- ***Majority*** refers to 50 percent or more (by value).
- ***Some*** refers to 25 percent or more (by value).
- ***A Few*** refers to less than 25 percent and more than 10 percent (by value).

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

2.1.5. Use of sampling where complete information on government is impractical to collect

PEFA indicators generally require assessors to measure performance for the entire central government, budgetary central government, or general government. This may be impractical in situations where responsibilities are highly decentralized or cases involving large numbers of significant entities. Several indicators provide directions on the selection of specific matters to be assessed—for example, PI-11. In other indicators, sampling techniques are suggested—for example, PI-23 and 24. Where no specific sampling techniques are proposed but a complete set of information is impractical to collect, assessors may use a statistically sound sampling methodology. Assessors should explain the reason for the use of sampling and justify the sampling approach they adopt.

2.1.6. Issues of national security and commercial confidentiality

As noted in Section 1.2, information on aspects of defense, public order, and safety functions may be unavailable for reasons of national security. Similarly, information on certain projects or separate costs may be unavailable or unpublished to maintain commercial confidentiality. In these situations, assessors should note the limitations in the introduction of the report, at the relevant point in the report, or in both locations. (Refer to Part 3 of this document: Introduction, section 1.3.) The measurement guidance for certain indicators presents alternatives for scoring where information is not published due to commercial confidentiality. Nonetheless, wherever practical, assessors should ensure that the reasons for lack of published information are adequately justified.

2.2. Scoring of indicators with multiple dimensions

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

1. **Weakest link method: M1** (**WL**). This method is used for multidimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator. In other words, this method is applied where there is a "weakest link" in the connected dimensions of the indicator. The steps in determining the aggregate indicator score are as follows:

- Each dimension is initially assessed separately and given a score on the four-point calibration scale.
- The aggregate score for the indicator is the lowest score given for any dimension.
- Where any of the other dimensions score higher, a "+" is added to the indicator score. Note: It is NOT acceptable to choose the score for one of the higher-scoring dimensions and add a "-" for any lower scoring dimensions.

2. **Averaging method: M2** (**AV**)**.** The aggregate indicator score awarded using this method is based on an approximate average of the scores for the individual dimensions of an indicator, as specified in a conversion table (table 1). Use of this method is prescribed for selected multidimensional indicators where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though all dimensions of an indicator fall within the same area of the PFM system, in certain areas progress on some individual dimensions can be independent of the others. The steps in determining the aggregate indicator score are as follows:

- Each dimension is initially assessed separately and given a score on the four-point calibration scale.
- Refer to the **conversion table for indicator scores using the averaging method** (table 1) and find the appropriate section of the table—that is, whether there are two, three, or four dimensions for the indicator.
- Identify the row in the table that matches the scores for each dimension of the indicator; the ordering of the dimension scores does not matter.
- Enter the corresponding overall score for the indicator.

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

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

Dimension scores			Overall M2 (AV) score
2-DIMENSIONAL INDICATORS			
	D	D	D
	D	C	D+
	D	B	C
	D	A	C+
	C	C	C
	C	B	C+
	C	A	B
	B	B	B
	B	A	B+
	A	A	A
3-DIMENSIONAL INDICATORS			
D	D	D	D
D	D	C	D+
D	D	B	D+
D	D	A	C
D	C	C	D+
D	C	B	C
D	C	A	C+
D	B	B	C+
D	B	A	B
D	A	A	B
C	C	C	C
C	C	B	C+
C	C	A	B
C	B	B	B
C	B	A	B
C	A	A	B+
B	B	B	B
B	B	A	B+
B	A	A	A
A	A	A	A

NOTE: Dimension scores can be counted in any order. It is only the quantities of each score that are important for aggregation.

Table 1 MUST NOT be applied to indicators using the M1 (WL) scoring method.

Dimension scores				Overall M2 (AV) score
4-DIMENSIONAL INDICATORS				
D	D	D	D	D
D	D	D	C	D
D	D	D	B	D+
D	D	D	A	D+
D	D	C	C	D+
D	D	C	B	D+
D	D	C	A	C
D	D	B	B	C
D	D	B	A	C+
D	D	A	A	C+
D	C	C	C	D+
D	C	C	B	C
D	C	C	A	C+
D	C	B	B	C+
D	C	B	A	C+
D	C	A	A	B
D	B	B	B	C+
D	B	B	A	B
D	B	A	A	B
D	A	A	A	B+
C	C	C	C	C
C	C	C	B	C+
C	C	C	A	C+
C	C	B	B	C+
C	C	B	A	B
C	C	A	A	B
C	B	B	B	B
C	B	B	A	B
C	B	A	A	B+
C	A	A	A	B+
B	B	B	B	B
B	B	B	A	B+
B	B	A	A	B+
B	A	A	A	A
A	A	A	A	A

2.3. Specific guidance scoring for each indicator and dimension

The remainder of Part 2 provides detailed guidance on the scoring of each indicator. Guidance on assessment of PFM performance in the PEFA report is provided in Part 3 of this document.

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

PILLARS	INDICATORS	DIMENSIONS
I. Budget reliability	1. Aggregate expenditure outturn	1.1 Aggregate expenditure outturn
	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
	3. Revenue outturn	3.1 Aggregate revenue outturn
		3.2 Revenue composition outturn
II. Transparency of public finances	4. Budget classification	4.1 Budget classification
	5. Budget documentation	5.1 Budget documentation
	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
	7. Transfers to subnational governments	7.1 System for allocating transfers
		7.2 Timeliness of information on transfers
	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
	9. Public access to fiscal information	9.1 Public access to fiscal information
III. Management of assets and liabilities	10. Fiscal risk reporting	10.1 Monitoring of public corporations
		10.2 Monitoring of subnational governments
		10.3 Contingent liabilities and other fiscal risks
	11. Public investment management	11.1 Economic analysis of investment proposals
		11.2 Investment project selection
		11.3 Investment project costing
		11.4 Investment project monitoring
	12. Public asset management	12.1 Financial asset monitoring
		12.2 Nonfinancial asset monitoring
		12.3 Transparency of asset disposal
	13. Debt management	13.1 Recording and reporting of debt and guarantees
		13.2 Approval of debt and guarantees
		13.3 Debt management strategy

PILLARS	INDICATORS	DIMENSIONS
IV. Policy-based fiscal strategy and budgeting	14 Macroeconomic and fiscal forecasting	14.1 Macroeconomic forecasts
		14.2 Fiscal forecasts
		14.3 Macrofiscal sensitivity analysis
	15. Fiscal strategy	15.1 Fiscal impact of policy proposals
		15.2 Fiscal strategy adoption
		15.3 Reporting on fiscal outcomes
	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
	17. Budget preparation process	17.1 Budget calendar
		17.2 Guidance on budget preparation
		17.3 Budget submission to the legislature
	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
V. Predictability and control in budget execution	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
	20. Accounting for revenue	20.1 Information on revenue collections
		20.2 Transfer of revenue collections
		20.3 Revenue accounts reconciliation
	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
	22. Expenditure arrears	22.1 Stock of expenditure arrears
		22.2 Expenditure arrears monitoring
	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
	24. Procurement	24.1 Procurement monitoring
		24.2 Procurement methods
		24.3 Public access to procurement information
		24.4 Procurement complaints management

TABLE 2: *(continued)*

PILLARS	INDICATORS	DIMENSIONS
	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
	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
VI. Accounting and reporting	27. Financial data integrity	27.1 Bank account reconciliation
		27.2 Suspense accounts
		27.3 Advance accounts
		27.4 Financial data integrity processes
	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
	29. Annual financial reports	29.1 Completeness of annual financial reports
		29.2 Submission of reports for external audit
		29.3 Accounting standards
VII. External scrutiny and audit	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
	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

Pillar One: Budget reliability

PI-1. Aggregate expenditure outturn

Description

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

Dimension and scoring

Score	Minimum requirements for scores
1.1. Aggregate expenditure outturn	
A	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.
B	Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.
C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three years.
D	Performance is less than required for a C score.

Coverage

Budgetary central government (BCG).

Time period

Last three completed fiscal years.

Measurement guidance

Aggregate expenditure includes planned expenditures and those incurred as a result of exceptional events—for example, armed conflicts or natural disasters. Expenditures on such events may be met from contingency votes. Expenditures financed by windfall revenues, including privatization, should be included and noted in the supporting fiscal tables and narrative. Expenditures financed externally by loans or grants should be included, if reported in the budget, along with contingency vote(s) and interest on debt. Expenditure assigned to suspense accounts is not included in the aggregate. However, if amounts are held in suspense accounts at the end of any year that could affect the scores if included in the calculations, they can be included. In such cases the reason(s) for inclusion must be clearly stated in the PEFA report.

Actual expenditure outturns can deviate from the originally approved budget for reasons unrelated to the accuracy of forecasts—for example, as a result of a major macroeconomic shock. The calibration of this indicator accommodates one unusual or "outlier" year and focuses on deviations from the forecast which occur in two of the three years covered by the assessment.

The methodology for calculating this dimension is provided in a spreadsheet on the PEFA website.

PI-2. Expenditure composition outturn

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
2.1. Expenditure composition outturn by function	
A	Variance in expenditure composition by program, administrative or functional classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.
C	Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.
2.2. Expenditure composition outturn by economic type	
A	Variance in expenditure composition by economic classification was less than 5% in at least two of the last three years.
B	Variance in expenditure composition by economic classification was less than 10% in at least two of the last three years.
C	Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.
D	Performance is less than required for a C score.
2.3. Expenditure from contingency reserves	
A	Actual expenditure charged to a contingency vote was on average less than 3% of the original budget.
B	Actual expenditure charged to a contingency vote was averaging between 3% and 6%, inclusive, of the original budget.
C	Actual expenditure charged to a contingency vote was on average more than 6% but less than 10% of the original budget.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Last three completed fiscal years.

Measurement guidance

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

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

If there are amounts in suspense accounts at the end of the financial year that could affect the scoring of this indicator if included, it should be noted in the PEFA report narrative. Assessors will need to decide whether the amounts in suspense accounts are sufficient to result in misleading scores based on the amounts allocated to expenditure categories used for this indicator. If the score is likely to be misleading—for example, if the unallocated expenses exceed 10 percent of total annual expenditure—dimensions 2.1 and 2.2, and therefore PI-2 as a whole, should be scored D.

Dimension 2.1 measures the difference between the original, approved budget and end-of-year outturn in expenditure composition, by functional classification, during the last three years, **excluding** contingency items, and interest on debt. Other expenditures should be included—for example, expenditures incurred as a result of exceptional events such as armed conflict or natural disasters, expenditures financed by windfall revenues including privatization, central government subsidies, transfers, and donor funds reported in the budget.

At the administrative level, differences should be calculated for the main budgetary heads (votes) of budgetary units that are included in the approved budget. If a functional classification based on GFS/COFOG is used, differences should be based on the ten main functions. Where a functional classification not based on GFS/COFOG is used, the measurement of difference should be based on the main heads approved by the legislature. If a program basis is used, the program-based categories should be rated at the same level at which they were voted by the legislature.

The calculations for this indicator include an adjustment to remove the effects of changes in aggregate expenditure. This is achieved by adjusting the budget outturn for each category used by the proportional difference between the total original, approved budget expenditure and the total expenditure outturn. The remaining deviation within each category is based entirely on the absolute value of changes that occurred in and between categories, net of any change assumed to have resulted from aggregate expenditure shifts.

The methodology for calculating this dimension is provided in a spreadsheet on the PEFA website.

Dimension 2.2 measures the difference between the original, approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years **including** interest on debt but **excluding** contingency items.

The composition of the budget by economic classification is important for showing the movements between different categories of inputs—for example, capital and recurrent expenditures. The categories of expenditure are the same as for dimension 2.1, with the addition of interest on debt, as this is one of the categories of economic classification. The calculation should use the second level of the GFS classification (2 digits) or similar. If a different classification is used, the level of aggregation should be comparable to the 2-digit GFS.

As with dimension 2.1, the effects of changes in aggregate expenditure between the original, approved budget and outturn are adjusted in the calculations.

The methodology for calculating this dimension is provided in a spreadsheet on the PEFA website.

Dimension 2.3 measures the average amount of expenditure actually charged to a contingency vote over the last three years.

This dimension recognizes that it is prudent to include an amount to allow for unforeseen events in the form of a contingency vote, although this should not be so large as to undermine the credibility of the budget. There may be more than one contingency vote. Assessors should discuss the budgeting and accounting treatment of contingency items in the report narrative. The calibration for this dimension is based on the volume of expenditure recorded against contingency votes, except for transfers to a Disaster Fund or similar reserves, as this represents a deviation from policy-based allocation.

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

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

PI-3. Revenue outturn

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
3.1. Aggregate revenue outturn	
A	Actual revenue was between 97% and 106% of budgeted revenue in at least two of the last three years.
B	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.
C	Actual revenue was between 92% and 116% of budgeted revenue in at least two of the last three years.
D	Performance is less than required for a C score.
3.2. Revenue composition outturn	
A	Variance in revenue composition was less than 5% in two of the last three years.
B	Variance in revenue composition was less than 10% in two of the last three years.
C	Variance in revenue composition was less than 15% in two of the last three years.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Last three completed fiscal years.

Measurement guidance

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Overly optimistic revenue forecasts can lead to unjustifiably large expenditure allocations that will eventually require either a potentially disruptive in-year reduction in spending or an unplanned increase in borrowing to sustain the spending level. On the other hand, undue pessimism in the forecast can result in the proceeds of an overrealization of revenue being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of revenue underrealization may be more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing an overrealization

The indicator focuses on both domestic and external revenue, which comprises taxes, social contributions, grants, and other revenues including those from natural resources, which may include transfers from a revenue stabilization fund or a sovereign wealth fund where these are included in the budget. External financing through borrowing is not included in the assessment of this indicator. This means that grants from development partners will be included in the revenue data used for the indicator rating, but borrowing on concessionary terms from development partners will not.

Revenue outturn can deviate from the originally approved budget for reasons unrelated to the accuracy of forecasts, such as a major macroeconomic shock. For this reason, the scoring calibration allows for one outlier year to be excluded. The focus is on significant deviations from the forecast that occur in two or more of the three years covered by the assessment.

Calculation of the deviations between approved budgets and outturns for each dimension should be performed using the spreadsheet provided on the PEFA website.

Dimension 3.1 measures the extent to which revenue outturns deviate from the originally approved budget. Use spreadsheets provided on the PEFA website to calculate the score for this indicator.

Dimension 3.2 measures the variance in revenue composition during the last three years. It includes actual revenue by category compared to the originally approved budget using level three [3 digits] of GFS 2014 classification or a classification that can produce consistent documentation according to comparable hierarchical levels and coverage. It includes disaggregation of tax revenue by the main tax types, and not just tax, nontax, and grants. This dimension attempts to capture the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended.

Pillar Two: Transparency of public finances

PI-4. Budget classification

Description

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

Dimension and scoring

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

Coverage

BCG.

Time period

Last completed fiscal year.

Measurement guidance

A robust classification system allows transactions to be tracked throughout the budget’s formulation, execution, and reporting cycle according to administrative unit, economic category, function/subfunction, or program. The budget should be presented in a format that reflects the most important classifications. The classification should be embedded in the government’s chart of accounts (the accounting classification) to ensure that every transaction can be reported in accordance with any of the classifications used. The budget and accounting classifications should be reliable and consistently applied, providing users with confidence that information recorded against one classification will be reflected in reports under the other classification.

The GFS classification provides a recognized international framework for the economic and functional classification of transactions: revenues and expenditures are broken down into four and three classification levels, respectively. Although no international standard for programmatic classification exists, this type of classification can be an important tool in budget formulation, management, and reporting. The way it is applied should be explained in the report narrative if the highest score is assigned on this basis. If the GFS classification is not applied, it is essential that the classification that is applied has comparable characteristics of clarity, consistency, robustness, and comprehensiveness that are features of GFS. Assessors will have to make a judgment about the qualities of the classification scheme used. Ideally, the latest version of GFS should be used, but if an earlier version is used, the assessor will have to make a judgment about whether it is satisfactory for the purpose. The assessor should mention the reasons for this judgment in the narrative for this indicator in the report.

Every part of the government's annual budget, including current and capital items, should be covered by this indicator, whether they are integrated or use separate budget and accounting processes. In the latter case, the requirements for a score should be fulfilled for each process.

For countries rich in natural resources, the government's revenue classification system should identify and report these revenues (whether taxes, royalties, bonuses, dividends, the government's share of profits and the main sector(s) from which the revenues originate. The narrative of the assessment should identify whether such a classification exists and if it is linked to budget classification and the chart of accounts.

PI-5. Budget documentation

Description

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

Dimension and scoring

Score	Minimum requirements for scores
5.1. Budget documentation	
A	Budget documentation fulfills 10 elements, including every basic element (1–4).
B	Budget documentation fulfills 7 elements, including at least 3 basic elements (1–4).
C	Budget documentation fulfills at least 3 basic elements (1–4).
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Last budget submitted to the legislature.

Measurement guidance

Annual budget documentation refers to the executive's budget proposals for the next fiscal year with supporting documents, as submitted to the legislature for scrutiny and approval. The set of documents provided by the executive should allow a complete picture of central government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years.[1]

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

The elements are as follows:

Basic elements

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

Additional elements

5. Deficit financing, describing its anticipated composition.

1 The following terminology is used: Current fiscal year (T) is the fiscal year in which the budget proposals are being prepared and usually presented. Next year (T+1) is the budget year or fiscal year for which the annual budget proposals are made. Previous year (T-1) is the last fiscal year completed. Outer years (T+2, T+3, and so on) are the fiscal years beyond the year for which the annual budget proposals are made. Outer years are relevant for the medium-term budget perspective in PI-14, PI-15, and PI-16.

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

PI-6. Central government operations outside financial reports

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
6.1. Expenditure outside financial reports	
A	Expenditure outside government financial reports is less than 1% of total BCG expenditure.
B	Expenditure outside government financial reports is less than 5% of total BCG expenditure.
C	Expenditure outside government financial reports is less than 10% of total BCG expenditure.
D	Performance is less than required for a C score.
6.2. Revenue outside financial reports	
A	Revenue outside government financial reports is less than 1% of total BCG revenue.
B	Revenue outside government financial reports is less than 5% of total BCG revenue.
C	Revenue outside government financial reports is less than 10% of total BCG revenue.
D	Performance is less than required for a C score.
6.3. Financial reports of extrabudgetary units	
A	Detailed financial reports of ***all*** extrabudgetary units are submitted to government annually within three months of the end of the fiscal year.
B	Detailed financial reports of ***most*** extrabudgetary units are submitted to government annually within six months of the end of the fiscal year.
C	Detailed financial reports of the ***majority*** of extrabudgetary units are submitted to government annually within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.

Coverage

Central government (CG).

Time period

Last completed fiscal year.

Measurement guidance

Ex-post financial reports available to the government should cover ***all*** budgetary and extrabudgetary activities of central government to allow a complete picture of revenue and expenditures across every category. This will be the case if expenditure and revenue of extrabudgetary units and expenditure and revenue related to extrabudgetary activities of budgetary units are insignificant or if such revenues and expenditures are included in central government ex-post financial reports.

Dimension 6.1 assesses the magnitude of expenditures incurred by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports. Such expenditures may include expenditures from fees and charges collected and retained by budgetary and extrabudgetary units outside of the approved budget as well as expenditures on externally funded projects and activities where these are not reported in central government financial reports.

Dimension 6.2 assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports. Such revenues may include those received by extrabudgetary units from budgetary transfers or other revenues, revenue from donor-funded projects, and fees and charges outside the type or amounts approved by the budget, where any of these are not reported in central government financial reports.

Dimension 6.3 assesses the extent to which ex-post financial reports of extrabudgetary units are provided to central government. Annual financial reports should be comprehensive and provided in a timely manner consistent with budgetary central government reporting requirements (see PI-29). Information should include details of actual revenue and expenditure, assets and liabilities, and guarantees and long-term obligations. A separate indicator (PI-29) assesses the extent to which budgetary central government units submit financial reports for audit.

The PEFA report, Section 2, *table 2.6: Financial structure of central government—budget estimates, and table 2.7: Financial structure of central government—actual expenditure* present the financial structure of government on aggregate reported government expenditures of budget and extrabudgetary units, including social security funds.

Definitions

Entities with individual budgets not fully covered by the main budget are considered **extrabudgetary** in accordance with the IMF's GFS Manual 2014. Assessors should refer to the GFS manual for further guidance and explanation of which institutions, revenues, and expenditures are considered extrabudgetary when assessing this indicator.

PI-7. Transfers to subnational governments

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
7.1 System for allocating transfers	
A	The horizontal allocation of ***all*** transfers to subnational governments from central government is determined by transparent, rulebased systems.
B	The horizontal allocation of ***most*** transfers to subnational governments from central government is determined by transparent, rulebased systems.
C	The horizontal allocation of ***some*** transfers to subnational governments from central government is determined by transparent, rulebased systems.
D	Performance is less than required for a C score.
7.2. Timeliness of information on transfers	
A	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which is generally adhered to and provides clear and sufficiently detailed information for subnational governments to allow at least six weeks to complete their budget planning on time.
B	The process by which subnational governments receive information on their annual transfers is managed through the regular budget calendar, which provides clear and sufficiently detailed information for subnational governments to allow at least four weeks to complete their budget planning on time.
C	Substantial delays may be experienced in implementation of the budget procedures. Information on annual transfers to subnational governments is issued before the start of the subnational governments' fiscal year, which could be after budget plans are decided.
D	Performance is less than required for a C score.

Coverage

CG and the subnational governments which have direct financial relationships with CG.

Time period

Last completed fiscal year.

Measurement guidance

This indicator examines the arrangements for providing transfers from central government to subnational governments[2] and the timeliness of information on those transfers. Financial reporting by subnational governments and fiscal risks to central government from subnational governments are addressed in PI-10.

Dimension 7.1 assesses the extent to which transparent, rule-based systems are applied to budgeting and the actual allocation of conditional and unconditional transfers. Transfers to support subnational government's expenditure can be made in the

2 Refer to the GFS Manual, Chapter 2, for an explanation of the distinction between a subnational government from a central government unit.

form of unconditional grants, where their final use is determined by the subnational governments through their budgets, or through conditional (earmarked) grants to subnational governments to implement selected service delivery and expenditure responsibilities—for example, by function or program, typically in accordance with an agreed-upon regulatory or policy standard. The overall level of grants (that is, the vertical allocation) will usually be determined by policy decisions at the central government's discretion or as part of constitutional negotiation processes, and is not assessed by this indicator. However, clear criteria for the distribution of grants among subnational governments—for example, formulae for the horizontal allocation of funds—are needed to ensure allocative transparency and medium-term predictability of funds available for planning and budgeting of expenditure programs by subnational governments. Every fiscal transfer from central government to the relevant subnational governments should be taken into consideration. If different formulae or criteria are used for different elements of transfer, the overall assessment may be made on a value-based weighted average.

Dimension 7.2 assesses the timeliness of reliable information provided to subnational governments on their allocations from central government for the coming year. It is crucial for subnational governments to receive information on annual allocations from central government well in advance of the completion (and preferably before commencement) of their own budget-preparation processes. Information on transfers to subnational governments' budgets should be regulated by the central government's annual budget calendar, which should provide for reliable information on allocations early in the cycle.

PI-8. Performance information for service delivery

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
8.1. Performance plans for service delivery	
A	Information is published annually on policy or program objectives, key performance indicators, outputs to be produced, and the outcomes planned for ***most*** ministries, disaggregated by program or function.
B	Information is published annually on policy or program objectives, key performance indicators, and outputs to be produced or the outcomes planned for ***most*** ministries.
C	Information is published annually on the activities to be performed under the policies or programs for the ***majority*** of ministries or a framework of performance indicators relating to the outputs or outcomes of the ***majority*** of ministries is in place.
D	Performance is less than required for a C score.
8.2. Performance achieved for service delivery	
A	Information is published annually on the quantity of outputs produced and outcomes achieved for ***most*** ministries disaggregated by program or function.
B	Information is published annually on the quantity of outputs produced or the outcomes achieved for ***most*** ministries.
C	Information is published annually on the activities performed for the ***majority*** of ministries.
D	Performance is less than required for a C score.
8.3. Resources received by service delivery units	
A	Information on resources received by frontline service delivery units is collected and recorded for at least two large ministries, disaggregated by source of funds. A report compiling the information is prepared at least annually.
B	Information on resources received by frontline service delivery units is collected and recorded for at least one large ministry. A report compiling the information is prepared at least annually.
C	A survey carried out in one of the last three years provides estimates of the resources received by service delivery units for at least one large ministry.
D	Performance is less than required for a C score.
8.4. Performance evaluation for service delivery	
A	Independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published for ***most*** ministries at least once within the last three years.
B	Evaluations of the efficiency and effectiveness of service delivery have been carried out and published for the ***majority*** of ministries at least once within the last three years.
C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for ***some*** ministries at least once within the last three years.
D	Performance is less than required for a C score.

Coverage

CG. Services managed and financed by other tiers of government should be included if the CG significantly finances such services through reimbursements or earmarked grants, or uses other tiers of government as implementing agents.

Time period

Dimension 8.1: Performance indicators and planned outputs and outcomes for the next fiscal year.

Dimension 8.2: Outputs and outcomes of the last completed fiscal year.

Dimensions 8.3 and 8.4: Last three completed fiscal years.

Measurement guidance

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

Promoting operational efficiency in public service delivery is a core objective of the PFM system. The inclusion of performance information within budgetary documentation is considered to be international good practice. It strengthens the accountability of the executive for the planned and achieved outputs and outcomes of government programs and services. Increasingly, legislatures demand to see such performance information as part of their consideration of the executive's budget proposal, although the legislature may not be required to approve planned performance.

Ministries have been selected as the government unit for publication of performance information in this indicator. Different organizational units may be substituted for ministries if performance information is published solely by other units—for example, individual budgetary and institutional units, or a combination of ministries and other units.

Dimension 8.1 assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal or related documentation, at the function, program or entity level.

Dimension 8.2 examines the extent to which performance results for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget.

Dimension 8.3 measures the extent to which information is available on the level of resources actually received by service delivery units of at least two large ministries (such as schools and primary health clinics) and the sources of those funds. The information captured by ministries on resources should support the comparison of service performance with the actual resources received. The reasons for selecting the ministries for this dimension should be explained in the report narrative.

Dimension 8.4 considers the extent to which the design of public services and the appropriateness, efficiency, and effectiveness of those services is assessed in a systematic way through program or performance evaluations. The evaluations are considered within the scope of this dimension if they cover ***all*** or a material part of service delivery or if they are cross-functional and incorporate service delivery functions. Independent evaluations in this context are those undertaken by a body that is separate from, and not subordinate to, the body that delivers the service. It could be a part of the same unit that has a separate reporting line to the CEO, or a senior management committee. For example, it could be a department with specific responsibilities for independent evaluation or review across the unit, including an internal audit department. Such evaluations may also be undertaken by the government's external auditor and may be called "performance audits." Performance audits are included in this dimension and are not covered in PI-30: External audit.

Definitions

“Service delivery” for this indicator refers to programs or services that are provided either to the general public or to specifically targeted groups of citizens, either fully or partially using government resources. This includes services such as education and training, health care, social and community support, policing, road construction and maintenance, agricultural support, water and sanitation, and other services. It excludes those services provided on a commercial basis through public corporations. It also excludes policy functions, internal administration, and purely regulatory functions undertaken by the government, although performance data for these activities may be captured for internal management purposes. It also excludes defense and national security. A “service delivery unit” is defined as the unit that is delivering “frontline” services such as schools or primary health care clinics.

“Performance information” refers to output and outcome indicators and planned or achieved results against those indicators. Output indicators measure the quantity of outputs produced or services delivered or planned. Outcome indicators measure the outcome, impact, or effectiveness of the services and their outputs. More advanced performance measurement systems may also seek to assess the gender responsiveness of budget resources through collecting and analyzing gender disaggregated data on outputs and outcomes.

PI-9. Public access to fiscal information

Description

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

Dimension and scoring

Score	Minimum requirements for scores
9.1. Public access to fiscal information	
A	The government makes available to the public eight elements, including all five basic elements, in accordance with the specified time frames.
B	The government makes available to the public six elements, including at least four basic elements, in accordance with the specified time frames.
C	The government makes available to the public four basic elements, in accordance with the specified time frames.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Last completed fiscal year.

Measurement guidance

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

Public access to the following information is considered critical:

Basic elements

1. **Annual executive budget proposal documentation.** A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the legislature.

2. **Enacted budget.** The annual budget law approved by the legislature is publicized within two weeks of passage of the law.

3. **In-year budget execution reports.** The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.

4 **Annual budget execution report.** The report is made available to the public within six months of the fiscal year's end.

5. **Audited annual financial report, incorporating or accompanied by the external auditor's report.** The reports are made available to the public within twelve months of the fiscal year's end.

Additional elements

6. **Prebudget statement.** The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.

7. **Other external audit reports.** ***All*** nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.

8. **Summary of the budget proposal.** Either (i) a clear, simple summary of the executive budget proposal is publicly available within two weeks of the executive budget proposal's submission to the legislature, or (ii) the enacted budget understandable by the nonbudget experts, often referred to as a "citizens' budget," and where appropriate, translated into the most commonly spoken local language(s), is publicly available within one month of the budget's approval.

9. **Macroeconomic forecasts.** The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.

The narrative of the assessment should also comment on the quality of information made available to the public, focusing on areas such as the accessibility of language and structure; the appropriateness of the layout; the availability of summaries for large documents; and the means used to facilitate public access, such as websites, the press, and notice boards for locally relevant information.

Pillar Three: Management of assets and liabilities

PI-10. Fiscal risk reporting

Description

This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. This indicator contains three dimensions and uses the **M2** (**AV**) method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
10.1. Monitoring of public corporations	
A	Audited annual financial statements for ***all*** public corporations are published within six months of the end of the fiscal year. A consolidated report on the financial performance of the public corporation sector is published by central government annually.
B	Audited annual financial statements are published for ***most*** public corporations within six months of the end of the fiscal year.
C	Government receives financial reports from ***most*** public corporations within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.
10.2. Monitoring of subnational governments	
A	Audited annual financial statements for ***all*** subnational governments are published within nine months of the end of the fiscal year. A consolidated report on the financial position of ***all*** subnational governments is published at least annually.
B	Audited annual financial statements for ***most*** subnational governments are published at least annually within nine months of the end of the fiscal year.
C	Unaudited reports on the financial position and performance of the ***majority*** of subnational governments are published at least annually within nine months of the end of the fiscal year.
D	Performance is less than required for a C score.
10.3. Contingent liabilities and other fiscal risks	
A	A report is published by central government annually that quantifies and consolidates information on ***all*** significant contingent liabilities and other fiscal risks of central government.
B	Central government entities and agencies quantify ***most*** significant contingent liabilities in their financial reports.
C	Central government entities and agencies quantify ***some*** significant contingent liabilities in their financial reports.
D	Performance is less than required for a C score.

Coverage

Dimension 10.1: CG-controlled public corporations.

Dimension 10.2: Subnational government entities that have direct fiscal relations with the CG.

Dimension 10.3: CG.

Time period

Last completed fiscal year.

Measurement guidance

Central government usually has a formal oversight role in relation to units in other parts of the public sector and should be aware of, monitor, and manage at a central level any fiscal risks posed by those units. In addition, central government may be obliged, for political reasons, to assume responsibility for a financial default of other entities, such as the banking sector, even when no formal oversight role or legal obligation exists, thus adequate procedures to monitor those risks at the level of the whole of the public sector should be in place.

Fiscal risks created by public corporations and other structured financing instruments (such as PPPs) can take the form of debt service defaults from sovereign guarantees. These should be identified as part of the central government's contingent liabilities and reported in annual financial statements. The risks of public corporations defaulting on the debt without guarantees issued by central government should be reported as well. Fiscal risks can also relate to operational losses caused by unfunded quasi-fiscal operations such as a central bank, large expenditure payment arrears, unfunded community service obligations of public corporations, and unfunded pension obligations. Significant fiscal risks are those that are potentially large enough to result in an urgent need to respond with resources allocated to other purposes, or that require governments to increase borrowing to fund actions to address the consequences of a risk-related event.

Dimension 10.1 assesses the extent to which information on the financial performance and associated fiscal risks of the central government's public corporations is available through audited annual financial statements. It also assesses the extent to which the central government publishes a consolidated report on the financial performance of the public corporation sector annually.

Dimension 10.2 assesses the extent to which information on financial performance, including the central government's potential exposure to fiscal risks, is available through the audited annual financial statements of subnational governments. It also assesses whether the central government publishes a consolidated report on the financial performance of the subnational government sector annually. Fiscal risks created by subnational governments can take the form of debt service defaults with or without guarantees issued by the central government, operational losses caused by unfunded subnational governments' quasi-fiscal operations, expenditure payment arrears, and unfunded pension obligations. The net fiscal position of subnational governments that have direct fiscal relations with the central government should be monitored, at least on an annual basis, with essential information on fiscal risks reported to the central government official responsible for subnational government oversight.

Dimension 10.3 assesses monitoring and reporting of the central government's explicit contingent liabilities from its own programs and projects, including those of extrabudgetary units. Explicit contingent liabilities include umbrella state guarantees for various types of loans—for example, mortgage loans, student loans, agriculture loans, and small business loans. Explicit contingent liabilities also include state insurance schemes, such as deposit insurance, private pension fund insurance, and crop insurance. The financial implications of ongoing litigation and court cases should be included, although these are often difficult to quantify. State guarantees for nonsovereign borrowing by private sector enterprises and guarantees on private investments of different types, including special financing instruments such as PPPs, should be reported. In many countries, governments have entered into PPPs in order to finance services to communities. While not explicitly guaranteed, such arrangements almost always generate a contingent liability for the government, should the commercial terms in the contract not be satisfied. For example, the forecast level of tolls generated from a road constructed and operated by the private sector may not be realized. Such contingencies may result in a significant and quantifiable financial risk for government and should be included in the assessment of this indicator.

Significant contingent liabilities are defined as those with a potential cost in excess of 0.5 percent of total BCG expenditure and for which an additional appropriation by the legislature would be required. Dimension 10.3 does not assess explicit contingent liabilities arising from public corporations or subnational governments as they are assessed under dimensions 10.1 and 10.2 respectively.

Implicit contingent liabilities such as bailouts, the failure of nonguaranteed pension funds, natural disasters, armed conflicts, and other possible events pose significant risks as well. They are not legally binding and are difficult to quantify. Nevertheless, any qualitative assessment of such risks should be reported as part of the narrative for this dimension.

Definition

Public corporations for the purpose of this indicator are defined in accordance with GFS 2014. In this regard it is possible that certain institutional units that are legally constituted as corporations may not be classified as corporations for statistical purposes if they do not charge economically significant prices. Assessors should refer to the GFS manual for further guidance and explanation.

PI-11. Public investment management

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
11.1. Economic analysis of investment proposals	
A	Economic analyses are conducted, as established in national guidelines, to assess ***all*** major investment projects and the results are published. The analyses are reviewed by an entity other than the sponsoring entity.
B	Economic analyses are conducted, as established in national guidelines, to assess ***most*** major investment projects, and some results are published. The analyses are reviewed by an entity other than the sponsoring entity.
C	Economic analyses are conducted to assess ***some*** major investment projects.
D	Performance is less than required for a C score.
11.2. Investment project selection	
A	Prior to their inclusion in the budget, ***all*** major investment projects are prioritized by a central entity on the basis of published standard criteria for project selection.
B	Prior to their inclusion in the budget, ***most*** major investment projects are prioritized by a central entity on the basis of standard criteria for project selection.
C	Prior to their inclusion in the budget, ***some*** of the major investment projects are prioritized by a central entity.
D	Performance is less than required for a C score.
11.3. Investment project costing	
A	Projections of the total life-cycle cost of major investment projects, including both capital and recurrent costs together with a year-by-year breakdown of the costs for at least the next three years, are included in the budget documents.
B	Projections of the total capital cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next three years, are included in the budget documents.
C	Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents.
D	Performance is less than required for a C score.
11.4. Investment project monitoring	
A	The total cost and physical progress of major investment projects are monitored during implementation by the implementing government unit. There is a high level of compliance with the standard procedures and rules for project implementation that have been put in place. Information on the implementation of major investment projects is published in the budget documents or in other reports annually.
B	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Standard procedures and rules for project implementation are in place, and information on implementation of major investment projects is published annually.
C	The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared annually.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

Last completed fiscal year.

Measurement guidance

Public investments are a key prerequisite for achieving and sustaining economic growth, achieving strategic policy objectives, and addressing national service delivery needs. During periods of economic contraction, countries strive to protect fiscal resources for addressing investment needs. During periods of expansion, countries typically need to prioritize among many worthwhile investments. There is a variety of different national approaches to public investment management (PIM). However, there are common features in terms of the functions they carry out. This indicator attempts to distill the four most critical dimensions.

The indicator spans every type of PFM system, including those with separate recurrent and capital budget management processes and institutions. The term "major investment project" includes investments implemented through structured financing instruments such as PPPs.

For the purpose of this indicator, "major investment projects" are defined as projects meeting the following criteria:

- The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and
- The project is among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units' investment project expenditure.

If the government has a different definition of major investment projects that would at least meet these criteria and that would simplify collection of information, the assessor may use the government's definition to identify major investment projects, but scoring should still be done using the definition in this guide.

Dimension 11.1 assesses the extent to which robust appraisal methods, based on economic analysis, are used to conduct feasibility or prefeasibility studies for major investment projects and whether the results of analyses are published. There are different types of economic analysis with different coverage and areas of emphasis. These include analysis of economic externalities—sometimes referred to as social or economic costs and policy benefits—and health and environmental impacts. Economic analysis frequently involves the application of specific techniques such as cost–benefit analysis, cost-effectiveness analysis, and multicriteria analysis. For the analysis to have objectivity, it must be reviewed by an entity other than the sponsoring entity. The economic analysis used to make decisions should also be current enough to be meaningful. Very outdated analyses, such as those for which market conditions have shifted considerably, are not likely to be useful bases for decisions.

Dimension 11.2 assesses the extent to which the project-selection process prioritizes investment projects against clearly defined criteria. Rigorous and transparent arrangements for the selection of investment projects aim to strengthen the efficiency and productivity of public investments. The dimension requires that governments carry out a central review of major investment project appraisals before including projects in the budget submission to the legislature. It also requires that governments publish and adhere to standard criteria for project selection. "Standard criteria" refers to a set of formal procedures adopted by government that are used for every project or group of related projects with common characteristics within and across central governmental units.

Dimension 11.3 evaluates whether the budget documentation includes medium-term projections of investment projects on a full-cost basis and whether the budget process for capital and recurrent spending is fully integrated. Sound budget management requires the preparation of comprehensive and forward-looking project budget plans for capital and recurrent costs over the life of the investment. Projections of recurrent cost implications from projects are needed to plan and incorporate these costs into budgets going forward. Solid budget and cash-flow management, as well as cost-benefit analysis, depend on comprehensive financial analysis of investment projects.

Dimension 11.4 assesses the extent to which prudent project monitoring and reporting arrangements are in place for ensuring value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and produce periodic project-monitoring reports. Monitoring should cover projects from the point of approval and throughout implementation. The system should allow supplier payments to be linked to evidence of physical progress. Such a system should also identify deviations from plans and allow for identification of appropriate actions in response.

Certain important issues for public investment management are not treated explicitly by this indicator but are covered by other indicators:[3] (a) the issue of consistency of investment projects with national or sector policy objectives is addressed by PI-16; (b) the quality of the procurement process—for example, the extent to which a reliable, comprehensive procurement plan is prepared ex ante—is covered by PI-24; (c) the question of asset management, including a well-maintained asset register that records accurate values, is examined in PI-12.

3 In fact, there are many elements of the broader public sector context that will affect project implementation. These include project implementation capacity, total project cost management (which relies on an accounting system that can capture and report project costs), facilities-operation arrangements, and ex-post evaluation rules and procedures.

PI-12. Public asset management

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
12.1. Financial asset monitoring	
A	The government maintains a record of its holdings in ***all*** categories of financial assets, which are recognized at fair or market value, in line with international accounting standards. Information on the performance of the portfolio of financial assets is published annually.
B	The government maintains a record of its holdings in major categories of financial assets, which are recognized at their acquisition cost or fair value. Information on the performance of the major categories of financial assets is published annually.
C	The government maintains a record of its holdings in major categories of financial assets.
D	Performance is less than required for a C score.
12.2. Nonfinancial asset monitoring	
A	The government maintains a register of its holdings of fixed assets, land, and (where relevant) subsoil assets, including information on their usage and age, which is published at least annually.
B	The government maintains a register of its holdings of fixed assets, including information on their usage and age, which is published. A register of land, and (where relevant) subsoil assets is also maintained.
C	The government maintains a register of its holdings of fixed assets, and collects partial information on their usage and age.
D	Performance is less than required for a C score.
12.3. Transparency of asset disposal	
A	Procedures and rules for the transfer or disposal of financial and nonfinancial assets are established, including information to be submitted to the legislature for information or approval. Information on transfers and disposal is included in budget documents, financial reports, or other reports.
B	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Information on transfers and disposals is included in budget documents, financial reports, or other reports.
C	Procedures and rules for the transfer or disposal of nonfinancial assets are established. Partial information on transfers and disposals is included in budget documents, financial reports, or other reports.
D	Performance is less than required for a C score.

Coverage

Dimension 12.1: CG.

Dimension 12.2: BCG.

Dimension 12.3: CG for financial assets and BCG for nonfinancial assets.

Time period

Last completed fiscal year.

Measurement guidance

Assets are resources controlled by a government entity as a result of past events from which future economic benefits are expected to flow. Assets are classified under GFS 2014 and other classifications as either financial or nonfinancial. Financial assets can be very diverse, including cash, securities, loans, and receivables owned by the government. They may also include foreign reserves and long-term funds such as sovereign wealth funds and equity in state-owned and private sector institutions. It is important that a country has systems for managing, monitoring, and reporting on financial assets, including robust risk management frameworks where necessary, and appropriate governance and transparency arrangements.

Every economic asset other than financial assets is classified as a nonfinancial asset. Recognizing nonfinancial asset values and economic potential is important for a variety of PFM processes, including assessing the financial position of government, determining the requirement for future capital investment, maximizing the return on investments, and ensuring efficient utilization of resources.

Nonfinancial assets may arise as outputs of a production process, may occur naturally, or may be constructs of society. Nonfinancial assets usually provide benefits either through their use in the production of goods and services or in the form of property income. The most valuable nonfinancial assets of many countries are subsoil mineral resources such as oil, gas, diamonds, or precious or industrial metals. A list of categories of nonfinancial assets is provided in table 3 below to guide the assessment of dimension 12.2. The assessment should be clear about which categories are included for the purposes of this indicator and the reasons for any exclusions. It should include comments on the mechanisms used to capture information. The narrative should also comment on the completeness of the data inserted in the table and should indicate which entities own or administer
the assets.

TABLE 3: Categories of nonfinancial assets

Categories	Subcategories	Where captured	Comments
Fixed assets	Buildings and structures		
	Machinery and equipment		
	Other fixed assets		
Inventories	—		
Valuables	—		
Nonproduced assets	Land		
	Mineral and energy resources		
	Other naturally occurring assets		
	Intangible nonproduced assets		

Note: The categories in the table are based on the GFS 2014, but different categories applied by the government may be used.

Dimension 12.1 assesses the nature of financial asset monitoring, which is critical to identifying and effectively managing the key financial exposures and risks to overall fiscal management. The rating criteria use the term "performance" to refer to the return on invested capital in the form of dividends, interest, and capital appreciation or loss, rather than any specific target.

Dimension 12.2 assesses the features of nonfinancial asset monitoring for BCG. Reporting on nonfinancial assets should identify the assets and their use. Maintaining a register of fixed assets is a basic requirement; up-to-date registers allow government to better utilize assets such as infrastructure and to plan investment programs and maintenance. Registers of subsoil assets are only required if the assets owned by BCG are significant relative to total BCG assets. If there are significant nonfinancial assets held by public corporations, this should be reported in the narrative for this dimension. The dimension does not require valuation for nonfinancial assets.

Dimension 12.3 assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures. It examines whether information is provided to the legislature or the public on transfers and disposals. Transfer of assets includes transfer of usage rights where ownership is retained by the government.

Definitions

Definitions of the terms relating to assets that are used in this indicator are based on the GFS Manual 2014.

PI-13. Debt management

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
13.1. Recording and reporting of debt and guarantees	
A	Domestic and foreign debt and guaranteed debt records are complete, accurate, updated, and reconciled monthly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least quarterly.
B	Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. ***Most*** information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.
C	Domestic and foreign debt and guaranteed debt records are updated annually. Reconciliations are performed annually. Areas where reconciliation requires additional information to be complete are acknowledged as part of documentation of records.
D	Performance is less than required for a C score.
13.2. Approval of debt and guarantees	
A	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity. Annual borrowing must be approved by the government or legislature.
B	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity. Annual borrowing must be approved by the government or legislature.
C	Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to entities specifically included in the legislation. Documented policies and procedures provide guidance for undertaking borrowing and other debt-related transactions, and issuing loan guarantees to one or several entities. These transactions are reported to and monitored by a single responsible entity.
D	Performance is less than required for a C score.
13.3. Debt management strategy	
A	A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks. Annual reporting against debt management objectives is provided to the legislature. The government's annual plan for borrowing is consistent with the approved strategy.
B	A current medium-term debt management strategy, covering existing and projected government debt, with a horizon of at least three years, is publicly reported. The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks.
C	A current medium-term debt management strategy covering existing and projected government debt is publicly available. The strategy indicates at least the preferred evolution of risk indicators such as interest rates and refinancing, and foreign currency risks.
D	Performance is less than required for a C score.

Coverage

Dimensions 13.1 and 13.2: CG.

Dimension 13.3: CG, except in federal states.

Time period

Dimension 13.1: At time of assessment.

Dimension 13.2: Last completed fiscal year.

Dimension 13.3: At time of assessment, with reference to the last three completed fiscal years.

Measurement guidance

Governments that fail to monitor the financial liabilities that arise from domestic, foreign, and guaranteed debt or from payment arrears, including salaries, may create unnecessarily high debt service costs and are unlikely to be able to deliver planned services. For the purpose of this indicator, debt refers to central government debt—both domestic and external. Monitoring of debt contracted by subnational government and public corporations is considered under PI-10: Fiscal risk reporting.

Dimension 13.1 assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting. A system to monitor and report regularly on the main features of the debt portfolio is critical for ensuring data integrity and effective management, such as accurate debt service budgeting, making timely debt service payments, and ensuring well-planned debt rollovers. Regular reporting enables the government to monitor the implementation of its debt management strategy and address any deviations that arise.

Dimension 13.2 assesses the arrangements for the approval and control of the government's contracting of loans and issuing of guarantees, which is crucial to proper debt management performance. This includes the approval of loans and guarantees against adequate and transparent criteria by government entities as established in the primary legislation. In addition, documented policies and procedures should provide guidance for undertaking debt-related transactions. The narrative discussion on this dimension should present any evidence of compliance with the legislation and procedures and whether debt approvals and loan guarantees are consistent with the debt management strategy covered by dimension 13.3. Monitoring of liabilities arising from guarantees issued is covered under fiscal risk oversight in PI-10.

Dimension 13.3 assesses whether the government has prepared a debt management strategy (DMS) with the long-term objective of contracting debt within robust cost–risk trade-offs. Such a DMS should cover at least the medium term (three to five years), and it should include a description of the existing debt portfolio's composition and evolution over time. The DMS should consider the market risks being managed—particularly the interest rate, exchange rate, and refinancing/rollover risks—and the future environment for debt management in terms of fiscal and debt projection. For example, this consideration may be based on a fiscal strategy as assessed in PI-15 and on assumptions made and constraints related to portfolio choice. Crucially, the DMS should indicate strategic objectives in terms of the intended direction of or quantitative targets for the major indicators of risk.

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

Pillar Four: Policy-based fiscal strategy and budgeting

PI-14. Macroeconomic and fiscal forecasting

Description

This indicator measures 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. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains three dimensions and uses **M2** (**AV**) for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
14.1. Macroeconomic forecasts	
A	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity.
B	The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts cover the budget year and the two following fiscal years.
C	The government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.
D	Performance is less than required for a C score.
14.2. Fiscal forecasts	
A	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and an explanation of the main differences from the forecasts made in the previous year's budget, are included in budget documentation submitted to the legislature.
B	The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to the legislature.
C	The government prepares forecasts of revenue, expenditure and the budget balance for the budget year and the two following fiscal years.
D	Performance is less than required for a C score.
14.3. Macrofiscal sensitivity analysis	
A	The government prepares a range of fiscal forecast scenarios based on alternative macroeconomic assumptions, and these scenarios are published, together with its central forecast.
B	The government prepares, for internal use, a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The budget documents include discussion of forecast sensitivities.
C	The macrofiscal forecasts prepared by the government include a qualitative assessment of the impact of alternative macroeconomic assumptions.
D	Performance is less than required for a C score.

Coverage

Dimension 14.1: Whole economy.

Dimensions 14.2 and 14.3: CG.

Time period

Last three completed fiscal years.

Measurement guidance

Robust and verifiable macroeconomic and fiscal projections are essential to support the development of a predictable and sustainable fiscal strategy. Preparing economic forecasts and estimating future revenue flows should be a transparent and formalized process. Underlying assumptions should be clearly explained and verifiable.

Dimension 14.1 assesses the extent to which comprehensive medium-term macroeconomic forecasts and underlying assumptions are prepared for the purpose of informing the fiscal and budget-planning processes and are submitted to the legislature as part of the annual budget process. To be consistent with PI-5, element 6, forecasts must include at least estimates of GDP growth, inflation, interest rates, and the exchange rate. The assessors should also analyze the extent to which macroeconomic forecasts and assumptions have been reviewed by an entity other than the preparing entity, for example a fiscal council. For B and C scores the official macroeconomic forecasts may be prepared by the Central Bank.

Dimension 14.2 assesses whether the government has prepared a fiscal forecast for the budget year and the two following fiscal years based on updated macroeconomic projections and that reflects government-approved expenditure and revenue policy settings. The updated revenue projections should be presented by revenue type and should clearly identify underlying assumptions (including rates, coverage, and projected growth). The updated expenditure estimates should be based on the following year estimates of the preceding approved budget, adjusted to take into account the budget and medium-term fiscal impact of any post-budget expenditure policy decisions (including approved adjustments for inflation and public service wages). Variations between the final approved fiscal forecast and the projections included in the previous year's approved budget should be explained and published as part of the annual budget process.

Dimension 14.3 assesses the capacity of governments to develop and publish alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors that have a potential impact on revenue, expenditure, and debt. Such analyses would typically involve an analysis of debt sustainability.

PI-15. Fiscal strategy

Description

This indicator provides an 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. It contains three dimensions and uses the **M2** (**AV**) method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
15.1. Fiscal impact of policy proposals	
A	The government prepares estimates of the fiscal impact of ***all*** proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years, which are submitted to the legislature.
B	The government prepares estimates of the fiscal impact of ***all*** proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years.
C	The government prepares estimates of the fiscal impact of ***all*** proposed changes in revenue and expenditure policy for the budget year.
D	Performance is less than required for a C score.
15.2. Fiscal strategy adoption	
A	The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years.
B	The government has adopted and submitted to the legislature a current fiscal strategy that includes quantitative or qualitative fiscal objectives for at least the budget year and the following two fiscal years.
C	The government has prepared for its internal use a current fiscal strategy that includes qualitative objectives for fiscal policy.
D	Performance is less than required for a C score.
15.3. Reporting on fiscal outcomes	
A	The government has submitted to the legislature and published with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the government to address any deviations, as prescribed in legislation.
B	The government has submitted to the legislature along with the annual budget a report that describes progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set.
C	The government prepares an internal report on the progress made against its fiscal strategy. Such a report has been prepared for at least the last completed fiscal year.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

Dimension 15.1: Last three completed fiscal years.

Dimensions 15.2 and 15.3: Last completed fiscal year.

Measurement guidance

A fiscal strategy enables government to clearly articulate to central government units, the legislature, and the public its fiscal policy objectives, including specific quantitative and qualitative fiscal targets and constraints. It provides a framework against which the fiscal impact of revenue and expenditure policy proposals can be assessed during the annual budget preparation process. This ensures that budget policy decisions align with fiscal targets.

Dimension 15.1 assesses the capacity of the government to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation. The assessment of the fiscal implications of policy changes is critical to ensure that policies are affordable and sustainable. A failure to accurately estimate the fiscal implication of policies may result in a shortfall in revenues or higher expenditures, leading to unintended deficits and increased debt, undermining the ability of the government to deliver services to its citizens.

The fiscal impact of policy proposals should be documented and prepared by the Ministry of Finance (or equivalent central government entity) or consolidated by the Ministry of Finance in cases where individual budgetary units prepare the estimates for their respective policy areas. With regard to revenue policy, assessors should focus on proposals with significant and direct impact on revenue, including, for example, changes to the rates and coverage of corporate Income tax, value added tax, personal income tax, customs and excise taxes, and taxes on natural resources. Revenue policy proposals should specify the estimated revenue impact for the budget year and the two following fiscal years. Similarly, for expenditure policy proposals, the focus should be on ensuring that significant proposals are fully costed for the budget year and the two following fiscal years, and that they include the recurrent costs associated with capital investment projects. For policy proposals that are expected to have only a limited effect on aggregate revenue or expenditure, such as minor changes to fees and charges or minor adjustments to line item allocations, it is sufficient for the Ministry of Finance to prepare an estimate of the total fiscal impact of such adjustments for revenue and expenditure.

Details of the costs and assumptions of policy proposals approved by government should be included in the budget documentation, submitted to the legislature and published. Assessors should mention in the narrative if the significant fiscal implications of actions taken outside the budget process are also estimated, submitted to the legislature, and published.

Dimension 15.2 assesses the extent to which government prepares a fiscal strategy that sets out fiscal objectives for at least the budget year and the two following fiscal years. A well-formulated fiscal strategy includes numerical objectives, targets or policy parameters (such as the level of fiscal balance), aggregate central government expenditures or revenues, and changes in the stock of financial assets and liabilities. A fiscal strategy may be presented as a formal statement or plan, specified as targets within the annual budget documentation, or as fiscal rules established through legislation.

Dimension 15.3 assesses the extent to which the government makes available—as part of the annual budget documentation submitted to the legislature—an assessment of its achievements against its stated fiscal objectives and targets. The assessment should also include an explanation of any deviations from the approved objectives and targets as well as proposed corrective actions. Actions should refer to specific initiatives that directly link to improvements in fiscal outcomes.

PI-16. Medium-term perspective in expenditure budgeting

Description

This indicator examines 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. It contains four dimensions and uses the **M2** (**AV**) method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
16.1. Medium-term expenditure estimates	
A	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification.
B	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification.
C	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative or economic classification.
D	Performance is less than required for a C score.
16.2. Medium-term expenditure ceilings	
A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued.
B	Aggregate expenditure ceilings for the budget year and the two following fiscal years and ministry-level ceilings for the budget year are approved by government before the first budget circular is issued.
C	Aggregate expenditure ceilings for the budget year and the two following fiscal years are approved by the government before the first budget circular is issued.
D	Performance is less than required for a C score.
16.3. Alignment of strategic plans and medium-term budgets	
A	Medium-term strategic plans are prepared and costed for ***most*** ministries. ***Most*** expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
B	Medium-term strategic plans are prepared for the ***majority*** of ministries, and include cost information. The ***majority*** of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
C	Medium-term strategic plans are prepared for ***some*** ministries. ***Some*** expenditure policy proposals in the annual budget estimates align with the strategic plans.
D	Performance is less than required for a C score.
16.4. Consistency of budgets with previous year's estimates	
A	The budget documents provide an explanation of ***all*** changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level.
B	The budget documents provide an explanation of ***most*** changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the ministry level.
C	The budget documents provide an explanation of ***some*** of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Dimensions 16.1, 16.2 and 16.3: Last budget submitted to the legislature.

Dimension 16.4: The "last medium-term budget"' relates to the budget approved by the legislature for last completed fiscal year and "the current medium-term budget" relates to the budget approved by the legislature for the current fiscal year.

Measurement guidance

Expenditure policy decisions have multiyear implications and should be aligned with the availability of resources in the medium-term perspective. The resulting expenditure estimates must be consistent with the fiscal aggregates determined through a fiscal strategy (considered in PI-15: Fiscal strategy). They also need to be consistent with revenue projections and ongoing expenditure policy budgetary requirements (considered in PI-14: Macroeconomic and fiscal forecasting). The estimates for the years following the budget year in a medium-term budget should provide a fiscal constraint in accordance with the fiscal strategy, as well as providing the basis for the future year's budget allocations at an aggregate and ministry level. The medium-term budget estimates should be updated annually, building on the previous year's budget and estimates, through a process that is transparent and predictable. Expenditure policy proposals submitted to the government should be aligned with the policy objectives set out in approved and costed strategic plans.

Dimension 16.1 assesses the extent to which medium-term expenditure estimates are prepared and updated as part of the annual budget process. The preparation of medium-term estimates is intended to strengthen fiscal discipline and improve predictability of budget allocations. Medium-term estimates should be disaggregated by high-level administrative, economic, and program or functional classification. The administrative classification should identify the relevant budget head of appropriation—for example, the ministry or department. To provide ministries and program managers with the flexibility to manage and respond to budgetary pressures within their expenditure ceilings, disaggregation by economic type may be at the 2-digit GFS (equivalent) classification only.

Dimension 16.2 assesses whether medium-term expenditure ceilings are applied to the estimates produced by ministries to ensure that expenditure beyond the budget year is consistent with government fiscal policy and budgetary objectives. Such ceilings should be issued to ministries before or when the first circular is distributed at the commencement of the annual budget preparation cycle. This dimension is distinct from dimension 17.2 (Guidance on budget preparation) because it considers only medium-term budget ceilings, whereas 17.2 allows for either annual or medium-term expenditure budget ceilings.

Dimension 16.3 measures the extent to which approved expenditure policy proposals align with costed ministry strategic plans or sector strategies. Strategic plans should identify resources required to achieve medium- to long-term objectives and planned outputs and outcomes. PI-8 (Performance information for service delivery) addresses reporting on outputs and outcomes. The plans should identify the cost implications of current policy commitments, including any funding gaps, as well as prioritize new expenditure policy proposals consistent with government policy objectives. Cost information should include recurring expenditures, capital costs, and future recurrent cost implications of investment commitments, as well as every source of funding. While sector plans tend to be aspirational, cost implications should be realistic. They should take into account the government's fiscal policy objectives and the fiscal constraints these objectives impose on expenditure decision-making. Alignment between strategic plans and budget estimates will occur when they cover the same or similar policy objectives, initiatives, activities, or programs.

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

Dimension 16.4 assesses the extent to which the expenditure estimates in the last medium-term budget establish the basis for the current medium-term budget. This will be the case if every expenditure variation between the corresponding years in each medium-term budget can be fully explained and quantified. If it is possible to reconcile and explain the differences, this shows that medium-term budgeting is operating as a dynamic process, with each subsequent budget building on its predecessor. It indicates that medium term planning is embedded in the preparation of budgets and provides a means to strengthen fiscal discipline beyond a single year. Explanations of changes from the previous year's medium-term budget may include references to changes in macroeconomic conditions, revision of important variables and coefficients, and changes to government policy and expenditure priorities.

Further issues regarding the disclosure and approval of the medium-term framework are covered by other indicators such as the contents of budget documentation, covered in PI-5, approval by the legislature in PI-18, and public information on the budget in PI-9.

PI-17. Budget preparation process

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
17.1 Budget calendar	
A	A clear annual budget calendar exists, is generally adhered to, and allows ***all*** budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
B	A clear annual budget calendar exists and is largely adhered to. The calendar allows budgetary units at least four weeks from receipt of the budget circular. ***Most*** budgetary units are able to complete their detailed estimates on time.
C	An annual budget calendar exists and ***some*** budgetary units comply with it and meet the deadlines for completing estimates.
D	Performance is less than required for a C score.
17.2 Guidance on budget preparation	
A	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings approved by the cabinet (or equivalent) prior to the circular's distribution to budgetary units.
B	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings submitted to the cabinet (or equivalent). The approval of ceilings by the cabinet may take place after the circular's distribution to budgetary units but before budgetary units have completed their submission.
C	A budget circular or circulars are issued to budgetary units, including ceilings for administrative or functional areas. Total budget expenditure is covered for the full fiscal year. The budget estimates are reviewed and approved by Cabinet after they have been completed in every detail by budgetary units.
D	Performance is less than required for a C score.
17.3 Budget submission to the legislature	
A	The executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year in each of the last three years.
B	The executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year in two of the last three years and submitted it before the start of the FY in the third year.
C	The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in two of the last three years.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Dimension 17.1 and 17.2: Last budget submitted to the legislature.

Dimension 17.3: Last three completed fiscal years.

Measurement guidance

While the Ministry of Finance (or equivalent central government entity) is usually responsible for the annual budget preparation process, effective participation by other ministries or budgetary units as well as by the leadership of the executive, such as the cabinet (or an equivalent body), affects the extent to which the budget reflects macroeconomic, fiscal, and expenditure and revenue policy priorities. Effective participation requires an integrated top-down and bottom-up budgeting process, involving engagement from every party in an orderly and timely manner, in accordance with a predetermined budget preparation calendar. The wider scope of participation of the legislature and citizens in the budgeting process is not covered here, but the legislature's participation in the budgeting process—as representatives of the citizenry—is assessed in PI-18.

Dimension 17.1 assesses whether a fixed budget calendar exists and the extent to which it is adhered to. Budgetary units may, in practice, start work on the preparation of budget estimates much earlier than the start of the budget calendar, but it is important that they are given sufficient time to prepare their detailed budget proposals in compliance with the guidance, including budget expenditure ceilings, of the budget circular(s), if issued. Delays in the process and the passing of the budget may create uncertainty about approved expenditures and lead to delays in certain government activities, potentially including major contracts.

Dimension 17.2 assesses the clarity and comprehensiveness of top-down guidance on the preparation of budget submissions. It examines the budget circular(s), or equivalent, to determine whether clear guidance on the budget process is provided, including whether expenditure ceilings or other allocation limits are set for ministries or other budgetary units or functional areas. The budget for the entire upcoming fiscal year (and relevant subsequent years for medium-term budget systems) should be covered in the guidance provided by the circular(s).

In order to avoid last-minute changes to budget proposals, it is important that political leadership is actively involved in setting aggregate allocations on expenditure priorities from an early stage of the budget preparation process. This should be initiated through review and approval of the ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate ceilings—for example, in a budget outlook paper or approved medium-term fiscal outlook or framework. This dimension differs from 16.2, which considers only whether medium-term expenditure ceilings are set by the government. This dimension does not require medium-term expenditure ceilings for medium-term budgets, but assesses only whether annual or medium-term expenditure ceilings have been set.

Dimension 17.3 assesses the timeliness of submission of the annual budget proposal to the legislature or similarly mandated body so that the legislature has adequate time for its budget review and the budget proposal can be approved before the start of the fiscal year.

Every part of the budgetary central government's annual budget is covered by this indicator, whether it is integrated or uses separate processes. Ideally this is ensured through a single or unified budget process and related circular(s) covering total government revenue, recurrent expenditure, capital expenditure, transfers, specific financing, and so on. In cases where the process is split into different parts, as may happen with recurrent and capital budgets, the scoring requirements should be met for each of the separate processes.

For the purpose of this indicator, budgetary units are those that are directly charged with responsibility for implementing the budget in line with expenditure policies and that directly receive funds or authorization to spend from the legislature. Government units that report to and receive budgetary funds through a parent unit should not be considered in the assessment.

PI-18. Legislative scrutiny of budgets

Description

This indicator assesses the nature and extent 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. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. It contains four dimensions and uses the **M1** (**WL**) method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
18.1. Scope of budget scrutiny	
A	The legislature's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.
B	The legislature's review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue.
C	The legislature's review covers details of expenditure and revenue.
D	Performance is less than required for a C score.
18.2. Legislative procedures for budget scrutiny	
A	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. They also include internal organizational arrangements, such as legislature committees, technical support, and negotiation procedures.
B	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include internal organizational arrangements such as legislature committees, technical support, and negotiation procedures.
C	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to.
D	Performance is less than required for a C score.
18.3. Timing of budget approval	
A	The legislature has approved the annual budget before the start of the year in each of the last three fiscal years.
B	The legislature has approved the annual budget before the start of the year in two of the last three fiscal years, with a delay of up to one month in the third year.
C	The legislature has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years.
D	Performance is less than required for a C score.
18.4. Rules for budget adjustments by the executive	
A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in ***all*** instances.
B	Clear rules exist for in-year budget adjustments by the executive, and are adhered to in ***most*** instances. Extensive administrative reallocations may be permitted
C	Clear rules exist which may be adhered to in ***some*** instances or they may allow extensive administrative reallocation as well as expansion of total expenditure.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Dimension 18.1, 18.2 and 18.4: Last completed fiscal year.

Dimension 18.3: Last three completed fiscal years.

Measurement guidance

In most countries, the government's authority to spend is awarded by the legislature, through its passage of the annual budget law. If the legislature does not rigorously examine and debate the law, its power is not being effectively exercised, and the government's accountability to the electorate is undermined. Assessment of legislative scrutiny and debate of the annual budget law is informed by the consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate, and the time allowed for that process.

Dimension 18.1 assesses the scope of legislative scrutiny. Such scrutiny should cover review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as the specific details of expenditure and revenue estimates. In certain jurisdictions, the review may be undertaken in two or more stages, possibly involving a gap between review of medium-term aspects and review of the details of estimates for the next fiscal year. In the absence of a legislature that performs legislative scrutiny functions, this dimension would score D because the requirements for a C score would not be met.

Dimension 18.2 assesses the extent to which review procedures are established and adhered to. This includes public consultation arrangements, as well as internal organizational arrangements, such as legislature committees, technical support, and negotiation procedures. The existence and timing of relevant procedures should be verifiable by reference to records of legislative sessions and decisions. Adequacy of the budget documentation made available to the legislature is covered by PI-5.

Dimension 18.3 assesses the timeliness of the scrutiny process in terms of the legislature's ability to approve the budget before the start of the new fiscal year. The deadline is important so that budgetary units know at the beginning of the fiscal year what resources they will have at their disposal for service delivery. The time available for scrutiny is largely determined by the timing of the submission of the executive's budget proposals to the legislature, as assessed in PI-17. The narrative of the assessment should specify the actual time that legislature has spent in reviewing the budget proposal.

Dimension 18.4 assesses arrangements made to consider in-year budget amendments that do not require ex-ante legislative approval. Such amendments constitute a common feature of annual budget processes. To avoid undermining the credibility of the original budget, any authorization of amendments by the executive must adhere to clearly defined rules.

Pillar Five: Predictability and control in budget execution

PI-19. Revenue administration

Description

This indicator relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public corporations that operate as regulators and holding companies for government interests. In such cases the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor central government revenues. It contains four dimensions and uses **M2** (**AV**) method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
19.1. Rights and obligations for revenue measures	
A	Entities collecting ***most*** revenues use multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
B	Entities collecting the ***majority*** of revenues provide payers with access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
C	Entities collecting the ***majority*** of revenues provide payers with access to information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
D	Performance is less than required for a C score.
19.2. Revenue risk management	
A	Entities collecting ***most*** revenues use a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks for ***all*** categories of revenue and, as a minimum for their large and medium revenue payers.
B	Entities collecting the ***majority*** of revenues use a structured and systematic approach for assessing and prioritizing compliance risks for ***some*** categories of revenue and, as a minimum, for their large revenue payers.
C	Entities collecting the ***majority*** of revenues use approaches that are partly structured and systematic for assessing and prioritizing compliance risks for ***some*** revenue streams.
D	Performance is less than required for a C score.
19.3. Revenue audit and investigation	
A	Entities collecting ***most*** revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete ***all*** planned audits and investigations.
B	Entities collecting the ***majority*** of revenue undertake audits and fraud investigations managed and reported on according to a documented compliance improvement plan, and complete ***all*** planned audits and investigations.
C	Entities collecting the ***majority*** of government revenue undertake audits and fraud investigations using a compliance improvement plan and complete the ***majority*** of planned audits and investigations.
D	Performance is less than required for a C score.

Score	Minimum requirements for scores
19.4. Revenue arrears monitoring	
A	The stock of revenue arrears at the end of the last completed fiscal year is below 10 percent of the total revenue collection for the year, and the revenue arrears older than 12 months are less than 25 percent of total revenue arrears for the year.
B	The stock of revenue arrears at the end of the last completed fiscal year is below 20 percent of the total revenue collection of the year and the revenue arrears older than 12 months are less than 50 percent of total revenue arrears for the year.
C	The stock of revenue arrears at the end of the last completed fiscal year is below 40 percent of the total revenue collection for the year and the revenue arrears older than 12 months are less than 75 percent of total revenue arrears for the year.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

Dimension 19.1 and 19.2: At time of assessment.

Dimension 19.3 and 19.4: Last completed fiscal year.

Measurement guidance

A government's ability to collect revenue is an essential component of any PFM system. It is also an area where there is direct interaction between individuals and enterprises on the one hand and the state on the other. The government must provide those responsible for providing revenues with a clear understanding of their rights and obligations as well as the procedures to be followed in seeking redress, while ensuring that mechanisms are in place to enforce compliance.

Dimension 19.1 assesses the extent to which individuals and enterprises have access to information about their rights and obligations, and also to administrative procedures and processes that allow redress, such as a fair and independent body outside of the general legal system (ideally a "tax court") that is able to consider appeals.

Dimension 19.2 assesses the extent to which a comprehensive, structured and systematic approach is used within the revenue entities for assessing and prioritizing compliance risks. Modern revenue administration relies increasingly on self-assessment and uses risk-based processes to ensure compliance. Resource constraints are likely to dictate that revenue administration processes are focused on identifying payers and transactions with the largest potential risk of noncompliance. An efficient risk management process contributes to minimizing evasion and irregularities in revenue administration as well as lowering the cost of collection for revenue collecting agencies and cost of compliance for payers. The assessors should consider the use of risk management process in registration, filing, payment, and refunds of tax, customs, social security payments. They should comment on the efficiency of these processes. The assessment should also look into the mitigation measures in place such as audits, investigations, transfer pricing controls, and outreach activities/communication.

Dimension 19.3 assesses whether sufficient controls are in place to deter evasion and ensure that instances of noncompliance are revealed. Sound audit and fraud investigation systems managed and reported on according to a documented compliance improvement plan must be in place to ensure that once risks have been identified, there is follow-up to minimize revenue leakage. More serious issues of noncompliance involve deliberate attempts at payment evasion and fraud. This may involve collusion with representatives within a revenue administration. The ability of the revenue administration to identify, investigate, successfully prosecute, and impose penalties in major evasion and fraud cases on a regular basis is essential for ensuring that payers comply with their obligations. This dimension assesses use of audits and fraud investigations managed and reported on according to a documented compliance improvement plan. Dimension 19.2 assesses the extent to which a comprehensive, structured and systematic approach is used within the revenue entities for assessing and prioritizing risks.

Dimension 19.4 assesses the extent of proper management of arrears within the revenue entities by focusing on the level and age of revenue arrears. Revenue administrations need to have a critical focus on the management of arrears to ensure that debts owed to the government are managed actively and that appropriate processes are adopted focusing on expediting the payment of collectable debt. This will ensure that revenue administrations maximize the collection of arrears before they become uncollectable. In order for the arrears management process to be considered comprehensive, it should allow for capturing information on revenue arrears and facilitate collection of those arrears in the year they occur.

PI-20. Accounting for revenue

Description

This indicator assesses 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. This indicator contains three dimensions and uses **M1** (**WL**) for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
20.1. Information on revenue collections	
A	A central agency obtains revenue data at least monthly from entities collecting ***all*** central government revenue. This information is broken down by revenue type and is consolidated into a report.
B	A central agency obtains revenue data at least monthly from entities collecting ***most*** central government revenue. This information is broken down by revenue type and is consolidated into a report.
C	A central agency obtains revenue data at least monthly from entities collecting the ***majority*** of central government revenue and consolidates the data.
D	Performance is less than required for a C score.
20.2. Transfer of revenue collections	
A	Entities collecting ***most*** central government revenue transfer the collections directly into accounts controlled by the Treasury, or transfer the collections daily to the Treasury and other designated agencies.
B	Entities collecting ***most*** central government revenue transfer the collections to the Treasury and other designated agencies at least weekly.
C	Entities collecting ***most*** central government revenue transfer the collections to the Treasury and other designated agencies at least every two weeks.
D	Performance is less than required for a C score.
20.3. Revenue accounts reconciliation	
A	Entities collecting ***most*** central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury and other designated agencies at least quarterly within four weeks of the end of quarter.
B	Entities collecting ***most*** central government revenue undertake complete reconciliation of assessments, collections, arrears, and transfers to Treasury and other designated agencies at least half-yearly within eight weeks of the end of the half-year.
C	Entities collecting ***most*** central government revenue undertake complete reconciliation of collections and transfers to Treasury and other designated agencies at least annually within 2 months of the end of the year.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

At time of assessment.

Measurement guidance

Dimension 20.1 assesses the extent to which a central ministry, i.e., the Ministry of Finance (MOF) or a body with similar responsibilities, coordinates revenue administration activities and collects, accounts for, and reports timely information on collected revenue.

Dimension 20.2 assesses the promptness of transfers to the Treasury or other designated agencies of revenue collected. The Treasury is expected to identify whether itself or any other legally designated recipient is the appropriate focus of this indicator. It is essential to ensure that funds are available as soon as possible to support cash management and, ultimately, spending. This may involve either a system that obliges payments to be made directly into accounts controlled by the Treasury (possibly managed by a bank). Alternatively, where the responsible agency maintains its own collection accounts, by frequent and full transfers from those accounts to Treasury controlled accounts. (Time periods mentioned do not include delays in the banking system.) Transfers of revenue collections to the Treasury should be effective and should ensure that any revenue float is minimized. Ideally, every revenue amount should be transferred to the Treasury, but other agencies could be legally designated to receive earmarked revenues directly from the collecting entity, for example, extrabudgetary units. Transfers to such designated agencies will be assessed in the same way as transfers to the Treasury.

Dimension 20.3 assesses the extent to which aggregate amounts related to assessments/charges, collections, arrears and transfers to (and receipts by) the Treasury or designated other agencies take place regularly and are reconciled in a timely manner. This will ensure that the collection and transfer system functions as intended and that the level of arrears and revenue float are monitored and minimized. It is important that any difference between amounts assessed or levied by responsible entities and amounts received by the Treasury or other designated agencies can be explained. (N.B. this does not assume or imply an accrual based accounting system: the data and reports used for assessing this indicator are based on cash accounting.) The responsible entity should normally keep records in its accounting system on aggregate amounts levied and on transfers to the Treasury. The responsible entity should also keep records reflecting amounts levied and paid by each payer, but this may be done in other data systems. The responsible entity should be able to aggregate such information, so that it can report how much of amounts levied is (a) not yet due, (b) in arrears (the difference between what is due and what has been paid in) and (c) collected by the responsible entity but not yet transferred to the Treasury. For revenues from extractive industries, the Extractive Industries Transparency Initiative has developed standards for the disclosure and reconciliation of what companies pay and what governments receive[4].

4 Refer to https://eiti.org/ for more information.

PI-21. Predictability of in-year resource allocation

Description

This indicator assesses 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. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
21.1. Consolidation of cash balances	
A	***All*** bank and cash balances are consolidated on a daily basis.
B	***All*** bank and cash balances are consolidated on a weekly basis.
C	***Most*** cash balances are consolidated on a monthly basis.
D	Performance is less than required for a C score.
21.2. Cash forecasting and monitoring	
A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.
B	A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.
C	A cash flow forecast is prepared for the fiscal year.
D	Performance is less than required for a C score.
21.3. Information on commitment ceilings	
A	Budgetary units are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations and cash/commitment releases.
B	Budgetary units are provided reliable information on commitment ceilings at least quarterly in advance.
C	Budgetary units are provided reliable information on commitment ceilings at least one month in advance.
D	Performance is less than required for a C score.
21.4. Significance of in-year budget adjustments	
A	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a transparent and predictable way.
B	Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a fairly transparent way.
C	Significant in-year budget adjustments to budget allocations are frequent, and are partially transparent.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Dimension 21.1: At time of assessment.

Dimensions 21.2, 21.3 and 21.4: Last completed fiscal year.

Measurement guidance

Effective service delivery and execution of the budget in accordance with work plans requires that budgetary units receive reliable information on the availability of funds so that they can control commitments and make payments for nonfinancial assets, goods and services.

Dimension 21.1 assesses the extent to which the Ministry of Finance can identify and consolidate cash balances as a basis for informing the release of funds. Use of a Treasury single account (TSA), or accounts that are centralized at a single bank, usually the Central Bank, facilitates the consolidation of bank accounts. A TSA is a bank account or a set of linked accounts through which the government transacts every receipt and payment. The control and reporting on individual transactions should be achieved through the accounting system, allowing the Treasury to delink management of cash from control of individual transactions. Achieving regular consolidation of multiple bank accounts not held centrally will generally require making timely electronic clearing and payment arrangements with the government's bankers. The narrative of the indicator should include a discussion of the arrangements used in the assessed jurisdiction.

Dimension 21.2 assesses the extent to which budgetary unit commitments and cash flows are forecast and monitored by the Ministry of Finance. Effective cash flow planning, monitoring, and management by the Treasury facilitates predictability of the availability of funds for budgetary units. This will require reliable forecasts of cash inflows and outflows, both routine and nonroutine, that are linked to the budget implementation and commitment plans of individual budgetary units. Nonroutine outflows are expenditures that do not take place on a regular monthly or annual basis, such as the cost of holding elections or discrete capital investments.

Dimension 21.3 assesses the reliability of in-year information available to budgetary units on ceilings for expenditure commitment for specific periods. Predictability for budgetary units as to the availability of funds for commitment is necessary to facilitate planning of activities and procurement of inputs for effective service delivery and to avoid disruption of the implementation of these plans once they are underway. In certain systems, funds are released by the Ministry of Finance to budgetary units in stages throughout the budget year. In others, the passing of the annual budget law grants the full authority to commit and spend from the beginning of the year. However, the Ministry of Finance, Treasury, or other central agency, may in practice impose constraints on budgetary units in incurring new commitments and making related payments, when cash flow problems arise. For commitments to be considered reliable, the amount of funds for commitment or spending made available to an entity for a specific period should not be reduced during that period. Adherence of budgetary units to ceilings for expenditure commitment and payments is not assessed here, but is covered by PI-25 on internal controls. PI-22 on expenditure arrears management is also relevant.

Dimension 21.4 assesses the frequency and transparency of adjustments to budget allocations. Governments may need to make in-year adjustments to allocations in the light of unanticipated events that affect revenues or expenditures. Specifying in advance a mechanism that relates such adjustments to budget priorities in a systematic and transparent manner minimizes the impact of adjustments on predictability and on the integrity of original budget allocations. For example, particular votes or budget lines that are declared to be high priority or poverty related may be specified as protected from adjustment. In contrast, in some systems adjustments may take place without clear rules or guidelines, or may be undertaken informally, for example, through imposition of delays on new commitments. While some budget adjustments could take place administratively with little impact on expenditure composition outturn at higher levels of aggregation in the administrative, functional and economic budget classifications, other more significant changes may alter the actual composition at such aggregated classification levels. The significance of these adjustments is assessed in relation to the percentages specified in the PI-2 rating criteria. Rules for when the legislature should be involved in such in-year budget amendments are assessed in PI-18 and are not covered here.

PI-22. Expenditure arrears

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

Score	Minimum requirements for scores
22.1. Stock of expenditure arrears	
A	The stock of expenditure arrears is no more than 2% of total expenditure in at least two of the last three completed fiscal years.
B	The stock of expenditure arrears is no more than 6% of total expenditure in at least two of the last three completed fiscal years.
C	The stock of expenditure arrears is no more than 10% of total expenditure in at least two of the last three completed fiscal years.
D	Performance is less than required for a C score.
22.2. Expenditure arrears monitoring	
A	Data on the stock, age, and composition of expenditure arrears is generated quarterly within four weeks of the end of each quarter.
B	Data on the stock and composition of expenditure arrears is generated quarterly within eight weeks of the end of each quarter.
C	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Dimension 22.1: Last three completed fiscal years.

Dimension 22.2: At time of assessment.

Measurement guidance

Arrears are overdue debts, liabilities, or obligations. They constitute a form of nontransparent financing. Arrears can cause increased costs to government: creditors may adjust prices to compensate for late payment; or delayed supply of inputs may affect service delivery. A large volume of arrears may indicate a number of different problems, such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items, and lack of information.

Government payment deadlines are usually established in contractual obligations such as procurement or contractual grant agreements, or in debt service or other legal obligations such as payroll, pension, welfare payments, or noncontractual grants. An unpaid claim or obligation becomes an arrear when it has not been paid at the date stipulated in the contract or in the corresponding law or financial regulation. Even inadmissible or incomplete payment claims can become arrears if the beneficiaries are not notified of the defect before the payment deadline is met.

Assessors should confirm that the government's data recording and reporting system analyzes payments, legal and contractual payment deadlines, and invoices, including suspensions and rejections, so that arrears can be and are calculated.

Delays in payments or transfers between government entities are not covered by this indicator.

Dimension 22.1 assesses the extent to which there is a stock of arrears. The stock is preferably identified at the end of the fiscal year and compared to total expenditure for the considered fiscal year. Assessors should comment on any recent change in the stock over the period under consideration. The narrative for this dimension should mention any known significant stocks of arrears within central government units outside BCG and any significant stocks of unprocessed VAT refunds or extensive delays in payment of those obligations.

Dimension 22.2 assesses the extent to which any expenditure arrears are identified and monitored. It focuses on which aspects of arrears are monitored and how frequently and quickly the information is generated.

PI-23. Payroll controls

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
23.1. Integration of payroll and personnel records	
A	Approved staff list, personnel database, and payroll are directly linked to ensure budget control, data consistency, and monthly reconciliation.
B	The payroll is supported by full documentation for ***all*** changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions.
C	Reconciliation of the payroll with personnel records takes place at least every six months. Staff hiring and promotion is checked against the approved budget prior to authorization.
D	Performance is less than required for a C score.
23.2. Management of payroll changes	
A	Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Retroactive adjustments are rare. If reliable data exists, it shows corrections in a maximum of 3% of salary payments.
B	Personnel records and payroll are updated at least quarterly and require ***a few*** retroactive adjustments.
C	Personnel records and payroll are updated at least quarterly and require ***some*** retroactive adjustments.
D	Performance is less than required for a C score.
23.3. Internal control of payroll	
A	Authority to change records and payroll is restricted, results in an audit trail, and is adequate to ensure full integrity of data.
B	Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data.
C	Sufficient controls exist to ensure integrity of the payroll data of greatest importance.
D	Performance is less than required for a C score.
23.4. Payroll audit	
A	A strong system of annual payroll audits exists to expose control weaknesses and identify ghost workers.
B	A payroll audit covering ***all*** central government entities has been conducted at least once in the last three completed fiscal years (whether in stages or as one single exercise).
C	Partial payroll audits or staff surveys have been undertaken within the last three completed fiscal years.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

Dimension 23.1, 23.2 and 23.3: At time of assessment.

Dimension 23.4: Last three completed fiscal years.

Measurement guidance

The wage bill is usually one of the biggest items of government expenditure. It may be susceptible to weak controls and hence corruption. Payroll controls thus warrant close attention. Assessors should note that different segments of the public service may be covered by different payrolls. Every important payroll should be mentioned in the narrative and assessed in the scoring of this indicator.

Dimension 23.1 assesses the degree of integration between personnel, payroll, and budget data. The payroll should be underpinned by a personnel database that provides a list of staff to be paid every pay period. This list should be verified against the approved establishment list, or other approved staff list on which budget allocations are based, as well as against individual personnel records or staff files. Controls should also ensure that staff employment and promotion is undertaken within approved personnel budget allocations.

Dimension 23.2 assesses the timeliness of changes to personnel and payroll data. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail.

Dimension 23.3 assesses the controls that are applied to the making of changes to personnel and payroll data. Effective internal controls should: restrict the authority to change records and payroll; require separate verification; and require production of an audit trail that is adequate to maintain a permanent history of transactions together with details of the authorizing officers.

Dimension 23.4 assesses the degree of integrity of the payroll. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps, and identify control weaknesses.

PI-24. Procurement

Description

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains four dimensions and uses the **M2** (**AV**) method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
24.1. Procurement monitoring	
A	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for ***all*** procurement methods for goods, services and works.
B	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for ***most*** procurement methods for goods, services and works.
C	Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for the ***majority*** of procurement methods for goods, services and works.
D	Performance is less than required for a C score.
24.2. Procurement methods	
The total value of contracts awarded through competitive methods in the last completed fiscal year represents:	
A	80% or more of total value of contracts
B	70% or more of total value of contracts
C	60% or more of total value of contracts
D	less than required for a C score
24.3. Public access to procurement information	
Key procurement information to be made available to the public comprises: (1) legal and regulatory framework for procurement (2) government procurement plans (3) bidding opportunities (4) contract awards (purpose, contractor and value) (5) data on resolution of procurement complaints (6) annual procurement statistics	
A	Every key procurement information element is complete and reliable for government units representing ***all*** procurement operations and is made available to the public in a timely manner.
B	At least four of the key procurement information elements are complete and reliable for government units representing ***most*** procurement operations and are made available to the public in a timely manner.
C	At least three of the key procurement information elements are complete and reliable for government units representing the ***majority*** of procurement operations and are made available to the public.
D	Performance is less than required for a C score.

24.4. Procurement complaints management

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

Coverage

CG.

Time period

Last completed fiscal year.

Measurement guidance

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively in acquiring inputs for, and achieving value for money in, the delivery of programs and services by a government. The principles of a well-functioning system need to be stated in a well-defined and transparent legal framework that clearly establishes appropriate policy, procedures, accountability, and controls. The description of the legal framework for PFM is included in the PEFA report narrative in section 2.3. Key procurement principles include the use of transparency and competition as means to obtain fair and reasonable prices and overall value for money.

The scope of the indicator covers every procurement of goods, services, civil works, and major equipment investments, whether classified as recurrent or capital investment expenditure. It does not include the defense sector, for which information is typically classified and confidential by law.

In decentralized procurement systems this indicator can be assessed using the five CG units with the highest value of procurement commenced in the last completed fiscal year. If data to identify the CG units with the highest value of procurement is not easily identifiable by the assessor, then the assessor should choose the CG units with the largest annual gross expenditure which perform a substantial value of procurements. The assessor may be guided by the government in identifying the most relevant CG units, but the assessor will make the final decision on which CG units to include in the assessment. The basis of choosing the CG units included in the assessment should be noted in the narrative discussion for this indicator.

Dimension 24.1 assesses the extent to which prudent monitoring and reporting systems are in place within government for ensuring value for money and for promoting fiduciary integrity. Completeness refers to information on contracts awarded. The accuracy and completeness of information can be assessed by reference to audit reports.

Dimension 24.2 analyzes the percentage of the total value of contracts awarded with and without competition. A good procurement system ensures that procurement uses competitive methods, except low-value procurement under an established and appropriate threshold. This includes situations in which other methods are effectively restricted by regulations or where the provisions to apply other methods are used sparingly.

Dimension 24.3 reviews the level of public access to complete, reliable and timely procurement information. Public dissemination of information on procurement processes and their outcomes are also key elements of transparency. In order to generate timely and reliable data, a good information system will capture data on procurement transactions and will be secure. Information should be accessible without restriction, without requirement to register, and free of charge. Public access to procurement information is defined as posting on official websites unless otherwise specifically justified in relation to country circumstances.

Dimension 24.4 assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism. A good procurement system offers stakeholders access to such a mechanism as part of the control system, usually in addition to the general court system. To be effective, submission and resolution of complaints must be processed in a fair, transparent, independent, and timely manner. The timely resolution of complaints is necessary to allow contract awards to be effectively reversed where required. It sets limits on remedies tied to profit/loss and costs associated with bid or proposal preparation after contract signatures. A good process also includes the ability to refer the resolution of the complaints to an external higher authority for appeal. The narrative discussion of this indicator should include the evidence required for rating the dimension and a discussion of qualitative aspects of the performance of the system, such as the independence of the complaints mechanism and the protection afforded to complainants.

PI-25. Internal controls on nonsalary expenditure

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
25.1. Segregation of duties	
A	Appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down.
B	Segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down for ***most*** key steps while further details may be needed in a few areas.
C	Segregation of duties is prescribed throughout the expenditure process. More precise definition of important responsibilities may be needed.
D	Performance is less than required for a C score.
25.2. Effectiveness of expenditure commitment controls	
A	Comprehensive expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations.
B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for ***most*** types of expenditure.
C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective.
D	Performance is less than required for a C score.
25.3. Compliance with payment rules and procedures	
A	***All*** payments are compliant with regular payment procedures. ***All*** exceptions are properly authorized in advance and justified.
B	***Most*** payments are compliant with regular payment procedures. The ***majority*** of exceptions are properly authorized and justified.
C	The ***majority*** of payments are compliant with regular payment procedures. The ***majority*** of exceptions are properly authorized and justified.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

At time of assessment.

Measurement guidance

This indicator focuses on nonsalary expenditure and covers expenditure commitments and payments for goods and services, casual labor wages, and discretionary staff allowances. It includes a wide range of processes and types of payment across central government including segregation of duties, commitment controls and payment controls. This broad range of processes, with the many types of expenditure and the number of different people involved, increases the risk of incorrect and/

or inconsistent application or circumvention of any procedures and controls that may be in place. This makes it particularly important for assessors to establish whether or not effective controls exist.

Evidence of the effectiveness of the internal control system could come from discussions with government financial controllers and other senior managers, or from reports prepared by the external and internal audit or the minutes of audit committee meetings (where such a committee exists). Minutes of management meetings and regular financial reports prepared for management may also be useful in establishing the extent to which nonsalary expenditure is controlled. Where specific reviews or surveys relating to procurement and accounting systems have been prepared at the request of management, these can provide a useful source of information as well.

The existence of procedure manuals, instructions, etc. should also be verified wherever possible. Routine and one-off accounting reports – e.g. reports of invoices paid and outstanding, reports of error and rejection rates for financial procedures such as invoice payments, inventory checks etc.—may also assist in rating this dimension, as may meetings held with managers and staff to demonstrate the level of awareness and understanding of internal control. Organizations in which employees understand what controls are and why they are needed are more likely to have better, more effective systems of internal control in place.

Repeated policy exceptions or overrides may indicate potential fraudulent activity or a need to reassess current policies and procedures. Any unusual situations identified should be investigated by the appropriate party and should include corrective action if necessary.

Dimension 25.1 assesses the existence of the segregation of duties, which is a fundamental element of internal control to prevent an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. The main incompatible responsibilities to be segregated are: (a) authorization; (b) recording; (c) custody of assets; and (d) reconciliation or audit.

Dimension 25.2 assesses the effectiveness of expenditure commitment controls. This process is singled out as a separate dimension of this indicator due the importance of such controls for ensuring that the government's payment obligations remain within the limits of annual budget allocations (as revised) and within projected cash availability, thereby avoiding creation of expenditure arrears (refer to PI-22). Governments with comprehensive fiscal rules and access to well-developed debt markets may face no constraints in financing cash flow fluctuations and so may limit commitments only in relation to annual budget appropriations, whereas governments operating in different environments may need to issue commitment limits to spending agencies for much shorter periods, based on actual cash available and robust short term forecasts.

Dimension 25.3 assesses the extent of compliance with the payment control rules and procedures based on available evidence. To evaluate this dimension, the assessors should refer to the information management system, the Treasury Department records, or any other records of the MOF or line ministries. A sampling approach can be applied, using the five major budgetary units as measured by gross expenditure in the last completed fiscal year. If the data is not available or is decentralized, assessors could rely on internal or external audit reports or any other studies which could provide the best available estimates.

PI-26. Internal audit

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
26.1. Coverage of internal audit	
A	Internal audit is operational for ***all*** central government entities.
B	Internal audit is operational for central government entities representing ***most*** of total budgeted expenditures and for central government entities collecting ***most*** of budgeted government revenue.
C	Internal audit is operational for central government entities representing the ***majority*** of budgeted expenditures and for central government entities collecting the ***majority*** of budgeted government revenue.
D	Performance is less than required for a C score.
26.2. Nature of audits and standards applied	
A	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function and audit activities meet professional standards, including focus on high risk areas.
B	Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls.
C	Internal audit activities are primarily focused on financial compliance.
D	Performance is less than required for a C score.
26.3. Implementation of internal audits and reporting	
A	Annual audit programs exist. ***All*** programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
B	Annual audit programs exist. ***Most*** programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
C	Annual audit programs exist. The ***majority*** of programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.
D	Performance is less than required for a C score.
26.4. Response to internal audits	
A	Management provides a full response to audit recommendations for ***all*** entities audited within twelve months of the report being produced.
B	Management provides a partial response to audit recommendations for ***most*** entities audited within twelve months of the report being produced.
C	Management provides a partial response to audit recommendations for the ***majority*** of entities audited.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

Dimensions 26.1 and 26.2: At time of assessment.

Dimension 26.3: Last completed fiscal year.

Dimension 26.4: Audit reports used for the assessment should have been issued in the last three fiscal years.

Measurement guidance

Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). Such a function should use a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In the public sector, the function is primarily focused on assuring the adequacy and effectiveness of internal controls: the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations and programs; the safeguarding of assets; and compliance with laws, regulations, and contracts. Effectiveness of risk management, control, and governance processes should be evaluated by following professional standards such as the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors. These include: (a) appropriate structure particularly with regard to organizational independence; (b) sufficient breadth of mandate, access to information; and power to report; and (c) use of professional audit methods, including risk assessment techniques.

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

Internal audit functions in certain countries are concerned only with pre-audit of transactions, which is here considered part of the internal control system. This is assessed in PI-25.

For dimensions 26.1, 26.3, and 26.4 the same interpretation of ***all, most,*** and ***majority*** used elsewhere in the PEFA guidance applies for centralized systems. In decentralized systems, or where complete information is not available, a sampling approach should be applied, using the five major budgetary units or institutional units as measured by gross expenditure in the last completed fiscal year. For an A score, every one of the five need to meet the requirements. For B and C scores four and three entities, respectively, need to meet the requirements.

Dimension 26.1 assesses the extent to which government entities are subject to internal audit. This is measured as the proportion of total planned expenditure or revenue collection of the entities covered by annual audit activities, whether or not substantive audit work (including audit reports) is carried out. Typical features of an operational audit function are the existence of laws, regulations and/or procedures and the existence of audit work programs, audit documentation, reporting, and follow-up activities leading to the achievement of the internal audit objectives, as described in international standards. The exact nature of audit in each country may vary. The assessor will need to make a judgment about whether the arrangements and activities occurring constitute sufficient evidence of operational audit.

Dimension 26.2 assesses the nature of audits performed and the extent of adherence to professional standards. When audit activities focus only on financial compliance (reliability and integrity of financial and operational information and compliance with rules and procedures) the internal audit function provides limited assurance of the adequacy and effectiveness of internal controls. A wider approach as well as evidence of a quality assurance process is required to show adherence to professional standards.

Dimension 26.3 assesses specific evidence of an effective internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports.

Dimension 26.4 assesses the extent to which action is taken by management on internal audit findings. This is of critical importance since lack of action on findings undermines the rationale for the internal audit function. Response means that management provides comments on the auditors' recommendations and takes appropriate action to implement them where necessary. Internal audit validates whether the response provided is appropriate.

If there is no audit function, the score for dimension 26.1 would be D. NA would be entered for dimensions 26.2, 26.3, and 26.4. The aggregate score in this case would be D.

Pillar Six: Accounting and reporting

PI-27. Financial data integrity

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
27.1. Bank account reconciliation	
A	Bank reconciliation for ***all*** active central government bank accounts takes place at least weekly at aggregate and detailed levels, usually within one week from the end of each week.
B	Bank reconciliation for ***all*** active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month.
C	Bank reconciliation for ***all*** active central government bank accounts takes place at least quarterly, usually within 8 weeks from the end of each quarter.
D	Performance is less than required for a C score.
27.2. Suspense accounts	
A	Reconciliation of suspense accounts takes place at least monthly, within a month from the end of each month. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
B	Reconciliation of suspense accounts takes place at least quarterly within two months from the end of each quarter. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
C	Reconciliation of suspense accounts takes place annually, within two months from the end of the year. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
D	Performance is less than required for a C score.
27.3. Advance accounts	
A	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month. ***All*** advance accounts are cleared in a timely way.
B	Reconciliation of advance accounts takes place at least quarterly within two months from the end of each quarter. ***Most*** advance accounts are cleared in a timely way.
C	Reconciliation of advance accounts takes place annually, within two months from the end of the year. Advance accounts may frequently be cleared with delay.
D	Performance is less than required for a C score.
27.4. Financial data integrity processes	
A	Access and changes to records is restricted and recorded, and results in an audit trail. There is an operational body, unit or team in charge of verifying financial data integrity.
B	Access and changes to records is restricted and recorded, and results in an audit trail.
C	Access and changes to records is restricted and recorded.
D	Performance is less than required for a C score.

Coverage

Dimension 27.1: CG.

Dimensions 27.2, 27.3 and 27.4: BCG.

Time period

Dimensions 27.1, 27.2 and 27.3: At time of assessment, covering the preceding fiscal year.

Dimension 27.4: At time of assessment.

Measurement guidance

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants. This is an important part of internal control and a foundation for good information for management and for external reports. The indicator covers three critical types of reconciliation.

Dimension 27.1 assesses the regularity of bank reconciliation. There should be regular and timely comparisons between government bank account (central or commercial) transaction data and government cash books. The results of the comparisons should be reported and action should be taken to reconcile any differences. Such reconciliation is fundamental to the integrity of the accounting records and the financial statements.

Dimension 27.2 assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis and cleared in a timely way. Failure to clear suspense accounts can distort financial reports and provide an opportunity for fraudulent or corrupt behaviors.

Dimension 27.3 assesses the extent to which advance accounts are reconciled and cleared. Advances cover amounts paid to vendors under public procurement contracts as well as travel advances and operational imprests. In the case of public procurement contracts, clearing timelines will be compliant with contractual arrangements. Other clearing processes will follow national regulations. The present indicator does not cover intergovernmental transfers even though they may be called “advances”. Complete, accurate, reliable, and timely information is essential to support the internal controls system. Information relevant to assessment of this dimension is produced by many information systems, encompassing people, processes, data, and IT. Those elements are dealt with under PI-23 for payroll and PI-25 for commitments and payments.

Dimension 27.4 assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness of data (ISO/IEC, International Standard, 2014). While acknowledging that other processes are also essential to ensure data integrity, this dimension assesses two key aspects: access to information, including read-only, and changes to records by creation and modification; and existence of a body, unit or team in charge of verifying data integrity. Audit trails constitute an important aspect of data integrity as they enable individual accountability, intrusion detection, and problem analysis.

PI-28. In-year budget reports

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
28.1. Coverage and comparability of reports	
A	Coverage and classification of data allows direct comparison to the original budget. Information includes ***all*** items of budget estimates. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
B	Coverage and classification of data allows direct comparison to the original budget with partial aggregation. Expenditures made from transfers to de-concentrated units within central government are included in the reports.
C	Coverage and classification of data allows direct comparison to the original budget for the main administrative headings.
D	Performance is less than required for a C score.
28.2. Timing of in-year budget reports	
A	Budget execution reports are prepared monthly, and issued within two weeks from the end of each month.
B	Budget execution reports are prepared quarterly, and issued within four weeks from the end of each quarter.
C	Budget execution reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks from the end of each quarter.
D	Performance is less than required for a C score.
28.3. Accuracy of in-year budget reports	
A	There are no material concerns regarding data accuracy. An analysis of the budget execution is provided on at least a half-yearly basis. Information on expenditure is covered at both commitment and payment stages.
B	There may be concerns regarding data accuracy. Data issues are highlighted in the report and the data is consistent and useful for analysis of budget execution. An analysis of the budget execution is provided on at least a half-yearly basis. Expenditure is captured at least at payment stage.
C	There may be concerns regarding data accuracy. Data is useful for analysis of budget execution. Expenditure is captured at least at payment stage.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Last completed fiscal year.

Measurement guidance

Information on budget execution that includes revenue and expenditure data is required to facilitate performance monitoring and, where necessary, to help identify action needed to maintain or adjust planned budget outturns.

Dimension 28.1 assesses the extent to which information is presented in in-year reports and in a form that is easily comparable to the original budget (i.e., with the same coverage, basis of accounting, and presentation). The division of responsibility between the MOF and line ministries in the preparation of the reports will depend on the type of accounting and payment system in operation (centralized, deconcentrated or devolved). In each case the role of the MOF will vary between:

- Centralized capture and processing of budgetary unit transactions along with production and distribution of various types of budgetary unit specific and aggregated/consolidated reports;
- Production and dissemination of budgetary unit specific and aggregated/consolidated reports based on budgetary unit capture and processing of transactions;
- Consolidation/aggregation of reports provided by budgetary units (and where applicable, from deconcentrated units) from their accounting records;

Dimension 28.2 assesses whether this information is submitted in a timely manner and accompanied by an analysis and commentary on budget execution.

Dimension 28.3 assesses the accuracy of the information submitted, including whether expenditure for both the commitment and the payment stage is provided. This is important for monitoring budget implementation and utilization of funds released. Accounting for expenditure made from transfers to deconcentrated units within central government should be also included.

Countries may produce different reports on budget execution within a fiscal year, for example with different coverage or different degrees of detail. For the purposes of scoring of this indicator the same types of reports should be examined in every dimension of this indicator. Timing, accuracy, coverage and comparability would thus be assessed for the same set of reports.

PI-29. Annual financial reports

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
29.1. Completeness of annual financial reports	
A	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain full information on revenue, expenditure, financial and tangible assets, liabilities, guarantees, and long-term obligations, and are supported by a reconciled cash flow statement.
B	Financial reports for budgetary central government are prepared annually and are comparable with the approved budget. They contain information on at least revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations.
C	Financial reports for budgetary central government are prepared annually, and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.
D	Performance is less than required for a C score.
29.2. Submission of reports for external audit	
A	Financial reports for budgetary central government are submitted for external audit within 3 months of the end of the fiscal year.
B	Financial reports for budgetary central government are submitted for external audit within 6 months of the end of the fiscal year.
C	Financial reports for budgetary central government are submitted for external audit within 9 months of the end of the fiscal year.
D	Performance is less than required for a C score.
29.3. Accounting standards	
A	Accounting standards applied to ***all*** financial reports are consistent with international standards. ***Most*** international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed in notes to the reports.
B	Accounting standards applied to ***all*** financial reports are consistent with the country's legal framework. The ***majority*** of international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed.
C	Accounting standards applied to ***all*** financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.
D	Performance is less than required for a C score.

Coverage

BCG.

Time period

Dimension 29.1: Last completed fiscal year.

Dimension 29.2: Last annual financial report submitted for audit.

Dimension 29.3: Last three years' financial report.

Measurement guidance

Annual budgetary central government financial reports are critical for accountability and transparency in the PFM system. While certain countries have their own public sector financial reporting standards, set by government or another authorized body, in many cases, national accounting standards for the private sector, regional standards, or international standards such as IPSAS are applied. In any event, the outcome should be a set of financial reports that are both complete and consistent with generally accepted accounting principles and standards. For the purpose of this indicator, the annual financial statements or the budget execution reports produced by the government may be treated as financial reports and used for scoring.

Dimension 29.1 assesses the completeness of financial reports. Annual financial reports should include an analysis providing for a comparison of the outturn with the initial government budget. Financial reports should include full information on revenue, expenditure, assets, liabilities, guarantees, and long-term obligations. This information can be either incorporated into financial reports in a modified cash or accrual-based system, or presented by way of notes or ad hoc reports, as is often done in a cash-based system. The usefulness of reports depends on whether they are compiled after the clearance of any suspense accounts and after advance and bank account reconciliation, as assessed in PI-27.

Dimension 29.2 assesses the timeliness of submission of reconciled year-end financial reports for external audit as a key indicator of the effectiveness of the accounting and financial reporting system. In certain systems, individual ministries, departments and deconcentrated units and other public entities within the central government issue reports that are subsequently consolidated by the MOF. In more centralized systems, every detail or part of the information for the report is held by the MOF. The actual date of submission is the date on which the external auditor considers the report complete and available for audit.

Dimension 29.3 assesses the extent to which annual financial reports are understandable to the intended users and contribute to accountability and transparency. This requires that the basis of recording the government's operations and the accounting principles and national standards used be transparent. Higher scores require that the standards used for accounting are consistent with recognized international standards such as IPSAS. For 'A' and 'B' scores the assessment report should explain which international standards methodology has been used and where the information on compliance with those standards is disclosed.

Pillar Seven: External scrutiny and audit

PI-30. External audit

Description

This indicator examines the characteristics of external audit. It contains four dimensions and uses the **M1** (**WL**) method for aggregating dimension scores.

Dimensions and scoring

Score	Minimum requirements for scores
30.1. Audit coverage and standards	
A	Financial reports including revenue, expenditure, assets, and liabilities of ***all*** central government entities have been audited using ISSAIs or consistent national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
B	Financial reports of central government entities representing ***most*** total expenditures and revenues have been audited using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risks.
C	Financial reports of central government entities representing the ***majority*** of total expenditures and revenues have been audited, using ISSAIs or national auditing standards during the last three completed fiscal years. The audits have highlighted any relevant significant issues.
D	Performance is less than required for a C score.
30.2. Submission of audit reports to the legislature	
A	Audit reports were submitted to the legislature[5] within three months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
B	Audit reports were submitted to the legislature within six months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
C	Audit reports were submitted to the legislature within nine months from receipt of the financial reports by the Supreme Audit Institution for the last three completed fiscal years.
D	Performance is less than required for a C score.
30.3. External audit follow-up	
A	There is clear evidence of effective and timely follow-up by the executive or the audited entity on audits for which follow-up was expected, during the last three completed fiscal years.
B	A formal, comprehensive, and timely response was made by the executive or the audited entity on audits for which follow-up was expected during the last three completed fiscal years.
C	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the last three completed fiscal years.
D	Performance is less than required for a C score.

[5] Or other body responsible for public finance governance.

Score	Minimum requirements for scores
30.4. Supreme Audit Institution (SAI) independence	
A	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of the SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information.
B	The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, and the approval and execution of the SAI's budget. The SAI has unrestricted and timely access to records, documentation and information for ***most*** audited entities.
C	The SAI operates independently from the executive with respect to the procedures for appointment and removal of the Head of the SAI as well as the execution of the SAI's budget. The SAI has unrestricted and timely access to the ***majority*** of the requested records, documentation and information.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

Dimensions 30.1, 30.2 and 30.3: Last three completed fiscal years.

Dimension 30.4: At time of assessment.

Measurement guidance

Reliable and extensive external audit is an essential requirement for ensuring accountability and creating transparency in the use of public funds. While one dimension of the indicator is focused on the independence of the external audit function, the first three dimensions focus on audit of the government's annual financial reports. Inclusion of certain aspects of a performance audit would also be expected of an audit function, but this is covered in dimension 8.4.

Dimension 30.1 assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards. The scope of audit indicates the entities and sources of funds that are audited[6] in any given year and should include extrabudgetary funds and autonomous agencies. The latter may not always be audited by the Supreme Audit Institutions (SAI), as the use of other audit institutions may be foreseen. Where SAI capacity is limited, the audit program may be planned by the SAI in line with legal audit obligations on a multi-year basis in order to ensure that high priority or risk-prone entities and functions are covered regularly, whereas other entities and functions may be covered less frequently. Audit work should cover total revenue, expenditure, assets and liabilities, regardless of whether these are reflected in financial reports (see PI-28).

Adherence to auditing standards, such as the International Standards of Supreme Audit Institutions (ISSAI) and the IFAC/IAASB International Standards on Auditing (ISA)[7], should ensure a focus on significant and systemic PFM issues in reports, as well as conducting financial and compliance audit activities, such as providing an opinion on the financial statements, the regularity and propriety of transactions, and the functioning of internal control and procurement systems. The SAI should implement a quality assurance system to assess whether its audits adhere to the adopted audit standards. These reviews are generally internal to the SAI, though independent of those carrying out the audits, but external bodies may also play a role in

[6] i.e., fall within the implementation of the overall risk-based audit plan of the external auditor for the given year, regardless of whether or not the plan requires substantive audit work to be carried out on that entity/fund.

[7] The ISSAIs on financial audit are based on the corresponding ISAs, which guide the conduct of the audit of financial statements, including related compliance audit requirements such as consideration of laws and regulations in an audit of financial statements.

the process, for example, through peer reviews or via a professional regulatory body. Independent quality assurance review reports should be the main source for assessing whether audit standards are generally adhered to.

Dimension 30.2 assesses the timeliness of submission of the audit report(s) on budget execution to the legislature, or those charged with governance of the audited entity, as a key element in ensuring timely accountability of the executive to the legislature and the public. This dimension requires delays in submission of audit reports to be measured from the end of the period covered when there is no financial audit of the report, or from the date of the external auditor's receipt of the relevant unaudited financial reports when a financial audit is involved. Where audit reports are made separately on different units of central government, the overall delay may be assessed as a weighted average of the delays on the respective units, weighted by the higher of their income or expenditure.

If financial reports provided to the external auditor are not accepted, but are returned for completion or corrections, the actual date of submission is the date on which the external auditor considers the financial reports complete and available for audit.

Dimension 30.3 assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entity. Evidence of effective follow up of the audit findings includes the issuance by the executive or audited entity of a formal written response to the audit findings indicating how these will be or already have been addressed, for example, a management letter. Reports on follow-up may provide evidence of implementation by summing up the extent to which the audited entities have cleared audit queries and implemented audit recommendations or observations. Note that follow-up to recommendations issued by the legislature is assessed separately under PI-31.

Dimension 30.4 assesses the independence of the SAI from the executive. Independence is essential for an effective and credible system of financial accountability, and should be laid down in the constitution or comparable legal framework. In practice, independence is demonstrated by the arrangements for the appointment (and removal) of the Head of the SAI and members of collegial Institutions, noninterference in the planning and implementation of the SAI's audit work, and in the approval and disbursement procedures for the SAI's budget. The SAI's mandate should cover every central government activity and enable the SAI to carry out a full range of audit activities, specifically financial, compliance and performance audits. The SAI should have unrestricted access to documents, records and information. It should be noted that performance audits are covered by PI-8, whereas PI-30 is focused on audits of the government's annual financial reports.

PI-31. Legislative scrutiny of audit reports

Description

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

Dimensions and scoring

Score	Minimum requirements for scores
31.1. Timing of audit report scrutiny	
A	Scrutiny of audit reports on annual financial reports has been completed by the legislature within three months from receipt of the reports
B	Scrutiny of audit reports on annual financial reports has been completed by the legislature within six months from receipt of the reports.
C	Scrutiny of audit reports on annual financial reports has been completed by the legislature within twelve months from receipt of the reports.
D	Performance is less than required for a C score.
31.2. Hearings on audit findings	
A	In-depth hearings on key findings of audit reports take place regularly with responsible officers from ***all*** audited entities which received a qualified or adverse audit opinion or a disclaimer.
B	In-depth hearings on key findings of audit reports take place with responsible officers from ***most*** audited entities which received a qualified or adverse audit opinion or a disclaimer.
C	In-depth hearings on key findings of audit reports take place occasionally, covering ***a few*** audited entities or may take place with ministry of finance officials only.
D	Performance is less than required for a C score.
31.3. Recommendations on audit by the legislature	
A	The legislature issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.
B	The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation.
C	The legislature issues recommendations on actions to be implemented by the executive.
D	Performance is less than required for a C score.
31.4. Transparency of legislative scrutiny of audit reports	
A	All hearings are conducted in public except for strictly limited circumstances such as discussions related to national security or similar sensitive discussions. Committee reports are debated in the full chamber of the legislature and published on an official website or by any other means easily accessible to the public.
B	Hearings are conducted in public with ***a few*** exceptions in addition to national security or similar sensitive discussions. Committee reports are provided to the full chamber of the legislature and published on an official website or by any other means easily accessible to the public.
C	Committee reports are published on an official website or by any other means easily accessible to the public.
D	Performance is less than required for a C score.

Coverage

CG.

Time period

Last three completed fiscal years.

Measurement guidance

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee(s) or commission(s) that examines the external audit reports and questions responsible parties about the findings of the reports. A report on the results of review of the external audit report(s) by any mandated committee should be submitted for consideration (and ideally debated) in the full chamber of the legislature in order to constitute a completed scrutiny. This is usually necessary before the executive can formally respond, though corrective action may be taken at any time. The operation of the committee(s) will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports.

Dimension 31.1 assesses the timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function. Timeliness can be affected by a surge in audit report submissions, where external auditors are catching up on a backlog. In such situations, the committee(s) may decide to give first priority to audit reports covering the last completed reporting periods and audited entities that have a history of poor compliance. The assessment should favorably consider such elements of good practice and not be based on the resulting delay in scrutinizing reports covering more distant periods.

Dimension 31.2 assesses the extent to which hearings on key findings of the SAI take place. Hearings on key findings of external audit reports can only be considered 'in-depth' if they include representatives from the SAI to explain the observations and findings as well as from the audited agency to clarify and provide an action plan to remedy the situation. 'A few' refers to between 10 and 25 percent (by value) of government units with qualified, adverse or disclaimer of opinions, in line with the standard orders of magnitude applied across the PEFA Framework referred to in section 2.1.4.

Dimension 31.3 assesses the extent to which the legislature issues recommendations and follows up on their implementation. The responsible committee may recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors, refer to PI-30, and would be expected to have a follow-up system to ensure that such recommendations are appropriately considered by the executive.

'Systematically' is defined as: where a system for tracking recommendations exists and it is used to record recommendations and to record action or lack of action taken on recommendations, and where for every recommendation, the executive and the legislature is notified during subsequent hearings whether recommendations have or have not been implemented.

Dimension 31.4 assesses the transparency of the scrutiny function in terms of public access. Opening committee hearings to the public facilitates public scrutiny of the proceedings and is also a good opportunity for a legislative committee to inform the public about its work. Hearings can be 'open' in a variety of ways, which range from allowing exceptional public access to the committee room to inviting members of the public to speak on a subject. Public scrutiny can also be achieved either by transmission of the proceedings by the mass media, i.e., radio or TV, which allows citizens to follow what is currently happening in committees. Dimension 31.4 is focused on the existence of some form of general public access and does not specifically assess whether members of the public are invited to speak at hearings.

If the legislature does not require an external audit of the annual financial reports that government submits, refer to PI-29, the legislature is not fulfilling its role of ensuring the accountability of the executive leading to score 'D' on every dimension of the present indicator.

This part of the Framework gives guidance on the preparation of the PEFA Report. It provides a description of the information to be included in the report and a template for how this information is to be recorded and presented.

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.

PART 3: THE PEFA REPORT

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.

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. 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.

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 is also provided, such the fiscal year, the currency used in the report, and its exchange rate with major international currencies such USD or EUR.

Certain mandatory data tables are specified in section 2 and for selected indicators in section 3. The tables should be filled in to the extent that the information is available. It should be presented in a format that assessors consider appropriate. 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.

The remainder of this section sets out the information to be provided in each section of the PEFA report.

STRUCTURE OF THE PEFA REPORT

EXECUTIVE SUMMARY

INTRODUCTION

1.1 Rationale and purpose

1.2 Assessment management and quality assurance

1.3 Assessment methodology

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

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

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

GOVERNMENT PFM REFORM PROCESS

5.1 Approach to PFM reform

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

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 the PFM system on 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 length of this section is expected to be three pages of narrative plus a table with indicator scores.

The executive summary only contains information, data or analysis which is presented in sections 1-5 of the report. It includes the following:

- A brief explanation of the purpose and management of the assessment
- Explanation of the assessment's coverage and timing, i.e., what is being assessed and at what point in time.
- An explanation of how PFM systems 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.
- A summary of the main performance changes since any earlier PEFA assessment. This is also structured according to the three main fiscal and budgetary outcomes.
- A brief overview of the country's ongoing and planned PFM reform agenda or program, including links to recent performance changes and the main identified weaknesses identified in the report.

The executive summary is accompanied by a table, not exceeding one page, which gives an overview of the scores for each of the PEFA indicators.

1.Introduction

The introduction explains the context and purpose of the PFM assessment, the process by which the PEFA report was prepared, and the methodology used in undertaking the assessment.

The length of this section is expected to be three pages of narrative plus a table with indicator scores.

1.1. Rationale and purpose

This section describes the objective of the PEFA assessment and important background information, including why it has been undertaken at this time, reference to any previous PEFA assessment(s), and its relevance to on-going reform activities.

1.2. Assessment management and quality assurance

This section describes the process of preparing the report, including: (i) the organization that initiated and commissioned the assessment; (ii) the extent to which government officials were involved in the preparation of the report; and (iii) the roles and contributions of any other stakeholders in the assessment.

BOX 1.1: Assessment management and quality assurance arrangements

PEFA assessment management organization

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

Review of concept note and/or terms of reference

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

Review of the assessment report

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

1.3. Assessment methodology

This section describes the methodological choices made for the assessment. Four main topics are covered:

1. **Coverage of the assessment:** This refers to the tier of government covered, which is typically a central government or one subnational government. In order to understand the scope of the assessment, the report specifies which institutional 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 2.3 and 2.4 of the report.

2. **When performance is assessed:** Description of the timeline for the assessment with the data cut-off date for measurement is to be clearly defined. 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" referred to in many dimensions and the critical date for consideration of circumstances applying "at the time of the assessment", which is relevant to other dimensions.

3. **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, interviews with representatives of other levels of government, public corporations, private sector, nongovernmental organizations, and external finance institutions and development partners. A full list shall be provided in Annex 3 of the report.

4. **Other methodological issues for the preparation of the report,** such as any departure from use of the entire indicator set, and whether the assessment is a stand-alone assessment or is combined with any other analytical work. The treatment of indicators that are not applicable or not used is discussed in part 1, section 2.1 of this PEFA Framework document.

2. Country background information

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

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

The section is structured as follows:

2.1. Country economic situation

- **Country context,** including population, income level, percentage of population living below the poverty line, growth rate, inflation, economic structure and main challenges for growth and development. This should include information on any significant dependence of the economy and government revenue on specific sources, including extraction of natural resources or financial support from external finance agencies and development partners.
- **The government's main economic challenges and government-wide reforms,** with a focus on the issues that represent major fiscal risks and are likely to influence the objectives of fiscal and PFM reform.
- **Key economic indicators** for the past three years may be presented in a table such as table 2.1 below.

TABLE 2.1: Selected economic indicators

	FY T-2	FY T-1	FY T
GDP			
GDP per capita (currency units)			
Real GDP growth (%)			
CPI (annual average change) (%)			
Gross government debt (% of GDP)			
External terms of trade (annual percentage change)			
Current account balance (% of GDP)			
Total external debt (% of GDP)			
Gross official reserves (months of import value)			

Key indicators are illustrative only—others may be relevant to the country situation

2.2. Fiscal and budgetary trends

The information for this subsection is drawn from existing fiscal and expenditure policy analysis or other relevant studies.

- ***Fiscal performance:*** The report includes a short comment on the main trends in aggregate fiscal discipline for the last three years, based on the information provided by table 2.2. It also integrates other relevant information, for example on the debt stock, included in table 2.1. Information on stated aggregate fiscal objectives and targets, as well as any legislated fiscal rules, may be provided in this section or cross-referenced to PI-15 in Section 3 of the PEFA report.

TABLE 2.2: 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.

- ***Allocation of resources:*** The report includes information on the trends in sectoral and economic allocation of resources. It also provides a statement on the priorities embodied in the national strategy and the extent to which budget allocations reflect those priorities.

TABLE 2.3: Budget allocations by function

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

Data for tables 2-2 and 2-3 shall be presented according to the classification used by the government

TABLE 2.4: Budget allocations by economic classification

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

2.3. 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 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 describe the legal and regulatory arrangements for the internal control system. According to international standards[8], 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 complemented in section 2.4 with 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 4.2. That section draws on both this subsection and the control activities included in the performance indicator assessments. Thus, subsections 2.3 and 2.4 should describe the design of the internal control framework and section 4.2 should evaluate whether it operates so as to achieve the intended objectives.

8 International Organisation of Supreme Audit Institutions, "Guidelines for Internal Control Standards for the Public Sector" (INTOSAI GOV 9100)

2.4. Institutional arrangements for PFM

The report here 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, as illustrated in tables 2-5, 2-6 and 2.7. 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 preferably cover the last completed fiscal year. The sources of information are explained, as is whether totals may involve elements of double counting or deviations from data used for scoring the outturn indicators under pillar I.

The information serves as a basis for understanding the coverage and boundaries of the assessment as presented in section 1.3 of the report and the relative importance of different segments of the public sector for the analysis in section 4.

TABLE 2.5: Structure of the public sector (number of entities and financial turn-over)

Year:	Public sector				
	Government subsector		Social security funds1/	Public corporation subsector	
	Budgetary Unit	Extrabudgetary Units		Nonfinancial public corporations	Financial public corporations
Central	2/				
1st 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, paragraph 2.78).

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

TABLE 2.6: Financial structure of central government—budget estimates (in currency units)

Year:	Central government			
	Budgetary unit	Extrabudgetary units	Social security funds	Total aggregated1/
Revenue				
Expenditure				
Transfers to (-) and from (+) other units of general gov't				
Liabilities				
Financial Assets				
Nonfinancial assets				

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

TABLE 2.7: Financial structure of central government – actual expenditure (in currency units)

Year: …….	Central government Budgetary unit	Extrabudgetary units	Social security funds	Total aggregated1/
Revenue				
Expenditure				
Transfers to (-) and from (+) other units of general gov't				
Liabilities				
Financial Assets				
Nonfinancial assets				

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

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.

2.5. Other important features of PFM and its operating environment

This subsection describes the key features of the PFM system. The degree of centralization of the PFM system, the extent of earmarked revenue or extrabudgetary units, the type of control exercised by the external oversight bodies, and any recent changes, should be included. 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.

The information provided here is to be descriptive and is not intended to make a statement on compliance with existing rules or effective roles played by the legislature and external audit. Such issues are captured in the detailed assessment of the PFM system in section 3 and the cross-functional analysis in section 4.

3. Assessment 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 indicators, and to report on progress made in improving those.

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

The structure of the section is:

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

Each subsection discusses the relevant indicators. For example, subsection 3.2 on transparency of public finances focuses on PI-4 to PI-9. Reporting follows the numerical order of the indicators.

Each indicator is reported separately and discusses the assessment of the present situation, performance change over time, and a description of the reform measures being introduced to address the identified weaknesses. The discussion should include five elements:

1. General description of the characteristics of the indicator within the scope covered
2. Performance level and evidence for scoring of each dimension
3. Performance change since the previous assessment, where applicable
4. Recent or ongoing reform activities
5. Summary of scores and performance table

1. General description of the system in relation to the indicator

This may describe the institutional and organizational arrangements and the legislation relevant to the subject being assessed by the indicator.

2. Performance level and evidence for scoring of each dimension

- 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 dimension, the text explicitly mentions it.

3. Performance change since a previous PEFA assessment

Performance change over time is reported for each indicator to complement indicator scoring 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[9].

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 is nevertheless evidenced. This 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 dimension scores.

4. 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 conditionality required by international finance institutions or donors (i.e., reform measures yet to be implemented) are not considered sufficient evidence for demonstrating status or progress of reform efforts.

5. Summary of scores and performance table

The following table is a suggested format for the summary table.

Indicator/Dimension (number and name)	Score	Brief justification for score
PI-XX: (name)	(Overall score)	
Dimension X.1 … etc [for multi-dimensional indicators each dimension explained separately, as well as aggregate score for indicator]		

[9] 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 indicators.

4. Conclusions of the analysis of PFM systems

The objective of this section is to present an integrated analysis on the basis of information provided in the preceding sections 2 and 3, and to state overall conclusions on the performance of PFM systems. In particular, the analysis seeks to assess how the performance of PFM systems may affect the government's ability to deliver the intended fiscal and budgetary outcomes, and to identify the main weaknesses of the PFM system in that respect.

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

4.1. Integrated assessment of PFM performance

The indicator assessment is explained in terms of its implications for the seven pillars of PFM performance:

I. **Budget reliability:** In order for the government budget to be useful for policy implementation, it is necessary that it be realistic and implemented as passed.

II. **Transparency of public finances:** Transparency of information on public finances is necessary to ensure that activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important feature that enables external scrutiny of government policies and programs and their implementation.

III. **Management of assets and liabilities:** Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

IV. **Policy-based fiscal strategy and budgeting:** Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy.

V. **Predictability and control in budget execution:** Predictable and controlled budget execution is necessary to ensure that revenue is collected and resources are allocated and used as intended by government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control ensures that policies, regulations, and laws are complied with during the process of budget execution.

VI. **Accounting and reporting:** Timely, relevant and reliable financial information is required to support fiscal and budget management and decision-making processes.

VII. **External scrutiny and audit:** Effective external audit and scrutiny by the legislature are enabling factors for holding the government's executive branch to account for its fiscal and expenditure policies and their implementation.

In synthesizing the performance of the PFM system, the analysis aims at identifying the implications of PFM strengths and weaknesses identified in section 3. 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.

4.2. 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 2 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 3).

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.

4.3. 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 main fiscal and budgetary outcomes, i.e.

- aggregate fiscal discipline
- strategic allocation of resources and
- efficient use of resources for service delivery

It builds on the strengths and weaknesses identified in each PFM functional area (subsection 4.1 of the PEFA report) and the extent of effectiveness found for various internal control components (subsection 4.2 of the PEFA report). It also identifies the links between the performance of those sub-systems and the ability to deliver the three main outcomes. This subsection explains why the weaknesses identified in PFM performance of sub-systems 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 system (subsection 2.1 through 2.5 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.

4.4 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. Separate guidance is provided for previous assessments that used a different version of PEFA.

It draws on the description of change in performance included in the analysis of each indicator and the overview of performance changes provided section 3 and the summary table in Annex 1.

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.

5. Government PFM reform process

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

The indicative length of this section is three to five pages.

5.1. Approach to PFM reforms

The government's overall approach to PFM reform is described including the existence, origins and structure of a PFM reform program or any alternative approach used such as several parallel, independent, or institution-specific reform and capacity development initiatives.

It describes how the PFM reform program is linked to the overall policy and planning of government reforms, for example, through an overall national development plan, strategic planning arrangements, medium-term expenditure frameworks, etc. Relationships with other administrative reforms of the public sector are highlighted, including technical links and interdependencies, as well as planning and management coordination.

Any recent external reviews or independent evaluations of the PFM reform program(s) are mentioned, including their main conclusions.

5.2. Recent and on-going reform actions

The most important recent and ongoing reforms are briefly summarized to give an overview of the progress made by government in strengthening the PFM system.

This subsection highlights the extent to which ongoing reforms are targeting the PFM areas with the most important weaknesses identified in section 4 of the report.

5.3. Institutional considerations

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

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

- **Government leadership and ownership** is likely to contribute to a more effective PFM reform process by setting the objectives, direction, and pace of reforms, clarifying organizational responsibilities for the reform process, and addressing, in a timely manner, any resistance to change. Consideration may be given to the specific drivers or incentives for administrative reform, for example, based on information from section 2.1. Other drivers could include the extent of political engagement in the reform process, whether the government articulates a compelling case for PFM reforms, the dissemination of the government vision in public documents such as national development programs, specific PFM strategy or action plans, and the provision of resources by government for PFM reforms. Cross reference to information on whether the reform process is progressing according to government plans can be included.
- **Coordination across government** is likely to contribute to a more prioritized and sequenced reform agenda, as existing capacities of different entities and levels of government are taken into account in planning and implementing reforms. In assessing the extent to which arrangements for coordination are in place, consideration may be given to the contribution of relevant entities, especially line ministries, which are associated in the reform decision making process. Consideration

may also be given to the existence of mechanisms to ensure timely decision-making especially for cross-cutting reforms, the clarity of roles and responsibilities in the implementation of reforms, and the existence of a focal point in government for coordination of donors in relation to PFM reforms. Involving the legislature and the external audit unit in the PFM reform process may also be considered, where relevant.

- **A sustainable reform process** is likely to influence the impact of PFM reforms. The extent to which such a process is supported by existing arrangements should be considered. In this context, the report could examine the contribution of government experts or technical assistance, whether reforms are being associated with comprehensive capacity-building programs, and retention of trained staff. Any information on funding of the recurrent costs resulting from the implementation of reforms may also be included.
- **Transparency of the PFM program** is important for setting expectations and soliciting contributions and collaboration from various stakeholders. The report describes transparency in terms of reform program documents being publicly accessible and the program's financing fully reflected in the government's budget documentation ex-ante and ex-post.

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

Annexes

Annex 1. Performance indicator summary

This annex provides a summary table of the performance indicators. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment.

Current assessment			Previous assessment (year)	
Indicator/dimension	Score	Description of requirements met	Score	Explanation of change (include comparability issues)
PI-xx (subject)				
Dimension x.1				
Dimension x.2				
Dimension x.3				
Dimension x.4				

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’.

Internal control components and elements	Summary of observations
1. Control environment	
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	
1.2. Commitment to competence	
1.3. The “tone at the top” (i.e. management’s philosophy and operating style)	
1.4. Organisational structure	
1.5. Human resource policies and practices	
2. Risk assessment	
2.1 Risk identification	
2.2 Risk assessment (significance and likelihood)	
2.3 Risk evaluation	
2.4 Risk appetite assessment	
2.5 Responses to risk (transfer, tolerance, treatment or termination)	
3. Control activities	
3.1 Authorization and approval procedures	
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	
3.3 Controls over access to resources and records	
3.4 Verifications	
3.5 Reconciliations	
3.6 Reviews of operating performance	
3.7 Reviews of operations, processes and activities	
3.8 Supervision (assigning, reviewing and approving, guidance and training)	
4. Information and communication	
5. Monitoring	
5.1 Ongoing monitoring	
5.2 Evaluations	
5.3 Management responses	

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 3B.
- Annex 3C contains a table explaining the sources of information used to extract evidence for scoring each indicator.

PEFA Secretariat

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

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