

**Repeat Public Expenditure and  
Financial Accountability (PEFA)  
Assessment 2013  
Timor-Leste**

**FWC BENEf 2009 Lot 11 2013/326610**

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**FISCAL YEAR**

January 1 to December 31

**CURRENCY EQUIVALENTS**

Currency unit = US Dollars

**ACRONYMS AND ABBREVIATIONS**

AACTL	Civil Aviation Regulatory Authority
AAP	Annual action plan
ADB	Asian Development Bank
AGPJ	National Lottery
ANATL	Civil Aviation Regulatory Authority
AIMS	Aid Information Management System
ANZ	Australia and New Zealand Banking Group
APE	Autonomous public entity
APORTL	Port Authority
ASYCUDA	Automated System for Customs Data
ATP	Aid Transparency Portal
BFM	Budget and Financial Management
BNCTL	Bank of Micro-Financing
BNU	Banco Nacional Ultramarino
CBTL	Central Bank of Timor-Leste
CDMU	Cash and Debt Management Unit
COFOG	Classification of the Functions of Government
COM	Council of Ministers
CPI	Consumer price index
CTL	Postal Services
DC	Development capital
DG	Directorate General
DGC	Directorate-General of Customs
DGR	Directorate-General of Revenue
DGT	Directorate-General of Treasury
DSA	Debt sustainability analysis
EDTL	Electricity do Timor-Leste
ESI	Estimated Sustainable Income
EU	European Union
EXIM	Export Import
FMIS	Financial management information system
FS	Financial statement
GDP	Gross domestic product
GFSM	Government finance statistics manual
GOTL	Government of Timor-Leste
HCDF	Human Capital Development Fund

IDA	International Development Agency
IF	Infrastructure Fund
IFRRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
KPI	Key Performance Indicator
MDA	Ministry, department and agency
MOF	Ministry of Finance
MPS	Major Projects Secretariat
MTBS	Medium term budget policy statement
MTEF	Medium term expenditure framework
MTPF	Medium term performance framework
NA	Not applicable
NDDR	National Directorate for Domestic Revenue
NDPMR	National Directorate for Petroleum and Mineral Resources
NEC	National Electoral Commission
NPA	National Petroleum Authority
NS	Not scored
PDID	District development planning
PEFA	Public expenditure and financial accountability
PF	Petroleum Fund
PFM	Public financial management
PI	Performance indicator
PIEM	Public Institute of Equipment Management
PMIS	Personnel management information system
PR	Performance report
RTTL	Radio and Television of Timor-Leste
SAI	Supreme Audit Institution
SAMES	Medical Equipment and Supplies
SIGTAS	Standard Integrated Government Tax Administration System
SDP	Strategic Development Plan
SNG	Sub national government
TIN	Tax identification number
TL	Timor-Leste
TSA	Treasury Single Account
UNDP	United Nations Development Programme
UNTAET	United Nations Transitional Administration in East Timor

## SUMMARY ASSESSMENT

### Main conclusions

The assessment of PFM performance reveals that positive steps have been taken during 2010-2012 that led to improvement in a number of important areas. The assessment, however, also points to weaknesses in PFM systems and processes that have either remained unchanged or worsened since the last PEFA assessment of 2010.

Progress in strengthening of PFM capacities has improved moderately — not commensurate though with the more rapid growth of public investments and the need for enhancing the efficiency of public service delivery. As the economy continues to grow rapidly, the Government of Timor-Leste (GOTL) faces the task of spending efficiently and restraining the growth of consumptive expenditures and adjusting increases in the public sector wage bill and the procurement of public works within the capacity and absorptive constraints of the country. For that purpose, the Government introduced the Estimated Sustainable Income (ESI) fiscal rule to ring-fence oil revenues in an attempt to prevent falling victim to the resource curse, known as the “Dutch Disease”.

Still, the government continues to face challenges in managing increasing revenues from its natural resource wealth in an optimal manner conducive to building a sustainable economy for its citizens. The challenge of building the necessary capacities and easing inflationary pressures remains high, as is the challenge of easing the way and the opportunities for enabling a more vibrant private sector towards mobilizing new domestic resources away from oil.

In general, Timor-Leste has made solid progress in strengthening PFM and achieving fiscal transparency over the last three years. This has resulted in, among others: (1) a transparent and sustainable framework for the governance of the petroleum sector, with a well-managed, supervised, and regularly audited Petroleum Fund; (2) a relatively well-structured budget process, including active participation by National Parliament; (3) an adequate reporting of donor-funded activities, albeit outside the consolidated government reporting; (4) use of a modern integrated financial management information system with reconciliation of Government's bank accounts and advances; and (5) a treasury single account (TSA) that is progressing to cover the execution of most budgetary transactions.

Legislation on budget and financial management, procurement, civil service, and the petroleum sector has supported these reforms, and new complementary regulatory reforms are well underway. On the institutional side, restructuring of Ministry of Finance and the recent establishment of a new Public Service Commission, the National Procurement Commission, the National Development Agency, the Major Projects Secretariat and the Anti-Corruption Commission have been important developments.

The Budget and Financial Management (BFM) Law and the MOF Organic Law are at the core of the regulatory framework covering all aspects of public financial management including the rules and procedures for the organization, preparation, presentation, and implementation of the Budget and the accounts of the Government.

### Integrated assessment of PFM performance

This 2013 PEFA assessment is the third for Timor-Leste. The six core PFM components examined by the assessment are summarised as follows:

#### a) PFM outturns: Credibility of the Budget (PI 1-4)

- Budget credibility did not improve since the 2010 PEFA, with Performance Indicators (PIs) 1–2 reflecting high deviations in aggregate expenditure and relatively high variance in expenditure composition. In spite of the relatively low scores obtained, MOF succeeded in the bid to exercise control in the use of public resources, as evidenced by budget execution outturns of payroll and purchases of goods and services kept at a relatively low margin, particularly in 2011 and 2012. Concerns lie primarily with the limited capacity to select and execute large infrastructure projects and, as result, the Government's budget is reported to perform better without the Infrastructure Fund (IF) and Human Capital Development Fund (HCDF) projects being in the equation.
- Furthermore, control over implementation of the annual budget as a whole was adversely affected by large mismatches and changes in the allocation of budgetary resources across ministries. As a result, the budget did not end up responding to all policy priorities set forth in the national development plans. Thus, fiscal discipline was not optimal because the Government did not apply all the right tools to achieve this effectively (see weak scores in indicators PI-12, PI-19, PI-20, and PI-21).
- Analysis of Government expenditure shows that capital spending was the single largest item in the budget over the years reviewed, thus denoting commitment to invest heavily in economic and social sectors, far



above the average of G7+ group of countries. Timor-Leste's domestically-funded capital expenditure to GDP is the second largest, only after Chad (see below).

**Table: Domestically-funded capital expenditure, 2012 (% of GDP)**

Afghanistan	Burundi	Central African Republic	Chad	Comoros	Democratic Republic of Congo	Guinea	Guinea Bissau	Haiti
2.2%	2.6%	1.0%	15.5%	2.5%	4.5%	6.8%	0.5%	5.9%
Ivory Coast	Liberia	Papua New Guinea	Sierra Leone	Solomon Islands	Somalia	Southern Sudan	Timor Leste	Togo
4.1%	3.4%	8.5%	3.0%	7.8%	n.a	n.a	8.9%	3.5%

Source: National authorities and IMF staff estimates.

- Budget resources were allocated to contingency items in amounts creating no concern to fiscal management, aimed mainly at paying for unforeseen purchases and clearing of non-salary expenditure arrears.
- The credibility of the budget was hampered by low non-oil revenue projections (PI-3). Deviations of estimated non-oil tax revenues averaged 20% in 2010 and 2011 and deviations in non-tax revenues were even larger in those years.
- There is no definition of expenditure arrears and no process to record and monitor the stock of arrears. Using the carry-forward obligations at year-end as a proxy, expenditure payment arrears showed nonetheless an increasing trend over the period reviewed. Given the fact that GOTL is not cash constrained at present, this poses no major immediate threats (PI-4). Moreover, since the adoption of the IPSAS Cash Basis for the Government accounting, there has been a strict process of controlling commitments and authorizing purchase beyond the 15<sup>th</sup> of November which prevents the building of expenditure arrears.

#### b) Comprehensiveness and Transparency (PI 5-10)

- Budget documentation remains generally comprehensive with the budget classification being broadly compatible with GFS 1986 and COFOG standards. Recurrent and capital expenditures are itemized in a single budget framework. The extended budget documentation comprises a complete series of economic and financial information (PI-5).
- Information is published adequately with a format of reporting conforming to a standardized presentation in the course of the year. The in-year budget information is reported on a quarterly basis only. However, consolidate Whole of Government financial reports, inclusive of all APEs operations and donor-funded projects in a standard presentation or other representation of core government is still lacking (PI 6-7)
- As there is no sub-national government level yet in TL, the topic of intergovernmental fiscal relations is not applicable.
- Budget transparency is strong with a budget transparency portal enabling citizens to access historical and real-time government financial information. Citizens can drill into amounts planned and spent by ministry, programme and location. The Timor-Leste Transparency Portal provides 10 years of budget information, the budget that was approved and the actual budget spent. Reports and filtered results can be exported in PDF, Word, Excel, XML and HTML formats. However, the content and coverage can be further improved.

#### c) Policy-based budgeting (PI 11-12)

- Detailed budget preparation guidelines and a fixed and detailed budget calendar were issued by the Ministry of Finance (MOF) to MDAs for the first time in 2013 (PI-11). The annual budget formulation and preparation process is carried out now in a more informed and orderly manner, as opposed to previous years.
- The budget is broadly formulated with due regard to Government policy. The MTEF process has been initiated with the introduction of medium term fiscal forecasts but the process of integrating medium-term strategy plans with capital expenditure and future operating costs is still weak. Furthermore, coordination among MOF, Major Projects Secretariat (MPS) and MDAs in overall project planning and management is a challenge (PI-12).
- Certain key deficiencies in overall budgetary planning remain unresolved over the past three years, thus continuing to erode the credibility of the budget process (PI-12). These pertain to the costing and planning of key development programmes and standardization of functional structures in the budget system. These

have detrimental consequences in the preparation of realistic budgets thus leading to extensive use of virements during budget implementation of budget.

- The Yellow Road Workshop is the culmination of the macro-fiscal forecasting and the start of the budget formulation process. It helps Council of Ministers become sensitized and participate actively in the approval of budget ceilings. These are all positive developments. A budget statement is released to all interested parties, including MDAs and the civil society, which has served to build a concerted approach towards fiscal discipline and a more transparent budgeting process. However, technical and strategic planning guidance necessary for delineating the medium-term budgeting process are missing for the most part. These usually take the form of a medium-term socio-economic policy framework or a medium-term budgetary policy statement, etc. This would enable better establishing and explaining MDA budget ceilings and underpinning an integrated planning and performance framework.

**d) Predictability and control in budget execution (PI 13-21)**

- The state budget is implemented in a more predictable manner and yet, the arrangements for the exercise of control and stewardship in the use of public funds are still incomplete. Overall budget execution and implementation of strategy plans rely on petroleum revenue for the most part.
- The legal and institutional framework governing petroleum taxation is robust and tax collection has been effective. The authorities undertook recently retroactive tax assessments to ascertain compliance by petroleum operators. The assessments revealed considerable tax infractions and the authorities proceeded to issue claims for back-taxes and penalties to petroleum companies. The petroleum companies paid their dues but have disputed the assessments. The process is pending arbitration.
- The regulatory and administrative framework for non-petroleum taxation is still in the process of formation in spite of reform efforts (PI-13-15). The problem of taxpayers failing to lodge tax declarations is widespread, the scale of which cannot be assessed by the PEFA framework. A decree-law poised to upgrade the tax regime and contribute to the improvement of taxpayer compliances exists in draft form but has been subject to a prolonged process of discussion between MOF services. The problems with the system of the Tax Identification Number have been a serious setback, but a process of re-registration of taxpayers is under way to create a more robust system.
- The total stock of tax receivables in arrears is negligible when compared to total actual revenue. However, when the share of the stock of tax arrears to non-petroleum revenue is considered the situation is less favourable. This is of particular concern taking into account that it is non-petroleum taxpayers that are mostly in arrears.
- There have been noteworthy improvements in the planning of audits by domestic tax and customs but personnel capacity issues pose a bottleneck to optimal implementation. Reconciliation of tax payments with bank records operates smoothly, albeit being a manual operation.
- Central Government cash outflows do not appear to have been well forecasted on aggregate and by budget head over the three years reviewed (PI-16). Evidence on this is the relatively high degree of variance between expenditure and budget across MDAs. Institutional capacities in the ground do not seem to have been factored in as part of the annual budget performance reviews of previous year(s).
- Thus, progress has been achieved in the performing of cash flow forecast and informed in-year budget adjustments in a more elaborate and opportune manner. The annual cash flow projection is performed by the Cash and Debt Management Unit within DG Treasury. The decisions on the maximum ceiling for allocating Treasury resources are made monthly. The MDAs only learn through Free Balance of the commitments approved for the month with an advance notice of thirty days.
- Progress has also been made by DG Treasury in monitoring the Treasury's cash flow on a daily basis, using information provided through the TSA; thus, determining its balances and evaluating the government's ability to meet projected cash flows (PI-17). The monthly cash projections are updated on an ongoing basis with automated commitment controls established through FMIS and yet, in-year budget allocation adjustments and FMIS-managed commitment controls do not appear to be realistic as these are not aligned to a commitment schedule and do not match the monthly and quarterly cash disbursement plans and the timely procurement of key works, goods and services across Government.
- Attributes in the registry and management of public debt could not be assessed as debts were not incurred during the period 2010–2012 (PI-17).
- Progress is robust in the payment of payroll through the use of FMIS, but despite efforts to streamline Personnel Information Management System (PIMS), the payroll controls are incomplete and not yet automated, thus requiring considerable manual labour to manage (PI-18).

- In spite of persevering institutional reforms within the Civil Service Commission, the effectiveness of internal controls within personnel management and the process of reconciling the personnel account records through automated means remain weak. The shortage of technical capacities has debilitated the reviewing and overseeing the enforcement of Administrative Policies and Regulations and Procedures governing the civil service, particularly those pertaining to recruitment, appointment, promotion and retirement procedures and disciplinary rules and other proceedings aimed towards enabling professionalization of the civil service (PI-18). Weaknesses also prevail in regards to organization and actualization of individual personnel files of APEs to a centralized database PIMS. These include problems with issuing of electronic identification cards and timecards for civil servants for verifying of changes in personnel records, workplace identification and work attendance, eligible leave entitlements, and contractual labour, and other internal controls governing PIMS since 2009. Hence, the role of PIMS facility linked to payroll remains ineffectual.
- The bulk of public expenditures consist of procurement of public works and purchases of goods and services and yet, the public procurement system remains challenging (PI-19). The procurement framework has improved in terms of institutional setting, with some delineation of management procurement operations and the oversight function of the MOF. The MOF is yet to exercise its purview over the whole public sector, ensuring quarterly publication of contract awards above the direct purchase threshold. Reporting of tender opportunities and contracts awarded is available through the Procurement Portal. Management, however, continues to be hampered by a weak control environment and making open tenders has still not become the default procurement method. A number of challenges exist with respect to the registration system and pricing of good or services thus limiting competition. The procurement complaints mechanism is largely dysfunctional. A contractor management module and future linking to financial programming and other e-Procurement applications considered under FMIS agenda are positive steps in the right direction.
- The BFM Law establishes the general principles governing the budget process, the approval mechanisms and the general restrictions on how it is implemented; these restrictions include those that apply to the management and authorization of resources spent within the budgetary limits (PI 20). Accordingly, the State Budget Law is approved yearly; in 2014 it introduced expenditure control measures for in-year budget review.
- The rollout of FMIS payment processing facility across Government was a major milestone in PFM reform over the past three years, thus resulting in substantive improvement of financial planning, automation of financial controls, and simplifying, processing and reporting of financial transactions (PI-20). Other internal controls and internal audit, however, are still not well positioned to cause any meaningful impact on budget execution, in particular procurement and human resource management.
- The establishing of internal audit in the MDAs has gained momentum since 2013 (PI-21), but for the time being it is not possible to assess effectiveness across Government.

#### e) Accounting, Recording and Reporting (PI 22-25)

- Satisfactory progress has been recorded in the process of monitoring and controlling of, and prompt action to recover, cash balances owed to Government. This is attributed to the reconciliation of GOTL bank accounts and clearance of unexplained differences and reconciliation and clearance of due suspense accounts and advances taking place on a more regular basis (PI-22). Information on the provision of budget resources to primary service delivery units by districts remains inadequate (PI-23).
- The in-year budget information is availed to the public through the Budget Transparency Portal and other means on a quarterly basis with a lag of about two months (PI-24).
- GOTL produces consolidated financial statements in adherence to Cash Based IPSAS, Part 1. Annual financial statements have been prepared by MOF, and audited and certified by the independent commercial auditor in a consistent and timely manner (PI-25).

#### f) External Scrutiny and Audit (PI 26-28)

- The National Parliament has made steady improvements in the process of scrutinising proposed Budgets and the annual financial statements and is acquiring an increasing institutional understanding of the work required. There are, however, considerable capacity shortcomings that curtail the effectiveness of parliamentary scrutiny.
- In the absence of a Supreme Audit Institution the primary role of external auditor has been routinely contracted by GOTL to a commercial audit firm. The enactment of the Law on the Chamber of Accounts in 2011 marked the formal creation of the institutional framework for public external audit, albeit with an interim mandate. This is the first step in the direction of establishing a public external audit process as

prescribed in the Constitution and in legislation, and in line with INTOSAI standards. There will also be need for considerable human and organisational capacity building in years to come.

**g) Donor practices (D 1-3)**

- The establishment of Budget Book 5, the enhanced Development Cooperation Report from 2012, and the user-friendly on-line Transparency Portal (ATP) and Aid Information Management System (AIMS) have marked a clear improvement in the availability of information on donor interventions (D-2). The improvement in systems has also contributed to increased cooperation by development partners in the provision of timely information
- By contrast, the use of country systems and the status of implementation of the Busan Partnership agreement continue to be very low in TL.
- There was no budget support operation in the period reviewed by the 2013 PEFA.

**Table 1: Summary of PEFA assessment scores, 2013**

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
<b>A. PFM-OUT-TURNS: Credibility of the budget</b>							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	D				<b>D</b>
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	A			<b>D+</b>
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				<b>B</b>
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR	D			<b>NR</b>
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>							
PI-5	Classification of the budget	M1	B				<b>B</b>
PI-6	Comprehensiveness of information included in budget documentation	M1	A				<b>A</b>
PI-7	Extent of unreported government operations	M1	A	D			<b>D+</b>
PI-8	Transparency of inter-governmental fiscal relations	M2	NA	NA	NA		<b>NA</b>
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	NA			<b>D</b>
PI-10	Public access to key fiscal information	M1	B				<b>B</b>
<b>C. BUDGET CYCLE</b>							
<b>C(i) Policy-Based Budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	M2	B	A	C		<b>B</b>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	B	B	C	D	<b>C+</b>
<b>C(ii) Predictability and Control in Budget Execution</b>							
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	C	C		<b>C</b>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		<b>C</b>
PI-15	Effectiveness in collection of tax payments	M1	NR	A	B		<b>NR</b>
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	B	B		<b>B+</b>
PI-17	Recording and management of cash balances, debt and guarantees	M2	NA	B	NA		<b>B</b>
PI-18	Effectiveness of payroll controls	M1	C	A	B	C	<b>C+</b>
PI-19	Competition, value for money and controls in procurement	M2	B	D	C	D	<b>D+</b>
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	A	C	B		<b>C+↗</b>
PI-21	Effectiveness of internal audit	M1	D	D	D		<b>D↗</b>
<b>C(iii) Accounting, Recording and Reporting</b>							
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	A			<b>B+</b>
PI-23	Availability of information on resources received by service delivery units	M1	D				<b>D</b>
PI-24	Quality and timeliness of in-year budget reports	M1	A	C	B		<b>C+↗</b>
PI-25	Quality and timeliness of annual financial statements	M1	A	A	A		<b>A</b>
<b>C(iv) External Scrutiny and Audit</b>							
PI-26	Scope, nature and follow-up of external audit	M1	B	C	B		<b>C+</b>
PI-27	Legislative scrutiny of the annual budget law	M1	B	A	A	B	<b>B+</b>
PI-28	Legislative scrutiny of external audit reports	M1	A	C	B		<b>C+</b>
<b>D. DONOR PRACTICES</b>							
D-1	Predictability of Direct Budget Support	M1	NA	NA			<b>NA</b>
D-2	Financial information provided by donors for budgeting and reporting on project and programme aid	M1	B	C			<b>C+</b>
D-3	Proportion of aid that is managed by use of national procedures	M1	D				<b>D</b>

## Assessment of the impact of PFM weaknesses

As public financial management concerns the efficiency and effectiveness of the use of public resources, the interdependence of the components of the budget cycle means that weaknesses in one part can adversely affect other parts thereby constraining the achievement of better budgetary outcomes. Conversely, improvements in one area which are not matched by corresponding changes in other areas can undermine the initial reforms. The strengths and weaknesses of Timor-Leste's public financial management system found in the assessment have an impact on the three measures of budget effectiveness – aggregate fiscal discipline, allocative efficiency and efficient service delivery. This is summarized below.

### a) Aggregate fiscal discipline

The fact that budget preparation takes place within an environment of abundant oil revenue helps in maintaining aggregate fiscal discipline, although the challenge lying ahead remains about planning key expenditure programmes in a prospective environment led by volatile oil revenues. The process is also assisted by COM-approved budget ceilings which are generally respected in ministerial budget submissions. Weaknesses in non-oil tax administration, serious gaps in control authorities, and resultant protracting deficiencies in certain expenditure management controls, particularly the lack of a stringent staff appointment and promotion system and of a comprehensive non-salary commitment controls framework, remain a concern to the central authorities and the pursuit to further increase the revenue base and fiscal savings for spending in priority investment projects and heightening the nation's economic competitiveness meaningfully. The excessive use of virements and the amendments and expansion of the budget with formal ex-post regularisation continued to erode budget credibility and hinder fiscal discipline at large.

### b) Strategic allocation of resources

The preparation of the budget on a 4-year rolling basis under MTEF helps setting the framework for relative budget priorities, which should be reflected in the MDAs budgetary ceilings. The strategic policy and sectoral objectives set out in the SDP and medium-term sector strategies could possibly provide the basis for guiding inter- (and intra-) sectoral allocations, including external finance. There is no Medium Term Budget Policy Statement for Service Delivery or other similar supporting document as such.

The successful implementation of the IT-based FMIS and establishment of the Cash Based IPSAS standard with improved procedures and documentation assist in increased allocative efficiency and transparency of the budget. However, frequent budget re-allocations, the lack of monthly in-year reporting on budget execution, and weak personnel management and procurement practices increase the risk of misallocation and improper prioritization. Also, the Government needs to cost the national development strategy and medium term sector plans and strengthen the linkage between MTEF and subsequent year's ceilings to adopt a consistent allocation policy.

### c) Efficient service delivery

The process of holding public officials accountable for results is deficient. Weak linkages between financial programming and procurement plans and the lack of internal audit within personnel and procurement management are among the weaknesses identified hampering the operational efficiency of service delivery. Staff appointments and promotions and procurement practices are still considered deficient, which are likely to limit the efficiency of ongoing institutional activities. The ability for planning and management of quality service delivery is also affected by the deficiencies in the in-year budget reports and adjustments to budget allocations.

## Prospects for reform planning and implementation

Timor-Leste does have a continuing agenda of PFM reform and evidence suggests the existence of a prioritized and focused action plan for the period 2011–2030. After the PEFA assessment of 2010, certain weaknesses prevail in PFM not addressed adequately over the past three years, as indicated in the present document. As detailed in Section 4, major efforts are well underway to enhance the effectiveness of financial managements systems in place, but on-going reforms did not seem to have progressed meaningfully on personnel and procurement management controls. As have been shown in this assessment, there are deficiencies in PFM that must be addressed with some urgency in order to strengthen fiscal discipline and align management with international standards. Those which are most critical are internal controls which have impact on most of the government's financial management operations. Particularly procurement of public works must be brought more to the forefront of reforms given the huge part of government expenditure it represents.

Timor-Leste's prospects for reform implementation should be regarded as positive considering the impact of the reform programmes so far which have made visible contributions in improving budgeting, financial recording and reporting and fiscal transparency. The improving of budgetary planning and the MTEF process, the soundness of TSA and the resultant monitoring of cash resources, the improving of cash flow forecasting, the application of Cash Based IPSAS standard, the sustained implementation of Free Balance FMIS and support to the

establishment of Policy to Guide Uniformity in Procurement *Reform* Processes in *Government*, are just few example of successful reforms. A continuation of the PFM reform programme mentioned above is vital. However, it is essential that the DG Treasury and other MOF units continue to work jointly with line management offices and facilitate ownership of the reform process to better facilitate the reforms and ensure their sustainability.

### Comparison of performance between 2010 and 2013

The comparison is detailed in Annex 1 “Analysis of Progress in Performance of PFM System, PEFA 2010 and 2013” and summarised in Table 2. The analysis presents 10 out of 28 basic indicators showing better performance than in the previous assessment, and 2 indicators performed lower. The distribution of changes shows a PFM reform process leading to 13 indicators without change in the scores.



The scoring card with a distribution of all 31 indicator scores and a comparison are shown in the table below:

Improvement	11
Deterioration	2
No change	14 (including one score of D+ becoming NR)
Not applicable (NA)	2 (including those relating to PI-2 and PI-19)
Not scored (NR)	2
Total	31

**Table 2: Summary comparison of PFM performance review of 2010 and 2013**

PFM Performance Indicator	2010	2013
<b>A. Credibility of the Budget</b>		
1. Aggregate expenditure out-turn compared to original approved budget	D	D
2. Composition of expenditure out-turn compared to original approved budget	A	D+
3. Aggregate revenue out-turn compared to original approved budget	C	B
4. Stock and monitoring of expenditure payment arrears	D+	NR
<b>B. Comprehensiveness and Transparency</b>		
5. Classification of the budget	B	B
6. Comprehensiveness of information included in budget documentation	A	A
7. Extent of unreported Government operations	D+	D+
8. Transparency of Inter-Governmental Fiscal Relations	NA	NA
9. Oversight of aggregate fiscal risk from other public sector entities	D	D
10. Public Access to key fiscal information	B	B
<b>C (i) Policy-Based Budgeting</b>		
11. Orderliness and participation in the annual budget process	C+	B
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	C+
<b>C (ii) Predictability and Control in Budget Execution</b>		
13. Transparency of taxpayer obligations and liabilities	C	C
14. Effectiveness of measures for taxpayer registration and tax assessment	D+	C
15. Effectiveness in collection of tax payments	D+	NR
16. Predictability in the availability of funds for commitment of expenditures	B+	B+
17. Recording and management of cash balances, debt and guarantees	D+	B
18. Effectiveness of payroll controls	D+	C+
19. Competition, value for money and controls in procurement	C	D+
20. Effectiveness of internal controls for non-salary expenditure	C+	C+↗
21. Effectiveness of internal audit	D	D↗
<b>C (iii) Accounting, Recording and Reporting</b>		
22. Timeliness and regularity of accounts reconciliation	B	B+
23. Availability of information on resources received by service delivery units	D	D
24. Quality and timeliness of in-year budget reports	C+	C+↗
25. Quality and timeliness of annual financial statements	C+	A
<b>C (iv) External Scrutiny and Audit</b>		
26. Scope, nature and follow-up of external audit	C+	C+
27. Legislative scrutiny of the annual budget law	C+	B+
28. Legislative scrutiny of external audit reports	D+	C+
<b>D. Donor Practices</b>		
D-1 Predictability of Direct Budget Support	NA	NA
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	D+	C+
D-3 Proportion of aid that is managed by use of national procedures	D	D

Key:

Positive Change	
Negative Change	

An upper arrow ↗ denotes a marked breakthrough due to a recent positive development



## CHAPTER I – INTRODUCTION

### 1.1 Objectives

The objective of this repeat Public Finance Management Performance Report (PFM-PR) is to provide an update of the status of public financial management in the central government of Timor-Leste in order to update the baseline for future assessments and measure progress since the last assessment in 2010 (insofar as indicators are comparably scored), and to provide a basis for Government/donor dialogue on future PFM reforms.

### 1.2 Process of preparing the PFM-PR

This is a third comprehensive PFM-PR report based on PEFA, the previous being conducted in 2007 and 2010. The study was conducted in line with the Public Financial Management Performance Measurement Framework issued by the PEFA Secretariat, including the PFM Performance Measurement Framework as revised in January 2011, and the Guidance Note for Repeat Assessments

The progress in performance of PFM systems; ratings and comparisons with the previous assessment (2010) are tabled in Annex 1.

The PEFA team consisted of Jorge A Shepherd (Team Leader) and Yiannis Hadziyiannakis. The work of the assessment team was supported by counterparts mainly from the Ministry of Finance and facilitated under the assistance of EU Delegation as well as World Bank and AusAid.

The PEFA assessment process was carried out in three stages: the preparatory work and desk study, the field work, and the quality assurance review.

#### The Preparatory Work and Desk Study

The Desk Study began with the preparation of a Work Plan coordinated with MOF, the EU Delegation, WB and AusAid. The desk review phase took place during October 10–18, 2013 with the team assessing background documentation on the macro-fiscal situation, budgetary situation and other data, and documents available in the MOF website.

#### The Field Study

The Field Study took place as planned between October 21 and November 25. The field study was conducted through the following phases:

The **inception phase** consisted of a comprehensive PEFA training session for senior-level financial management staff from the MOF, Chamber of Accounts, and other agencies. The main purpose was to provide training on the use of the PEFA Assessment Framework with the application of repeat assessments, as well as to present the Work Plan agreed with MOF. An Inception Report was submitted in late-October.

The **assessment phase** took place during October 28–November 25 including:

- Individual interview and joint sessions with staff of all core Directorates-General of the Ministry of Finance;
- Interviews with senior financial management officials of the Ministry of Health;
- Interviews with the Chamber of Accounts, the National Procurement Commission, and the Parliament's Portfolio Committee C on Public Finance, and;
- Meeting with the commercial audit firm Deloitte's routinely assigned the function of public external auditor, and civil society organisation La'o Hamutuk.

An **initial quality assurance review** was performed on November 15 and consisted of a discussion of a summary table inclusive of preliminary scores and key supporting evidence presented to MOF and key donors. Initial comments were received by the PEFA assessment team and formed part of the first draft PEFA report.

The first draft report dated 16 December 2013 was shared with the Government, key donors (World Bank, Australia and EU), with Committee C of the Parliament and the PEFA Secretariat. The team received written comments from the PEFA Secretariat and EU DEVCO in February 2014 and from the MoF and Committee C of the Parliament in March 2014. All the comments were discussed and addressed during the **sensitization, validation and quality assurance sessions** that followed in March 17-28, 2014.

On 26 March 2014, the team presented the final findings of the draft report to the Consultative Council of the Ministry of Finance, chaired by the Minister and with the participation of all MoF Director Generals. The Consultative Council is responsible for supervising and coordinating all financial management issues and it meets on a regular basis (twice a month). Since in this particular session the final draft of the 2013 PEFA report was being appraised and in order to have the presence of the entire oversight team, representatives of the EU, the World Bank and the Australians were also present. The findings of the report were successfully presented and the discussions enabled a good understanding of the methodological aspects and scores of the PEFA

methodology and ensured full ownership of the assessment process by the MOF. The final report was concluded on 28 March 2014.

### 1.2.1 A framework for analysis and action

The PFM system and the PEFA indicators do not attempt to measure fiscal outcomes, the substantive appropriateness of public expenditure policies and decisions, or the actual impacts and value for money achieved through public expenditures. The PFM system instead should be seen as a crucial enabler for achieving broader development goals and substantive outcomes (including in the public finance sphere), which depend on sound Government strategies, policies, and institutions. The discussion below starts from outcomes and moves to processes and the linkages between them.

**Three levels of budgetary outcomes.** The outcomes of a country's PFM system can be assessed in terms of three levels, all of which have wider implications for national development:

- *Budgetary aggregates and overall fiscal discipline* (including fiscal sustainability from a medium-term perspective). Desirable outcomes include macro-fiscal balance and low inflation in the short run, and fiscal sustainability or (in the case of Timor-Leste) sustained progress toward fiscal sustainability over the medium term;
- *Strategic allocation of resources across sectors and programs*, in accordance with Government priorities to implement national objectives. Desirable outcomes include allocation of public sector resources across programmes based on an agreed development strategy, allocation of resources within programmes based on sound sector strategies, and allocation of expenditures over time in line with appropriate prioritization (e.g. taking into account recurrent cost implications of public investments and staffing decisions);
- *Managing the use of budgetary resources in the interest of efficient service delivery and value for money.* Desirable outcomes include cost-effective service delivery, avoidance of waste or corruption, proper accountability for use of resources, etc.

**Critical dimensions of PFM performance.** Turning from broad budgetary outcomes to the performance of the PFM system itself (as “enabler”), PEFA has identified six critical dimensions of a well-functioning PFM system. Four of these comprise important parts of the budget cycle (policy-based budgeting; predictability and control in budget execution; accounting, recording, and reporting; and external scrutiny and audit). Another relates to key cross-cutting features of the budget process, i.e. comprehensiveness and transparency, and the last covers outturns of the PFM system, namely the credibility of the budget. Given donors' importance in providing financial support to many developing countries, donor practices have significant impact on the performance of the PFM system.

**PFM indicator set.** In order to operationalize the PFM performance assessment framework, 28 high-level PFM performance indicators have been developed, each of them measuring performance in one of the six critical dimensions. Three additional indicators of donor performance have also been developed. As indicated earlier, the PFM performance indicators measure how key parts of the budget process are working, cross-cutting features of the budget, and whether the budget is credible (as demonstrated by its outturn). The performance indicators are of critical importance as enabling factors for achieving national development and fiscal objectives.

The assessment is divided in six main dimensions, as follows:

- Credibility of the budget – The budget is realistic and is implemented as intended.
- Comprehensiveness and transparency – The budget and the fiscal risk oversight are comprehensive and the fiscal as well as the budget information is accessible to the public.
- Policy-based budgeting – The budget is prepared in order to best carry out government policies.
- Predictability and control in budget execution – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
- Accounting, recording and reporting – Adequate records are maintained and information is produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
- External scrutiny and audit – Arrangements for scrutiny of public finances and follow up by executive are operating adequately.

### 1.2.2 Scope of assessment

This report covers the financial management performance of TL central government operations, inclusive of ministries, departments and agencies (MDAs). There is no sub-national government in TL. Autonomous public entities (APEs) are visited in relevant indicators as prescribed by the PEFA Guidelines as long as they have fiscal relations with central government, and in the context of fiscal risk assessment and transparency of fiscal transactions.

The central government comprises 12 ministries and 6 independent state entities. Ministries include 9 executive agencies and supervise several APEs. The central government budget or State Budget for 2013 amounted to US\$1,648 million, equivalent to 27% of GDP, of which the APEs represent about 20% of the total.

The structure of the Report is as follows: Chapter 2 provides background information on the economic, budgetary outcomes, legal and institutional context for the evaluation. Chapter 3 explains the scores for the 31 individual Performance Indicators. Chapter 4 describes the GOTL's PFM reform efforts up to now, and the prospects for further progress. A series of annexes provide more detailed reference information, including the budget data used for the quantitative indicators (Statistical Appendix), and list of officials and documents consulted.

Certain PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Timor-Leste is based on the experience of fiscal years 2010, 2011, and 2012.

## CHAPTER II – BACKGROUND INFORMATION

### 2.1 The socio-economic situation

Timor-Leste is a lower middle income country with a gross domestic product (GDP) per capita of US\$20,112 (PPP terms) (IMF, 2013). A small, post-conflict country, the Democratic Republic of Timor-Leste (or East Timor) is Southeast Asia's newest nation, with a population of 1.21 million (WDI, 2013). Timor-Leste became a sovereign country in May 2002, transitioning from an interim UN administration arrangement that followed the end of Indonesian occupation and several years of conflict.

According to the International Monetary Fund Article IV Consultation Review, real GDP grew 7.3% in 2011 and is estimated to 5.7% in 2012. The TL economy has succeeded in growing rapidly in recent years registering one of the highest performances in the world and in spite of robust economic growth the country faces mixed results in development, competitiveness and public governance. Recent figures indicate that Timor-Leste ranked 138<sup>th</sup> of 148 reporting countries in the Global Competitiveness Index 2013–2014 and 119<sup>th</sup> in 175 countries in the Corruption Perceptions Index 2013. Despite the nascent stage of nation building and enduring political and economic challenges, improvement in human development is considered favourable due to increases in school enrolment, maternal health, and good progress in other MDG targets—as a result, TL ranked 134<sup>th</sup> of 186 countries in the UNDP Human Development Index (2013), a positive improvement with respect to HDI 2006 when TL ranked 142 of 177 reporting countries.

Timor-Leste's economy is still in the early stages of development, and the nation's comparative advantages are limited. Exports of oil and gas drive a current account surplus of 55% of GDP. Timor-Leste's small non-oil economy is still largely based on subsistence agriculture, so it is a net importer of almost all the goods it consumes. It is a modest exporter of coffee. The economy is dominated by the oil and gas sector: two fields in the Timor Sea Joint Petroleum Development Area shared with Australia—Bayu Undan and Kitan—are responsible for almost all of Timor-Leste's GDP. Oil and gas revenue is invested in a sovereign wealth fund, which holds over US\$10 billion.

Timor-Leste's Strategic Development Plan (SDP) aims to develop a middle-income and diversified economy by 2030. Government spending, especially on infrastructure, is driving economic growth. The private sector is nascent and Timor-Leste is actively attracting foreign investment. Generating jobs is a major priority for the Timorese Government.

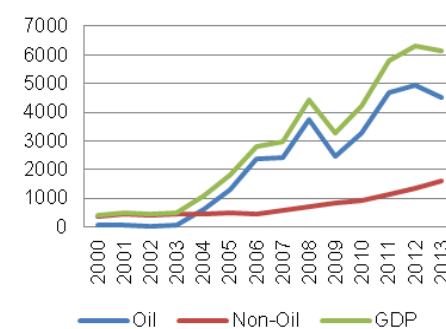
Following independence, the emphasis has been on taking advantage of the country's energy resources and the Timorese economy has since become heavily reliant on the petroleum extraction sector. Starting from 2004, the petroleum sector took off dramatically and marked the turning point for surpassing non-oil GDP. In 2003, oil production was a mere \$430 million at current prices, while currently it is more than \$6 billion. Figure 1 shows the oil and non-oil sector contributions to GDP at current prices between 2000 and 2013.

At present, the petroleum sector is more than three times larger than the non-oil sector. However, the current oil reserves are projected to be depleted by 2024. Regardless of whether new discoveries are made, TL would need to consider strategies for diversifying its economy in order to sustain growth and promote economic and social development. This is in spite of the impressive performance non-oil GDP growth since 2007 registering over ten percentage points and reaching as high as 14.6% in 2008. Most of this growth has been driven by public spending and cannot be attributed to the dynamism of other productive sectors.

Real GDP growth has been uneven, in particular during the last seven years, mainly due to fluctuations in international oil prices. Figure 2 shows real GDP growth between 2007 and 2013.

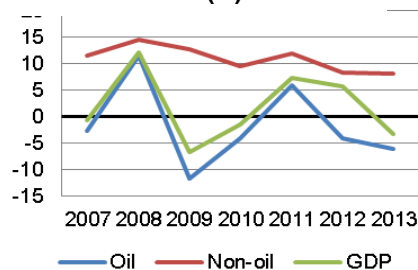
Inflation has been quite high since 2011, mainly due to rising Government consumption and capital spending. The 2012 and 2013 IMF Article IV consultation reviews pointed at the high inflation rate as one of the main risks in the country's outlook linked with an expansionary fiscal policy. The overall fiscal stance has been in surplus due to the predominance of the petroleum sector however the trend is decreasing. It is projected that in 2013 the fiscal surplus to GDP ratio will decline to 36.2%, from 47% and 43% of GDP in 2011 and 2012, respectively.

**Figure 1: GDP at current prices, 2000-13 (US\$ million)**



Sources: MOF; and IMF staff estimates.

**Figure 2: Real GDP growth, 2007-2013 (%)**



Sources: MOF; and IMF staff estimates.

In order to manage oil revenues prudently, a ring-fenced extra-budgetary fund has been created and enshrined in law. The Petroleum Fund falls outside the immediate remit of Government revenue. In practice, this means that the Government uses petroleum revenues as a financing item in the Budget. The focal point for fiscal management is the non-oil Budget balance which is defined as being the difference between planned expenditure and non-oil domestic revenues.

In order to use funds from the Petroleum Fund as part of annual Budget appropriations and finance the non-oil Budget deficit, the Government needs to make explicit transfer requests. Transfers from the PF are regulated by fiscal rules. The Government can make transfers on the basis of the *Estimated Sustainable Income* (ESI) which is set at 3% of total petroleum wealth defined as the current balance of the Petroleum Fund plus the net present value of future petroleum receipts. Projected transfers from the PF can exceed if Parliament approves through the budget. The non-oil Budget deficit has always been high. In 2013, it is projected to be 65.2% of non-oil GDP down from 79.8% in 2009.

The 2013 Article IV consultation country report put absolute poverty at 37% of the population, which is still high compared to peer nations. Nevertheless, some key indicators on living standards<sup>1</sup> have improved during the last decade of rapid economic growth. Life expectancy is 66 years at present, compared to 60 years in early 2000s. Infant mortality rate has been recorded at 46 in 2011, showing clear improvement, from 139 in 1990. Similarly, gross school enrolment was 124% in 2011, compared to 95% in early 2000s, which is 12 percentage points higher than the average in the East-Asia and Pacific region (developing countries only). The main socio-economic indicators for 2009–2013 are summarized in Table 3.

**Table 3: Selected Macroeconomic and Development Indicators, 2009-2013**

	2009	2010	2011	2012 (est)	2013 (proj)
<b>Demographics and living standards</b>					
Population (thousands) 1/	1,060	1,089	1,120	1,153	1,187
Life expectancy 2/	65	66	66	-	-
Infant mortality (per 1000)	51	-	46	-	-
Enrolment rate (gross enrolment ratio) 2/	110	117	124	-	-
Employment to population ratio (%)	68	-	-	68	-
<b>Key macroeconomic data</b>					
GDP, current prices, US\$ million	3,299	4,216	5,797	6,300	6,129
Non-oil GDP, current prices, US\$ million	827	934	1,128	1,355	1,615
Real GDP, % change	-6.7	-1.4	7.3	5.7	-3.2
Real non-oil GDP growth, % change	12.8	9.5	12.0	8.3	8.1
CPI, % change annual average	0.1	4.5	11.7	13.1	10.6
Overall public sector balance, % of GDP	31.3	37.9	42.7	47.0	36.2
Transfer to petroleum fund, % of GDP	35.8	36.1	41.5	46.1	39.7
Current account balance, % of GDP	39.0	39.8	40.4	43.5	34.3
Public external debt, % of GDP	0.0	0.0	0.0	0.0	0.7
Gross official reserves, US\$ million	5,627	7,303	9,765	12,652	14,419
Petroleum fund balance, US\$ million	5,377	6,897	9,303	11,768	14,206

Sources: Ministry of Finance; and IMF and World Bank staff estimates.

1/Data from IMF, World Economic Outlook, October 2013

2/Data from World Bank Development Indicators

<sup>1</sup> There are still methodological challenges with statistics on poverty and living standards and there are no recent systematic data to aid analysis and make safe conclusions. The latest living standards data available is for 2011, based on the WB and UNICEF surveys. See World Bank Development Indicators: <http://data.worldbank.org/country/timor-leste> and UNICEF [http://www.unicef.org/infobycountry/Timorleste\\_statistics.html](http://www.unicef.org/infobycountry/Timorleste_statistics.html).

## 2.2 Description of budgetary outcomes

### Fiscal performance

Over the medium term, Timor-Leste fiscal performance improved further with the upsurge in petroleum revenue. The budget surplus increased to 47% of GDP in 2012, from 31% of GDP in 2009. And yet, the favourable fiscal situation was confronted with the challenge of implementing large expenditure programmes in the face of low operational capacities and management skills.

**Table 4: Summary of Central Government Operations (In % of GDP)**

	2009	2010	2011	2012
<b>Total revenue</b>	<b>62.6</b>	<b>64.9</b>	<b>66.5</b>	<b>69.1</b>
Oil revenue	51.3	55.3	59.7	62.9
Domestic taxes	1.3	1.2	1.4	1.6
Grants	8.5	7.3	4.9	4.0
Other revenue	1.5	1.1	0.5	0.6
<b>Total expenditure</b>	<b>31.3</b>	<b>27.0</b>	<b>23.8</b>	<b>22.1</b>
<b>Recurrent</b>	<b>12.0</b>	<b>12.0</b>	<b>8.8</b>	<b>10.7</b>
Wages and salaries	2.6	2.2	1.9	2.1
Goods and services	6.5	5.8	4.4	5.2
Transfers	2.9	4.0	2.5	3.4
<b>Capital expenditure</b>	<b>10.8</b>	<b>7.6</b>	<b>10.1</b>	<b>7.3</b>
<b>Overall fiscal balance</b>	<b>31.3</b>	<b>37.9</b>	<b>42.7</b>	<b>47.0</b>

Source: Statistical appendix, table 2.

Overall, TL continued in its effort to create the necessary conditions for placing rapid and equitable GDP growth on a sustained basis. The petroleum revenue is used mainly for improving the deteriorated economic and social infrastructure. Domestic revenue remained modest, between 1% and 2% of GDP, and funding by external grants was halved to 4% of GDP over the past four years. Despite the rapid job growth in the public sector, the wage bill was kept between 2% and 3% of GDP and capital expenditure lowered to 7.3% in 2012, from 10.8% of GDP in 2009 (Table 4).

According to the 2013 Article IV Review of TL, Government expenditure increased by about 40%—from approximately US\$1 billion in 2009 to a projected US\$1.4

billion in 2013. This includes a rise in recurrent expenditure from US\$400 million to a projected US\$660 (65% of increase) and in capital expenditure from US\$357 million to a projected US\$540 million (51% of increase). Nevertheless, the Government plans to stabilise public expenditure in the following years with total Government expenditure not projected to grow above US\$1.6 billion, or US\$1.3 billion, excluding donor project financing.

### Allocation of budgetary resources

Table 5 shows how the economic composition of expenditure changed rapidly over the medium term. Capital expenditure declined quite substantially to 52% of total expenditure in 2012, from 62% in 2009. The share of recurrent expenditures increased as a result—spending on goods and services became far the biggest item of recurrent expenditure at 24% in 2012 (from 21% in 2009) and direct transfers being the second largest item at 16% in 2012 (from 9% in 2009).

**Table 5: Allocation of budget, by economic categories (% of total)**

	2009	2010	2011	2012
<b>Total expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current expenditure</b>	<b>38.2</b>	<b>44.5</b>	<b>36.8</b>	<b>48.5</b>
Wages and salaries	8.5	8.0	8.1	9.4
Goods and services	20.6	21.6	18.4	23.7
Transfers	9.1	14.8	10.3	15.5
<b>Capital expenditure</b>	<b>61.8</b>	<b>55.5</b>	<b>63.2</b>	<b>51.5</b>

Source: Statistical appendix, tables 7-10.

Analysis of the functional composition of Governmental expenditure suggests that the high government expenses incurred in recent years do commensurate with the development results indicated above. The analysis also

shows that budgetary resources concentrated mainly within economic affairs (46%), social services (27%), and general administration (20%). Prioritization of spending to protect pro-poor programmes did not change over the past four years—the only shift in social services resided in social infrastructure works, whose management lies within the Infrastructure Fund and the Human Capital Fund starting 2011 (Table 6). In general, the allocation of budgetary resources is considered to respond adequately to the policy priorities set out by the national development plans.

Further analysis shows that expenditure within key sectors concentrates in economic and social infrastructure and purchases of goods and services (both combined represent 71% of total budget on average), thus requiring proper procurement processes and systems.

## Fiscal impact

**Table 6: Allocation of budget, by main function  
(% of total)**

	2009	2010	2011	2012
<b>General Services</b>	<b>22.6</b>	<b>24.6</b>	<b>19.1</b>	<b>19.9</b>
<b>Defence</b>	<b>6.3</b>	<b>3.9</b>	<b>2.8</b>	<b>3.2</b>
<b>Public Order and Safety</b>	<b>6.1</b>	<b>5.6</b>	<b>3.2</b>	<b>3.8</b>
<b>Economic Affairs 1/</b>	<b>30.1</b>	<b>32.5</b>	<b>54.3</b>	<b>45.5</b>
<b>Social Services 2/</b>	<b>34.8</b>	<b>33.3</b>	<b>19.8</b>	<b>26.5</b>
Health	4.8	4.5	3.6	4.4
Education	10.2	9.0	6.5	7.0
Housing and Community Affairs	0.0	0.0	0.0	0.7
Social Protection	18.5	18.7	8.8	13.6
Recreation, Culture and Religion	1.3	1.1	0.9	0.7
<b>Environmental Protection</b>	<b>0.1</b>	<b>0.1</b>	<b>0.9</b>	<b>0.1</b>
<b>Total expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Statistical appendix, tables 11 and 12.

1/ Data include economic and social infrastructure works starting 2011.

2/ Data exclude social infrastructure works starting 2011.

Fiscal policy did not change to meet the aggregate demand pressures in the economy, particularly new capital spending; the positive impulse stemmed from oil revenue largely arising from abroad in the past four years. The fiscal response was expected in some form of increases in capital expenditures, particularly in the economic and social sectors, and yet, these rather scaled back owed mainly to structural changes and capacity constraints in programme management. New capital investments in social programmes lowered by half, to 6% of total budget—health and schooling infrastructure and equipment slipped to respectively 15% and 7% of total budget in 2012, from 18% and 25% in 2009. Purchases of goods and services in social programmes were cut back to 25% in 2012, from 30% in 2009.

### 2.3 The institutional and legal framework of PFM

The Constitution (2002) of Timor-Leste provides a clear foundation for the Public Financial Management system in Sections 95, 97, 129, and 142 to 145 in particular.

TL is a unitary state and PFM covers only one level of government as there is no sub-national level so far. The Law on Budget and Financial Management (13/2009) determines the broad legislative framework for public finances, lays out the structure, and defines the management and oversight processes for the Budget (*Orcamento Geral do Estado*).

The BFM Law (Article 2) defines the coverage of the PFM system in TL, which includes all revenues and expenditures of central government entities with direct administrative and financial dependence on GOTL. Further to this, Title VII makes provision for the funding of public entities with administrative and financial independence from Budget appropriations. This is an important feature in the current management of public finances in TL. This is because in actual practice, all Autonomous Public Entities without exception are treated as budgetary institutions regardless of their separate legal status and the fact that some have the potential for revenue generation through user fees and charges and others can operate as fully fledged commercial enterprises. At present, all these entities are subordinated to the relevant sector line ministry and depend on the Consolidated Fund for subsidising their operations.

In the absence of sub-national government and with autonomous public entities being treated as GOTL line management spending units, there is no operational distinction between central and general government in TL.

Title IV, Chapter II of the BFM Law provides a clear framework for the formulation and execution of the annual Budget Law. There is clear assignment of responsibility for financial management, including comprehensive virement rules aimed at safeguarding appropriations and streamlining budget discipline. However, budgetary discipline is undermined by poor planning and the routine practice of in-year sizeable supplementary appropriations (including virement requests) pursued by the executive. In addition, there is still no regulatory document setting out the operational rules and procedures for financial management and control. At the time of the 2013 PEFA assessment, a draft decree-law detailing the GOTL financial regulations was under consideration. The adoption of the new financial regulations is forthcoming, to be put in force for the 2014 Fiscal Year.

The Ministry of Finance is the central fiscal authority of GOTL as mandated by the Decree-Law no. 41/2012 on the *Organic Structure of the Ministry of Finance*. It defines the mandate, structure and detailed operational functions of the MOF with respect to GOTL revenues and expenditures. The decree-law is derived from the provisions of the BFM Law and lays down clear detailed operational parameters.

MOF is organised in five core management sections (directorate-general) covering revenue, treasury, economic policy and finance, statistics, and general administrative services. It is noted that the national statistics office is still part of the executive. The DGs are headed by general directors who report to the political leadership of MOF, the minister and deputy minister of Finance. There are also six important units that are outside the core management structure and report directly to the political leadership, including the office for inspection and audit, the public-private partnerships unit, the petroleum fund unit, legal affairs, the office for foreign aid and development partners, and information and technology.

The overall budget process is guided by a sound system of annual Budget circulars which include a detailed budget calendar for the budget formulation process of the given year. The Directorate-General for Treasury manages the Single Treasury Account, and is responsible for financial management and control, and accounting and reporting on the execution of the GOTL Budget. The Treasury uses circulars to instruct and guide spending units on Budget execution procedures. Treasury operation is supported by a reliable automated financial information management system in place for managing commitments, revenues, payments, but there is not yet a process for recording and monitoring arrears. This has not been considered a priority thus far possibly due to the fact that the GOTL has not experienced cash constraints hitherto and there has been no significant stock of arrears to date.

The overall legislative and institutional framework for financial management and control being put in place has all the elements of a robust system but adherence often meets with challenges owed, to a great extent, to capacity constraints at line ministry and spending unit level.

The *Petroleum Fund Law* of 2005 establishing the Petroleum Fund governs the management of petroleum resources. The Petroleum Fund is a very important element of Timorese PFM, given the sheer magnitude of oil revenue to the economy and public finances of the country. It operates within an appropriate regulatory framework with management authority shared between MOF (stipulated in the MOF Organic Law) and the Central Bank of TL (formerly the Banking and Payment Authority) and oversight responsibility being exercised by the Parliament. The Fund is ring-fenced; it cannot incur direct expenditure and resources can be committed to government expenditure only as part of annual budget appropriation process. Transfers from the Fund can only be made to the Consolidated Fund.

The legislative framework for domestic taxation and customs does not enjoy the same clarity for the petroleum sector and is still in the process of being fully developed. The core legislative documents are the Decree-Law (08/2008) on *Taxes and Duties*, and the Decree-Law (11/2004) on the *Customs Code*. The customs regime is supplemented by a series of specific purpose decree-laws covering procedures and offenses. However, regarding domestic taxation, actual practice is still reliant to a great extent on the original UNTAET Regulation 2000/18 *On a Revenue System for East Timor*. A draft decree-law on tax procedures poised to replace Regulation 2000/18 has been subject to discussion for several months. This would be a vital piece towards completing the regulatory and institutional framework for domestic taxation.

The procurement legislation is largely in line with international standards but implementation and compliance is a challenge. There are ten decrees-laws regulating public procurement in TL. In 2010, the Decree-Law (01/2010) on *Changing the Procurement Law Regime* was enacted to make systemic improvements.

In 2011, the Chamber of Accounts (*Camara de Contas*) came into force (Law 9/2011) as an interim supreme audit institution until the full *Supreme Administrative, Tax and Audit Court* foreseen by the Constitution (Sections 129, 164) and the BFM Law (Article 42) is established. This has been an important development introducing a critical element that was previously missing from the PFM institutional system. The Chamber is currently placed within the Court of Appeals (*Tribunal de Recurso*) and has taken up the role for scrutinising the execution of the Budget and annual government financial statements (*Conta Geral do Estado*) together with Committee C on Public Finances of the National Parliament. Committee C also oversees the annual Budget preparation and appropriation processes, thus covering both key oversight functions that would otherwise be assigned separately to the *expenditure* and *public accounts* committees.

Relations between the executive and the legislature have been characterised by the dominance of the former but this has been changing in recent years, primarily due to the gradual increase in professional capacity and thus the scope and coverage of analysis undertaken by Committee C.

The Chamber of Accounts is at an embryonic phase as an institution. The institutional set up in Timor-Leste is such that the function of public external audit is part of the judiciary. The three judges, including the presiding judge, that are currently at the helm of the Chamber also hold broader judiciary functions of the Court of Appeal. The Chamber would need to create a competent and well-resourced professional technical staff in the years ahead if it is to undertake effectively its legal mandate,

On the whole, Timor-Leste has the prospect of creating a clear and comprehensive legislative framework for PFM in compliance with international standards and practice. The challenges in the immediate future are not so much about putting in place the missing legislative and regulatory pieces, but with implementation of the legislative framework and PFM system. There is need for considerable effort to raise awareness about the rules and increase capacity across the GOTL to improve compliance and management practice and bring about tangible improvements in PFM. The existing human resource and organisational capacity shortcomings are well understood by the GOTL and much is being addressed through reforms (see Chapter 4) supported also by donor programmes and technical assistance.



## CHAPTER III – ASSESSMENT OF PFM SYSTEMS AND PROCESSES

### 3.1 Credibility of the budget

The following analysis derives an estimate of the extent to which the budget is realistic and implemented as intended.

#### PI-1 Aggregate expenditure out-turn compared to original approved budget

Dimension (scoring methodology M1)	2010 Score	2013 Score
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)	D	D

#### 2013 Assessment

**Actual primary expenditure deviated from originally approved budgeted primary expenditure by more than 15% in two of the three years of the period 2010–2012 under review.** Actual expenditure deviated from the original budget appropriation by 15.3% in 2010, by 14.7% in 2011 and 24.1% in 2012, this resulting to a score of D. The deviation is broadly attributed to low budget outturns of capital infrastructure projects of the Infrastructure Fund (that came in force from 2011) and to over-budgeting of current transfers and grants to targeted beneficiaries by the Ministries of Social Solidarity and State Administration throughout the whole period. The budget execution problems in the Infrastructure Fund are mainly due to poor planning and costing of capital projects as well as procurement challenges. When the Infrastructure Fund operations are isolated, the budget execution deviated only by, respectively, 9.5% in 2011 and 1.4% in 2012, which would merit a score of B (Table 7).

**Table 7: Comparison of original budget and actual expenditure, on the aggregate, 2010, 2011 and 2012** (In US\$ millions, unless otherwise noted) 1/ 2/

	2010		2011		2012	
	Budget	Actual	Budget	Actual	Budget	Actual
Recurrent expenditure	413.3	506.1	563.4	517.0	685.9	710.4
Capital expenditure	246.3	254.3	742.6	597.1	945.1	527.1
Primary expenditure	659.6	760.3	1,306.0	1,114.1	1,631.0	1,237.5
Difference as % of budgeted primary expenditure		15.3%		-14.7%		-24.1%
Memo: Without the Infrastructure Fund (%)		-		-9.5%		-1.4%

Source: Statistical appendix table 13.

1/ Data exclude debt service and externally-funded capital expenditure. Budget refers to that originally approved by Parliament. Actual expenditure refers to payments actually paid by cash and obligations with suppliers issued within the fiscal year.

2/ Data refer to audited expenditure.

**The single largest determinant of deviation in aggregate expenditure is capital expenditure, represented by the Infrastructure Fund.** The Infrastructure Fund is composed of a portfolio of economic infrastructure projects. Budget data indicate major delays had been observed, predominantly within those newly funded projects other than electricity—these consist mainly of roads infrastructure, housing and oil and gas projects all having a combined budget under execution ratio of 30.2% in 2011 and 20.3% in 2012 (Table 8)<sup>2</sup>. This group of projects is the very reason of the delays and low capacities in the budget execution.

<sup>2</sup> Data on originally approved budget for capital projects on a sector by sector basis is not available, and yet, the adjusted budget is used as a basis for this calculation only.

**Table 8: Comparison of original budget and actual expenditure, by spending fund, 2010, 2011 and 2012**  
(In US\$ millions, unless otherwise indicated)

Fund	2010			2011			2012		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Treasury CFTL	620.5	724.9	116.8%	630.4	546.8	86.7%	723.4	711.2	98.3%
Aviation CFTL	0.8	0.6	75.2%	0.5	0.5	96.0%	0.5	0.5	102.1%
APORTIL CFTL	3.8	1.5	39.9%	0.3	0.2	90.8%	2.3	2.2	98.7%
EDTL CFTL	23.2	22.3	95.8%	48.2	71.4	148.3%	109.1	104.3	95.6%
PIEM CFTL	11.3	11.0	97.8%	1.3	1.0	77.6%	2.9	4.1	143.6%
SAMES Account				1.1	2.9	273.6%	5.8	6.9	119.6%
<b>Infrastructure Fund 1/</b>	...	...	...	<b>599.3</b>	<b>474.4</b>	<b>79.2%</b>	<b>757.2</b>	<b>376.1</b>	<b>47.0%</b>
<i>Of which:</i>									
Electricity				448.7	428.9	95.6%	301.8	283.8	94.0%
Other infrastructure				150.6	45.5	30.2%	455.3	92.3	20.3%
Human Resource Fund				25.0	16.8	67.2%	30.0	32.2	107.3%
<b>Total</b>	<b>659.6</b>	<b>760.3</b>	<b>115.3%</b>	<b>1,306.0</b>	<b>1,114.1</b>	<b>85.3%</b>	<b>1,631.0</b>	<b>1,237.5</b>	<b>75.9%</b>

Source: MOF.

1/ The Infrastructure Fund operations excluded official loans contracted with ADB, World Bank, JICA and EXIM Bank in 2012.

### Comparison of 2010 and 2013

In 2010 this indicator was scored D. There is no major change of score in the 2013 PEFA. More credible recurrent budgets nonetheless were observed in 2011 and 2012, as opposed to the period assessed in the PEFA 2010. In 2010, a large supplementary budget resulted in a major deviation of original budget from actual outturn. In the subsequent two years, large deviations occurred but these were caused by very slow project implementation not seen in the period reviewed by the previous PEFA.

### Recent developments

The third year in the period under review was an electoral year dominated by substantive structural change within the public sector. A budget transparency portal was launched in March 2011 which allows the general public to interactively access public finance information. It allows the publishing of audited public finance information in various economic, financial and administrative categories, but does not include data on the original budget appropriations approved by Parliament.

### PI-2 Composition of expenditure out-turn compared to original approved budget

Dimension (scoring methodology M1)	2010 Score	2013 Score
Overall score	A	D+
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	Not comparable	D
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	Not comparable	A

### 2013 assessment

**Variance in expenditure composition, excluding contingency items, had exceeded by 15% in two of the three fiscal years of the period under review.** Variances observed were 17.7% in 2010, 7.7% in 2011 and 31.1% in 2012. The first time Government appropriated funds for contingency was 2011. The difference between budgeted and actual expenditure for each administrative head shows that the variance across administrative units was heavily biased by the Commission for Administration of the Infrastructure Fund which retains nearly half the total budget (Table 9). This merits a score of D for this dimension.

**Table 9: Composition of budget execution by administrative unit, 2010, 2011 and 2012**

(In millions of US\$, unless otherwise indicated) 1/

Administrative head	2010		2011		2012	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the President	4.5	5.8	6.3	5.9	5.7	5.9
Prime Minister	14.0	19.5	48.7	45.7	50.6	45.1
Parliament	12.0	8.7	12.4	10.4	15.6	13.0
Ministry of Foreign Affairs	14.2	12.8	18.7	16.2	22.1	18.4
Ministry of Defence and Security	45.0	53.9	52.2	50.1	64.1	65.2
Ministry of Finance	13.3	25.8	13.9	13.0	15.7	15.0
Ministry of Justice	10.9	11.2	8.0	7.8	11.9	8.2
Ministry of Health	35.7	34.4	38.2	36.9	48.3	49.0

Administrative head	2010		2011		2012	
	Budget	Actual	Budget	Actual	Budget	Actual
Ministry of Education	67.5	68.4	70.1	67.7	93.5	85.3
Ministry of State Administration	21.1	46.4	47.0	46.0	75.1	63.9
Ministry of Commerce and Industry	38.4	53.4	25.2	23.9	18.5	18.3
Ministry of Social Solidarity	69.6	99.3	118.7	89.9	128.0	158.3
Ministry of Public Works	-	-	-	-	153.8	148.4
Ministry of Transport and Communications	-	-	-	-	4.8	4.7
Ministry of Agriculture and Fisheries	16.4	19.3	13.4	13.3	16.2	16.7
Ministry of Tourism	-	-	-	-	3.6	3.3
Ministry of Mineral Resources and Petroleum	-	-	-	-	6.3	6.3
Commission for Administration of Infrastructure Fund	-	-	599.3	474.4	757.2	376.1
Others 2/	297.2	301.4	233.9	187.5	140.1	114.0
Total allocated expenditure	659.6	760.3	1,306.0	1,088.8	1,631.0	1,215.2
Composition variance (%)		17.7%		7.7%		31.1%

Sources: Statistical appendix, tables 14–16.

1/ Data exclude debt service payments and externally-financed capital expenditure. It excludes contingency budget items.

2/ Includes the Deputy Prime Minister, the Minister of State of the Council of Ministers, eight Secretaries of State, Appropriations for Whole of Government, the Courts, the Prosecutor General, the Ombudsman for Human Rights, Radio and Television of Timor-Leste, the National Electoral Commission, the Anti-Corruption Commission, the Public Service Commission, University of Timor-Leste, and the Commission for Administration of the Human Capital.

Without the Infrastructure Fund, analysis of public expenditure shows that the administrative composition concentrates mainly in the Ministry of Social Solidarity (18%), the Ministry of Public Works (17%) and the Ministry of Education (10%). Other findings include a composite of more than twenty state secretariats and independent bodies representing a budget twice as much as the health budget. The health budget has remained practically unchanged and far surpassed by budget increases in the Ministry of Defence, the Ministry of State Administration, or the Office of Prime Minister.

Contingency item	2011	2012
Salary increases	0.0	0.6
Goods and services	16.4	13.4
Minor capital	1.3	2.1
Capital and development	6.2	2.9
Transfers	1.4	3.3
Total actual	25.3	22.3
<b>(% of total budget)</b>	<b>1.9%</b>	<b>1.3%</b>

Source: MOF.

**According to the Budget and Financial Management (BFM) Law No. 13/2009, general government budget require that contingency appropriations do not exceed 5% of total spending (Article 22).** The Minister of Finance may authorize the use of funds (it does not specify whether from the Consolidated Fund or otherwise) to defray expenditure of an urgent and unforeseeable nature for contingency expenses to a Programme of a Government Ministry or Department (Article 35).

**Analysis of the budget composition shows that actual expenditure charged to contingency purposes averaged 1.6% of total budget during 2011 and 2012.** The use of the contingency budget amounted to US\$25.3 million and US\$22.3 million in 2011 and 2012, respectively—this represented 1.9% of total budget and

1.3%, respectively (Table 10). The contingency allocation has been used mostly for covering unforeseen purchases of goods and services (63%) and major capital expenditures (19%). The second dimension merits a score of A.

### Comparison of 2010 and 2013

The overall score cannot be compared with the previous PEFA assessment, due to methodological changes.

### PI-3 Aggregate revenue out-turn compared to original approved budget

Domestic revenues exclude petroleum revenues as these are used as a major financing item in the budget. Petroleum revenues used in the budget are withdrawals from the Petroleum Fund based on the ESI rule (see section on Economic Background in Chapter 2). Hence, the main sources of domestic revenue consist of various non-oil tax (including income tax, general consumption tax and customs duties), and non-tax and capital revenues.

Dimension (scoring methodology M1)	2010 Score	2013 Score
(i) Actual domestic revenue compared to domestic revenue in the originally approved budget	C	B

**2013 assessment**

**Actual domestic revenues deviated from original approved estimates between 1% and 11% between 2010 and 2012.** Actual domestic revenue (as a percentage of originally budgeted revenue) was 110.8% in 2010, 101.5% in 2011 and 101.2% in 2012. A comparison of budgeted versus actual revenues excluding petroleum-related receipts, demonstrates that tax revenue outturns deviated by 17.1%, 21.7% and 3.7% in the three years reviewed, while non-tax and capital revenues have shown variances ranging between 4.7% and 73.5% (Table 11).

**Table 11: Comparison of budgeted and actual domestic revenues, 2010, 2011 and 2012**

(In millions of US\$, unless otherwise indicated)

Budget item	2010			2011			2012		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Tax revenue	60.4	50.1	82.9%	64.9	79.0	121.7%	95.1	98.6	103.7%
Non-tax revenue	26.8	46.5	173.5%	45.2	32.8	72.5%	41.0	39.1	95.3%
<b>Total</b>	<b>87.2</b>	<b>96.6</b>	<b>110.8%</b>	<b>110.1</b>	<b>111.7</b>	<b>101.5%</b>	<b>136.1</b>	<b>137.7</b>	<b>101.2%</b>
<i>Memo: Withdrawal of petroleum revenues</i>	502.0	811.0	161.6%	1,055.0	1,055.0	100.0%	1,494.9	1,494.9	100.0%

Source: Statistical appendix, table 1.

**Comparison of 2010 and 2013**

The score cannot be compared with the previous PEFA assessment, due to methodological changes. Performance in forecasting of non-oil revenues improved on the whole with actual domestic revenues being closer to initial projections.

**Recent developments**

No developments observed.

**PI-4 Stock and monitoring of expenditure payment arrears**

Dimension (scoring methodology M1)	2010 Score	2013 Score
Overall score	D+	NR
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock	A	NR
(ii) Availability of data for monitoring the stock payment arrears	D	D

**2013 assessment**

This PFM performance indicator (linked with PIs 12, 16, 19, 20) ultimately assesses whether the sequence in the use of public resources, is such that commitments pledged are met throughout the fiscal year. The sequence includes spending ministries entering into commitments and taking the necessary steps to coordinate with procurement planning and cash planning. This is in order to prevent commitments exceeding the resources available or being strained by limited resources in the end of the fiscal year. This process is irrespective of whether a government is cash restrained or has an abundance of revenues as in the case of TL.

**The authorities contended there had been no accumulation of expenditure payment arrears over the past three years, implying that the abundance of oil revenues would leave no reason for delaying payments to suppliers and contractors.** However, without the necessary basis of information on arrears accounted for and computed systematically, it was not possible to make a well documented judgement on the stock of expenditure arrears, or whether backlogs of unpaid invoices carried forward to the next fiscal year were cleared promptly. Spending operations reported through the Budget Transparency Portal reveal that payments obligations carried forward (according to the modified cash basis of accounting used before 2013) rose to 3.2% of actual expenditure in 2012, from 1.5% in 2011 (Table 12). The carried forward obligations are not considered a good proxy for the stock of expenditure arrears, which does not permit rating of the first dimension i.e. 'Not Rated'.

**Table 12: Payment obligations, at end-December 2010, 2011 and 2012**

(In millions of US\$)

	2010	2011	2012
Obligations	N/A	16.9	39.8
%Change	N/A	1.5%	3.2%

Source: MOF Budget Transparency Portal.

**There is no formal definition of expenditure arrears with corresponding accounting rules and a process for exercising internal control and monitoring of payment arrears<sup>3</sup>.** There is no evidence of a system or process which recorded and monitored expenditure payment arrears—whether through a subsidiary ledger under the FreeBalance FMIS, or a database operated on ad-hoc basis, with overdue invoices (unpaid invoices for more than thirty days) reported by ministry and classified according to aging of invoices and economic category and item<sup>4</sup>. This leads to a D in the score of the second dimension.

### Comparison of 2010 and 2013

No comparison possible.

### Recent developments

In the period under review, the budget execution period was allowed to be extended until end-February of the following fiscal year in 2010, 2011 and 2012. In March 2013, the Government moved to the Cash Based IPSAS accounting standard for compilation of fiscal data that among other things, established a payment processing rule disallowing invoices for payment from being entered into the system beyond 29 November<sup>5</sup> of the current fiscal year.

## 3.2 Budget comprehensiveness and transparency

This indicator group examines the extent to which the structure and presentation of information in the budget provide a comprehensive and clear picture of the government's intentions with respect to the management of public financial resources for which it is accountable. In particular, these indicators describe the extent to which such information is: complete (i.e. comprises the totality of public finances); easy to understand; and made available to the general public in an accessible manner. The group covers important aspects of comprehensiveness and transparency in public finances such as the timely and clear flow of fiscal information between levels of government, and information on the activities of sub-national governments, autonomous public agencies and public enterprises. It looks into whether information is available and sufficiently transparent to allow the management of potential fiscal risks for the public purse.

### PI-5 Budget classification

Dimension (scoring methodology M1)	2010 Score	2013 Score
The classification system used for formulation, execution and reporting on the central government's budget	B	B

### 2013 Assessment

**The budget formulation, execution and reporting is based on economic and administrative categories that are broadly compatible with Government Finance Statistics (GFS) 1986 standards.** This enables consistent comparisons to be made between budgets and between one year and the next.

The Minister of Finance has the authority to establish the classification systems for budget and accounting records as stipulated in Article 43 of the 2009 Budget and Financial Management Law. The budget code structure is part of a unified chart of accounts framework and covers the following segments:

*Fund source classification* – This category identifies the source of financing which can be the treasury account, other government accounts, or from external sources, including development partners.

*Administrative classification* – This observes the ministerial structure and its organisational sub-divisions, including autonomous entities under the authority of a given ministry. Budget Book 4a and 4b provide a detailed analysis of the appropriations per line ministry.

*Economic classification* – It is currently based on the *Government Finance Statistics* (GFS) 1986 and covers all items of expenditure and revenue on the cash basis.

<sup>3</sup> International good practice usually defines expenditure arrears as: a) goods and services received, works completed, or a given payment fallen due; b) the bill of payment or claim has been received, and c) the due-date for payment of the bill/claim is missed beyond the agreed/stipulated period. See also IMF Guidelines <http://www.imf.org/external/pubs/ft/extend/index.htm>.

<sup>4</sup> NB: In 2012, a series of payment requests that were presented by line ministries were reportedly rejected by MOF because there were not recorded in the system. They have since been referred to the Chamber of Accounts and the Anti-Corruption Commission. Pending ruling from these institutions (and possibly the civil courts should the contractors and suppliers involved choose to take that course of action) these claims remain as contingent liabilities. If the MOF, however, is overruled and instructed to recognise obligations, the payments will technically be in arrears.

<sup>5</sup> Circular by Minister of Finance No. 002/GMF/2013 of 13 March, 2013.

**Programme classification** – This is broken down in three fields covering programme, sub-programme, and activity. It is a code structure comprising 15 digits in total. In practice this is breakdown of responsibility/cost centres within the administrative classification.

**Functional classification** – This covers the 10 groups of the *Classification of the Functions of Government* (COFOG) but does not detail sub-functions at present. The MOF has the intention of expanding the code structure to create sub-functions. The one element missing to assign a full score under the PEFA methodology is the creation of sub-functions in the Functional Classification. There is no information by functional classification in the budget documentation.

**Geographical classification** – This covers expenditure in the 13 districts in the country. The detailed expenditure by district is specified in Budget Book 3.

### Comparison of 2010 and 2013

There are no changes since the last PEFA assessment.

### Recent Developments

Work is under way for moving towards GFS2001 for the economic classification and creating sub-functional groups.

## PI-6 Comprehensiveness of information included in budget documentation

Dimension (scoring methodology M1)	2010 Score	2013 Score
Share of the information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).	A	A

### 2013 Assessment

The main annual budget document submitted to and adopted by Parliament is the Government Budget Law (the preparation, reading and appropriation processes are described under PI-11 and PI-27).

**Budget documentation fulfils seven of the 9 elements (one element not being applicable to Timor-Leste).** Element 4 is not relevant to the assessment as TL has not issued sovereign debt in the period under review. Regarding element 5, the budget documentation currently does not include information on financial assets, (Table 13). This performance merits a score of A.

The content, structure, purpose, and process of the Budget are outlined in Title IV, Chapter II of the Budget and Financial Management Law. The budget documentation is composed of six books including an overview analysis of macro-fiscal and budgetary policies and aggregate expenditure/revenue projections; annual action plans; projected revenues and expenditures for by administrative body, activity and line item for the next budget year; breakdown of expenditure by district; contributions by development partners; and information on the special funds.

**Table 13: Summary of budget documentation**

Element	Available/Source
<b>1. Macro-economic assumptions</b> , including at least estimates of aggregate growth, inflation and exchange rate.	Yes –State Budget, Book 1
<b>2. Fiscal deficit</b> , defined according to GFS or other internationally recognised standard.	Yes –State Budget, Book 1
<b>3. Deficit financing</b> , describing anticipated composition.	Yes –State Budget, Book 1
<b>4. Debt stock</b> , including details at least for the beginning of the current year.	N/A – Timor-Leste had no public debt in the period reviewed
<b>5. Financial Assets</b> , including details at least for the beginning of the current year.	No – there is no Information on financial assets. However, this forms part of the Petroleum Fund reporting framework, which in essence manages the investment and financial asset portfolio of the Government. Information on cash reserves and interest accrued are availed outside the budget documentation.
<b>6. Prior year's budget out-turn</b> , presented in the same format as the budget proposal.	Yes –State Budget, Books 1, 4a and 4b
<b>7. Current year's budget</b> (either the revised budget or the estimated out-turn), presented in the same format as the budget proposal.	Yes –State Budget, Books 1, 4a and 4b
<b>8. Summarized budget data for both revenue and expenditure</b> according to the main heads of the classifications used (ref. PI-5), including data for the current	Yes –State Budget, Book 1

Element	Available/Source
and previous year.	
<b>9. Explanation of budget implications of new policy initiatives</b> , with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes.	Yes – there is reasonable analysis of new policy action and fiscal/financing implications

### Comparison of 2010 and 2013

There are no changes since the last PEFA assessment.

### Recent Developments

No recent developments

### PI-7 Extent of Unreported Government Operations

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	D+	D+
(i) Level of unreported extra-budgetary expenditure (other than donor-funded projects)	A	A
(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports	D	D

### 2013 assessment

**The Budget and Financial Management (BFM) Law covers the provisions for the creation and use of extra-budgetary funds. The Petroleum Fund (PF) is the only extra-budgetary fund formally established in TL, and the main source of budget revenue for the country and the predominant item in the Consolidated Fund.** The PF is a ring-fenced extra-budgetary fund based on a sound piece of legislation (2005 Petroleum Fund Law) robust administrative provisions and has a solid track record in management practice. Information on revenues of the PF and transfers to the Consolidated Fund observe a systematic and comprehensive reporting framework which is publicly available. There are no other extra-budgetary funds which warrant a score of A for this dimension.

However, it is noted that Autonomous Public Entities (APEs) may have the opportunity to establish and manage de facto extra-budgetary revenue funds or other forms of trust funds. APEs are treated as part of central government<sup>6</sup> and are financed directly by the Consolidated Fund regardless of their business nature. APEs are, in effect, budgetary entities of the GOTL. There is no formal definition of APEs in TL, much less a clear delineation between APEs of a financial<sup>7</sup> and non-financial nature — see further discussion under PI-9. APEs fall broadly under the general provisions of the BFM Law applicable to *independent funds*, with Article 49 stipulating the specific conditions for receiving financing from Budget appropriations.

Most public sector entities in TL are established under separate legislation and are meant to operate under a different set of financial rules to those of central government. APEs are required, both by their own legislative framework as well as by Article 52 of the BFM Law, to adhere to the International Financial Reporting Standards (IFRS)<sup>8</sup>. In actual practice, however, most of these entities do not have the necessary financial management capacity and professional accountants to provide full financial reports to GOTL. Reporting is mostly cash based and limited to revenues (including own source) and expenditures that are part of annual Budget appropriations and are subject to the routine in-year Budget execution reporting and the annual government financial statements.

At present, there is no systematic way of overseeing the revenue generating potential of APEs or having full control over their costs and potential future (and contingent) liabilities that would burden the public purse (see discussion under PI-9). In 2013, the combined Budget appropriations for APEs were approximately US\$140 million<sup>9</sup>, or under 8% of total appropriations.

**The MOF stepped up its efforts in the years since the last PEFA assessment in 2010 to increase aid transparency and collect and manage financial information on donor activities.** An Aid Transparency

<sup>6</sup> Definition by IMF General Finance Statistics.

<sup>7</sup> For instance, the Bank of Micro-Financing (BNCTL) which provides financial services and the National Lottery (AGPJ).

<sup>8</sup> According to the Key Performance Indicator (KPI) framework, all APEs must provide full financial statements to MOF by the end of 2016.

<sup>9</sup> The calculation is not comprehensive but takes into consideration the entities that receive separate appropriations and are the highest in the Budget i.e. the Aviation Authority, the Port Authority (APORTL) the Electricity Company (EDTL) Public Institute of Equipment Management, (PIEM) Medical Equipment and Supplies (SAMES) University Timor-Leste, Radio and Television Timor-Leste (RTTL) Electoral Commission, and the Anti-Corruption Commission.

Portal (ATP) is fully functional from mid-2012<sup>10</sup>, supported by a web-based Aid Information Management System (AIMS). MOF can now track aid flows to TL and generate a wide range of real time reports on aid obligations, commitments and disbursements. This system is used to inform the budget process, in particular Budget Book 5 pertaining to development partner financing, and serves as an effective in-year monitoring tool for the MOF — more detailed information and analysis is provided under indicator D-2.

However, the responsibility for both inputting data in AIMS and ensuring it is comprehensive and reliable rests solely with the concerned development partners. This means that the system cannot be used in budget and fiscal reporting as it would require a validation and reconciliation process by MOF and relevant line ministries. Such a process would be especially difficult under the present circumstances. Projects grants (the predominant form of aid in the country) by development partners do not form part of appropriations and are mostly executed using commercial banks. Line ministries and agencies are not required to input information on donor funded projects into their medium-term and annual budget submissions as this element does not feature in the budget circulars or in any other way in the budget formulation procedures.

For donor-financed projects to be considered as part of fiscal reporting, international practice<sup>11</sup> requires that they are integrated with routine domestic reporting systems so as to enable a complete budget and fiscal analysis. The BFM Law recognises this in Article 23 (4b) but the process to comply with this provision has not been developed hitherto. This dimension is therefore assigned a score of D.

### Comparison of 2010 and 2013

The overall score changed in 2013, mostly as a result of the poor performance of reporting processes and systems on APEs and the lack of solid documented evidence on the significance of unreported extra-budgetary operations other than donor-funded projects. Judgement cannot be made as to how the 2010 PEFA assessed the extent of extra-budgetary expenditure within APEs. Conversely, significant improvements have been made in tracking aid flows through the establishment and consolidation of AIMS. The improvement of performance in this area is captured by indicator D-2.

### Recent developments

A recent important organisational reform has been the creation of the Autonomous Public Entities Department as a unit in the Directorate for Accounting and Financial Regulations at the Directorate-General for Treasury. The mandate of the new Department would be to supervise financial activities of autonomous government entities, including the establishment of a system of reporting to the Treasury. However, the key posts in the new Department had not been filled at the time of this PEFA assessment. At that time, the Department was staffed by an acting head and supported by an international advisor, which was not an optimal arrangement for making the best use of foreign expertise and building capacity. The MOF should step up the recruitment process as a matter of priority and support the Department in the delivery of its mandate.

Concessional loans are expected to play an increasing role in fiscal management and deficit financing<sup>12</sup> in TL to match a decreasing trend in grant aid, as is depicted in draft Budget 2014 documentation. The Infrastructure Fund draft loan programme of US\$51 million is expected to be financed through concessional loans. It is therefore of equally increasing importance to incorporate the necessary provisions in the budget formulation documents that would capture and report on donor funded projects.

### PI-8 Transparency of Inter-Governmental Fiscal Relations

Dimension (Scoring methodology M1)	2010 Score	2013 Score
(i) Transparency and objectivity in the horizontal allocation among SN governments	N/A	N/A
(ii) Timeliness of reliable information to SN governments on their allocations		
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories		

There is no sub-national government level in Timor-Leste; hence, this indicator is not applicable. There is, however, an envisaged process of decentralisation, the policy of which is being developed by the Ministry of State Administration (ESTATAL) in conjunction with MOF. Decentralisation in TL will mainly involve de-concentration of government functions and services, and a gradual transformation of the existing thirteen districts into municipalities. There is also a draft decree-law on the future municipalities that has been approved at the level of Council of Ministers and is in the process of being reviewed by the Presidency.

The Directorate-General for Treasury has a dedicated National Directorate for Financial De-concentration, which is currently making preparations for the three pilot District Treasuries planned as a first phase of de-concentration of certain aspects of government financial management.

<sup>10</sup> <https://www.aidtransparency.gov.tl/>

<sup>11</sup> Chapter 5 of the GFS2001 manual provides the standard framework for fiscal reporting on Revenue.

<sup>12</sup> In the context of TL, deficit financing pertains to the non-oil fiscal deficit, which is equal to domestic (non-oil) revenue minus total expenditure. The deficit is primarily financed by transfers from the Petroleum Fund and government reserves.



At the local community level, there is an interim grassroots arrangement of self-government through village clusters or Suku. A Suku cluster can have up to seven villages, and there are a total of 412 Suku in the country. The GOTL supports grassroots self-government through a national programme and a decree-law for the development of Suku. Suku also benefit from a grants programme, mostly financed by foreign donors but administered by ESTATAL and supervised by the Treasury. A Suku can benefit from up to US\$50,000 of grant financing a year, of which a small fraction (5% on average) is earmarked for the salaries of Suku administrators and the rest is in the form of a specific purpose grant for small scale infrastructure development. At present, it is not envisaged for Suku to become a formal level of local government. The Suku's grant financing programme will continue to be under the responsibility of the central Treasury and is not planned to be part of the functions de-concentrated to the future District/Municipality Treasuries.

### PI-9 Oversight of aggregate fiscal risk from other public sector entities

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	D	D
(i) Extent of central government monitoring of APEs	D	D
(ii) Extent of central government monitoring of SN governments' fiscal position	N/A	N/A

### 2013 assessment

State-owned self-governing entities fall within the scope of the Budget and Financial Management Law (Title VII) and the Law 14/2003 on Public Companies. At present the majority of these entities depend on government funding and form part of the General Budget of TL. These entities, commonly referred to as Autonomous Public Entities (APEs), are also governed by additional legislation/regulations. APEs can be broadly categorised as follows:

- Category I: Entities that are irrevocably dependent on Government and the General Budget for financing their operation;
- Category II: Entities that are in essence service providers and can generate revenue (or recover costs) through user fees and charges;
- Category III: Entities that are (or can be) corporatized due to the commercial nature of their scope and operation.

Table 14 presents an indicative list of APEs in TL arranged according to the three categories above. The table also indicates the supervising institution of Central Government and the specific legal/regulatory document that governs the establishment, operation and financial management and reporting responsibilities of APEs.

**Table 14: Autonomous Public Entities listed within Government of Timor-Leste**

APE	Category	Supervising Institution	Decree-Law
Anti-Corruption Commission	I	Independent	8/2009
Bank of Micro-Financing (BNCTL)	I	Central Bank	3/2011
Civil Aviation Regulatory Authority (AACTL)	II	Ministry of Transport and Communications	8/2005
Civil Aviation Service Delivery Authority (ANATL)	II	Ministry of Transport and Communications	8/2005
Electoral Commission (NEC)	I	Independent	5/2006
Electricity Authority (EDTL)	III	Ministry of Public Works	13/2003
Medical Equipment and Supplies (SAMES)	I	Ministry of Health	2/2004
National Lottery (AGPJ)	III	Ministry of Commerce, Industry and Environment	6/2009
National Petroleum Authority (NPA)	I	Ministry of Mineral Resources and Petroleum	20/2008
Port Authority (APORTL)	II	Ministry of Transport and Communications	3/2003
Postal Services (CTL)	II	Ministry of Transport and Communications	17/2004
Radio and Television (RRTL)	I	Independent	42/2008

**There is a host of capacity challenges confronted by most of the APEs.** One of the most prominent problems is that, in spite of many APEs being commercial organisations, they operate under obsolete accounting systems and are far from adopting International Financial Reporting Standards (IFRS). In addition, the Department of Autonomous Public Entities of the Directorate for Accounting and Financial Regulation that carries the mandate to monitor and consolidate financial reporting from APEs is still in the process of being

formed, which means that at present, GOTL does not have a functioning system for exercising effective monitoring of financial operations and analysing the underlying fiscal risks — see also discussion under PI-7.

**APEs do not submit financial/fiscal reports to the MOF/Treasury but, as manifested by the external annual audit reports of the period reviewed, they do report to their respective supervising line ministries on the usage of transfers and/or subsidies from the Consolidated Fund.** This warrants a score of D for the first dimension of this indicator.

Dimension (ii) is not applicable as there is no second tier of government in TL. There are imminent plans to prepare a decentralisation policy and initiate the de-concentration of a certain services to the thirteen districts — see further discussion under PI-8.

### Comparison of 2010 and 2013

There is no improvement in the overall score since the 2010 PEFA. APEs do not submit complete financial reports in line with IFRS as required by their statutes. Reporting to their supervising ministries is limited to budget execution reports and/or receipts, which in turn informs budget implementation reports. MOF remains weak in its important function of enforcing the regulatory framework and has no means of acquiring the information and data to produce consolidated financial reports on APEs, and hence analyse aggregate fiscal risk.

### Recent Developments

As discussed under PI-7, it is imperative that the Department for Autonomous Public Entities is adequately resourced to enable it to deliver its mandate. The absence of a systematic and coherent framework for reporting and consolidating financial reports is a serious systemic weakness as there is no way of monitoring effectively the underlying risks for the viability of these entities, the Budget and fiscal management as a whole. In the interim phase, the Department will also have a significant role in providing guidance to APEs in improving accounting and control systems.

### PI-10 Public Access to Fiscal Information

Dimension (Scoring Method M1)	2010 Score	2013 Score
Number of the elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met)	B	B

### 2013 assessment

The government makes available to the public (in a complete form) 3 of the 6 listed types of information; namely the annual budget documentation and the year-end financial statements (see Table 15).

**Table 15: Summary of fiscal information**

Elements of fiscal documentation	Availability	Notes
Annual budget documentation: A complete <sup>13</sup> set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes	The draft Budget is posted on the MOF website. The Budget is composed of 6 Books covering the Ministerial Annual Action Plans, the budgets for the 13 Districts, the Budgets for line ministries and agencies, the commitments from Development Partners, and the budgets for the Special Funds <sup>14</sup> . The appropriated Budget is also made available to the public in printed hard copies.
In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Yes	Article 44 of the Budget and Financial Management Law requires that Quarterly Budget Execution Reports are submitted to the National Parliament within two months from the end of the period. Quarterly Reports are promptly posted on the MOF website. There is also continuous data on Budget execution provided by the MOF website Transparency Portal.
Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No	Article 45 of the BFM Law requires that the annual Budget execution report and the annual Government Financial Statements are submitted to the supreme audit institution within seven months from the end of the Fiscal Year concerned. The GOTL has used a commercial auditor to compile the annual FS and perform the function of public external audit in the previous absence of a SAI. These external audit reports are not readily available to the public. The most recent one posted on the MOF

<sup>13</sup> 'Complete' means that the documents made publicly available contains all or most of the information listed under indicator PI-6, to the extent this information exists.

<sup>14</sup> This has been in force since 2011 and cover Infrastructure Fund and the Human Capital Development Fund.

Elements of fiscal documentation	Availability	Notes
		website is for the 2008 GOTL FS. Although there was previously a fourth Quarter cumulative Budget execution report posted on the MOF website this has no longer been the case since the 2012 Budget – see also discussion under PI-25.
External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes	Article 42(7) requires that the SAI <sup>15</sup> must provide its opinion to the National Parliament twelve months from the end of the Fiscal Year Concerned. The external audit report of the Chamber is available to the public through the Official Gazette <i>Jornal da Republica</i> – see also discussion under PI-26.
Contract awards: Awards of all contracts with value equivalent or above approx. US\$100,000 are published at least quarterly through appropriate means.	No	Only open tenders and contracts awarded above the threshold of US\$1 million are published through MOF website.
Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No	No comprehensive reports or surveys had been published on the budget resources availed to schools, health care and other primary service delivery units by districts.

### 3.3 Policy-based budgeting

This group of indicators describes the extent to which the process for establishing budget allocations permits government policy intentions to be adequately and appropriately articulated in a manner that is fiscally sustainable over at least the medium term.

#### PI-11 Orderliness and participation in the annual budget process

The basic dates in the budget calendar are set forth in general terms by the Constitution and further articulated in Article 30 of the 13/2009 Budget and Financial Management Law.

Dimension	2010 Score	2013 Score
Overall score (scoring method M2)	C+	B
(i) Existence of, and adherence to, a fixed budget calendar	C	B
(ii) Clarity/comprehensiveness of and political involvement in guidance on the preparation of budget submissions	C	A
(iii) Timely budget approval by the legislature within the last three years	B	C

#### 2013 assessment

**A fixed budget calendar was established in 2013 allowing MDAs to prepare their detailed budgets within four weeks from the receipt of the budget circular, in accordance to strategic goals and financial limits established within the Executive.** The budget cycle is set to start in March and April with the Economic Policy Directorate engaged in providing a projected division of revenue and other macroeconomic forecasts. Starting May, the MDAs start the preparation of their draft budget proposals. These are usually prepared on the basis of the previous fiscal year's allocations and Accounting Officers set a time to brief the MOF Budget Directorate in advance of the annual budget circular (the "Yellow Road Workshop") and learn about the projected revenue, expenditure and other macroeconomic indicators to be used as part of discussions on ceilings for MDAs.

The Budget Circular is issued by Council of Ministers and sent out to MDAs in June and includes indicative ceilings of current and capital expenditure budget for the coming budget year and for the subsequent four years, as part of a Medium-Term Fiscal Framework adopted recently. Submissions are made by July, with MDAs current and capital budget proposals going to MOF Budget Directorate and consultations and final deliberations between MDAs and MOF are completed within two weeks (between late August and early September) through the Budget Review Committee that ultimately issues recommendations to Council of Ministers.

Budget negotiations with MDAs last until September, when the Council of Ministers approves the draft State Budget and supporting documentation are prepared for submission to Parliament. There are six Budget Books in total with introductory sections describing the broad trends in the Budget and explaining the reasons and

<sup>15</sup> Since 2011, the Chamber of Accounts (*Camara de Contas*) has been enacted as interim SAI in TL within the remit of the Supreme Court of Appeals (*Tribunal de Recurso*).

budgetary implications of new policy action by MDAs. There is also a breakdown of spending by MDA and other details on the recurrent and development budgets, the latter comprising of segregated special funds, including the IF and HCDF. The Budget is presented to Parliament in November for approval before 1st of January. The establishment of a clear and transparent budget calendar allowing MDAs to meaningfully complete their detailed budget proposals within a reasonably sufficient time (of four weeks) warrant a score of B in the first dimension.

The budget calendar identifies three major phases in the budget formulation process: the preparation phase, the consideration phase, and the approval phase—specific activities and times are presented in Table 16.

**Table 16: The budget formulation process, 2013**

Jan	I. Preparation phase	Planning the administration of budget process
Feb-Mar		Macroeconomic analysis
Mar-Apr		Setting policy priorities, large projects and fiscal envelope with total expenditure level
May		Laying discussions on ceilings for MDAs (Yellow Road Workshop)
Jun		Setting ceilings for MDAs for coming year and at least three more years (Yellow Road Workshop)
Jun		Resource envelope approved by COM and budget call circular submitted to MDAs
Jul		MDAs submitting of budget proposals, incl. PDID; and HCDF submitting budget proposal
Jul	II. Consideration phase	MOF screening and reviewing of MDA budget proposals
Aug		Budget Review Committee reviewing of recurrent and minor capital
Aug		MDAs submitting of budget proposals adjusted
Aug		Budget Review Committee reviewing of capital projects, incl. PDID, DC and IF
Aug		Draft State Budget being recommended to COM
Aug		Drafting of State Budget Law
Sep		Preparation of Budget documentation
Sep	III. Approval phase	Draft State Budget being approved by COM
Oct		Draft State Budget and budget documents tabled in Parliament
Nov		Parliament reviewing and approval of State Budget
Dec		State Budget promulgated by President and published in MOF website

Source: MOF.

**The budget circular is approved by the Council of Ministers (COM) prior to distribution to MDAs.** The MOF reviews past financial performance and proposes to the COM during the “Yellow Road Workshop” the fiscal envelope with updates on various sources of domestic revenues based on annual cash forecasts and supporting expenditure policies and priorities for the next Budget year plus projections for the following three years. Within the Fiscal Envelope for total Government expenditure the COM agrees on individual ceilings for each MDA. The ceilings set the expenditure limits MDAs and provide guidance for identifying new sources of funding during budget execution.

The COM is actively involved in the setting of overall ceilings for recurrent and capital expenditure through the budget preparation process. It issues an indication of the objectives which should receive priority in the allocation of resources, as expressed in Book 1. Nonetheless, a medium-term budget policy statement (MTBPS) and planning and budget guidelines steering the medium term planning process by COM is non-existent and so is costing of most sector strategies. This is further constrained by the spending ceilings not being laid out for every major sectoral or functional category (ceilings are issued only at MDA level). Overall involvement of COM warrants a score of A in dimension (ii).

**In two of the last three years, the Parliament has approved the budget within two months of the start of the fiscal year** (Table 17). Notably, the appropriation of the 2013 Budget was delayed due to circumstances related to the process of electing a new President. This provides for a score of C in the third dimension.

**Table 17: Dates of the original State Budget approved by Parliament**

Fiscal year	Appropriation Bill (Budget Speech)	Approved by Parliament	Enacted by the President (Orçamento Geral do Estado)
2011	12 January, 2011	28 January, 2011	14 February, 2011 (Law No. 1/II)
2012	9 November, 2011	25 November, 2011	21 December, 2011 (Law No. 16/2011)
2013	4 February, 2013	18 February, 2013	1 March, 2013 (Law No. 2/2013)

Sources: MOF; and *Jornal do Republica*.

### Comparison of 2010 and 2013

The overall score of this indicator improved from C+ in 2010 to B in 2013. Progress is primarily due to an orderly annual budget process and more active participation by the executive in the setting and approval of Budget ceilings. On the downturn, the score in the third dimension was lower than in 2010 due to the annual Budget Law being appropriated after the start of the fiscal year in two of the past three years.

## Recent developments

A Budget Manual has been adopted for the first time and a fixed and more detailed Budget Calendar in terms of milestones is geared towards better guiding the budgetary planning and future deepening of the bottom-up MTEF process.

### PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

**A comprehensive Strategic Development Plan (SDP) 2011–2030 has been put forward by the new Government to strategically guide medium-term budgetary planning, in terms of linking national priorities across sectors and districts.** It is supplemented by medium-term strategy plan support projects for certain key sectors of the country for which GOTL intends to invest heavily. The emphasis is on improving efficiency of public service delivery and on achieving the expected development outcomes in a sustainable manner in the long run. The SDP and the subsidiary strategy plans are yet to be costed so that multi-year budgets and actions can be better planned on the basis of realistic financial needs and reviewed accordingly for every sector prioritized in the Strategic Development Plan – see Box 1.

#### Box 1: Components of the Strategic Development Plan, 2011–2030

The plan aims to develop core infrastructure and human resources and encourage the growth of private sector jobs in strategic industry sectors – a broad based agriculture sector, a thriving tourism industry and downstream industries in the oil and gas sector. The Strategic Development Plan (SDP) is an integrated package of strategic policies to be implemented in the short-term (1 to 5 years), the medium term (5 to 10 years), and the long-term (10 to 20 years).

These are embodied in three key areas: social capital, infrastructure development and economic development.

##### 1. Social Capital

In the area of social capital, the SDP seeks to improve the lives of Timorese people by setting out strategies and actions, along with targets, in the critical areas of education, health and social inclusion.

##### 2. Infrastructure Development

A central pillar of the SDP is the building and maintenance of core and productive social and economic infrastructure. A plan is envisaged to underpin the growth of the Timorese economy, and to increase productivity, create jobs, particularly in rural areas, and support the development of the domestic private sector.

##### 3. Economic Development

The SDP's aim is that the Timor-Leste economy will be built around the growth of three critical industries: agriculture, tourism and petroleum. In these industries, it has significant advantages due to its natural resource wealth, geographic location and economic profile. To achieve the above the State sets a path to implement the national strategy during the period 2011 -2030, including (i) a Framework of Action to 2020; (ii) a Public Investment Plan to 2015; (iii) a Public Financing Programme to 2015 and a Macroeconomic Framework; and (iv) an Institutional Framework.

Dimension	2010 Score	2013 Score
Overall score (scoring method M2)	D+	C+
(i) Multi-year fiscal forecasts and functional allocations	C	B
(ii) Scope and frequency of debt sustainability analysis	N/A	B
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C	C
(iv) Linkages between investment budgets and forward expenditure estimates	D	C

## 2013 assessment

**Setting of annual budget ceilings is prepared for administrative, programme and main economic categories for the next budget year and a period of an additional four years on a rolling basis.** The issuing of ceilings begins with the estimation of a basic macroeconomic fiscal framework developed by MOF Economic Policy Directorate. The Directorate provides a conservative projection of real growth in the oil and non-oil domestic economy, inflation, and the international reserve position, and projects a total revenue figure for Government spending<sup>16</sup>. Oil-revenue withdrawals from the Petroleum Fund are the basis for estimating the total expenditure envelope that the Council of Minister divides into recurrent and development expenditure across MDAs. Allocations on a sector by sector basis are not provided in the overall resource envelope at present. The progress described warrants a score of B to the first dimension.

**A debt sustainability analysis (DSA) has been performed for the Government of Timor-Leste on an annual basis in two of the past three years as part of the IMF Article IV Consultation Reviews.** The IMF prepared an appraisal of past macroeconomic and fiscal performance, and the generation of medium-term fiscal forecasts in 2010 and 2012 with collaboration of MOF and Central Bank<sup>17</sup>. The analysis indicated a low risk of

<sup>16</sup> The estimation of a basic macroeconomic model is aided with statistical inputs from various official domestic and external sources. .

<sup>17</sup> A DSA was performed for the first time in Timor-Leste through a joint IMF/IDA DSA on December 2, 2010, and appended to the Article IV Consultation Review issued in March 2011. Following this exercise, a DSA was updated by IMF on January 13, 2012 as part of the Article IV Consultation Review issued in February 2012.



debt distress assuming a baseline macroeconomic scenario which underlines a significant scaling-up of public spending, future petroleum income, and a moderate borrowing envelope. This warrants a score of B in the second dimension.

**Even though medium-term strategy plans exist for most of the priority sectors identified in the SDP, capital and operating expenses for every major programme are not costed, which does not enable good budgetary planning across Government.** Provision of multi-year cost estimates between recurrent and investment expenditure is not available for every ministry. Such a provision will serve reconciling possible differences between the amount of budget resources actually spent in the budget with required in the SDP to achieve certain development goals<sup>18</sup>. This provides for a score of C in the third dimension.

**Public works and infrastructure plans exist for various ministries and a budget is allocated for the provision of operating and maintenance as well, and yet, the process of linking the Government's investment budgets and forward estimates is still weak across MDAs.** For example, a budget plan exists within roads transportation for the maintenance of roads as more pieces of paved roads are completed, and an infrastructure construction plan exists for health and education, funded through similar sources. However, capital projects do not anticipate, cost and budget for the operating and maintenance expenses and the operation and monitoring. This means that resources allocated in budgets are largely inadequate as a result. In the midst of this process, externally-funded capital projects do not form part of budgetary planning thus far (see PI-7 and D-2). The overall performance on this subject over the period reviewed years warrants a score of C in the fourth dimension.

### Comparison of 2010 and 2013

The overall score of this indicator improved from D+ in 2010 to C+ in 2013. Progress is primarily attributed to the medium-term financial planning and the initial steps taken to link the annual budget with the strategic institutional plans, and on the debt sustainability analysis having been performed in the past two years.

### Recent developments

Positive developments in budgetary planning had taken place in the period reviewed with the help of technical assistance by development partners. However, there is room for furthering technical guidance and building of capabilities in Government planning, budgeting and monitoring and evaluation.

## 3.4 Predictability and control in budget execution

This group of indicators describes the extent to which managers of budget agencies are able, in practice, to commit and make expenditures consistent with their budget allocations and agreed cash plans, as well as the extent to which expenditure control arrangements are effective without unnecessarily constraining service delivery.

### PI-13 Transparency of taxpayer obligations and liabilities

Dimension	2010 Score	2013 Score
Overall score (scoring method M2)	C	C
(i) Clarity and comprehensiveness of tax liabilities	C	C
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	C
(iii) Existence and functioning of a tax appeals mechanism.	C	C

<sup>18</sup> See, for example, the national programmatic goal in the SDP of improving the quality of primary education, which involves certain milestones to be achieved on a sector basis, starting from the adequacy of basic food supplies at the level of early childhood education (i.e., a nutrition program linked through the Ministry of Agriculture) and the appropriateness and sustainability of school teaching services (i.e., tertiary education under the University of Timor-Leste) to providing further teacher training and the adoption of new educational curricula (i.e., training centres) as well as an appropriate schooling infrastructure basis and ensuring proper building and maintenance of access roads (i.e., through the infrastructure fund and the human development capital fund).

## 2013 assessment

**Box 2: Regulatory framework of Timor-Leste Tax System**

The tax liabilities of Timor-Leste are governed by the existing laws and regulations:

- Regulation 2000/18-A *Revenue System for East Timor* of the United Nations Transitional Administration of East Timor (UNTAET), which used to be the overarching legislative document for government revenue in the transitional years;
- 2008 Decree-Law on *Taxes and Duties Act* repealing and replacing Regulation 2000/18 up to section 47;
- 2004 Decree-Law on the *Customs Code of Timor-Leste*, along with a series of decree-laws and public rulings covering procedures and offenses.
- 2005 Law on the *Petroleum Fund Act*

Others include the 2003 Law on Taxation of Bayu-Undan Contractors, the 2003 Act on the Petroleum Development of Timor Sea (Tax Stability), and other pieces of legislation and regulations governing petroleum resources.

The MOF, as central fiscal authority, is responsible for managing revenues from domestic, customs and petroleum sources. The administrative responsibility falls on the Directorate-General for Revenue (DGR) and the Directorate-General for Customs (DGC) which have subordinate national directorates.

**Tax legislation in Timor-Leste is still in the process of development. There is still significant room for improving the overall clarity and comprehensiveness of non-petroleum domestic tax obligations.** This has led to a score of C in the first dimension. The 2008 Taxes and Duties Act is a clear and comprehensive piece of legislation laying out many of the fundamentals of revenue administration for TL. However, it is not complete as it is reliant on Regulation 2000/18. Appeals, Audit and Collection authorities are still governed by UNTAET 2000/18. The 2010 PEFA assessment expectation of a new, more modern, tax regulations being

forthcoming was not met. Draft regulations are still in the stage of consultation.

Regulation 2000/18 has served TL well to date but lacks clarity on critical aspects of tax administration, especially with regards to non-petroleum domestic taxation. With key provisions being open to interpretation, there is room for considerable discretion but also indecision by tax officials. It is understandable that ambiguities in the regulatory framework would cause the reluctance of tax officials to take enforcement actions without clear guidelines.

Regarding Customs, work is under way to consolidate the 2004 Customs Code and other regulatory pieces into one consolidated code. It is generally accepted that the current framework is not optimal.

Oil companies submit their tax declarations which are assessed by the tax authorities. Tax liabilities have been paid upon request by the oil companies. The taxpayer has the right to challenge or disagree with the assessment, and re-submit if deemed necessary. Oil companies are large and very experienced international operators that have the resources and expertise to function well within the boundaries of the TL tax regime.

Following concerns over compliance of oil operators, the National Directorate of Petroleum Revenue (NDPR) conducted a retroactive tax assessment and audit covering the period 2005–2010. The audit was undertaken with the help of resident international advisors and the findings resulted in substantial sums being declared overdue and claimed by the tax authorities from the Bayu-Undan petroleum consortium. The petroleum operator has since lodged a case in the national courts and the Chamber of Commerce of Singapore, which is the arbitrator designated by the agreement. The consortium claims that GOTL has reneged on its commitment to provide a stable tax regime, which was one of the core elements upon which the decision to invest was based. The GOTL is of the view that it has taken steps to enforce the legal framework. The PEFA team is not in a position to determine to what extent this may constitute a change in the interpretation and enforcement of underlying tax legislation but it is certainly a cause for further and more careful reflection on the regime.

**There have been improvements<sup>19</sup> in recent years with regard to access by taxpayers (domestic and petroleum sector) and importers to quite relevant administrative information through the MOF website. This does not apply to information on taxpayer-specific liabilities.** Taxpayers and importers can access the bulk of legal documents, administrative procedures, as well as citizens' guides on the MOF website. Obtaining information on the website can be cumbersome, while there is no way of ascertaining whether a given piece is up-to-date or otherwise. However, the vast majority of domestic revenue taxpayers do not have computers, computer literacy or internet access. There are also information campaigns with regards to important changes in the regime, a case in hand being the very thorough information campaign on re-registration<sup>20</sup> of Tax Identification Numbers (TINs) which was under way at the time of this assessment – see discussion under PI-14.

The SIGTAS system used by DG Revenue was designed in the mid-1990. It is not capable of providing taxpayers with access to their own data, electronic filing, electronic payment or any of the other improvements contained in more modern systems. Efforts are underway for acquiring a more modern system to enable the generation of individual taxpayers' reports summarising liabilities, arrears and non-lodgments. At present,

<sup>19</sup> There has been recent survey by the Asian Foundation that reportedly documents an increase in client satisfaction regarding access to, availability of, customs and domestic revenue information.

<sup>20</sup> <https://www.mof.gov.tl/taxation/re-registration/?lang=en>

information on liabilities can only be obtained in the form of a printout at Customs. The Dili NDDR office can provide “payment stubs” for tax arrears amounts. The score for the second dimension is C.

**A tax appeals system of administrative procedures exists in Timor-Leste, but the overall appeals process is not yet fully developed and implemented.** The appeals system for domestic taxation, petroleum and customs is governed by Regulation 2000/18.

There are three steps in the appeals process: one at the level of the administration in which an appellant can address within sixty days from receiving notice of the decision, to the DG for Revenue and DG Customs<sup>21</sup>. If issues are not resolved at the first level, appeals can be lodged at an independent Appeals Board (second step) and if this is not enough there is an opportunity to seek recourse in a court of law (third step). However, the second element is still missing as the Board for Tax and Customs Appeals has not been set up yet despite the fact that it was envisaged in the legislative framework for a few years now. It is not clear if the draft regulations would retain responsibility for the first step described above with the tax administration authorities.

The appeals process regarding petroleum taxation also involves an arbitrator, the Singapore Chamber of Commerce, as already discussed in the dimension above. The score for the third dimension is C.

### Comparison of 2010 and 2013

No progress of material importance has been documented.

### Recent Developments

The legislative and procedural framework for revenue in TL is still in the process of reform and few important pieces are still in the process of elaboration.

A draft Decree-Law poised to replace Regulation 2000/18 has been in circulation and subject to on-going debate. It is of critical importance that Regulation 2000/18 is replaced by a new framework that modernises the regime and corrects shortcomings and strengthens administrative procedures. Adopting a framework that is less than satisfactory would run the risk of adding to the existing anomalies in tax administration

### PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Dimension	2010 Score	2013 Score
Overall score (scoring method M2)	D+	C
(i) Controls in the taxpayer registration system	C	C
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C
(iii) Planning and monitoring of tax audit and fraud investigation programs.	D	C

### 2013 Assessment

**Despite recent reform initiatives, the taxpayer registration process is fragile, still confronted with problematic internal controls. There are no penalties for failure to register.** One of the key early reforms was the creation of the Taxpayer Identification Number (TIN) system for registration and control of taxpayer transactions<sup>22</sup>. It was recently recognised that the controls and quality review of the processes have not been adequate during the 12 years of the system’s operation. Controls in the TIN-securing system have been indirect and establishing consistency has been a challenge. The process was based on the assumption that a certificate *dividas* that had to be presented to import (Customs) or obtain a government contract (Procurement) would be sufficient. A taxpayer must have a TIN to get a certificate *dividas* from the tax authorities but there have been challenges with ensuring comprehensive enforcement. For instance, it had been possible for any one *natural* or *legal* person to obtain more than one TIN. This allowed certain taxpayers who had arrears under one TIN to obtain a certificate *dividas* under another TIN, creating obstacles rather than facilitating tax assessments and the process of compliance.

The General Directorate of Revenue (DGR) has hence decided that persons with TINs obtained prior to the 1<sup>st</sup> of November 2013 would be required to re-register “...to ensure that the information of TIN holders is accurate, complete and up-to-date”.

Moreover, there was a fundamental problem in that failure to register was not recognised, and not penalised. To address this problem, it was ruled that persons not taking part in the re-registration process shall not be able to obtain a certificate *dividas* or obtain payments from GOTL contracts. This appears to be a good incentive for many to register considering that general government is the largest contractor at present in TL. Correcting and consolidating the regime for taxpayer registration should also contribute to the improvement of tax collection,

<sup>21</sup> The process is clearly presented on the MOF website <https://www.mof.gov.tl/taxation/process-of-appeals/?lang=en>

<sup>22</sup> Customs also use TINs which are inserted in the ASYCUDA++ system. Without a TIN an importer would not be able to register goods for clearance.



especially if supplemented by significant penalties for failure to register, by being able to identify persons failing to file or not paying tax liabilities in a more timely fashion.

The first dimension has remained at the same level as in 2010 with a score of C.

**Penalties are too low in value (relative to large taxpayers) to serve as an effective deterrent to violators, and they are not well administered in order to make a difference in enforcing compliance.** The penalty regime has not changed since the 2010 PEFA assessment: Regulation UNTAET 2000/18 (sections 71 to 75) stipulates a one-off fine of US\$100 for late filing of tax declaration, plus 5% of the amount due if there is a delay of one month, followed by 1% for every month that ensues. Non-compliance<sup>23</sup> by large operators is a serious cause for concern in TL and at present the system is unable to prevent violators.

Customs penalties on import consignment and/or following post-clearance audits are stipulated in decree-laws on the Customs Code (2004) and on Customs Tax Offenses (2004). These also appear to be low but the fact that customs transactions are streamlined in a controlled process by nature of operation, compliance will be less of a problem.

Also, up until 2010, when GOTL decided to undertake retroactive tax assessments in the petroleum sector (see discussion under indicator PI-13), it was thought that there was a high degree of compliance by petroleum joint ventures through the self-assessment process. Since then, petroleum operators have been ordered to pay large sums<sup>24</sup> for back taxes and penalties which they had to comply with pending appeal.

The main challenges remain in the domain of domestic taxation, which is of increasing importance when one considers the relevance to the creation of an environment of fair competition for private sector development in TL. The petroleum sector, albeit vital for government revenue, is highly specialised involving a handful of sophisticated operators requiring specialised expertise on the part of GOTL. The score for the second dimension is C.

**Tax authorities have pursued an improved process of tax audits and fraud investigations since 2012 based on risk assessment criteria. The process is seriously challenged by existing human resource and technical capability shortcomings.** In 2012, the first audit plan was developed by the National Directorate for Domestic Revenue (NDDR) and implemented based on a risk assessment framework which is a marked improvement from passed practice. The framework has been further refined and a number of audit cases have been selected on a set of robust audit selection criteria and planned for 2013/2014. The risk framework has identified 97 cases of government contractors that have declared (SIGTAS system) no revenue or that revenue declared has been lower than payments made by the Treasury (and captured in the FreeBalance system). There are a further 50 cases to be audited that did not file for tax at all despite having received payments by Treasury on government contracts. In order to complete and safeguard the process, risk criteria would need to be automated in the years ahead.

Due to capacity constraints, NDDR must outsource audits for large legal persons to professional accountancy firms. In order to ensure an acceptable level of quality and credibility of tax audits, one of the immediate priorities for NDDR should be to raise the level of professionalism and enhance the skills of staff<sup>25</sup>. Even if audits are outsourced to professional firms, tax officials would need to effectively supervise the private auditors and ensure quality.

Internal capacity of the National Directorate for Petroleum and Mineral Resources (NDPMR) has shown marked improvement in the last years. The Directorate also relies on external expertise for tax assessment and audits. The petroleum sector is arguably more complex requiring a higher level of specialisation and expertise. The NDPMR is determined to pursuing the inevitable steep learning curve as manifested by the recent campaign to audit tax declarations of petroleum consortia covering the period 2005–2010 (see PI-13 for discussion).

The General Directorate for Customs (DGC) has also made considerable improvement in the planning of post-clearance audits. A new procedures manual is in effect since February 2013, which has reportedly contributed to more effective audit assessments. The score for the third dimension is C.

### Comparison of 2010 and 2013

Progress in the planning of post clearance customs and tax audit programmes has resulted in a marginal improvement since the 2010 assessment.

<sup>23</sup> According to IMF Fiscal Affairs Department, more than 70% of registered taxpayers do not file declarations; *Foundations for Domestic Tax Mobilization*, December, 2011, p. 10.

<sup>24</sup> According to the non-governmental institute La'o Hamutuk, one joint venture has reportedly been forced to pay up to US\$32 million.

<sup>25</sup> According to the same FAD report, more than half of the staff in the National Directorate for Domestic Revenue of the GDRC is at the lower end of skills and expertise; p.9.

## Recent Developments

The predominant issue is the TIN re-registration process. At the time of this PEFA assessment, NDDR was busy with managing the stream of taxpayers' applications. A major project was designed and begun in November 2013 which requires all still-active Domestic Revenue TINs to be re-registered. Their data will be updated and filing requirements, arrears and non-lodged tax returns will all be shared with individual taxpayers at the end of the quality review and SIGTAS input process. TINs that do not re-register will be inactivated

Also, it would be important for NDDR management to observe the implementation of the improved audit planning framework and take action to improve compliance. It is also important that NDDR draws of a robust plan to address existing capacity shortcomings in the short term and seek assistance from MOF and development partners.

One issue of general concern is the operational language of the legislative pieces, guidelines and systems involved. These are in one of the official languages, Portuguese, which is not broadly understood by the general public or the rank and file officials who have to carry out the work.

### PI-15 Effectiveness in collection of tax payments

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	D+	NR
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)	A	NR
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	B

## 2013 Assessment

The total stock of tax receivables in arrears is negligible when compared to total government tax revenue (Table 18) but the fact that complete and comprehensive annual data for tax arrears do not exist do not permit the rating of this dimension. The first dimension is not rated – 'NR'.

**Table 18: Tax arrears as % 2012 revenue, as of November 2013**

Revenue (actual 2012) <sup>26</sup> categories	Revenue (US\$ million)	Stock of arrears (US\$ million)	Stock of arrears (% of revenue cat.)
Total	1,632.6		0.68%
Petroleum	1,494.9		0.74%
Non-petroleum (incl. Customs)	137.7		8.06%
of which: Domestic	98.6		11.26%
Stock of arrears (cumulative, end-2013)		11.1 <sup>27</sup>	

Source: SIGTAS and ASYCUDA

The predominance of oil revenue in the Budget and the fact that oil operators are compliant is misleading. The picture is less positive when measuring the share of the stock of arrears in relation to non-petroleum revenue, especially because it is domestic taxpayers that are mostly in arrears. Moreover, widespread non-compliance in registering and failure to lodge tax declarations are factors that skew the analysis. The risk of increased arrears in the future may be higher, especially in the early years of enforcing a more comprehensive and tighter regime of control, including increased success with registration and lodgements.

Tax and customs revenue is paid by taxpayers to the agent bank Banco Nacional Ultramarino (BNU) that makes real time transfers into the Treasury Single Account at the Central Bank. Petroleum tax, royalty and other payments are made directly into the Petroleum Fund account at the Central Bank. The score for the second dimension is A.

**A thorough tax accounts reconciliation process takes effect with tax assessments, collections, arrears and transfers to Treasury being cross checked regularly.** The management information systems used for verifying revenue collection are ASYCUDA for customs, SIGTAS for domestic taxes, and FreeBalance for central government financial management. The system of reconciliation of domestic tax assessments, collections and arrears with BNU actual transfers to the Treasury is done manually. Treasury receives daily

<sup>26</sup> See PI-3 for further detail.

<sup>27</sup> It is noted that at the time of the assessment there was one case recorded in SIGTAS concerning a foreign contractor owing US\$59.6 million of withholding tax from a government contract. The PEFA team were told that the case had been settled and that the GOTL was to assume the liability. Including this amount in the stock of arrears for the sake of this PEFA assessment would dramatically alter the results and bias the assessment of the first dimension of indicator PI-15.

statements from the Central Bank by email. A Treasury official is then responsible for inputting the data into FreeBalance. The reconciliation of tax payments by petroleum operators into the Single Treasury Account at the Central Bank is fully automated and appears to function efficiently.

Regarding domestic taxation, the process takes up a considerable amount of time from an already stretched human resource capability. BNU issues a daily bank statement and collects the supporting individual tax forms submitted by the taxpayers, these are physically collected by the tax official responsible and then manually input into and reconciled with the records in SIGTAS. The statement organised by type of tax against a list taxpayer TINs and the information is further detailed in individual forms. The process is always repeated (verified) by a second tax official to ensure accuracy – *four-eye* principle.

The overall system of reconciliation of bank payments with tax records appears to work without disruption but there are questions about its effectiveness. Since domestic revenue relies on a manual process, complete reconciliation can happen at best on a quarterly basis given the sheer volume of the work required. This results to a score of B for this dimension.

### Comparison of 2010 and 2013

Tax collections have nearly tripled since 2009. However, this one indicator does not capture (and cannot reflect) the impact of fundamental and widespread non-compliance; many domestic revenue taxpayers are not registered at all. For those who have registered, the SIGTAS system does not address non-lodging of tax returns. Taxpayers' failure to register and failure to file are recognized by tax officials as causing significant loss of domestic revenue, but no system has the data to identify all the violators or estimate the amount of loss. The SIGTAS system does not provide the classifications of data necessary to determine the effectiveness of actions taken to collect existing arrears. The need for a modern tax administration computer system has been recognized and initial budget requested in 2013 and provided in 2014. Improving the regulatory and enforcement framework for taxation remains critical. Improved systems and clear laws are essential to increase compliance, increase collection of domestic tax revenues and ultimately control the stock of arrears. This has been a recurrent theme in the analysis of the revenue segment of this 2013 PEFA (see also PIs 13 and 14).

### Recent Developments

The Central Bank is implementing an automated payment system in 2014 that will eliminate the need for manual reconciliation between BNU, ASYCUDA and SIGTAS. Customs, NDDR and NDPR are involved in the development of their business requirements. All banks will be able to participate and the exclusive reliance on BNU will end.

### PI-16 Predictability in the availability of funds for commitment of expenditures

**The cash flow planning and monitoring functions are the responsibility of MOF Cash and Debt Management Unit (CDMU), with input from various domestic revenue units.** The funds made available and committed to MDAs is warranted by law every year (the *Orcamento Geral do Estado da Republica Democratica de Timor-Leste*) and cash resources are disbursed through and charged against three major budgetary Special Funds of the Treasury Single Account at the Central Bank of Timor-Leste (CBTL) and accounted for in the Free Balance Treasury Ledger System. These are the Consolidated Fund, the Infrastructure Fund, and the Human Capital Fund. Funding for the year is authorized on the basis of the annual cash projections prepared by the DG Treasury with inputs from the Petroleum Fund, the DG Domestic Revenues and DG Customs, and the MDAs. The projections are issued to the DG State Budget at the stage of budget formulation to be discussed in the "Yellow Road Workshop".

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	B+	B+
(i) Extent to which cash flows are forecast and monitored	B	A
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	B
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	B	B

### 2013 assessment

**The degree of predictability in the availability of funds varies throughout the year.** Withdrawals from the Petroleum Fund are predictable and can safely be apportioned to budgetary activities for the year. Petroleum revenues in the Budget are bound by the fiscal rule of the Estimated Sustainable Income of the Petroleum Fund (see discussion in relevant section in Chapter 2).

**For the purposes of enhancing predictability of non-petroleum domestic funding to the execution of the budget, the MOF has recently introduced the practice of regularly updating the cash flow projections. A**

cash flow forecast is performed on a monthly basis. It consists of a re-estimation/re-rescheduling of future cash flows aided by a simple estimation model. The model is not designed to capture the seasonality aspects of non-oil tax revenues, scheduled adjustments in payments from tax assessments, or accrued interest and other charges resulting thereof under the existing taxation regulations.

The monthly process of performing cash flow forecasts essentially starts from a weekly review of daily cash flows and the cash position at the beginning of every week, and performs a forecast on cash resources available based on the behaviour of tax and non-tax receipts over the past twelve months and the projected liquidity in the government bank accounts for the remaining of the budget year, on one hand, and on the salary and non-salary obligations of MDAs, on the other. The amount of monthly disbursements is solicited through the CBTL to the Petroleum Fund whilst other tax and non-tax receipts are paid and cleared through the Treasury on a daily basis and availed to MDAs in accordance to commitments caused with suppliers and contractors, with emphasis mainly on infrastructure fund projects. The progress in the cash flow forecasting process merits a score of A in the first dimension.

**MOF issues monthly fund availability reviews for cash programming and in-year budget allocation adjustment purposes following a rigorous analytical process. A new feature introducing a quarterly commitments' calendar is envisaged under FreeBalance FMIS.** Such a calendar is usually prepared on the basis of a commitment schedule that is to be updated on a monthly basis and forwarded to MOF by all MDAs procuring entities and published under the Budget National Directorate authorization at the beginning of every month. It also indicates the level of execution of committed expenditures against the monthly commitments approved by the Cash Management Committee and report on any delays in the procurement processes planned for specific times of the year.

MDAs are provided with indication on the in-year adjustments in domestic funding and in spending ceilings quarterly in advance, but the information is still not sufficiently reliable and accommodating to their budget execution plans. During the first quarter, the implementation of budgets and projects had usually been delayed due to late Parliament approval. Presently, internal capacity is being further developed within the MOF Directorate for Economic Policies so that domestic revenues are subjected to a more rigorous and periodical reviewing of fiscal policy during the year, influenced by external conditions and other changing financial events. Once the annual appropriations are in place, Expenditure Authorization Notices (EANs) are issued in the FMIS during the first quarter and subsequently updated, in accordance to the BFM Law (Articles 12 and 39-41). Salaries are paid directly in the workers' bank accounts every month and allocations to purchases and grants and other subventions are released on a quarterly basis. Since budget allocations are front-loaded, the timing of entering into new commitments rests with the spending agencies. This warrants a score of B in the second dimension.

MDAs are informed by the Cash Management Committee of any changes in the budgetary allocations due to unanticipated events that impacted collection of non-oil tax receipts or led to policy shifts. Sufficiently reliable information on in-year adjustments in the non-salary budget allocations is provided in an advance of usually three months so that MDAs can adjust their institutional budgets accordingly. MDAs, however, do not have the necessary ability to respond to those changes adequately and prioritize into the various budgetary items. It is their responsibility to develop an internal prioritization, i.e., prioritization within a basket of top ten goods and services.

**In-year budget adjustments (rectifications) have taken place once a year in the period reviewed in a fairly transparent manner and in the form of supplementary appropriations.** The process of altering the Budget is set out in the BFM Law (see PI-27). Parliament reviews and approves the request for a Budget rectification by the executive in the form of a Law. In the period 2010–2012 reviewed by the 2013 PEFA, there have been two budget rectifications in 2010 and 2012. Virements are governed by the BFM Law but in the period reviewed there has been an increased resort to virement since early in the fiscal year. This suggests that a better planning and budgeting by MDAs is required. It is noteworthy that the 2012 budget rectification entered into effect on 9 August 2012 but was retroactively approved by Parliament on 17 October 2012<sup>28</sup>. The progress described merits a score of B in dimension (iii).

On the whole, the rectified Budget operations had contrasting fiscal effects in 2010 and 2012. The former resulted in additional resources of 27%, with the largest share targeting the Ministry of Social Solidarity, the Ministry of State Administration, and the Electricity do Timor-Leste. The latter, in turn, had a lesser fiscal effect with an 8% increase in favour of the ministries of Social Solidarity, Education and Health, and the IF and the HCDF (Tables 19 and 20).

<sup>28</sup> For ease of reference, see Law No. 8/2012 of 30 October, 2012.

**Table 19: Adjustments in the originally approved budget, by main economic category (US\$ thousands)**

	2010				2011				2012			
	Original appropriation	Rectification	Virement	Final appropriation	Original appropriation	Rectification	Virement	Final appropriation	Original appropriation	Rectification	Virement	Final appropriation
<b>Total</b>	<b>659,606</b>	<b>178,381</b>	<b>(93)</b>	<b>837,894</b>	<b>1,306,019</b>	<b>-</b>	<b>(4)</b>	<b>1,306,015</b>	<b>1,674,130</b>	<b>-</b>	<b>132,320</b>	<b>1,806,450</b>
Wages and salaries	97,708	1,387	283	99,378	116,834	-	958	117,792	140,071	(1,249)	1,844	140,666
Goods and services	210,280	56,721	(7,973)	259,028	269,152	-	(11,471)	257,681	346,267	13,644	(19,917)	339,994
Minor capital	29,809	4,666	6,683	41,158	29,262	-	2,918	32,180	42,917	1,371	7,109	51,397
Capital and development	216,448	36,336	1,053	253,837	713,315	-	9,009	722,324	945,295	(49,182)	142,671	1,038,784
Transfers	105,361	79,271	(139)	184,493	177,456	-	(1,418)	176,038	199,580	35,416	613	235,609

Source: MOF.

**Table 20: Adjustments in the originally approved budget, by administrative unit (US\$ thousands)**

	2010				2011				2012			
	Original appropriation	Rectification	Virement	Final appropriation	Original appropriation	Rectification	Virement	Final appropriation	Original appropriation	Rectification	Virement	Final appropriation
<b>Total</b>	<b>659,606</b>	<b>178,381</b>	<b>(77)</b>	<b>837,910</b>	<b>1,306,017</b>	<b>-</b>	<b>-</b>	<b>1,306,017</b>	<b>1,674,129</b>	<b>0</b>	<b>132,321</b>	<b>1,806,450</b>
<b>Treasury CFTL</b>	<b>620,480</b>	<b>161,506</b>	<b>9,923</b>	<b>791,909</b>	<b>630,401</b>	<b>-</b>	<b>(26,362)</b>	<b>604,039</b>	<b>723,414</b>	<b>51,055</b>	<b>(1,777)</b>	<b>772,692</b>
Presidente da República	4,493	2,148		6,641	6,271	-	-	6,271	5,677	738	-	6,415
Parlamento Nacional	12,000	-		12,000	12,447	-	-	12,447	15,569	-	-	15,569
Gabinete do PM e Presi. CoM	14,019	7,410	(1)	21,428	48,693	-	-	48,693	50,610	875	1,500	52,985
SE Conselho de Ministros	3,966	631		4,597	3,459	-	509	3,968	775	-	12	787
Sec Est Juventude e Desporto	4,516	690	0	5,206	6,221	-	-	6,221	5,620	-	-	5,620
Sec Est Recursos Minerais	5,167	3,050	0	8,217	6,655	-	-	6,655	6,319	-	-	6,319
Sec Est Política Energética	6,892	14	(74)	6,832	2,741	-	-	2,741	92	(40)	3	55
Sec Est Formação Prof e Empreg	4,850	5,249	1	10,100	2,534	-	-	2,534	22,255	-	25	22,280
Sec Est Promoção da Igualdade	971	74	1	1,046	1,130	-	-	1,130	1,378	-	-	1,378
Ministério da Defesa Seguransa	44,954	15,349	(2)	60,301	52,173	-	4,235	56,408	64,082	6,409	2,806	73,297
Min. de Negócios Estrangeiros	14,167	1	(1)	14,167	18,653	-	-	18,653	22,078	(1,399)	1,500	22,179
Ministério das Finanças	13,282	18,779	1	32,062	13,851	-	-	13,851	15,700	-	6,842	22,542
<b>Dotações para todo o Governo</b>	<b>54,275</b>	<b>9,211</b>	<b>-</b>	<b>63,486</b>	<b>64,761</b>	<b>-</b>	<b>(39,062)</b>	<b>25,699</b>	<b>46,995</b>	<b>5,702</b>	<b>(23,043)</b>	<b>29,654</b>
Ministério da Justiça	10,894	1,005	1	11,900	7,969	-	-	7,969	11,870	101	-	11,971
Ministério da Saúde	35,692	1,849	-	37,541	37,148	-	1,423	38,571	42,567	1,456	3,104	47,127
Ministério Educação e Cultura	67,486	3,137	(3)	70,620	70,139	-	4,520	74,659	93,516	202	48	93,766
Min Administração Estatal O.T.	21,078	32,580	(1)	53,657	47,026	-	380	47,406	75,142	-	1,821	76,963
Min Economia e Desenvol	13,376	1,153	-	14,529	8,644	-	-	8,644	5,502	(745)	132	4,889
Min da Solidariedade Social	69,597	34,150	-	103,747	118,728	-	-	118,728	127,986	34,042	120	162,148
Ministério das Infra-Estrutura	149,215	933	9,999	160,147	41,878	-	(209)	41,669	99	-	-	99
Min Turismo, Comercio, Industri	38,374	18,352	-	56,726	25,209	-	300	25,509	18,494	303	1,895	20,692
Min Agricultura, Florestas, Pesc	16,398	3,061	2	19,461	13,409	-	1,404	14,813	16,186	601	397	17,184
Tribunais	2,577	-	-	2,577	2,606	-	138	2,744	2,789	-	-	2,789
Procuradoria Geral da Repúblic	2,550	1,475	-	4,025	5,567	-	-	5,567	4,291	-	-	4,291
Provedoria de Direitos Humanos	864	-	-	864	1,298	-	-	1,298	1,249	-	73	1,322
Radio, Televisao de Timor-Leste	2,699	600	-	3,299	3,068	-	-	3,068	3,327	-	139	3,466

Comissao Nacional Das Eleicoes	4,153	-	-	4,153	4,538	-	-	4,538	5,848	-	595	6,443
Comissão Anti Corrupção	1,045	-	-	1,045	2,079	-	-	2,079	1,442	-	-	1,442
Comissão da Função Publica	933	603	-	1,536	1,506	-	-	1,506	2,538	685	-	3,223
Vice PM Cord e Assunto Social	-	-	-	-	-	-	-	-	692	100	-	792
Gab Min de Est da Pres do CoM	-	-	-	-	-	-	-	-	1,486	641	253	2,380
Gab Sec de Est Assunto Parlame	-	-	-	-	-	-	-	-	182	101	-	283
Sec de Est da Comunicacao Soc	-	-	-	-	-	-	-	-	1,797	101	-	1,898
Sec de Est do Fortal Instit	-	-	-	-	-	-	-	-	-	101	-	101
Sec Est Apoio Promo Sec Priv	-	-	-	-	-	-	-	-	1,784	101	-	1,885
Ministerio das Obros Publicas	-	-	-	-	-	-	-	-	41,872	702	-	42,574
Min dos Transport e Comunicaco	-	-	-	-	-	-	-	-	2,004	-	-	2,004
Ministerio do Turismo	-	-	-	-	-	-	-	-	3,601	278	-	3,879
<b>Special Funds</b>	-	-	-	-	<b>624,306</b>	-	-	<b>624,306</b>	<b>830,261</b>	<b>(50,000)</b>	<b>132,320</b>	<b>912,581</b>
Human Capital Fund	-	-	-	-	25,000	-	-	25,000	30,000	-	7,448	37,448
Infrastructure Fund	-	-	-	-	599,306	-	-	599,306	757,161	(50,000)	124,872	832,033
Infrastructure Fund Loan (ADB)	-	-	-	-	-	-	-	-	10,000	-	-	10,000
Infrastructure Fund Loan (WB)	-	-	-	-	-	-	-	-	10,000	-	-	10,000
Infrastructure Fund Loan (JICA)	-	-	-	-	-	-	-	-	3,100	-	-	3,100
Infrastructure Fund Loan (EXIM)	-	-	-	-	-	-	-	-	20,000	-	-	20,000
<b>Self Funds</b>	<b>39,126</b>	<b>16,876</b>	<b>(10,001)</b>	<b>46,001</b>	<b>51,310</b>	-	<b>26,362</b>	<b>77,672</b>	<b>120,454</b>	<b>(1,055)</b>	<b>1,777</b>	<b>121,176</b>
APORTIL CFTL	3,848	(150)	-	3,698	250	-	-	250	2,250	1,231	7	3,488
Aviation CFTL	792	-	-	792	534	-	(15)	519	504	-	20	524
EDTL CFTL	23,235	17,000	(10,000)	30,235	48,159	-	23,849	72,008	109,087	(4,000)	-	105,087
PIEM CFTL	11,251	26	(1)	11,276	1,317	-	50	1,367	2,857	1,569	650	5,076
SAMES Account	-	-	-	-	1,050	-	2,478	3,528	5,756	145	1,100	7,001

Source: MOF.

## Comparison of 2010 and 2013

Predictability in the provision of funds to MDA has remained sound, and the overall score for the indicator resulted in B+, which does not change from the 2010 PEFA assessment.

### Recent developments

In 2013, the Cash Management Unit has been created within the DG Treasury and an Accounts Advisor is presently coaching local staff in several aspects pertaining to cash flow forecasting and financial programming that were not addressed adequately in previous years.

### PI-17 Recording and management of cash balances, debt and guarantees

A Treasury Single Account (TSA) facility established at the Central Bank of Timor-Leste (CBTL) continued to operate over the past three years, which, among others, guarantee an effective monitoring of cash flows and balances and ultimately enable to project the liquidity of GOTL resources in the banking system. The TSA is literally a single account with no sub-accounts for different spending units, not enabling good cash management, not easing the monitoring of consolidate cash position and automatic bank reconciliations for Whole-of-Government. The GOTL FMIS (Free Balance) includes a treasury ledger for the purpose of monitoring the cash resources available, irrespective of source of official funding.

Starting 2012, the Government decided to borrow from multilateral and bilateral agencies in the face of growing budgetary needs for the building of economic and social infrastructure. The creditor external agencies involved required separate bank accounts for the operation of their loans to be linked directly with the Infrastructure Fund which forms part of the TSA. This has resulted in a parallel ledgering system with externally-funded project operations being recorded and cash balances of externally-funded capital projects reported away from central treasury.

The BFM Law makes a provision for recording and managing loans and guarantees (Article 20). It prescribes, among others, that loans are recorded only at the stage of disbursement to the Treasury and accounted for through the Consolidated Fund of Timor-Leste. The BFM Law stipulates the Minister of Finance as the sole authority able to grant or contract loans on behalf of the Government and represent the Government in all agreements related to granting or taking out loans, issuing guarantees and taking contingency obligations.

As for the issuing of official loan guarantees, the existing legislation requires that the Minister of Finance may issue any guarantee binding the Government without a second authorization, provided the guarantee is not higher than the unspent budget appropriations allocated to the Ministry of Finance, and in the case of a specified amount, when duly authorized by law. Furthermore, the Government is required to report to the Parliament all the operating expenses of all loans, whether by capital amortization or payment of interest or other fees payable incurred as part of the loan. Government expenses arising from fulfilment of guarantees and insurance obligations will be part of debt service expenses.

Dimension	2010 Score	2013 Score
Overall score (scoring method M2)	C	B
(i) Quality of debt data recording and reporting	N/A	N/A
(ii) Extent of consolidation of the government's cash balances	C	B
(iii) Systems for contracting loans and issuance of guarantees	N/A	N/A

### 2013 assessment

**Debt records and reports are available for public loans only starting 2013, as there were no other officials previously.** Starting in 2013, the Ministry of Finance recorded the first loan receipts from multilateral and bilateral aid agencies in the Free Balance system after several years of having virtually no debt. The administrative and technical capabilities are in progress of being built within the newly established Cash Management Unit.

**The Cash Management Unit calculates and monitors the cash balances of Government weekly and undertakes comparisons feeding into cash management and releases-related actions.** It calculates and consolidates statements on cash balances of Government bank accounts, with the exception of most donor-funded projects. Monitoring of regular cash monitoring includes reports of balances at Government bank accounts opened at the Central Bank of Timor-Leste (the TSA), the Australia and New Zealand Banking Group (ANZ) and the Banco Nacional Ultramarino (BNU). The progress on the performance of this process merits a score of B.

## Comparison of 2012 and 2013

Only the second dimension of this indicator is relevant in the context of TL. The score has improved from C in 2010 to B in 2013. This is attributed to the improvement in the process of consolidating cash balances on a weekly basis, now comprising all bank accounts directly controlled by the General Directorate of Treasury, except donor related special funds/bank accounts. The debt related indicators remain non applicable.

### Recent developments

**Starting 2013, the contracting of official loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by the Ministry of Finance on behalf of Government, in accordance to the BFM Law.** The incurring of debt, the contracting of loans and issuing of guarantees are ultimately approved by Parliament on the basis of debt ceilings. In 2012, the National Parliament approved a total of US\$557 million in loans within the annual debt ceilings specified for the period 2012–2016, including government co-financing (Table 21).

**Table 21: Projected loans and co-financing to Government, 2012–2016**

(In millions of US\$)

	2012	2013	2014	2015	2016	Total
Loans	43.10	80.20	81.10	102.80	107.00	414.20
Co-financing	9.93	24.05	24.32	30.85	54.00	143.15
Total	53.03	104.25	105.42	133.65	161.00	557.35

Source: Major Projects Secretariat, MOF.

## PI-18 Effectiveness of payroll controls

A new payroll system was established in June 2011 and designed to become a new module to Free Balance payments software. According to a 2013 Deloitte external audit report<sup>29</sup>, it has inbuilt controls that require authorization by the Head of Department for amendments to the master file such as new additions (assignments), terminations and changes in pay grade or scale.

As a result, the processing of Government payroll has improved since 2012. According to Deloitte payroll reviews, in 2010 a total of US\$10.5 million of salaries and wages and in 2011 a total US\$9.7 million were paid that were not processed through the regular payroll (i.e. were processed as manual transactions). Presently, all government employees are paid electronically to direct bank accounts except a few hundreds that are about to be incorporated in 2014.

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	D+	C+
(i) Degree of integration and reconciliation between personnel records and payroll data	D	C
(ii) Timeliness of changes to personnel records and the payroll	B	A
(iii) Internal control of changes to personnel records and the payroll	A	B
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	D	C

## 2013 assessment

**The personnel management journal (the Personal Management Information System, or PMIS, operated through the Public Service Commission) and the central payroll payments system (operated through Free Balance) are not directly linked by appropriate means at present.** A systems interface is being tested to become operational in early 2014. PMIS continues to confront serious operational problems, according to audit reports. There is an updating process of the personnel database in Excel and a personnel accounts reconciliation process taking place manually every month, within a fixed calendar, whereby all personnel change notifications or “variations” are submitted in order to verify the accuracy and validity of the data within the MOF Payments Directorate. This requires a large amount of labour in integrating the personnel database and payroll and ensuring a maximum of data consistency and adequate synchronizing, all of which is expected to be supplanted by an automated process; otherwise the continuum of the status quo may potentially undermine the reliability and integrity of the personnel transacting process. In 2013 there have been about 44,000 variations, all of which continue to require a large amount of manual labour within the MOF Payment Directorate’s Payroll Unit. This provides for a score of C in the first dimension.

**Notifications of personnel changes are received no later than the 11<sup>th</sup> of every month and then generally verified and processed through the payroll payment system every month, generally in time for the**

<sup>29</sup> CFET Management Letter, Deloitte & Touche, Review Processes in Payroll Department 2010 and 2011, Final Update on Prior Years Key Findings, 2 August, 2013.



**following month's payment.** The senior financial official in charge of personnel affairs at every ministry is responsible for endorsing the necessary changes on prescribed templates, supported by relevant journals and submission to the MOF before 11th of each month for inclusion in the same month's payroll (this closes on the 20th of the month). The MOF Payments Directorate undertakes a pre audit before recording the change into the system. There is a strong change control mechanism for payroll at line agency level and a manual integration with payroll is in effect. Assessors were not provided with any evidence to demonstrate that changes in contractual personnel take place as timely and effectively as those for full time staff—according to Payments Division, the contractual staff (composed most predominantly of part-time consultants and labourers) represent less than 10% of total personnel entered into the Government payroll. This progress merits a score of A.

**Authority restrictions and basis for changes to personnel records and the payroll are in general clear<sup>30</sup>, with the exception of those internal controls governing the appointing and promotions of personnel by different levels of management.** The authority for approval of established posts, appointments, promotions and reallocations of personnel varies depending on the hierarchy/grade of line management staff in consideration, that is, within the Public Service Commission or the relevant Minister in charge. Professional cadres and salary scales were established within public health<sup>31</sup> and education<sup>32</sup> following the enactment of organic laws in the respective ministries since 2010 and yet, the operationalization of administrative procedures and controls for approval of job selections and promotions and determination of grading and salary rates of public service are still far from optimal thus weakening the basis of decision making processes. On the positive side, the process of authorizing changes made to personnel records is verified periodically through audit trails by the Payment Division's Payroll Unit. The latter represents a positive development in the process of maintenance of personnel records. In light of the existing strengths and weaknesses described, the overall performance assessed in dimension (iii) merits a score of B.

**Interim controls are strict at the stage of controlling civil service absenteeism but the existence of payroll audits to identify other control weaknesses and possible ghost workers is generally non-existent across ministries.** Attendance reports are submitted by MDAs to the MOF Payroll Unit monthly so deduction can be made for absenteeism. In view of the growth in payroll expenditure (see Section on Budgetary outcomes), a level of personnel payroll check or random sampling of employees and tracing of the hours worked to the employee's timecard to verify accuracy and supervisor's authorization is not imposed on the system through the budgeting process. Ministries, for example, are not required to submit a statement or a staffing plan providing its estimated payroll cost for the coming year using some electronic form. This process could then become part of the monitoring mechanism to eliminate any weaknesses. Computer-aided audits to mitigate the risk of ghost workers are not undertaken and the internal audit mechanism is still lacking to work as a management support function. This provides the basis for a score of C in the last dimension.

### Comparison of 2010 and 2013

The overall score of this indicator improved from D+ in 2010 to C+ in 2013. Clearly, the performance of the payroll payments and payroll internal controls had benefitted significantly from the launching of a new payroll system operating under Free Balance since 2012 and of an interim personnel accounts reconciliation process.

### Recent developments

Organic laws in various line ministries had been put in effect since 2011 and yet, a personnel management process to assess the civil service, guide the promotion of staff and update the salary compensations matrix of the civil service is still deficient. There is therefore no system for staff appointments and promotions operating on the basis of competence and performance.

### PI-19 Competition, value for money, and controls in procurement

The Constitution of Timor-Leste does not make an explicit reference to procurement principles such as fairness, equity, transparency, competitiveness and cost-effectiveness. In addition, the Budget and Financial Management (BFM) Law does not provide for any explicit provision in regards to procurement. In general, fragmentation in the regulatory framework is predominant due to the emergence of other pieces of relating financial legislation.

<sup>30</sup> A final version of internal controls and procedures is being drafted for payroll and other financial management roles and responsibilities, as the internal audit function and the District Treasuries enter into effect and changes in personnel are transacted through automated means.

<sup>31</sup> Decree-Law 13/2012, which approved the Statute of Public Health Profession (*Carreiras dos Profissionais da Saude*).

<sup>32</sup> Decree-Law 23/2010, which approved the Statute of Teaching Career (*Estatuto da Carreira Docente*).

**Box 3: Institutional setting of public procurement management in Timor-Leste**

The following entities are entitled to approve contracts prior to the signature of the responsible minister (Article 15):

- a) In contracts over US\$ 3,000,000 – the Council of Ministers; and
- b) In contracts between US\$ 1,000,000 and US\$ 3,000,000 – the Prime Minister, who may delegate this authority to another high-level official.

The following entities are entitled to authorize procurement procedures and sign the respective contracts up to US\$ 1,000,000 (Article 15):

- a) Heads of sovereignty bodies, with the possibility of delegation;
- b) Ministers and secretaries of State, according to their respective organic laws, with the possibility of delegation;
- c) All other public bodies

The Government also created the Procurement Technical Secretariat, with competences in the area of procurement projects over US\$ 1,000,000, under the guidance of the Council of Ministers or the body delegated by it, appointed by dispatch from the Prime Minister (Article 23-A).

The regulatory framework does make provision for deviations/exemptions subject to specific provisions (“Procedures for Direct Adjustment Procurement”, Article 92).

Decree-Law 01-2010 establishes an institutional division of procurement management (Box 3). The National Procurement Commission, under the guidance of the Council of Ministers or the body delegated by it, is appointed by dispatch from the Prime Minister with the following duties: (a) Monitoring process implementation; (b) Monitoring project execution; and (c) Evaluating outcomes.

Decree-Law 03-2010 elaborates the roles and responsibilities of the National Procurement Commission and the Procurement Technical Secretariat.

The MOF is vested with executive powers to propose policies and draft the necessary regulation projects on procurement and manage the supply of procured assets to every ministry. Public procurement and management of inventories and fixed assets fall under various MOF units. These include National Directorate of Supply and Assets Management, the National Directorate of Accounting and Financial Regulation, and the National Directorate of General and Financial Management.

**There are no institutional arrangements and underlying procurement regulations to support the de-concentration of public procurement operations.** This causes problems in the development of procurement policies and procedures and the operation and authorization of procurement transactions across MDAs. Only within MOF there is a Commission (the Permanent Commission of Quotations and Tenders) that processes the procurement of purchases and contracts below US\$1 million. Its function is to verify compliance with the assistance of the Legal Unit. No such commissions exists in line ministries as of yet.

Dimension	2010 Score	2013 Score
Overall score (scoring method M2)	C	D+
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	Not comparable	B
(ii) Use of competitive procurement methods	Not comparable	D
(iii) Public access to complete, reliable and timely procurement information	Not comparable	C
(iv) Existence of an independent administrative procurement complaints system	Not comparable	D

**2013 assessment**

**The Public Procurement System of Timor-Leste meets four of the six criteria recommended for a proper legal and regulatory framework.** The Government institutions are obliged to use the regulatory framework described above but implementation is poor. The findings are summarized in Table 22. This merits a score of B in the first dimension.

**Table 22: Requirements on the legal and regulatory procurement framework**

Requirement on the legal and regulatory framework	Justification
Be organised hierarchically and precedence is clearly established	Yes, the Decree-Law 01-2010 describes how the regulatory framework is hierarchically structured and indicates the precedence and applicability of procurement methods. The MOF has a National Directorate of Accounting and Financial Regulations that is the custodian of the regulatory framework and the National Directorate of Supply and Assets Management that coordinates and manages the storage and distribution of procured goods to all government entities.
Be freely and easily accessible to the public through appropriate means	Yes, all the different pieces of legislation are publicly available through various government websites and libraries.
Apply to all procurement undertaken using government funds	Yes, the regulatory framework described above applies to all procurement where public funds are used. This regulatory framework also comes under scrutiny when MDAs and Autonomous Public Entities are audited every year.
Make open competitive procurement the default method of procurement and define clearly the situations in which	No, the regulatory framework provides clear and specific thresholds that apply to different open methods of procurement. The policies, however, do not define clearly the specific situations, prescripts and control measures

Requirement on the legal and regulatory framework	Justification
other methods can be used and how this is to be justified	where deviations from the legislation are to be justified and met by MDAs, as well as reported and disclosed. The existing legislation prescribes, for example, that the Public Service may opt for direct selection in case of “an unforeseen situation which endangers public health and safety” thus resulting in high degree of discretion (Article 92). In this case, it is unclear what these unforeseen circumstances are interpreted without specificity.
Provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	No, only bidding opportunities and contracts awarded (contracts above the threshold of US\$1 million) are published through the Procurement Portal. Although Ministries prepare procurement plans before the start of every financial year, these plans are not made available publicly (these are considered documents for internal use only). Only the corporate plans (annual actions plans) are published in lieu of procurement plans. Procurement complaints, if any, settled with the private sector are not reported publicly.
Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	Yes, the regulatory framework does provide for specific prescripts regarding procurement complaints and any interim arrangement through the court system falls short on implementation. The Government does prescribe for an independent procurement complaints body and this is not yet operational. Applications for access to information on complaints by private companies are generally dealt with outside of the procurement process.

**Ministries have a centralised approach to procurement process and a system of financial delegation does not exist.** This suggests lessening of transparency within public procurement with the Ministry that filters down to end-users and ultimately suppliers. In turn, it affects the competition and the figures in support of large amounts of irregular expenditure emphasise it. Moreover, the Government does not require individual Ministries such as Education and Health to develop its own policies and specialized bidding standards and procedures to cater for its uniqueness.

**Reliable data on deviations, with reasons, from open competition could not be provided.** Neither the MOF nor the National Procurement Commission nor the ministries interviewed could provide reliable data on the justification for deviating from less competitive procurement methods. Whilst open competitive tendering is in principle the default method for public procurement, in practice there is a lack of data that might suggest whether or not open competition is the preferred mode of public procurement. There is no established process and/or system within the National Procurement Committee to record cases where Ministries deviated from the procurement policy and process as this body is still at a nascent stage. This provides the basis for a score of D in the second dimension.

**Also there is no clear pricing normative whereby minor goods and services can be purchased on the basis of a market-based reference price through the e-Procurement portal or other appropriate means.** In the absence of that information, there is always a potential chance of small suppliers overcharging and an upward spiral of irregular expenditure.

**Only bidding opportunities and contracts awarded are made public for all government purchases and contracts.** Only contracts awarded on amounts above US\$1 million and bidding opportunities were advertised regularly through the MOF Procurement Portal and recognized media of communication over the past three years. The two other elements, procurement plans and data on resolution of procurement complaints, are lacking. As for public access to complete, reliable and timely procurement information, the Government has not established a policy of access to complete public information whereby any individual who wishes to obtain specific information on any aspect of public contracts awarded and other relating information about the affairs of government can apply for the information. In recent years, several countries have applied in terms of a Promotion of Access to Information Act or other similar legislation<sup>33</sup>. The Government does not have a nodal point, known to the public, where specifics on contracts awarded and other procurement information can be accessed. The situation described leads to a score of C in the third dimension.

**There is no functional independent administrative procurement complaints system operating in Timor-Leste, despite of the existing legislation providing for complaints procedures.** The Procurement Commission is in the process of building the necessary capacities to perform its mandate effectively. Complaints are not reviewed by an independent body comprised of experienced professionals familiar with the legal framework for procurement, drawn from the private sector and civil society as well as government, nor is it

<sup>33</sup> See Principle 10 and the Access Initiative in Asia: Experience and Lessons Learned, March 25-29, 2013, Hanoi. Presently, over 90 countries have adopted framework laws or regulations for access to public information, including in recent years China, Indonesia, Nigeria, Liberia, Mongolia and Brazil. The Access Initiative is laid on the basis of the Rio Declaration mandating in its Principle 10 the appropriate access to information, encouragement of public participation and effective access to judicial proceedings.

involved in procurement transactions or in the process leading to contract award decisions. Although the Government does not charge fees to handle complaints, these complaints are dealt with by the officials who work with procurement and not an independent body/forum established for that purpose. There is no dedicated independent professional body with the authority to suspend the procurement process or issue decisions that are binding on all parties. This provides the basis for a score of D in the fourth dimension.

### Comparison between 2010 and 2013

Comparison is not possible on this indicator due to changes in the assessment method on the performance of public procurement.

### Recent developments

After more than three years of consultations with various stakeholders and the private sector and more than 300 comments provided, the draft procurement regulations (the New Omnibus Procurement Law, Rules, Regulations and New Standard Forms)<sup>34</sup> were sent to the Council of Ministers for approval in November 2013. COM approval is expected on April 22, 2014 and this will lead to the issuing of two major documents, one pertaining to public procurement policies (i.e., value for money, competition, transparency) and one on the procurement procedures (i.e., implementation rules).

### PI-20 Effectiveness of internal controls for non-salary expenditure

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	C+	C+↗
(i) Effectiveness of expenditure commitment controls	A	A
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	C
(iii) Degree of compliance with rules for processing and recording transactions	B	B

### 2013 assessment

**Commitment controls are generally effective in that payment expenditures are limited by commitments and restrains expenditure from exceeding the available cash resources through an automated procedure in the Free Balance software.** The procedure, however, does not comprehensively cover some categories of expenditures such as essential purchases and minor capital items. Also it does not track procurement plans and payment orders according to a fixed commitments calendar in support of regular service delivery unit operations. This merits a score of A in the first dimension.

**Other internal controls and manuals are lacking, presently being commissioned for elaboration by the MOF Inspection and Audit Office, as part of an internal controls handbook.** This is sought to incorporate a comprehensive set of rules for human resource management, procurement, selecting of viable projects, fixed asset management and inventorying. Ex-ante, non-financial internal controls for payment authorization, including approval of purchase orders and contracts based on authority levels, are missing; which increases the risk of loss in quality of goods and services procured. Other internal controls only consist of a basic set of rules for processing and recording of financial transactions, which are generally understood by those involved with the Free Balance IT system. This provides the basis for a score of C in the second dimension.

**Compliance with existing basic rules for processing and recording of financial transactions appears satisfactory for the most part.** Still, minor repeated breaches of rules and occasional use of simplified/emergency procedures with adequate justification are documented throughout external audit reports. Rules' effectiveness is reduced by the weak control and governance frameworks, which are now in the process of being strengthened through reforms under the lead of the Inspection and Audit Office. This merits a score of B in this dimension.

### Comparison between 2010 and 2013

No changes in scores.

### Recent developments

Draft financial management regulations and a new Treasury Manual are awaiting approval of the Council of Ministers and the elaboration of a handbook on accounting procedures and internal controls is yet to be commissioned by the Inspection and Audit Office. In November 2013, an internal audit for the Ministry of Health was conducted but the assessors had limited access on the details of the audit results.

<sup>34</sup> One comprehensive decree law was developed from twelve existing decree laws. These comprise Decree Laws 10/2005, 11/2005, 12/2005, 14/2006, 24/2008, 1/2010, 2/2010, 3/2010, 14/2010, 14/2011, 15/2011 and 18/2011.

**PI-21 Effectiveness of internal audit**

The internal audit function has transitioned from practically being non-existent in the period reviewed to building momentum and getting into operational only until recently. There are important legislative and institutional efforts that have already taken place to create the necessary organisational internal audit structure and professional standards across Government. An Office of Inspection and Audit (IAO) has been created with the appointment of a Head of Unit and donor agencies are providing technical assistance and external advisory services.

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	D	D↗
(i) Coverage and quality of the internal audit function	D	D
(ii) Frequency and distribution of reports	D	D
(iii) Extent of management response to internal audit findings	D	D

**2013 assessment**

**The MOF Organic Law Decree 41/2012 has led to the creation of the Inspection and Audit Office (IAO), which reports directly to the Minister of Finance.** The IAO has drafted an Internal Audit Charter and Mission Statement comprising a broad scope of roles and responsibilities and specific stages in the internal audit process, including risk-based assessments, planning, reporting and monitoring activities.

**The functioning and performance of internal audit is being focused on the system-based audit approach thus requiring to identify the most strategic and high-risk areas and assess the appropriateness and performance of internal controls systems in PFM rather than focusing on departments or individuals.** The global requirement on internal audit focusing on systemic issues is echoed in the ministries visited although it is not possible to verify that it represents more or less than 50% of activities until the internal audit approach above is well adopted as the existing reporting appears to aim more at tackling compliance with documentation and other basic financial issues rather than system-wide recommendations. The Inspection and Audit Office is planning to provide training and sensitization programmes in internal audit to ensure full adherence to systemic issues, as prescribed by IIA standards. Once potential staff are identified and recruited, the MOF will aim towards countering the issue of skills shortage gradually—the MOF is committed to employ newly graduated Timorese nationals from the accounting, finance and economics faculties and from universities abroad.

**Presently, the internal audit capabilities are in the process of building and staffing since the IAO was created in May 2013 and hence, constraints in human resources are presently being addressed, as documented in recent IAO reports availed to the PEFA team.** For now, IAO is composed of a Head of Unit, five local officials and one advisor hired and for 2014 two additional local auditors are planned. Within the six months of the establishment of the internal audit function, the IAO has conducted a comprehensive risk-based assessment study which will enable a broad scope of work, including assessing the effectiveness of various cross cutting PFM functions and internal controls and the planning of internal audits across Government. No internal audits had been performed across MDAs during the period in consideration.

**Comparison between 2010 and 2013**

There are no changes in the overall score of this indicator. The arrow demonstrates that recent reforms to the regulatory framework and improvement mechanisms are yet to have a marked impact on the quality of the internal audit work. Internal Audit had been ineffectual in the period reviewed, impaired by the lack of modern internal audit practices and its scope of responsibilities in recent pieces of financial legislation, as indicated by the D score.

**Recent developments**

As part of a strategy plan, the IAO has recommended a specific legislation and a capacity building programme to cover systemic PFM issues within Government and respond to the needs and professional standards of modern internal auditing. A draft document is going to be requested by IAO and will be disseminated to MOF for comments and approval.

Internal control guidelines supporting the changes in the draft financial regulations are envisaged by MOF. The proposed internal controls aim to provide detailed guidance to the future internal audit units to plan their activities, to assess and analyse risks, to elaborate their work plans and perform their audit. Special audit techniques are envisaged in the Manual such as the Computer Assisted Audit Techniques and Value-for-Money. The standards are in keeping with that of the Institute of Internal Audit (IIA). The IAO is also committed to entering into agreement with the Institute of Internal Audit to adhere to international standards and initiate a training and improvement programme. The IAO is yet to develop a Quality Assurance and Improvement Programme mechanism for internal audit, among others.

### 3.5 Accounting, recording and reporting

This group of indicators describes: the extent to which managers at all levels have sufficient, appropriate and timely information on the use of resources in practice to enable them to take appropriate management decisions when budget execution is not progressing according to plan; and the extent to which appropriate and timely accounting information is made available for external scrutiny to ensure sufficient transparency and for the government to be held to account for its use of public resources.

#### PI-22 Timeliness and regularity of accounts reconciliation

Dimension	2010 Score	2013 Score
Overall score (scoring method M2)	B	B+
(i) Regularity of bank reconciliations	B	B
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B	A

#### 2013 assessment

**Bank reconciliation for all Treasury-managed bank accounts takes place monthly, usually within four weeks of end of period.** Reconciliation of those bank accounts under direct control of the Treasury is performed by the Cash Management Unit on a monthly basis and a reconciliation statement is issued at aggregate and detail bank account levels within four weeks from end of month. Reconciliation of donor-related bank accounts is the responsibility of the programme manager in each ministry, with the results not always being reported into the FreeBalance FMIS.

There are no rules issued to MDAs and APEs regarding the timeliness of government bank accounts reconciliation, they only require that these be authorized Treasury bank accounts so to be swept into the Treasury Single Account (TSA). Reconciliation of bank accounts takes place monthly between the DG Treasury and MDAs and enables the Free Balance FMIS system to identify outstanding deposits and cheques not yet cleared. A Cash Management Manual is yet to be developed by DG Treasury so as to provide guidance on bank account reconciliation and other related routine procedures. Challenges remain in relation to keeping bank reconciliations of assignment accounts, purchase ledger accounts and special donor-related accounts under strict control. This information provides the basis for a score of B in the first dimension.

**Reconciliation and clearance of suspense accounts, employee advances and other advances is performed by the National Directorate of Payments and takes place monthly, with a statement copied to DG Treasury within thirty days from end of month.** Information about advances is included in the financial statements and according to audit reports, minimal balances remained un-cleared at end of year for the period under review (Table 23). These include advances to MDAs, districts, embassies, and petty cash. The intention is to monitor them effectively to facilitate their reconciliation and clearance in a timely manner. This progress in the reconciliation process merits a score of A in the second dimension.

**Table 23: Cash balances and advances accounts at end-December, 2010, 2011 and 2012**  
(In US\$, unless otherwise noted)

	2010	2011	2012
<b>CFTL</b>			
<b>Cash balance</b>	<b>318,737</b>	<b>202,545</b>	<b>296,829</b>
at BCTL	317,404	200,949	276,154
at ANZ	293	1,025	1,126
at BNU	1,040	571	19,549
Conta Maritima	177	6	2,682
Conta da Electricidade	460	158	14,882
Conta da Electricidade 2	343	403	490
Conta da Aviacao	60	4	1,495
<b>Advances</b>	<b>2,949</b>	<b>3,140</b>	<b>4,927</b>
<b>(% of total budget)</b>	<b>0.4%</b>	<b>0.2%</b>	<b>0.4%</b>
to MDAs	1,334	2,007	3,146
to Districts	596	720	1,090
to Embassies	1,005	307	291
to Minor Capital	-	-	6
to Transfers	-	-	388
to Petty Cash ( <i>Fundo de maneo</i> )	14	106	6
<b>INFRASTRUCTURE FUND</b>			

	2010	2011	2012
Cash balance at BCTL	-	165,676	460,676
<b>HUMAN CAPITAL DEVELOPMENT FUND</b>			
Cash balance at BCTL	-	10,206	5,775
Advances	-	26	31

Sources: MOF; and Deloitte audit reports.

### Comparison between 2010 and 2013

Overall score of this indicator improved from B in 2010 to B+ in 2013. This is attributed to improving of cash management, as reflected by decreasing advances and suspense accounts.

### PI-23 Availability of information on resources received by service delivery units

Dimension (scoring method M1)	2010 Score	2013 Score
Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units	D	D

### 2013 assessment

**No comprehensive data has been collected in the 2010–2012 period under review on the provision of resources to schools, health care and other primary service delivery units across districts.** Although the FMIS Free Balance has the capacity to issue such reports, no comprehensive data has been collected through expenditure tracking surveys, independent audits, inspections or other means to assess the timeliness or adequacy of payments and/or supplying of essential goods and services to front-line service delivery units on a district by district basis. Information on the physical amounts of resources reaching primary service units had not been collected either, which is very demanding by the civil society.

### Comparison between 2010 and 2013

No change in score.

### Recent developments

No meaningful actions were undertaken since 2010, despite the same low score in the previous PEFA assessment.

### PI-24 Quality and timeliness of in-year budget reports

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	C+	C+↗
(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	A
(ii) Timeliness of the issue of reports	C	C
(iii) Quality of information	B	B

### 2013 assessment

**Expenditure is reported through electronic means and printed form at both commitment and payment stages throughout the year.** It provides direct comparison with the original and revised budgets, compares to the period of previous year, and includes the balance at all items of budget estimates. Comparison between budget estimates and actual out-turns is possible in aggregate and by administrative headings. This information provides for a score of A in the first dimension.

The capability of producing timely in-year budget reports has steadily improved over recent years with the implementation of the Free Balance FMIS. In-year budget reports are generated in a consolidated format against each budgetary classification and include: original budgetary provision; supplementary allocations; surrenders / excesses; in-year adjustment / re-appropriations; expenditure for the month; accumulated expenditure for the financial year to date; and remaining allocations. These reports are issued on a real time basis and can be accessed through the Budget Transparency Portal.

**Reports are issued to the general public on a quarterly basis as required by the BFM Law (Article 44-Reports on the Progress of the Budget), with delays of about two months.** Regular information on budget

execution is recorded by Ministries in Free Balance but reporting of donor-funded capital expenditure is inconsistent. Internal monthly budget execution reports are also issued with a lag of about four weeks. MDAs depend on their budget ledger (cash allocation approved or revised in the budget) in Free Balance to keep track of their own expenditures against budget. This provides the basis for a score of C in the second dimension.

**There are no major material concerns about accuracy and integrity of data, and statistical discrepancies are generally highlighted in the reports and do not compromise overall consistency of in-year budget execution reports.** The Ministry of Health visited by the PEFA team, acknowledged some minor concerns about discrepancies and consistency of financial data in budget execution reports. The team did not observe any major discrepancies in the reports reviewed. This merits a score of B in the third dimension.

### Comparison between 2010 and 2013

There has been steady improvement in financial reporting capabilities through Free Balance software since 2010, the same concerns expressed in the previous PEFA assessment prevailed with regards to the second dimension. No change in the overall score, as a result.

### Recent developments

No recent developments noted.

### PI-25 Quality and timeliness of annual financial statements

Article 45 of the Budget and Financial Management (13/2009) Law requires that annual government financial statements (*Conta Geral do Estado*) include the following elements:

- An overview of revenues and expenditures and explanation of deficit financing (clause 3 of BFM Law);
- Detailed analysis of revenues and expenditures in line with the budget expenditure classification (clause 4) and;
- Information on assets and liabilities (clause 5).

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	C+	A
(i) Completeness of the financial statements	C	A
(ii) Timeliness of submissions of the financial statements	A	A
(iii) Accounting standards used	A	A

### 2013 assessment

**The financial statements (FS) for 2010, 2011 and 2012 have been consolidated<sup>35</sup> (General Government) and disclosed with all three elements indicated above.** Note 2 of the financial statements disclose all government bank account balances and other financial assets not covered by the Petroleum Fund. In the 2010-2012 period reviewed there have been no financial liabilities to declare as Government had not incurred any debt up to 31 December 2012. Information on donor-related special funds, however, is reported in a separate statement on revenues and expenditures. This results to a score of A for the first dimension.

Also, Article 42 of the BFM Law sets out the timeline for the preparation of the annual FS by the Government. Despite it being a relatively new piece of legislation, Law 13/2009 has been subject to two revisions. In the first amendment in August 2011, the original deadline for submitting the FS to the supreme audit institution (Article 42) was reduced from six to five months<sup>36</sup> from the end of the Fiscal Year. A second amendment in September 2013 extended the deadline to seven months<sup>37</sup>. The latter was in force at the time of the 2013 PEFA assessment.

In the absence of a supreme audit institution (SAI) in TL, an independent certified audit firm from the commercial sector (herein external commercial auditor) has been routinely assigned the function of external auditor in recent years.

In 2011, following the enactment of the 9/2011 Law on the *Organic Structure of the Chamber of Accounts (Camara de Contas) of the Supreme Administrative, Fiscal and Accounts Court*, an interim institutional

<sup>35</sup> In 2011, the Infrastructure and Human Development Funds were created as an attempt to streamline the public investment expenditure envelope. Since then, MOF prepares separate financial statements for the two funds which are taken into account in the consolidated statement produced under the main Consolidated Fund of Timor-Leste.

<sup>36</sup> Amendments introduced by Law 9/2011 of 17 August 2011. NB: the amendments were incorporated in the legislative piece that enacted the interim SAI, the Chamber of Accounts.

<sup>37</sup> Amendments introduced by Law 3/2013 of 11 September 2013.



arrangement has been made for the SAI and the function of public external audit. The Chamber's inaugural scrutiny of annual government FS has been on the 2011 Fiscal Year.

**In the period reviewed under this PEFA assessment, the MOF has submitted the financial statements for external audit in a timely manner, that is, within six months of the end of the financial year for the three years under review.** Consolidated annual FS submitted by MOF were audited and certified by the external commercial auditor as follows:

- The 2010 FS on the 30th of June 2013.
- The 2011 FS on the 16th of July 2012.
- The 2012 FS on the 15th of June 2013.

The audited government FS are routinely placed at the disposal of the Chamber of Accounts<sup>38</sup> and National Parliament. However, in actual practice there is no relationship between the external commercial auditor and the Chamber, with the two audit processes practically running in parallel (see further discussion under PI-26). Due to the above, the score for the second dimension is A.

**GOTL uses the cash basis of accounting, compatible with IPSAS standards.** Financial statements are presented in a consistent format, corresponding to core definitions and guidelines set forth by the International Public Sector Accounting Standards (IPSAS) Cash Basis, and the national accounting policies are specified accordingly. The external commercial auditor confirms compliance with Part I of the IPSAS Cash Basis of Accounting. The score for the third dimension is A.

### Comparison of 2010 and 2013

The adoption of IPSAS Cash Basis, Part 1 (Requirements for the Disclosure of Information in the Financial Statements and Supporting Notes) has been the key development in the period reviewed.

### Recent Developments

No recent developments.

## 3.6 External scrutiny and audit

This group of indicators describes the degree of independence of the oversight function and the effectiveness of external scrutiny of the use of public resources by the government. This area of the PFM system performs the crucial function of holding the executive to account for its performance in the management of public resources. Even if the rest of the PFM system is robust, weakness in this area of the system may undermine all other components. Audit reports would be expected to describe any major problems in the accounts or in the underlying systems, and to present recommendations that the executive (and in some cases the courts) ought to act upon.

### PI-26 Scope, nature and follow-up of external audits

Public external audit in TL is enshrined in Sections 129 and 164 of the Constitution. There are also clear provisions made in the Budget and Financial Management Law 13/2009 with regards to the process and timelines for the preparation, external audit and submission of annual government financial statements (FS) to the National Parliament (NP).

The Supreme Court of Appeals (*Tribunal de Recurso*) is responsible for assisting Parliamentary Committee C on Public Finances in the process of examining the annual FS and monitoring the execution of the Budget. In August 2011, the 9/2011 Law on the *Organic Structure of the Chamber of Accounts (Camara de Contas) of the Supreme Administrative, Fiscal and Accounts Court* came into force mandating the Chamber of Accounts as an interim supreme audit institution (SAI) within the remit of the Court of Appeals<sup>39</sup>. This is an encouraging first step in establishing the institutional arrangements for public external scrutiny of government financial operations.

<sup>38</sup> The Chamber of Accounts is subordinated to the Court of Appeals (*Tribunal de Recurso*). Prior to the creation of the Chamber the Court of Appeals was solely responsible for the SAI functions – see discussion in PI-26).

<sup>39</sup> The SAI in TL is foreseen as a court, part of the judiciary. The Chamber is currently still under the Supreme Court of Appeals and is composed by a minimum of three judges, including the presiding judge. The judges are supported by a technical secretariat (*Servico de Apoio*) with fifteen auditors. At the time of the 2013 PEFA, the secretariat was assisted by four foreign advisors. One of the core elements of the Chamber's mandate is the undertaking of pre-audit (ex-ante control) prior to government contract awards worth US\$5 million or more. For the 2013 Budget, the Chamber scrutinised 53 such contracts. It is noted that the threshold for pre-audit used to be US\$0.5 million until August 2013, after which this was increased through the amendment of Law 9/2011 to reduce serious bottlenecks to the implementation of government projects.

The Court of Appeals, and more recently through the Chamber of Accounts, undertakes its own (parallel) auditing process. The Chamber may or may not take into advisement the *opinion* on the annual FS provided by the commercial audit firm (herein external auditor) contracted by MOF to undertake the external audit. The external auditor's report, however, is placed at the disposal of the NP as documented in the formal Communications of Committee C on the analysis of the FS (*Envio do Relatório e Parecer sobre a Conta Geral do Estado*) – see also discussion under PI-25.

Given that the Chamber is still in its infancy as an institution and the fact that the process involving the external auditor has been a sufficiently coherent interim solution for the function of public external audit in TL in recent years, we shall consider the external auditor being subject for assessing dimensions (i) and (ii) of this indicator.

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	C+	C+
(i) Scope/nature of audit performed (including adherence to auditing standards)	C	B
(ii) Timeliness of submission of audit reports to legislature	B	C
(iii) Evidence of follow-up on audit recommendations	A	B

### 2013 assessment

**The scope of annual audit covers all entities of General Government to the extent that financial operations are reported in the consolidated GOTL reports.** The consolidated reports do not include the full extent of financial operations of Autonomous Public Entities (see PI-9). APEs are subject to ad hoc rather than systematic annual audits. The external auditor produces separate reports for the Consolidated Fund, and for the subsidiary Infrastructure and Human Development funds. The external auditor is also tasked with the annual audit of the financial statements of the Petroleum Fund<sup>40</sup>.

The audits performed are related mainly to legal/financial compliance on the execution of the annual budget but specific audits have been commissioned to scrutinise procurement and payroll processes, as well as financial operations of Autonomous Public Entities<sup>41</sup>. There have been cases where the *opinion* was *qualified* due to an observed practice of undermining the value for money principle<sup>42</sup> but there have not been specific performance audits to date. The external auditor, being a certified accounting and auditing firm with global presence, is obliged to adhere by international standards for auditing<sup>43</sup>. On the whole, the first dimension is awarded a score of B.

**Audit opinions are submitted to the legislature within 12 months from the end of the period covered.** As discussed in PI-25, the BFM Law (13/2009) has been subject to two major revisions which included amendments to the timelines for the preparation and submission of the annual FS (Table 24). Despite this, audited FS had been routinely submitted to National Parliament (NP) within 10–12 months from the end of the Fiscal Year which warrants a score of C for the second dimension.

**Table 24: Timeline in submission, auditing and certifying of GOTL annual financial statements**

Original legal provision in BFM Law (Articles 42 and 45)	First amendment <sup>44</sup> (17 August 2011)	Second amendment <sup>45</sup> (11 September 2013)
Step 1 – GOTL submits FS to SAI and NP within six months from end of the Fiscal Year. Step 2 – SAI submits audited FS to NP within nine months from end of the FY. Step 3 – SAI submits Opinion to NP within ten months from end of the FY.	Step 1 – GOTL submits annual FS to SAI and NP within 5 months from end of the FY. Step 2 – SAI submits audited FS and Opinion to NP before the end of the current FY.	Step 1 – GOTL submits annual FS to SAI and NP within 7 months from end of the FY

The assessment of the timeliness of submission of audit reports to NP for the three fiscal years 2010–2012 under review was as follows:

Regarding the 2010 FS:

<sup>40</sup> NB: The independent auditor is also contracted by MOF to undertake an internal audit type function. This is the form of a Management Letter is produced several weeks after the audit report which reportedly provides detailed recommendations on improving financial management and control systems. The Management Letter is confidential and not shared with the Chamber or the Parliament's Committee C on Public Finances.

<sup>41</sup> For instance, March 2011 on the public company for medical equipment and supplies *Serviço Autónomo de Medicamentos e Equipamentos de Saúde* (SAMES) and April 2011 the electricity utility (EDTL).

<sup>42</sup> See e.g. the independent Auditor's Opinion on the 2012 FS.

<sup>43</sup> In the case of commercial operators, it is the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB).

<sup>44</sup> Introduced by Law 9/2011.

<sup>45</sup> Introduced by Law 3/2013.

- The 2010 FS released by MOF, including external auditor opinion, on 30 June 2011;
- The NP documented receipt of the audited FS approved by the Court of Appeals (including the opinion of the commercial external auditor) on 20 October 2011; and
- Recommendations were issued by Committee C on 4 November 2011, approved by NP and published in the official Gazette (*Jornal da Republica*) on the same day by NP.

Regarding the 2011 FS:

- The 2011 FS released by MOF including external auditor opinion on 16 July 2012;
- The NP documented receipt of audited FS on 24 October 2012;
- Recommendations from both Chamber and external auditor were endorsed by Committee C formal Communication on 4 December, and approved by NP and published in the official Gazette on 11 December 2012.

Regarding the 2012 FS:

- The 2012 FS released by MOF to NP, including external auditor opinion, on 15 June 2013.
- The NP documented receipt of audited FS on 26 November 2013;
- . Recommendations from both Chamber and external auditor were endorsed by Committee C formal Communication on 18 December 2012, and approved by NP and published in the official Gazette on 14 January 2014.

**Response by the executive on audit recommendations is systematic and timely, and covers the whole extent of issues raised by the audit process. However, effective follow-up action is not always possible due also to capacity limitations of Government.** Following the endorsement and publication of audit recommendations by the NP (see dimension above) the Ministry of Finance provides prompt response to the Chamber of Accounts and indicates action to be taken on each audit recommendation. The response and action taken by the Government is documented in the Chamber of Accounts' report for the subsequent year's Financial Statements in the *Jornal da Republica*.

Regarding the 2011 FS, response and follow-up were documented in the Chamber's report on the 2012 FS, gazetted on 27 November 2013 (point 11, Table 27). The Chamber concluded that several recommendations were acted upon while others of greater complexity were taken into account by the Government. The report also states that recommendations not implemented were reintroduced as part of the 2012 FS opinion. The existing process merits a score of B for the third dimension.

Recommendations made during the public external auditing process are debated by Committee C and form the basis of the Parliamentary recommendations. The process of discussing the audited FS is thorough at the level of National Parliament but a concerted effort is necessary to systematically record the content of the deliberations and debate taking place in the hearings and leading to the endorsement and Parliamentary approval of audit recommendations. The formal Communication produced by Committee C on the 2011 FS (see dimension above) is a good step in the right direction that should be sustained and enhanced.

### Comparison of 2010 and 2013

There has been mixed performance when comparing with the PEFA 2010 assessment. The overall score has remained the same in spite of marked improvement in dimensions (i) and (iii).

The enactment of the Law on the Chamber of Accounts in 2011 marks the formal creation of the institutional framework for public external audit, albeit with an interim mandate. It is recognised that it would take a few years before TL can have a SAI that is capable of meaningfully undertaking its role as prescribed in the Constitution and in legislation. The pace in which this can take place will very much depend on support by the GOTL and development partners. The Chamber is in immediate need of financial, organisational and human resources before it can arrive at an acceptable standard and assume its role effectively.

To facilitate the institutional and organisational strengthening of the Chamber, it would be important to ensure collaboration between the external auditor and the Chamber. It may also be worth considering the option of the Chamber, rather than MoF, contracting the external auditing services. This can also serve as a practical means for transferring of know-how and developing capacity.

The recent revisions in the 13/2009 BFM Law carry the risk of undermining the effectiveness of Parliamentary scrutiny by disrupting the sequence in the workflow. Under the original provisions of the BFM Law, the NP had three months to analyse annual FS and consider the opinions of the external auditor and SAI before ruling on its recommendations. This timetable permitted proper sequencing with the review of the Budget proposal for the forthcoming Fiscal Year, which commences on 15 October each year, and enabled Committee C to make use of

the analysis of the previous Fiscal Year's audit findings in its deliberations for the new Budget. In the present arrangement, the SAI has until the end of the current period to submit the audit report and opinion which means that audit findings will not be available in time for the deliberations on the Budget for the next period.

### Recent Developments

The Chamber of Accounts has adopted the Code of Ethics segment of the INTOSAI Code of Ethics and Auditing Standards. In order to proceed as an effective and credible supreme audit institution, it is necessary to work towards the adoption of the Auditing Standards. It is a full member of INTOSAI since 2011 and thus benefits from the process of knowledge and information exchange with other SAIs and from routine INTOSAI programmes and events. The Chamber is currently exploring its potential membership with the Asian Organisation of SAIs (ASOSAI).

In 2013, the Chamber was in the process of undertaking four specialised audits as foreseen by its annual plan approved in March. The institutions being audited are the National Petroleum Authority (report approved in March 2014) the Port Authority (APORTL) the Electricity Company (EDTL), and University of Timor-Leste (report approved in March 2014).

### PI-27 Legislative scrutiny of the annual budget law

The draft Budget (*Orcamento Geral do Estado*) is usually reviewed by Committee C of the National Parliament (NP), which is responsible for Public Finances. Committee C covers both the functions that would otherwise be assigned separately to the *finance* and *public accounts* committees.

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	C+	B+
(i) Scope of the legislature's scrutiny	C	B
(ii) Extent to which the legislature's procedures are well-established and respected	A	A
(iii) Adequacy of time for the legislature to provide a response to budget proposals for both detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	A	A
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	B

### 2013 assessment

**The scope of the legislature's budget scrutiny includes a fair amount of discussion of the annual fiscal framework and the detailed revenue and expenditure estimates.** Committee C has provided comprehensive reports consistently over the years on the Parliamentary hearings on the proposed annual Budgets submitted by MOF, reflecting a considerable amount of good analysis, which is noteworthy provided the existing capacity challenges of Committee C and the NP as a whole. Committee C holds hearings with most line ministries and coordinates more detailed discussion with other specialised/sectoral Committees of the NP. There is good coverage of economic and fiscal issues, the latter pertaining also to the discussions on granting authorisation<sup>46</sup> to MOF for the routine requests for withdrawals from the Petroleum Fund in excess of the Estimated Sustainable Income (ESI)<sup>47</sup> fiscal rule. Deliberations on expenditures and revenues go to considerable detail but there is not yet sufficient examination of the broad medium term fiscal and budget perspective, save the debate that takes place on oil. This debate is substantial concerning critical issues such as projections of oil resource depletion and prospects for new discoveries, the management of the Petroleum Fund's investment portfolio, and other matters relevant to the management of oil revenue. This first dimension is awarded the score of B.

**There is a clear framework for the operations of Committee C with well established procedures.** Committee C operates well within the framework of the Parliamentary Administration mandated by Organic Law 15/2008 on the *Organisation and Functioning of the Parliamentary Administration*. Decision 8/11/CA of the NP details the regulations governing the competencies and organisational arrangements of the Secretariat-General

<sup>46</sup> For example, in the 2013 draft Budget hearings, the National Parliament has been instrumental in promoting a more fiscally prudent approach to financing the non-oil deficit than the one proposed by GOTL. NP rejected the Government's originally proposed drawdown from the Petroleum Fund of US\$ 1,197.8 million for financing the deficit and counter-proposed using cash balances from the Consolidated and the Special funds to the amounts of US\$ 260.8 and US\$ 409.8 million respectively, as well as planned loan financing from development partners of US\$ 43.6 million. This resulted to an eventual drawdown of US\$ 787 from the PF to finance the planned US\$ 1.5 billion non-oil budget deficit.

<sup>47</sup> The ESI is a benchmark for the sustainable level of withdrawal from the Petroleum Fund that does not reduce the real value of total petroleum wealth in the long term. The Petroleum Fund Law stipulates that the ESI should not exceed 3% of the estimated petroleum wealth, the sum of both its financial assets and the present value of petroleum reserves in production.

including the role and general mandate of each Parliamentary Committee. Committee work is further articulated through specific regulations.

**The standing rules and procedures of Committee C on Public Finances in particular, are well established and respected and yet, there are considerable human resource and organisational capacity shortcomings.** Regulations 2/2012 are currently in force for Committee C on Public Finances, including its composition of eleven Members of Parliament. Committee prepare and submit to the Secretary-General an annual work plan and budgetary needs for the forthcoming year, which is discussed and approved in Plenary. The 2013 work plan of Committee C was submitted on 14 September 2012 with a budget request of US\$281,495 to fund relevant activities for the year. Committee C is supported by one Parliamentary Staff analyst but relies extensively on the advisory services from a team of two international experts. The score for the second dimension is A.

**The legislature has adequate time to deliberate on the proposed Budget.** Article 30 of the Budget and Financial Management Law (13/2009) stipulates that GOTL must submit to the NP the draft Budget proposal for the following FY by the 15 of October<sup>48</sup>. In the period 2010–2012 reviewed by the 2013 PEFA, the actual dates of the submission have been as follows:

- 2010 Budget proposal submitted by GOTL on 15 October 2009.
- 2011 Budget proposal submitted by GOTL on 16 November 2010<sup>49</sup>.
- 2012 Budget proposal submitted by GOTL on 20 October 2010.

The National Parliament has had more than two months to consider these proposals as documented by the dates of the reports produced by Committee C following extensive hearings and plenary discussions. However, the Parliamentary website does not publish any records of budget hearings. According to budget calendar, the legislature receives the annual appropriation bill no later than 15 of October. The performance for the past three years is summarised as follows:

- 2010 Budget: Committee C Recommendation on 17 November 2009 and Appropriation on 23 December 2009.
- 2011 Budget: Committee C Recommendation on 11 January 2011 and Appropriation on 14 February 2011.
- 2012 Budget: Committee C Recommendation on 9 November 2011 and Appropriation on 21 December 2011.

The score for the third dimension is A.

**Clear rules exist for in-year amendments to the budget by the executive, although these do not set strict parameters on extent and nature of amendments.** Articles 34 and 35 of the BFM Law set the rules for in-year Budget amendments while Article 38 establishes the virement rules for GOTL budgetary entities, such as line ministries, agencies and others that do not have administrative and financial autonomy.

Should the executive require changes that entail increases in expenditure in the current fiscal year, a supplementary Parliamentary appropriation is necessary. These increased expenditures must be matched by justified proportional increases in revenue, but in practice supplementary budgets have often drawn on the Petroleum Fund undermining the ESI fiscal rule.

GOTL has the discretion to vire up to 20% of appropriated budget heads (administrative and aggregate economic items) without requesting authorisation from the NP. This rule does not apply to virements from the capital expenditure head to other categories, which is strictly prohibited (Article 38, Clause 3).

In the period assessed supplementary appropriations (see Pls 1, 2 and 16 for detailed analysis) consisted of:

- 2010 Budget – a supplementary appropriation (*Orcamento Retificativo*) of US\$178 million was authorized by the legislature (that is a 27% increase from original appropriation). There were also large virements (over and above the 20% threshold) to correct/offset the excessive resources originally granted to EDTL in favour of three large ministries (State Administration/Estatal, Infrastructure, and Social Solidarity);
- 2011 Budget – No budget supplement was requested but there was a considerable degree of virement mostly to cover the additional funding requirements of EDTL ;

<sup>48</sup> An exception to the deadline may be granted under extenuating circumstances in case of the dismissal of a Government, a new Government being in place, or when the legislative period is over.

<sup>49</sup> The exemption clause was exercised in 2010 when Exceptional Law 9/2010 of 13 October 2010 authorised the deferral of the draft 2011 Budget submission to 15 November 2010. The justification cited by the GOTL was that the passing of the revised 2010 Budget in July 2010 had taken up a considerable amount of time and resources and additional time was necessary for the preparation of the 2011 Budget proposal.

- 2012 Budget – a supplementary appropriation of U\$132 million was authorised (8% increase from original appropriation). The budget was also adjusted through various virements across MDAs so as to meet the additional funding requirements mainly of the Ministries of Health and Social Solidarity, and the Infrastructure Fund and the Human Capital Development Fund.

Despite the fact that supplementary Budgets in the period reviewed have involved large additional sums to finance GOTL unforeseen activities casting doubt on budgetary discipline and fiscal prudence<sup>50</sup>, the rules have been nonetheless respected without exception. The score in the fourth dimension is B.

### Comparison of 2010 and 2013

There is noteworthy improvement from the performance recorded in the 2010 PEFA. This can be attributed to the fact that the National Parliament has settled a series of formal procedures and adopted routines in scrutinising proposed Budgets and is acquiring an increasing institutional understanding of the work required. However, like all Parliaments, the TL NP is inevitably vulnerable to the turnover of MPs, which is why the emphasis should be on building and sustaining in-house capacity and a cadre of Parliamentary staff that can ensure operational consistency and institutional memory. It would be important for NP to sustain and enhance quality in the reports produced by Committee C on the GOTL annual budget submissions.

### Recent Developments

No major developments.

### PI-28 Legislative scrutiny of external audit reports

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	D+	C+
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	A	A
(ii) Extent of hearings on key findings undertaken by the legislature	D	C
(iii) Issuance of recommended actions by the legislature and implementation by the executive	C	B

### 2013 assessment

**Scrutiny of audit reports is usually completed by the legislature within three months from receipt of reports.** Committee C on Public Finances receives the report<sup>51</sup> on the annual government financial statements (FS) and following examination, it forwards it to the plenary for discussion and issues recommendation for the consideration of the executive. In the period 2010–2012 under review by the 2013 PEFA, this practice has generally taken place within three months of receiving the FS as documented under PI-26, dimension ii. The score for the first dimension is A.

**Hearings on key audit findings usually take place annually but have not been consistent in terms of depth and coverage of audited entities and PFM systemic issues.** The National Parliament holds hearings to discuss findings from audit reports on the government FS received by the Court of Appeals (and Chamber of Accounts since its creation in 2011) and the external auditor. However, unlike the hearings on the forthcoming Budget submissions, the hearings held for audit reporting are not well documented and it is very difficult to ascertain the depth of the debate. The key issues debated can be seen in the formal Communication issued by Committee C but this provides limited insight into the hearings.

As discussed under PI-27, a large part of the shortcomings can be attributed to human resource and organisational capacity shortcomings. There is a shortage of a professional capacity in the NP in general, and in the Commission C for Public Finances in particular.

Committee C held hearings on the audit reports for the 2010 and 2011 annual government FS in October 2011 and November 2012 respectively. The performance has been mixed; there is no evidence of comprehensive coverage of the key issues regarding the 2010 government FS, but the 2011 process (hearings took place between the 14 and 26 of November 2012) was quite thorough and well documented in the formal Communication produced by Committee C on 4 December 2012. In addition to the Minister of Finance, the hearings included interviews with most of the key line ministries, and other key agencies such the Major

<sup>50</sup> The practice of supplementary appropriations and virements has been a regular feature of the PFM process in TL. Supplementary Budgets put forward by the executive were asking for Parliamentary ex-post approval of expenditure already incurred. That said, the situation appears to be improving. The 2014 Budget Law includes a provision for in-year Budget execution reporting to Parliament as well as a clause streamlining access to the additional resources the Petroleum Fund to fund supplementary appropriations. The Government is to seek additional funding through savings (under-execution) incurred in previous or current budgets before reverting to the Petroleum Fund.

<sup>51</sup> NB: In actual practice, the Committee examines two reports, the one from the independent commercial auditor contracted by the MOF and the audit report from the Court of Appeals (the Chamber of Accounts since its creation in 2011).

Projects Secretariat and the National Procurement Commission, Autonomous Public Entities such as University Timor-Leste, as well as civil society organisations. The process resulted in a series of pertinent and well-articulated recommendations by Committee C, incorporating the *opinions* of the Chamber of Accounts (*Camara de Contas*) and the external auditor. The score for the second dimension is C.

**Actions are recommended by the legislature and there is systematic response and follow-up by the executive. However, not all recommendations are acted upon by the MoF and targeted ministries.** Committee C considers the recommendations of the Chamber of Accounts and the *opinion* of the external commercial auditor and incorporates into one formal Communication. As already discussed under PI-26, dimension (iii) this Communication is the culmination of the external scrutiny process. The response and follow-up of recommendations by Government is documented in the report of the Chamber on the subsequent fiscal year's FS. Recommendations put together by Committee C following the scrutiny process of the 2011 and 2012 government FS were acknowledged by the Government and action was taken in certain cases. However, there have been important recommendations pertaining to financial management and control, as well as considerations on fiscal prudence that would merit further attention by MOF and concerned line ministries. The score for this third dimension is B.

### Comparison of 2010 and 2013

There is improvement at the margin due to the good practice in the most recent hearings held in November 2012 for the 2011 Government FS and January 2013 for the 2012 FS. It would be important to draw on the lessons from this good instance and sustain performance.

### Recent Developments

The recent amendments to 13/2009 BFM Law have given more time to NP to scrutinise the government financial statements but have now made it impossible for findings from the process of scrutiny of the government FS of the previous Fiscal Year to be fed into the deliberations of the draft Budget for the forthcoming FY – see detailed discussion under PI-26.

## 3.7 Donor practices

The following analysis discusses the impact of donor practices on the PFM system.

### D-1 Predictability of Direct Budget Support

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	NA	NA
(i) Annual deviation	NA	NA
(ii) In-year timeliness	NA	NA

### 2013 assessment

There were no direct budget support programmes<sup>52</sup> for Timor-Leste in the 2010–2012 period reviewed under the 2013 PEFA assessment.

### D-2 Financial information provided by donors for budgeting and reporting on project and programme aid.

The aid information management system (AIMS) in TL has been developed extensively since the 2010 PEFA assessment. The Aid Transparency Portal (ATP) and Aid Information Management System (AIMS) are fully functional and accessible at the MOF website from 2012. The systems are administered by the Development Partnership Management Unit (DPMU) at the MOF and the responsibility for both inputting data in AIMS and ensuring it is comprehensive and reliable rests solely within the concerned development partners. The information is sufficiently reliable (and updated real time) to inform the budget formulation process. MOF now has sufficient information to document aid obligations, and track commitments and disbursements<sup>53</sup>.

Dimension	2010 Score	2013 Score
Overall score (scoring method M1)	D+	C+
(i) Completeness and timeliness of budget estimates by donors for project support	C	B

<sup>52</sup> Direct budget support consists of all aid provided to the government treasury in support of the government's budget at large (general budget support) or for specific sectors. When received by the government's treasury, the funds will be used in accordance with the procedures applying to all other general revenue.

<sup>53</sup> Definitions of obligations, commitments and disbursements are clearly articulated in the aid transparency portal of the MOF website <https://www.mof.gov.tl/aid-effectiveness/aid-transparency-portal/?lang=en>

Dimension	2010 Score	2013 Score
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D	C

### 2013 assessment

All donors have provided budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification starting 2012. The 2014 Budget Book 5 includes comprehensive information on planned obligations covering most development partners for the forthcoming fiscal year<sup>54</sup>. Budget Book 5 provides aggregate information by project loan and grant-financing, and further disaggregates data by attributing obligations to the administrative categories (votes) of the budget classification (Table 25). The score for the first dimension is B.

**Table 25: Development partner obligations for 2014 fiscal year – Grants**

Vote	2014 Budget (in thousand US\$)
Office of the President	0
National Parliament	0
Office of the Prime Minister	1,269
Vice Prime Minister and Coordinator of Social Affairs	5,028
President of the Council of Ministers	1,604
Ministry of Security and Defence	13,512
Ministry of Foreign Affairs and Cooperation	1,045
Ministry of Finance	5,554
Ministry of Justice	3,182
Ministry of Health	32,833
Ministry of Education	12,585
Ministry of State Administration	4,210
Ministry of Commerce, Industry and Environment	2,802
Ministry of Social Solidarity	1,582
Ministry of Public Works	52,661
Ministry of Transport and Communication	2,873
Ministry of Agriculture and Fisheries	15,392
Ministry of Tourism	389
Ministry of Petroleum and Natural Resources	8,696
National Election Commission	250
Civil Service Commission	2,403
Anti-Corruption Commission	1,887
Commission of Human Rights	250
Beneficiary Institution Unallocated	14,878
<b>Total Grants</b>	<b>184,885</b>

Source: MOF.

In addition to grants, there is a total of US\$31.1 million in loans planned by development partners in the 2014 fiscal year (Budget Book 5, 2014).

However, as discussed under PI-7, line ministries and APEs are not required by MOF to input information on donor funded projects into their annual budget submissions. The AIMS data is without doubt useful to GOTL in preparing the budget, but in order to make a contribution to the actual budget planning and formulation process, there should be a binding requirement in the annual budget circulars or in any other important milestone in the budget formulation procedures. This is not facilitated under current practice because foreign aid projects (grants) do not form part of appropriations despite a legal requirement to that effect. Article 23 (4b) of the BFM Law requires that budget appropriations indicate future revenues from foreign donors.

By contrast, loan financing planned for 2014 will be included in the Budget appropriations. According to budget documentation, there have been no loans in the period 2010–2012 reviewed by the 2013 PEFA. TL started back borrowing from development partners in concessionary terms in 2013. The 2013 Budget reported a planned loan portfolio of US\$10.2 million out of a total US\$250 million of Official Development Assistance<sup>55</sup>.

**In 2012, out a total of US\$225.2 million planned external aid to government institutions, US\$158 million worth (or 70%) of actual flows were reported (entered by development partners) through AIMS in a**

<sup>54</sup> It is not possible to include comprehensive information beyond the forthcoming fiscal year to inform the medium term budgeting process because most bilateral donors depend on their own national appropriation process to register obligations.

<sup>55</sup> 2014 draft Budget Book 5, p. 10



manner consistent with the government budget classification. GOTL requires development partners to submit monthly information forty-five days from the end of the month (reporting period). The system is open for development partners to enter their data at any time but the DPMU advises that data entry should take place within six weeks from the end of a given quarter. In practice, it is very difficult to determine the exact time of reporting (data entry) by development partners but given the smooth functioning of the system so far it is safe to assume that in general entries are made in a timely manner. The score for the second dimension is C.

### Comparison of 2013 and 2010

There is notable improvement in performance since the 2010 PEFA assessment in this indicator. This is attributed to the improvement of procedures such as the establishment of Budget Book 5 and the enhanced Development Cooperation Report from 2012, and making systems such AIMS fully functional and user-friendly. It is also attributed to the increased cooperation by development partners, although the existence of a good system has made reporting relatively effortless.

### Recent developments

No recent developments noted.

### D-3 Proportion of aid that is managed by use of national procedures

Dimension	2010 Score	2013 Score
Overall proportion of aid funds to central government that are managed through national procedures	D	D

**The use of country systems by official donors in Timor-Leste is very low.** This has already been indicated in the discussion under D-2. The MOF commissioned DPMU to study the status of the Busan Partnership agreement in 2011. The study was conducted in the form of a survey questionnaire using the global indicators and targets of the guide on the *Monitoring Framework of the Global Partnership*. Questionnaires were sent to all development partners in TL. Fourteen agencies responded out of a total of 37, including all major multilateral and bilateral development partners to an approximate volume of 80% of current aid.

Although the study had not been made public at the time of the PEFA assessment, the PEFA team was allowed access to the findings by MOF. The results pertaining to the use of country systems<sup>56</sup> (UCS) are summarised in Table 26.

**Table 26: Aid through country systems in Timor-Leste, 2012**

External aid	(in thousand USD)	Average % of planned official aid disbursement
Total Disbursements:	275,000,000	
<i>Planned for GOTL institutions</i>	244,000,000	
Disbursed to GOTL institutions:	232,000,000	
<i>Using Country Systems:</i>		7%
Budget execution (Treasury)	11,000,000	
Financial reporting	5,000,000	
Auditing	23,000,000	
Procurement	21,000,000	

Source: MOF.

According to these findings, a mere 7% of aid to TL is channelled through country systems, which results to a score of D for this dimension. It is noted that these findings are based on the first set of results of the survey. The raw data provided by development partners in the questionnaire has not been controlled for quality and consistency and final findings may differ. That being said, it is unlikely that better data would make a significant difference to the score in this dimension as 50% of UCS is the threshold for a better score.

### Comparison of 2010 and 2013

There are no changes since the 2010 PEFA.

### Recent Developments

No major developments over the past three years.

<sup>56</sup> NB: USC terms and definitions have been standardised in the context of the aid effectiveness dialogue in the seminal paper 'Collaborative African Budget Initiative (CABRI) and Strategic Partnership with Africa (SPA), Synthesis Report: Putting Aid on Budget'. There is a maximum of eight elements that can determine USC i.e. if development aid is on-Plan (national development paper); on-Budget (revenues and expenditures); on-Parliament (appropriations); on-Treasury (treasury account and national financial regulations); on-Accounting (national accounting systems); on-Procurement (national procurement regulations - most recent addition); on-Audit (national internal audit systems and the supreme audit institution), and; on-Report (national monitoring & evaluations systems). See case studies available on-line for Kenya, South Africa, Rwanda etc.

## CHAPTER IV – GOVERNMENT REFORM PROCESS

### 4.1 Background of PFM reform

In general, PFM reform has progressed incrementally since the country reached independence in 2002, supported by a sustained effort from both Government and donor partners. There is a solid trajectory of progress in spite of post-conflict transition and numerous development challenges. The path of progress varied over the past decade as the aid approach to supporting PFM reform shifted from individual donor projects, i.e., MPFCBP, to a more coordinated and integrated, multi-donor programme, i.e., Planning and Financial Management Capacity Building Programme (PFMCBP). PEFA and ROSC missions had served over the years to advise on the pace and calibrate prioritization of PFM reform.

PFM reform in the country was first introduced in 2002 with the adoption of operational budget and revenue systems supported by development partners and largely managed by international advisers. The Ministry of Planning and Finance Capacity Building Project (MPFCBP) was an AusAid-funded project mobilized in mid-2003 to transfer the operation of these systems to national staff of the Timor-Leste Budget Office and Revenue Service (TLRS) within the new Ministry of Planning and Finance. With civil disturbances in 2006, a new Government in August 2007 and burgeoning petroleum revenues, budget appropriations grew rapidly and, at the request of the Government of Timor-Leste, direct operational support by project advisors grew again in importance.

The second stage of reforms commenced following the 2006 crisis with the launching of PFMCBP. This programme aimed at providing technical assistance to strengthen planning, budgeting, public expenditure management and revenue administration for growth and poverty reduction, with emphasis on efficiency, effectiveness, accountability, integrity, service culture, and transparency. MPFCBP overlapped with PFMCBP just when the former was closing project operations in 2008.

A third stage in PFM reform started in 2012 with major structural reforms and change management taking place within MOF and other key PFM institutions. The Fifth Constitutional Government was formed and the five-year programme of the Government was prepared and approved by the National Parliament. This resulted in the organizational restructuring of MOF enacted by Decree-Law No. 41/2012 which is currently under way. Directors General and National Directors have been appointed in the new structure. The MOF adopted a Strategic Plan (2011–2030) for PFM with a five-year operational that sets key performance indicators on an annual rolling basis (Annual Action Plans).

#### a) MPFCBP: The precursor PFM reform project in Timor-Leste

MPFCBP was designed essentially as a capacity building project and was not based on a list of proposed budget system reforms. The project aimed to transfer the operation of these systems to national staff, which took place gradually with the implementation of the PFMCBP. Operational support was to maintain budgeting standards during the transfer and provide a platform for on-the job mentoring.

The project covered budget preparation, budget execution, revenue management and capacity building. The project also included a component for assisting MOF to improve its internal management. There is evidence that the project has contributed to building capacity and gradually refining systems and processes for budget preparation and management. *Under Phase 1* the project supported GOTL efforts to implement its strategic framework by linking the National Development Plan to Sector Investment Plans, and in turn to Annual Action Plans. It also helped to develop the Combined Sources Budget in which both domestic and external sources of financing were reported on budget. Both the 2004 World Bank Public Expenditure Review and the 2007 EU-funded PFM Performance Report highlighted a number of positive features of budget preparation. Under Phase 1, the Project failed to provide assistance on the systems and processes it was helping to refine (e.g. macro-framework, timetable, classification, chart of accounts, call circulars, bringing extra-budget spending on-budget).

*Under Phase 2*, capacity building furthered on. However, the main project output for the Budget Office has been operational support for a rapid succession of budgets to assist a more structured budget development process. One major milestone in PFM reform was achieving greater operational efficiency through Budget Office procedures and outputs being simplified with the use of Free Balance—the approach of specifying the business procedures to support an adequate and user friendly management of systems solutions with Free Balance software is probably one of the most successful achievements of PFM reform in Timor-Leste. This has led the Timorese officials to adopt, own and command the Free Balance FMIS to operate the budget process in almost its entirety. Development of new financial management applications and maintenance and upgrading of existing software together with training will continue to require strong leadership and more ownership across Government.

The project contributed to a number of procedural improvements in budgeting. Systems and processes improvements by the Budget Office during the life of the project include: 1) ending of carryovers from the previous years' budget; 2) initiation of basic budget analysis – Budget Office staff do a lot more critical appraisal

of line ministry submissions; 3) a gradual move towards outer year spending estimates; 4) stretching progress in preparing budget strategy papers to give greater strategic content to budget preparation; 5) a much improved budget circular and 6) increased outreach by Budget Office staff to line ministries.

Following the 2007 election, the project also provided economic management advice to the Minister through high-level engagement of the Lead Budget Advisor with the Minister, although this role diminished with the inception of the PFMCBP.

### **b) Migrating from MPFCBP to PFMCBP: Recent and on-going PFM reforms**

The PFMCBP was originally a five-year technical assistance programme designed to assist Timor-Leste's Ministry of Finance strengthen its planning, budgeting, public expenditure management and revenue administration functions.

The PFMCBP was approved in May 2006 at a time when Timor-Leste was experiencing renewed conflict and civil unrest. It was designed to help the government of Timor-Leste use the country's petroleum revenue to build social stability, deliver services to the people and to help restart economic growth and development. Donors agreed to extend the PFMCBP to December 2013.

Achievements include: reorganization of the MOF; strengthening public expenditure management through simplification and strengthening of treasury systems and processes, and increased delegation of authority to line ministries; complete overhaul of budgeting systems, documentation and financial management legislation; improved revenue management, including increased transparency in tax administration and reinforcing Petroleum Tax administration; and a gradual improvement in macroeconomic planning.

The PFMCBP initially included support for financial management staff in the line ministries and districts. After the mid-term review development partners agreed to focus support on the MOF. The programme comprised of four major components: (a) public expenditure management; (b) revenue administration and macro-economic management; (c) support for executive management and other cross cutting activities; and (d) support for programme implementation.

Capacity building initiatives in the MOF focused largely on getting the public financial management system up and running without fully addressing the capacity shortfalls of civil servants. This has created a system that was heavily reliant on the presence of international advisers, who have largely focused on in-line performance and, to a limited extent, on the transfer of skills. Through PFMCBP, the GOTL sought to transition from international to local expertise, to an integrated approach towards institution building relying on three pillars: skills and knowledge; systems and processes; and attitudes and behaviours. Based on the three-pillar framework, the objectives for the PFM function are (i) improved service delivery to the population; and (ii) to create a sustainable PFM system that would be increasingly managed and run by national staff with the number of advisers decreasing over time as national staff take on increasing responsibility.

In support of reform efforts towards fiscal transparency and accountability, the Government renewed its commitment to further develop the FreeBalance software and as a result it launched the web-based Budget Transparency Portal in 2011. At the same time, the e-Procurement Portal in Timor-Leste was officially launched as part of the Extractive Industries Transparency Initiative (EITI).

Among others, the following has been achieved through the adoption of fiscal transparency portals and other systems solutions developed:

- The Budget Transparency Portal is a public website where citizens, donors, NGOs and the society can analyse and interrogate GOTL budget execution information from the FMIS in an interactive manner and in real-time. It presents budget information in terms of: amount appropriated by Parliament, virements, funds that are Committed, Obligated and Actuals;
- The e-Procurement Portal allows citizens, donors, NGOs and the press to analyse and search information related to goods, services or works that RDTL is procuring. All tenders by Line Ministries will be posted at a single site, for potential bidders to be able to download tenders from the site, for award to be published there, and for all citizens to be able to follow all required procedures;
- The Contract management module enables the government to keep track of its contracts execution, tasks, documents, payment and closure. It ensures that vendor performance meets contractual requirements. Tasks, payments, milestones, inspection reports, and approvals will be adapted through the workflow process built into the system. Workflow offers alerting messages functionality as reminders specific tasks have yet to be performed;
- Other software being implemented include the Managers Dashboard, Document Management System, and the Analytics (OLAP), which are Business Intelligence tools to support the decision making process; and

- The systems component covers support of key initiatives currently underway, including the de-concentration and support of the Government Performance Budgeting system, Procurement Module, Government Fixed Assets, Payroll and Customized Management Reporting.

Other key reforms in 2011 and 2012 included improvements to accounting processes, improvements in treasury operations and budget execution, financial reporting enhancements and capacity building initiatives. Financial Statements for 2011 and 2012 were prepared in accordance with International Public Sector Accounting Standard- Financial Reporting under the IPSAS Cash Basis of Accounting by DG of Treasury, audited by the external auditors and accepted by National Parliament. Timor-Leste joined a select group of countries who prepare financial statements in accordance with IPSAS Cash Basis. This compliance was further enhanced when cash-based transactions were completed and closed on 31 December 2012. The Treasury Single Account (TSA) has been adopted since 2012 with an initial review of all bank accounts and closing of 108 non-essential bank accounts and transfer of US\$ 0.7 million to CFET.

Line Ministries and Agencies are yet to be enabled to enter into commitments directly and system enhancements and log into CPVs and purchase requisitions and generate Purchase Orders accordingly. A revised Treasury Manual has been drafted in 2012 and released for internal circulation and comments in 2013. Improvements in Treasury processes and reporting include, among others: Month end and End of Year account closure processes, new MIS reports and monthly accounts for improved managerial oversight, and Letters of Credit Management.

PFMCBP also supported the work of the Consultative Council for Financial Management (CCFM) to improve internal communication and internal policy consistency within the Ministry.

## 4.2 Underlying gaps and challenges

There are still important challenges lying ahead as the MOF implements a prioritized reform programme in a capacity constrained environment. PFM reforms face the challenge of building capacity and enabling the transfer of skills to Timorese public servants.

Institutional building tops the PFM reform agenda, including supporting the goal of fiscal consolidation and centralizing of fiscal monitoring. The agenda includes upgrading of fiscal planning and policy analysis, furthering the central payment and recording system through a comprehensive TSA system and opening of revenue and expenditure sub-accounts for MDAs and donor-funded projects, as well as forward-looking expenditure forecasting, tax policy and administration, unifying the registration and management controls of permanent and contractual personnel, public procurement, internal auditing and external auditing. Others also avow for further reforms in external resource management and reporting, budget and performance management, information technology services, investment management, administrative support services, and monitoring and evaluation.

Despite the positive track record in PFM reform implementation, several of the above reform needs are to be addressed more adequately in the frame of a sequenced, prioritized reform in a concerted and coordinated manner within Government. This will require closer coordination not only amongst upstream MOF stakeholders, downstream line ministries, and other key PFM oversight and audit institutions, but also with civil society.

## Annex 1: Summary of PEFA Assessment Scores, 2013

Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
<b>PI-1 Aggregate expenditure out-turn compared to original approved budget</b>	<b>D</b>	<b>D</b>	Actual expenditure deviated from the original budget appropriation by 15.3% in 2010, by 14.7% in 2011 and 24.1% in 2012. Without the Infrastructure Fund, deviations lowered from 9.5% in 2011 and 1.4% in 2012.
<b>PI-2 Composition of expenditure out-turn compared to original approved budget</b>	<b>A</b>	<b>D+</b>	Comparison is not possible due to changes in the methodology of assessing the indicator. Variance in expenditure composition, excluding contingency items, exceeded by 15% in two of the three fiscal years reviewed. Actual expenditure charged to the contingency purposes averaged less than 3% of total budget.
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	NA	D	Variances in expenditure composition were 17.7% in 2010, 7.7% in 2011 and 31.1% in 2012. Comparing with the period reviewed by 2010 PEFA using the revised methodology shows that variances in expenditure composition were 44.8 % in 2007, 40% in 2008 and 11.2% in 2009, which also supports a score of D.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	NA	A	The level of contingency averaged 1.6% of total budget over 2011 and 2012 where a budget for contingency purposes was appropriated.
<b>PI-3 Aggregate revenue out-turn compared to original approved budget</b>	<b>C</b>	<b>B</b>	The score cannot be compared with the previous PEFA assessment, due to methodological changes. <b>Domestic revenue, excluding withdrawals from the PF (as a percentage of originally budgeted revenue) was 110.8% in 2010, 100.5% in 2011 and 101.2% in 2012. In the 2010 assessment, revenues deviated by 45.3% and 12.1% in two of the three years assessed.</b> Improvement is observed on the aggregate but progress in forecasting is required in each of the two revenue categories (non-petroleum domestic tax and non-tax revenues).
<b>PI-4 Stock and monitoring of expenditure payment arrears</b>	<b>D+</b>	<b>D+</b>	<b>There is no formal definition of expenditure arrears in the PFM Law or in other regulations with prescribed accounting rules for the computation and monitoring of payment arrears.</b>
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding financial year) and any recent change in the stock	A	NR	Not rated
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	There is no evidence of a subsidiary system or process for recording and monitoring of arrears.
<b>PI-5 Classification of the budget</b>	<b>B</b>	<b>B</b>	<b>Budget formulation, execution and reporting is fully compatible with GFS 1986 standards.</b>
<b>PI-6 Comprehensiveness of information included in budget documentation</b>	<b>A</b>	<b>A</b>	<b>Budget documentation includes seven of the eight criteria relevant to TL required by the PEFA assessment.</b>
<b>PI-7 Extent of Unreported Government operations</b>	<b>D+</b>	<b>D+</b>	<b>The Petroleum Fund is the only extra-budgetary fund with all operations reported regularly. Government operations on donor-funded capital projects are not reported on a systematic and timely fashion.</b>
(i) Level of unreported extra-budgetary expenditure	A	A	The Petroleum Fund is based on a sound piece of legislation (2005 Petroleum Fund Law) and robust administrative provisions and has had a solid track record in management practice.
(ii) Income/expenditure information on donor-funded projects	D	D	In spite of noteworthy progress in aid information management, aid financing is not part of in-year budget reporting. Responsibility for providing information in the Aid Information Management System (AIMS) rests solely within concerned development partners.
<b>PI-8 Transparency of inter-Governmental fiscal relations</b>	<b>NA</b>	<b>NA</b>	Not applicable – there is no sub-national government level in TL
(i) Transparent and objectivity in the horizontal allocation among SN Government	NA	NA	
(ii) Timeliness of reliable information to SN Government on their allocations	NA	NA	
(iii) Extent of consolidation of fiscal data for	NA	NA	

Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
Government according to sectoral categories			
<b>PI-9 Oversight of Aggregate Fiscal Risk</b>	<b>D</b>	<b>D</b>	<b>There is still no consolidated reporting and monitoring on the finance situation of APEs.</b>
(i) Extent of central government monitoring of AGAs/PEs	D	D	At present GOTL does not have a functioning system for exercising effective monitoring of financial operations and analysing the underlying fiscal risks of APEs.
(ii) Extent of central government monitoring of SN Governments' fiscal position	NA	NA	Not applicable
<b>PI-10 Public Access to key fiscal information</b>	<b>B</b>	<b>B</b>	<b>The government makes available to the public 3 of the 6 elements of information required by the PEFA framework, namely, the annual budget documentation, the in-year budget execution and the report of the supreme audit organisation.</b>
<b>PI-11 Orderliness and participation in the annual budget process</b>	<b>C+</b>	<b>B</b>	<b>The annual budget is now being conducted in an orderly and timely manner guided by a clear and calendar with detailed milestones for the budget formulation process.</b>
(i) Existence of and adherence to a fixed budget calendar	C	B	A fixed budget calendar exists allowing a reasonably sufficient time (four weeks) for MDAs to prepare their detailed budgets in accordance to strategic goals and financial limits established by the Council of Ministers.
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	C	A	A clear budget circular is issued to MDAs, which reflects ceilings approved by Council of Ministers prior to the circular's distribution together with general guidance on expenditure priorities.
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	B	C	In two of the three past years, the National Parliament approved Budget appropriations within two months of the start of fiscal year (2011 and 2013).
<b>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>	<b>D+</b>	<b>C+</b>	<b>Medium term planning has improved but certain underlying processes are still lacking, particularly those relating to costing of medium-term sector strategies and linkages between investment budgets and forward expenditure estimates.</b>
(i) Preparation of multi-year fiscal forecasts and functional allocations	C	B	Forecasts of fiscal aggregates are prepared according to main categories of economic classification (salary and non-salary expenditure), and programmatic classification for at least three years on a rolling annual basis.
(ii) Scope and frequency of debt sustainability analysis	NA	B	Debt sustainability analysis has been performed annually as part of the IMF Article IV consultation process. MOF is in process of adopting a DSA capacity.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C	C	Medium-term strategy plans exist for the education, health and infrastructure sectors representing almost half the total budget. These are linked to SDP goals but poor costing prevents sector strategy plans to accurately reflect financing needs, and diminishes the ability to produce realistic budgets within fiscal constraints.
(iv) Linkages between investment budgets and forward expenditure estimates	D	C	Linkages between investment budgets and forward expenditure estimates remained weak for the most part. There are no technical guidelines for the preparation of investment budgets, the distinction between capital and operating expenses, and the analysis of future recurrent cost implications. The absence of a systematic approach to investment budgeting undermines investment decisions.
<b>PI-13 Transparency of taxpayer obligations and liabilities</b>	<b>C</b>	<b>C</b>	<b>There are still significant shortcomings in terms of clarity and comprehensiveness of tax legislation. There is satisfactory access by taxpayers to administrative information through the MOF website but not to information on specific-taxpayer liabilities. The appeals system is not yet complete.</b>
(i) Clarity and comprehensiveness of tax liabilities	C	C	The 2008 Taxes and Duties Act is a clear and comprehensive piece of legislation laying out many of the fundamentals of revenue administration for TL. However, it is not complete as it is reliant on Regulation 2000/18, which has been in a protracted process of revision since 2010.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	C	There have been improvements in recent years with regards to access by taxpayers (domestic and petroleum sector) and

Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
			importers to important administrative information that concern them. The same does not apply, however, to information on specific-taxpayer liabilities.
(iii) Existence and functioning of a tax appeals mechanism	C	C	There are three clear steps in the appeals process but an independent Appeals Board is still not established.
<b>PI-14. Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>D+</b>	<b>D+</b>	<b>The shortcomings in the Tax Identification Number (TIN) system revealed are being addressed by a mandatory re-registration process. There is no penalty for failure to register. Penalties are not high enough in terms of monetary value (large taxpayers) to be an effective deterrent to non-compliance. There have been improvements in the planning of audit since 2012 when a risk-based set of criteria has been introduced to determine the list of persons to be audited.</b>
(i) Controls in taxpayer registration system	C	D	The TIN system was riddled with problems and security breaches and had to be reviewed. The re-registration process is under way and is mandatory for everyone that has obtained a TIN prior to the 1 <sup>st</sup> of November 2013. GOTL has ruled that persons that do not take part in the re-registration process shall not be able to obtain a certificate <i>dividas</i> .
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	The penalty regime is quite low but this affects more the area of domestic taxation than customs. Customs transactions are streamlined in a controlled process by nature of operation, and compliance will be less of a problem.
(iii) Planning and monitoring of tax audit and fraud investigation programmes	D	C	In 2012, the first audit plan was developed by the NDDR and implemented based on a risk assessment framework which is a marked improvement from passed practice. There are capacity constraints within NDDR that need to be addressed as a matter of priority.
<b>PI-15. Effectiveness in collection of tax payments</b>	<b>D+</b>	<b>NR</b>	<b>There is a low stock of arrears in comparison to total revenue (including oil revenue) but when domestic revenue alone is considered there is cause for concern. The underlying problem of widespread non-compliance is not captured by the indicator.</b>
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	A	NR	The accumulated stock of arrears is a small % of total revenue. However, the outcome is less positive when one considers the share of the stock of arrears to non-petroleum revenue, especially because it is domestic taxpayers that are mostly in arrears. Moreover, register and failure to lodge tax declarations is a factor that skews the analysis.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	The agent bank Banco Nacional Ultramarino (BNU) makes real time transfers of domestic tax payments into the Treasury's Single Account at the Central Bank. Petroleum tax, royalty and other payments are made directly into the Petroleum Fund account at the Central Bank.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	B+	BNU issues a monthly statement which is then manually input into and reconciled with records in SIGTAS (domestic tax) and ASYCUDA (customs). Reconciliation takes place systematically but manual processes limit effectiveness. Petroleum tax payments are directly reconciled in FreeBalance (Treasury).
<b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>	<b>B+</b>	<b>B+</b>	<b>Predictability in the availability of funds remained relatively sound since the 2010 PEFA assessment. The process of cash flow forecasting strengthened and as a result the score in first dimension improved to A. Reliability of in-year information to MDAs on ceilings for expenditure commitment decreased and as result the score lowered to B. In-year budget adjustments are still authorized by Parliament only once for the past three years, in a fairly transparent manner.</b>
(i) Extent to which cash flows are forecast and monitored	B	A	A cash flow forecast is prepared for the budget year and updated and reported monthly. Forecasts are simple, not aligned to a commitment calendar and procurement plans.
(ii) Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment.	A	B	MDAs are provided with advance information on adjusted budget allocations quarterly, which is not sufficient to accommodate budget execution plans.

Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
(iii) Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	B	B	Significant in-year adjustments to budget allocations took place once in years 2010 and 2012. The process was transparent and received Parliamentary approval in the form of supplementary appropriations.
<b>PI-17 Recording and management of cash balances, debt and guarantees</b>	<b>C</b>	<b>B</b>	<b>Dimensions (i) and (iii) on debt management are still not applicable. Dimension (ii) improved to B in 2013, from C in 2010, provided the consolidation of all Government's cash balances except those relating to donor projects.</b>
(i) Quality of debt recording and reporting	NA	NA	Debt recording and reporting have just begun with disbursements from three official creditors taking place in 2013. The newly created Debt Management Unit is in progress of developing its debt management and oversight capabilities.
(ii) Extent of consolidation of the Government's cash balances	C	B	Calculation and consolidation of cash and bank balances take place weekly within the Cash Management Unit, which undertakes comparisons for the Consolidated Fund and other Funds linked to the TSA feeding into cash management and releases-related actions. The system used does not still have the capability to allow consolidation of bank balances in an automated manner thereby causing the control of some extra-budgetary funds and donor funds to potentially remain outside the arrangement
(iii) Systems for contracting loans and issuance of guarantees	NA	NA	MOF is the sole body responsible on behalf of Government to contract loans and issue guarantees in 2013, with approval of Parliament, and central government's contracting of loans and issuance of guarantees were made within limits for total debt and total guarantees.
<b>PI-18 Effectiveness of Payroll Controls</b>	<b>D+</b>	<b>C+</b>	<b>Partial progress has been evidenced since the 2010 PEFA and the impact is reflected on the score.</b>
(i) Degree of integration and reconciliation between personnel records and payroll data	D	C	The personnel records and payroll are not directly linked through IFMIS as of yet. The interface is being tested and planned to become fully operational early 2014, with the result of several operational problems with PIMS not being resolved as of yet. Meanwhile, there is a manual process that takes place within a fixed calendar whereby all personnel change notifications or "variations" are submitted, verified, and then reconciled every month. The payroll, however, is not supported by full documentation for all changes made to personnel records and it is in dire need to automate the whole payroll process—in 2013 alone, there have been about 44,000 variations all of which continues to require a large amount of manual labor within the Payroll Unit, which had practically supplanted the function of PIMS but continue to undermine the reliability of financial recording.
(ii) Timeliness of changes to personnel records and the payroll	B	A	Notifications of personnel changes are received no later than 11 of every month and then verified and processed through the payroll payment system every month, generally in time for the following month's payment.
(iii) Internal controls of changes to personnel records and the payroll	A	B	Authority and basis for changes to personnel records and the payroll are generally clear even to the point of attendance records. Other internal controls, however, are still lacking for appointment and promotion of personnel at different levels of decision, personnel changes are not always recorded through appropriate means, salary ranges across Government still fragmented, among others. It is unclear whether the latter controls were weighed to ensure full integrity of payroll data in the 2010 PEFA assessment.
(iv) Existence of payroll audits to identify control weaknesses and /or ghost workers.	D	C	Interim controls are strict at the stage of controlling civil service absenteeism and yet, the existence of payroll audits to identify other control weaknesses and possible ghost remains a concern.
<b>PI-19 Competition, value for money and controls in procurement</b>	<b>C</b>	<b>D+</b>	<b>The indicator is not comparable due to revision in the PEFA methodology.</b>
(i) Transparency, Comprehensiveness and Competition in the Legal and Regulatory Framework	NA	B	Indicator was modified. The Public Procurement System of Timor-Leste meets four of the six criteria recommended for a clear and comprehensive legal and regulatory framework and promoting open competition.



Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
(ii) Use of Competitive Procurement Method (formerly (ii) Use of open competition for award of contracts that exceed the nationally established threshold for small purchases, and (ii)) Justification for use of less competitive procurement methods	(i) D and (iii) A	D	The data collected does not permit verifying if justification for the use of non-competitive method is adequate in all cases. Neither the MOF nor the line ministry interviewed could provide reliable data on the justification for deviating from less competitive procurement methods. There is yet no established process and/or system within the National Procurement Commission to record cases where Ministries deviated from the procurement policy and process. Note that this dimension is not comparable to 2010 (see PEFA framework).
(iii) Public Access to Complete, Reliable and Timely procurement Information	NA	C	Two out of four document types (bidding opportunities and contract awards >US\$1 million) are available through appropriate means. The data is complete and reliable. It is published on the Procurement Portal and in the print media. Data on procurement plans and resolution of procurement appeals are lacking.
(iv) Existence and operation of a procurement complaints mechanism (revised sub-dimension with 7 criteria specified)	NA	D	The government lacks a complaints (protests) system to generate substantial and reliable coverage of key procurement information. Dimension is not comparable to 2010 PEFA.
<b>PI-20 Effectiveness of internal controls for non-salary expenditure</b>	<b>C+</b>	<b>C+↗</b>	<b>Internal controls for expenditure payments other than salary are generally effective, with the exception of certain essential purchases not adequately planned and prioritized within MDAs.</b>
(i) Effectiveness of expenditure commitment controls	A	A	Commitment control remains effective and restrains expenditure from exceeding to the available cash resources through an automated Free Balance FMIS procedure. The procedure, however, does not comprehensively operate in a way to execute and track procurement plans and payment orders according to a commitments calendar in support to regular service delivery unit operations.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	C	Other internal controls and procedures do not incorporate a comprehensive set of rules for human resource management, procurement, selection of viable projects, fixed asset management and inventorying. It only consists of a basic set of rules for processing and recording of financial transactions, which are generally understood by those involved with Free Balance. A comprehensive set of internal controls is being prepared in a handbook for the Inspectorate and Internal Audit Office. This warrants an upper arrow on this dimension as a positive reform action on progress.
(iii) Degree of compliance with rules for processing and recording transactions	B	B	The compliance to the basic rules in the processing and recording of financial transactions remains generally high. Still, minor repeated breaches of rules and occasional use of simplified/emergency procedures with adequate justification are documented throughout external audit reports.
<b>PI-21. Effectiveness of Internal Audit</b>	<b>D</b>	<b>D↗</b>	<b>There are no changes to the overall score. The arrow demonstrates that recent organic reforms and initial efforts had been carried out to build the necessary capacities within MOF.</b>
(i) Coverage and quality of the internal audit function	D	D	The MOF Organic Law Decree 41/2012 has enabled the creation of the Inspection and Audit Office (IAO) whose main responsibilities are defined as part of the new mandate of the MOF. As part of a strategy plan, the IAO has recommended a specific legislation and a capacity building programme to cover systemic PFM issues within Government and respond to the needs and professional standards of modern internal auditing.
(ii) Frequency and distribution of reports	D	D	No internal audit plans and reports were produced across Government over the past three years.
(iii) Extent of management response to internal audit findings	D	D	
<b>PI-22 Timeliness and regularity of accounts reconciliation</b>	<b>B</b>	<b>B+</b>	<b>The overall score improved as both the bank account reconciliation statements and the reconciliation and clearance of suspense accounts and advances take place on a regular basis thus resulting in improved monitoring</b>

Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
			<b>and control of and prompt action to recover cash balances owed to Government.</b>
(i). Regularity of Bank reconciliations	B	B	Reconciliation of those bank accounts under direct control of the Treasury is performed by the Cash Management Unit on a monthly basis and a reconciliation statement is issued at aggregate and detail bank account levels within four weeks from end of month.
(ii). Regularity of reconciliation and clearance of suspense accounts and advances	B	A	Reconciliation and clearance of suspense accounts and employee advances and other advances is being performed by the National Directorate of Payments. Now it takes place monthly, with a statement copied to DG Treasury within thirty days from end of month. At year-end minimal balances remained un-cleared as evidenced by annual audit reports.
<b>PI-23 Availability of information on resources received by service delivery units</b>	<b>D</b>	<b>D</b>	<b>There is still no reporting on budget resources received by primary service delivery units detailed by district.</b>
<b>PI-24 Quality and timeliness of in-year budget reports</b>	<b>C+</b>	<b>C+↗</b>	<b>Budget execution reports continue to meet high quality standards but the issuance is only quarterly.</b>
(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	A	Expenditure is still reported at both commitment and payment stages throughout the year. It provides direct comparison to the original and revised budgets, compares to the period of previous year, and includes the balance at all items of budget estimates.
(ii) Timeliness of the issue of reports	C	C	Reports are still prepared on a quarterly basis with delays of two months.
(iii) Quality of information	B	B	There are no major concerns about accuracy and integrity of data, and if any statistical issues these are generally highlighted in the reports and do not compromise overall consistency of budget execution reports.
<b>PI-25 Quality and timeliness of annual financial statements</b>	<b>C+</b>	<b>C+</b>	<b>Annual government financial statements are complete, of reasonable quality and timely.</b>
(i) Completeness of the financial statements	C	A	Annual government financial statements ( <i>Conta Geral do Estado</i> ) include revenues and expenditures, a cash flow statement and other financial assets in Note 2 of the financial statements..
(ii) Timeliness of submission of the Financial statements	A	A	Financial statements for the 2010-2012 period reviewed were audited by the commercial external auditor within the first six months from the end of the concerned fiscal year.
(iii) Accounting standards used	A	A	GOTL complies with the IPSAS Cash Basis Part 1 standard for accounting.
<b>PI-26. Scope, nature and follow-up of external audit</b>	<b>C+</b>	<b>C+</b>	<b>The scope of annual audit covers all entities of General Government to the extent that financial operations are reported in the consolidated GOTL reports. In August 2011, the 9/2011 Law on the Organic Structure of the Chamber of Accounts (Camara de Contas) of the Supreme Administrative, Fiscal and Accounts Court came into force mandating the Chamber of Accounts as interim supreme audit institution under the remit of the Court of Appeals.</b>
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	C	B	In the absence of a SAI, an external certified audit firm from the commercial sector has been routinely assigned the function of external auditor in recent years. The independent auditor produces separate reports for the Consolidated Fund, and for the subsidiary Infrastructure and Human Development funds. The independent auditor is also tasked with the annual audit of the financial statements of the Petroleum Fund. The Chamber of Accounts undertakes its own (parallel) auditing process. There are notable improvements in comprehensiveness, timeliness and overall quality of audits in the last two years reviewed.
(ii) Timeliness of submission of audit reports to the legislature	B	C	Audit opinions are submitted to the legislature within 10-12 months from the end of the fiscal year concerned.
(iii) Evidence of follow-up on audit recommendations	A	B	Response by the executive on audit recommendations is systematic and timely, and covers the whole extent of issues raised by the audit process. However, effective follow-up action is not always possible due also to capacity limitations of

Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
			Government.
<b>PI-27 Legislative Scrutiny of the Annual Budget Law</b>	<b>C+</b>	<b>B+</b>	<b>Committee C for Public Finances of the National Parliament operates within a clear framework of procedures and has conducted an improved process of hearings, in particular for the 2012 and 2013 Budget proposals.</b>
(i) Scope of the legislature's scrutiny	C	B	Parliamentary scrutiny of the draft Budget ( <i>Orcamento Geral do Estado</i> ) has improved in terms of coverage and content since the period assessed by the 2010 PEFA.
(ii) Extent to which the legislature's procedures are well-established and respected	A	A	There is a clear framework for the operations of Committee C with well established procedures.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	A	A	The National Parliament has had more than two months to consider these draft Budgets in the period reviewed.
(iv) Rules for in-year Amendments to the budget without ex-ante approval by the legislature.	C	B	Clear rules exist for in-year amendments to the budget by the executive.
<b>PI-28. Legislative scrutiny of external audit reports</b>	<b>D+</b>	<b>C+</b>	<b>Legislative scrutiny of the public external audit reports has improved at the margin due to good practice observed in the most recent hearings for the 2011 and 2012 government financial statements. The scrutiny process is timely and resulting recommendations are considered the executive.</b>
(i) Timeliness of examination of audit reports by legislature (for reports received within the last three years)	A	A	Scrutiny of audit reports was completed by Committee C and approved by the National Parliament plenary within three months from receipt of reports in the period under review.
(ii) Extent of hearings on key findings undertaken by legislature	D	C	Hearings on key audit findings usually take place annually but have not been consistent in terms of depth and coverage. There is however notable improvement in the hearings held for the 2011 and 2012 annual government financial statements.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	C	B	Committee C considers the recommendations of the Chamber of Accounts and the independent auditor and incorporates into one formal Communication. GOTL replies and follow up is documented in the official gazette.
<b>D-1 Predictability of Direct Budget Support</b>	<b>NA</b>	<b>NA</b>	Not applicable – there was no budget support programme for TL
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the Government submitting its budget proposals to the legislature (or equivalent approving body).			
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)			
<b>D-2 Financial information provided by donors for budgeting and reporting on project and programme aid</b>	<b>D+</b>	<b>C+</b>	<b>The Aid Transparency Portal (ATP) and Aid Information Management System (AIMS) are fully functional and accessible at the MOF website from 2012. The 2014 Budget Book 5 includes comprehensive information on planned obligations covering most development partners for the forthcoming fiscal year.</b>
(i) Completeness and timeliness of budget estimates by donors for project support.	C	B	The responsibility for both inputting data in AIMS and ensuring it is comprehensive and reliable rests solely with the concerned development partners. The information appears to be sufficiently reliable and updated real time.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D	C	In 2012, out a total of USD 225.2 million planned external aid to government institutions, USD 158 million worth (or 70%) of actual flows were reported (entered by development partners) in AIMS. The system is open for development partners to enter their data at any time. GOTL requires development

Indicator and dimension	2010 Score	2013 Score	Brief Explanation and Changes
			partners to enter data on a monthly basis, forty-five days from the end of the month (reporting period).
<b>D-3 Proportion of aid that is managed by use of national procedures</b>	<b>D</b>	<b>D</b>	<b>The use of country systems in TL is very low as document by a recent MOF study (not yet published) on the status of the Busan Partnership agreement in 2011.</b>
(i) Overall proportion of aid funds to central government that are managed through national procedures.	D	D	The study was conducted in the form of a survey questionnaire using the global indicators and targets of the guide on the Monitoring Framework of the Global Partnership UCS is 7% of total recorded aid to government.

**Annex 2: List of officials consulted**

	<b>Name and designation</b>	<b>Organization</b>
1	Nikunj Soni, Senior Resident Advisor	Ministry of Finance
2	Andrew Laing, Senior External Advisor	Ministry of Finance
3	Januario da Gama, Director General	DG State Finance, MOF
4	Helder Lopes, Coordinator and Advisor	ND Economic Policy, MOF
5	Daniel Wilde, Economic Advisor	ND Economic Policy, MOF
6	Salamao Yaquim, National Director, Budget	ND Budget Directorate, MOF
7	Mary Venner, Budget Expenditure Review Advisor	ND Budget Directorate, MOF
8	Agostino Castro, Director General	DG Treasury, MOF
9	Rui Ferreira Magno, National Director, Payments	DG Treasury, MOF
10	Kyaw Aung, Treasury Operations Advisor	DG Treasury, MOF
11	Sandra F.P. Chan Chao, National Director, Accounting and Financial Regulation	DG Treasury, MOF
12	Anthony Perkins, Advisor, Monitoring of APEs	DG Treasury, MOF
13	Martinho Lopes, National Director, General Administration and Financial	DG Corporate Services, MOF
14	Viriato Seac, Procurement and Legal Advisor	DG Corporate Services, MOF
15	Deonísio dos Santos, Procurement Unit Coordinator	DG Corporate Services, MOF
16	Alexander George, Accounts Advisor	DG Treasury, MOF
17	Aguido da Silva, ND for Financial De-concentration	DG Treasury, MOF
18	Antonio Goncalves, ND for Financial De-concentration	DG Treasury, MOF
19	Filipe Nery Bernardo, Acting Coordinator	Petroleum Fund Coordination Unit, MOF
20	Cosme da Costa Araujo, Advisor	Petroleum Fund Coordination Unit, MOF
21	Shih-Yang Ang, Advisor	Petroleum Fund Coordination Unit, MOF
22	Monica Ranguel da Cruz, Director-General	DG Revenue, MOF
23	Uldarico Rodriguez, National Director for Domestic Revenue	DG Revenue, MOF
24	Helga F.S. Fernandes, ND Domestic Revenue	DG Revenue, MOF
25	Jose Tilman, ND for Domestic Revenue, Advisor	DG Revenue, MOF
26	Jonianto Monteiro, ND for Petroleum Revenue	DG Revenue, MOF
27	Patricia Callaghan, Advisor to ND for Domestic Revenue	DG Revenue, MOF
28	Bent Larsen, Advisor to ND for Domestic Revenue	DG Revenue, MOF
29	Brigida Da Silva, Director-General	DG Customs, MOF
30	Anthony O'Connor, Advisor	DG Customs, MOF
31	Alejandro Garcia, Advisor	DG Customs, MOF
32	Amani Vodowaqa Bale, Legal Advisor	DG Customs, MOF
33	Bernardino da Costa Pereira, National Director	ND of Management of External Support to MOF
34	Cancio de Jesus Oliveira, Director	Development Partnership Management Unit, MOF
35	Takeshi Ken Watanabe, Advisor	Development Partnership Management Unit
36	Gabriel Schickel, Advisor	Development Partnership Management Unit
37	Jose Alexandre de Carvalho, Director	Inspection and Audit Office, MOF
38	Tihomir Grbic, Internal Audit Advisor	Inspection and Audit Office, MOF
39	Felix Miranda, Senior Training Coordinator	Ministry of Finance
40	Aniceto do Rosario, Senior Member	National National Procurement Commission
41	Rolito Rillo, Senior Procurement Advisor	National National Procurement Commission
42	Marcelo Amaral, National Director	Finance Management and Procurement, Ministry of Health
43	Alexandra Mesquida, Advisor	Chamber of Accounts
44	Louis Motta, Advisor	Chamber of Accounts
45	Virgilio Maria Dias Marcal, President of Committee C on Public Finance	National Parliament
46	Izilda, Manuela da Luz Pereira Soares, Vice-President of Committee C	National Parliament
47	Maria Fernanda Lay, Member of Committee C	National Parliament
48	Margarida Rodrigues, Advisor to Committee C	National Parliament
49	Miguel de Lemos, Advisor to Committee C	National Parliament
50	Jose Pinto, Advisor to the Plenary	National Parliament
51	Francis Thomas, Office Managing Partner	Deloitte Northern Territory
52	Charles Scheider	La'o Hamutuk
53	Celestino Pereira	La'o Hamutuk

	<b>Name and designation</b>	<b>Organization</b>
54	Sonia Godinho, Budget Support Expert	EU Delegation
55	Vincent Vire, Head of Cooperation	EU Delegation
56	Hans Anand Beck, Senior Economist	World Bank
57	Cameron Reid, Assistant Director, PFM	AusAid
58	Francisco de Amos Soares, Advisor	AusAid
59	Freya Ovington, Advisor	AusAid
60	Shane Rosenthal, Resident Representative	Asian Development Bank

**Annex 3: List of documents consulted**

- Constitution of the Republic of Timor-Leste
- Annual Report of Ministry of Finance, 2012
- Annual Consolidated Government Financial Statements (*Contas Geral do Estado*), 2010, 2011, 2012
- Deloitte independent Audit Opinion on Annual Consolidated Government Financial Statements 2010, 2011, 2012
- Deloitte independent Audit Opinion on Annual Financial Statement of the electricity utility EDTL, March 2011
- Deloitte independent Audit Opinion on Annual Financial Statement of the *Serviço Autónomo de Medicamentos e Equipamentos de Saúde* (SAMES) April 2011.
- Annual Financial Statements for the Infrastructure Fund 2010, 2011, 2012
- Annual Financial Statements for the Human Development Fund 2010, 2011, 2012
- Opinion on the 2010 Government Financial Statements, Court of Appeals (*Tribunal do Recurso*) November 2011.
- Report and Opinion (*Envio do Relatório e Parecer sobre a Conta Geral do Estado*) on the 2010 and 2011 Government Financial Statements, Committee C on Public Finances, National Parliament.
- La'o Hamutuk note on participation of Public Hearing on the Court of Appeal's Opinion on the 2011 Government Financial Statements
- State Budget (*Orcamento Geral do Estado*) 2010, 2011, 2012, 2013 and (draft) 2014
- Exceptional Law 9/2010 on the deferral of the submission of draft 2011 Budget to 15 November 2010
- Opinion on proposed State Budgets 2010, 2011, 2012, 2013, Committee C on Public Finances, National Parliament
- La'o Hamutuk note on the proposed General State Budget for 2011, 15 December 2010
- Decision 8/11/CA of the National Parliament on the regulations governing the competencies and organisational arrangements of the Secretariat-General
- Committee C Work Plan for 2013
- Regulations 2/2012 Committee C internal rules and procedures
- Annual Report on the Petroleum Fund, 2012
- Annual Audit Plan 2012 and, 2013/2014 ND Domestic Taxation
- Government Chart of Accounts
- Law 15/2008 on the Organisation and Functioning of the Parliamentary Administration
- Law (13/2009) on Budget and Financial Management
- Decree-Law (41/2012) on the Organic Structure of the Ministry of Finance
- Petroleum Fund Law (9/2005)
- Law (3/2003) on the Taxation of Bayu-Undan Contractors
- Law (4/2003) on the Petroleum Development of Timor Sea (Tax Stability)
- Decree-Law (08/2008) on Taxes and Duties
- Decree-Law (11/2004) on the Customs Code
- Decree Law (15/2005) on Status of Official Customs Brokers
- UNTAET Regulation 2000/18 on a Revenue System for East Timor
- Decree-Law (01/2010) on Changing the Procurement Law Regime
- Law (9/2011) on the Organic Structure of the Chamber of Accounts (Camara de Contas) of the Supreme Administrative, Fiscal and Accounts Court
- Decree-Law Regime Geral do Programa Nacional de Desenvolvimento dos Sucos (PNDS)
- Law (14/2003) on Public Companies
- Development Cooperation Report, MOF 2012

## Statistical appendix

**Table 1: Summary of Central Government operations  
(US\$ million)**

	2009	2010	2011	2012
<b>Revenue</b>	<b>2,064.9</b>	<b>2,737.0</b>	<b>3,853.6</b>	<b>4,351.1</b>
Petroleum revenue	1,691.7	2,331.3	3,461.3	3,959.9
Oil/gas receipts	1,660.2	2,110.2	3,240.1	3,559.1
Interest	31.5	221.1	221.2	400.8
Taxes	43.5	50.2	78.4	98.5
Taxes on income and profits	13.3	18.2	27.8	37.2
Taxes on goods and services	23.9	26.5	34.2	47.9
Taxes on international trade	6.3	5.5	16.4	13.4
Grants	281.8	309.3	283.9	253.8
Other revenue	47.9	46.2	30.0	38.9
<b>Expenditure</b>	<b>1,032.6</b>	<b>1,137.2</b>	<b>1,379.6</b>	<b>1,389.7</b>
Recurrent	394.2	506.1	507.7	674.1
Wages and salaries	87.3	91.5	111.6	130.3
Goods and services	212.8	245.9	253.5	328.7
Transfers	94.1	168.7	142.6	215.1
Capital expenditure 1/	638.4	631.1	871.9	715.6
<b>Overall balance</b>	<b>1,032.3</b>	<b>1,599.8</b>	<b>2,474.0</b>	<b>2,961.4</b>
<b>Memo item: Nominal GDP</b>	<b>3,299.0</b>	<b>4,216.0</b>	<b>5,797.0</b>	<b>6,300.0</b>

Sources: Ministry of Finance; and IMF staff estimates.

1/ Data include donor-funded projects.

**Table 2: Summary of Central Government operations  
(% of GDP)**

	2009	2010	2011	2012
<b>Revenue</b>	<b>62.6%</b>	<b>64.9%</b>	<b>66.5%</b>	<b>69.1%</b>
Petroleum revenue	51.3%	55.3%	59.7%	62.9%
Oil/gas receipts	50.3%	50.1%	55.9%	56.5%
Interest	1.0%	5.2%	3.8%	6.4%
Taxes	1.3%	1.2%	1.4%	1.6%
Taxes on income and profits	0.4%	0.4%	0.5%	0.6%
Taxes on goods and services	0.7%	0.6%	0.6%	0.8%
Taxes on international trade	0.2%	0.1%	0.3%	0.2%
Grants	8.5%	7.3%	4.9%	4.0%
Other revenue	1.5%	1.1%	0.5%	0.6%
<b>Expenditure</b>	<b>31.3%</b>	<b>27.0%</b>	<b>23.8%</b>	<b>22.1%</b>
Recurrent	11.9%	12.0%	8.8%	10.7%
Wages and salaries	2.6%	2.2%	1.9%	2.1%
Goods and services	6.5%	5.8%	4.4%	5.2%
Transfers	2.9%	4.0%	2.5%	3.4%
Capital expenditure 1/	19.4%	15.0%	15.0%	11.4%
<b>Overall balance</b>	<b>31.3%</b>	<b>37.9%</b>	<b>42.7%</b>	<b>47.0%</b>

Sources: Ministry of Finance; and IMF staff estimates.

1/ Data include donor-funded projects.



**Table 3: Government expenditure, by main functional and economic category, 2009  
(US\$ million)**

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	13,451	99,466	7,621	3,355	12,547	136,440
Defence	3,833	9,562	2,443	22,571	-	38,409
Public Order and Security	15,138	14,094	2,615	4,952	-	36,799
Economic Affairs	10,557	26,269	19,808	118,104	7,555	182,293
Environmental Protection	252	148	9	221	-	630
Housing and Community Affairs	-	-	-	-	-	-
Health	9,052	14,553	1,126	4,151	-	28,882
Recreation, Culture and Religion	997	2,331	1,316	1,668	1,826	8,138
Education	32,779	9,798	2,724	12,389	4,017	61,707
Social Protection	1,353	36,665	1,006	4,280	68,311	111,615
Total	87,412	212,886	38,668	171,691	94,256	604,913
<i>Memo item: Social Services</i>	44,181	63,347	6,172	22,488	74,154	210,342

Source: Ministry of Finance.

**Table 4: Government expenditure, by main functional and economic category, 2010  
(US\$ million)**

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	14,851	100,978	5,979	17,081	48,391	187,280
Defence	5,820	9,404	4,407	10,473	-	30,104
Public Order and Security	16,839	16,505	4,867	4,286	-	42,497
Economic Affairs	11,988	35,027	14,387	168,974	17,794	248,170
Environmental Protection	296	138	53	30	-	517
Housing and Community Affairs	-	-	-	-	-	-
Health	10,025	18,693	1,400	4,046	453	34,617
Recreation, Culture and Religion	1,076	2,894	673	238	3,402	8,283
Education	34,072	16,848	4,238	7,038	6,639	68,835
Social Protection	2,633	42,414	2,414	3,272	91,813	142,546
Total	97,600	242,901	38,418	215,438	168,492	762,849
<i>Memo item: Social Services</i>	47,806	80,849	8,725	14,594	102,307	254,281

Source: Ministry of Finance.

**Table 5: Government expenditure, by main functional and economic category, 2011  
(US\$ million)**

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	21,298	67,743	10,189	76,413	32,897	208,540
Defence	5,742	17,027	3,810	3,605	7	30,191
Public Order and Security	16,541	14,527	2,813	1,484	3	35,368
Economic Affairs	12,195	97,735	2,774	469,202	11,304	593,210
Environmental Protection	229	270	88	8,690	195	9,472
Housing and Community Affairs	-	-	-	-	-	-
Health	10,936	13,475	1,279	2,782	10,751	39,223
Recreation, Culture and Religion	1,167	3,100	545	1,725	3,743	10,280
Education	42,107	23,082	3,382	2,348	-	70,919
Social Protection	1,557	8,906	601	27	84,587	95,678
Total	111,772	245,865	25,481	566,276	143,487	1,092,881
<i>Memo item: Social Services</i>	55,767	48,563	5,807	6,882	99,081	216,100

Source: Ministry of Finance.

**Table 6: Government expenditure, by main functional and economic category, 2012**  
(US\$ million)

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	19,222	81,624	17,115	96,595	28,066	242,622
Defence	8,329	16,738	9,942	2,499	1,430	38,938
Public Order and Security	17,652	20,507	1,296	6,405	198	46,058
Economic Affairs	12,592	120,765	3,433	401,914	27,739	566,443
Environmental Protection	294	504	58	-	28	884
Housing and Community Affairs	2,487	4,582	985	837	99	8,990
Health	15,960	20,059	4,203	3,700	10,227	54,149
Recreation, Culture and Religion	1,224	3,866	848	902	1,776	8,616
Education	51,415	28,472	3,398	2,448	123	85,856
Social Protection	1,723	12,461	674	1,902	148,759	165,519
Total	130,898	309,578	41,952	517,202	218,445	1,218,075
<i>Memo item: Social Services</i>	72,809	69,440	10,108	9,789	160,984	323,130

Source: Ministry of Finance.

**Table 7: Government expenditure, by main functional and economic category, 2009**  
(% of total)

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	9.9%	72.9%	5.6%	2.5%	9.2%	100.0%
Defence	10.0%	24.9%	6.4%	58.8%	0.0%	100.0%
Public Order and Security	41.1%	38.3%	7.1%	13.5%	0.0%	100.0%
Economic Affairs	5.8%	14.4%	10.9%	64.8%	4.1%	100.0%
Environmental Protection	40.0%	23.5%	1.4%	35.1%	0.0%	100.0%
Housing and Community Affairs	...	...	...	...	...	...
Health	31.3%	50.4%	3.9%	14.4%	0.0%	100.0%
Recreation, Culture and Religion	12.3%	28.6%	16.2%	20.5%	22.4%	100.0%
Education	53.1%	15.9%	4.4%	20.1%	6.5%	100.0%
Social Protection	1.2%	32.8%	0.9%	3.8%	61.2%	100.0%
Total	14.5%	35.2%	6.4%	28.4%	15.6%	100.0%
<i>Memo item: Social Services</i>	21.0%	30.1%	2.9%	10.7%	35.3%	100.0%

Source: Ministry of Finance.

**Table 8: Government expenditure, by main functional and economic category, 2010**  
(% of total)

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	7.9%	53.9%	3.2%	9.1%	25.8%	100.0%
Defence	19.3%	31.2%	14.6%	34.8%	0.0%	100.0%
Public Order and Security	39.6%	38.8%	11.5%	10.1%	0.0%	100.0%
Economic Affairs	4.8%	14.1%	5.8%	68.1%	7.2%	100.0%
Environmental Protection	57.3%	26.7%	10.3%	5.8%	0.0%	100.0%
Housing and Community Affairs	...	...	...	...	...	...
Health	29.0%	54.0%	4.0%	11.7%	1.3%	100.0%
Recreation, Culture and Religion	13.0%	34.9%	8.1%	2.9%	41.1%	100.0%
Education	49.5%	24.5%	6.2%	10.2%	9.6%	100.0%
Social Protection	1.8%	29.8%	1.7%	2.3%	64.4%	100.0%
Total	12.8%	31.8%	5.0%	28.2%	22.1%	100.0%
<i>Memo item: Social Services</i>	18.8%	31.8%	3.4%	5.7%	40.2%	100.0%

Source: Ministry of Finance.

**Table 9: Government expenditure, by main functional and economic category, 2011  
(% of total)**

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	10.2%	32.5%	4.9%	36.6%	15.8%	100.0%
Defence	19.0%	56.4%	12.6%	11.9%	0.0%	100.0%
Public Order and Security	46.8%	41.1%	8.0%	4.2%	0.0%	100.0%
Economic Affairs	2.1%	16.5%	0.5%	79.1%	1.9%	100.0%
Environmental Protection	2.4%	2.9%	0.9%	91.7%	2.1%	100.0%
Housing and Community Affairs	...	...	...	...	...	...
Health	27.9%	34.4%	3.3%	7.1%	27.4%	100.0%
Recreation, Culture and Religion	11.4%	30.2%	5.3%	16.8%	36.4%	100.0%
Education	59.4%	32.5%	4.8%	3.3%	0.0%	100.0%
Social Protection	1.6%	9.3%	0.6%	0.0%	88.4%	100.0%
Total	10.2%	22.5%	2.3%	51.8%	13.1%	100.0%
<i>Memo item: Social Services</i>	25.8%	22.5%	2.7%	3.2%	45.8%	100.0%

Source: Ministry of Finance.

**Table 10: Government expenditure, by main functional and economic category, 2012  
(% of total)**

	W&S	G&S	MC	CD	Transfers	Total
General Public Services	7.9%	33.6%	7.1%	39.8%	11.6%	100.0%
Defence	21.4%	43.0%	25.5%	6.4%	3.7%	100.0%
Public Order and Security	38.3%	44.5%	2.8%	13.9%	0.4%	100.0%
Economic Affairs	2.2%	21.3%	0.6%	71.0%	4.9%	100.0%
Environmental Protection	33.3%	57.0%	6.6%	0.0%	3.2%	100.0%
Housing and Community Affairs	27.7%	51.0%	11.0%	9.3%	1.1%	100.0%
Health	29.5%	37.0%	7.8%	6.8%	18.9%	100.0%
Recreation, Culture and Religion	14.2%	44.9%	9.8%	10.5%	20.6%	100.0%
Education	59.9%	33.2%	4.0%	2.9%	0.1%	100.0%
Social Protection	1.0%	7.5%	0.4%	1.1%	89.9%	100.0%
Total	10.7%	25.4%	3.4%	42.5%	17.9%	100.0%
<i>Memo item: Social Services</i>	22.5%	21.5%	3.1%	3.0%	49.8%	100.0%

Source: Ministry of Finance.

**Table 11: Government expenditure, by main function, 2009-2012  
(US\$ million)**

	2009	2010	2011	2012
General Public Services	136	187	209	243
Defence	38	30	30	39
Public Order and Security	37	42	35	46
Economic Affairs	182	248	593	566
Environmental Protection	1	1	9	1
Housing and Community Affairs	-	-	-	-9
Health	29	35	39	54
Recreation, Culture and Religion	8	8	10	9
Education	62	69	71	86
Social Protection	112	143	96	166
Total	605	763	1,093	1,218
<i>Memo item: Social Services</i>	210	254	216	323

Source: Ministry of Finance.

**Table 12: Government expenditure, by main function, 2009-2012  
(% of total)**

	2009	2010	2011	2012
General Public Services	22.6%	24.6%	19.1%	19.9%
Defence	6.3%	3.9%	2.8%	3.2%
Public Order and Security	6.1%	5.6%	3.2%	3.8%
Economic Affairs 1/	30.1%	32.5%	54.3%	46.5%
Environmental Protection	0.1%	0.1%	0.9%	0.1%
Housing and Community Affairs	0.0%	0.0%	0.0%	0.7%
Health	4.8%	4.5%	3.6%	4.4%
Recreation, Culture and Religion	1.3%	1.1%	0.9%	0.7%
Education	10.2%	9.0%	6.5%	7.0%
Social Protection	18.5%	18.7%	8.8%	13.6%
Total	100.0%	100.0%	100.0%	100.0%
Memo item: Social Services	34.8%	33.3%	19.8%	26.5%

Source: Ministry of Finance.

**Table 13: Budget expenditure outturns, by main economic category, 2010-2012  
(In US\$ millions, unless otherwise indicated) 1/ 2/**

Category	2010			2011			2012		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Primary recurrent	413.3	506.1	122.4%	563.4	517.0	91.8%	685.9	710.4	103.6%
Salary and Wages	97.7	91.5	93.6%	116.8	111.6	95.5%	140.1	130.9	93.5%
Goods and Services	210.3	245.9	116.9%	269.2	260.2	96.7%	346.3	352.0	101.7%
Transfers	105.4	168.7	160.1%	177.5	145.2	81.8%	199.6	227.5	114.0%
Capital expenditure	246.3	254.3	103.3%	742.6	597.1	80.4%	945.1	527.0	55.8%
Minor Capital	29.8	38.3	128.6%	29.3	29.5	100.8%	42.9	46.0	107.1%
Capital and Development	216.4	215.9	99.8%	713.3	567.6	79.6%	902.2	481.0	53.3%
Total	659.6	760.3	115.3%	1,306.0	1114.1	85.3%	1631.0	1237.5	75.9%
Memo: Contingency expenditure		0.0		0.0	25.3		0.0	22.3	

Source: Ministry of Finance.

1/ Data exclude debt service and externally-funded capital expenditure. Budget refers to that originally approved by Parliament. Actual expenditure refers to payments actually paid by cash and obligations with suppliers issued within the fiscal year.

2/ Data refer to audited expenditure.

**Table 14: Budget expenditure outturns, by administrative unit, 2010  
(In US\$ millions, unless otherwise indicated)**

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
President of the Republic	4.5	5.8	5.2	0.6	0.6	11.9%
Prime-Minister	14.0	19.5	16.2	3.4	3.4	20.9%
National Parliament	12.0	8.7	13.8	(5.1)	5.1	37.1%
Ministry of Foreign Affairs and Cooperation	14.2	12.8	16.3	(3.5)	3.5	21.6%
Ministry of Defence and Security	45.0	53.9	51.8	2.0	2.0	3.9%
Ministry of Finance	13.3	25.8	15.3	10.5	10.5	68.6%
Ministry of Justice	10.9	11.2	12.6	(1.4)	1.4	10.9%
Ministry of Health	35.7	34.4	41.1	(6.7)	6.7	16.3%
Ministry of Education	67.5	68.4	77.8	(9.4)	9.4	12.1%
Ministry of State Administration	21.1	46.4	24.3	22.1	22.1	91.1%
Ministry of Commerce, Industry and the Environment	38.4	53.4	44.2	9.2	9.2	20.7%
Ministry of Social Solidarity	69.6	99.3	80.2	19.1	19.1	23.8%

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Ministry of Public Works	-	-	-	-	-	-
Ministry of Transport and Communications	-	-	-	-	-	-
Ministry Agriculture and Fisheries	16.4	19.3	18.9	0.4	0.4	1.9%
Ministry of Tourism	-	-	-	-	-	-
Ministry of Mineral Resources and Petroleum	-	-	-	-	-	-
Commission for Administration of Infrastructure Fund	-	-	-	-	-	-
Others	297.2	301.4	342.6	(41.1)	41.1	12.0%
Allocated expenditure	659.6	760.3	760.3	(0.0)	134.5	-
Contingency	-	-	-	-	-	-
Total expenditure	659.6	760.3	-	-	-	-
Overall (PI-1) variance						15.3%
Composition (PI-2) variance						17.7%
Contingency share of budget						0.0%

Sources: Ministry of Finance; and author's calculations.

**Table 15: Budget expenditure outturns, by administrative unit, 2011  
(In US\$ millions, unless otherwise indicated)**

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
President of the Republic	6.3	5.9	5.2	0.7	0.7	13.5%
Prime-Minister	48.7	45.7	40.6	5.1	5.1	12.6%
National Parliament	12.4	10.4	10.4	(0.0)	0.0	0.2%
Ministry of Foreign Affairs and Cooperation	18.7	16.2	15.6	0.6	0.6	4.0%
Ministry of Defence and Security	52.2	50.1	43.5	6.6	6.6	15.3%
Ministry of Finance	13.9	13.0	11.5	1.4	1.4	12.5%
Ministry of Justice	8.0	7.8	6.6	1.2	1.2	18.0%
Ministry of Health	38.2	36.9	31.8	5.1	5.1	16.0%
Ministry of Education	70.1	67.7	58.5	9.2	9.2	15.7%
Ministry of State Administration	47.0	46.0	39.2	6.8	6.8	17.3%
Ministry of Commerce, Industry and the Environment	25.2	23.9	21.0	2.9	2.9	13.9%
Ministry of Social Solidarity	118.7	89.9	99.0	(9.1)	9.1	9.2%
Ministry of Public Works	-	-	-	-	-	-
Ministry of Transport and Communications	-	-	-	-	-	-
Ministry Agriculture and Fisheries	13.4	13.3	11.2	2.2	2.2	19.4%
Ministry of Tourism	-	-	-	-	-	-
Ministry of Mineral Resources and Petroleum	-	-	-	-	-	-
Commission for Administration of Infrastructure Fund	599.3	474.4	499.6	(25.2)	25.2	5.0%
Others	233.9	187.5	195.0	(7.5)	7.5	3.8%
Allocated expenditure	1,306.0	1,088.8	1,088.8	(0.0)	83.7	
Contingency	-	25.3				
Total expenditure	1,306.0	1,114.1				
Overall (PI-1) variance						14.7%
Composition (PI-2) variance						7.7%
Contingency share of budget						1.9%

Sources: Ministry of Finance; and author's calculations.

**Table 16: Budget expenditure outturns, by administrative unit, 2012**  
(In US\$ millions, unless otherwise indicated)

	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
President of the Republic	5.7	5.9	4.1	1.8	1.8	44.3%
Prime-Minister	50.6	45.1	36.7	8.4	8.4	22.8%
National Parliament	15.6	13.0	11.3	1.7	1.7	15.3%
Ministry of Foreign Affairs and Cooperation	22.1	18.4	16.0	2.4	2.4	14.9%
Ministry of Defence and Security	64.1	65.2	46.5	18.7	18.7	40.2%
Ministry of Finance	15.7	15.0	11.4	3.6	3.6	31.5%
Ministry of Justice	11.9	8.2	8.6	-0.4	0.4	4.7%
Ministry of Health	48.3	49.0	35.1	14.0	14.0	39.8%
Ministry of Education	93.5	85.3	67.9	17.4	17.4	25.6%
Ministry of State Administration	75.1	63.9	54.5	9.4	9.4	17.2%
Ministry of Commerce, Industry and the Environment	18.5	18.3	13.4	4.9	4.9	36.1%
Ministry of Social Solidarity	128.0	158.3	92.9	65.4	65.4	70.4%
Ministry of Public Works	153.8	148.4	111.6	36.7	36.7	32.9%
Ministry of Transport and Communications	4.8	4.7	3.5	1.2	1.2	35.2%
Ministry Agriculture and Fisheries	16.2	16.7	11.7	5.0	5.0	42.4%
Ministry of Tourism	3.6	3.3	2.6	0.7	0.7	26.0%
Ministry of Mineral Resources and Petroleum	6.3	6.3	4.6	1.7	1.7	37.2%
Commission for Administration of Infrastructure Fund	800.3	376.1	580.9	-204.8	204.8	35.3%
Others	140.1	114.0	101.7	12.3	12.3	12.1%
Allocated expenditure	1,674.1	1,215.2	1,215.2	0.0	410.4	
Contingency	0.0	22.3				
Total expenditure	1,674.1	1,237.5				
Overall (PI-1) variance						26.1%
Composition (PI-2) variance						33.8%
Contingency share of budget						1.3%

Sources: Ministry of Finance; and author's calculations.

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