

**Timor-Leste: Report on Observance of Standards and Codes (ROSC)—
Fiscal Transparency Module**

This Report on Observance of Standards and Codes (ROSC) - Fiscal Transparency Module on Timor-Leste was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on November 9, 2010. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Timor-Leste or the Executive Board of the IMF.

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DEMOCRATIC REPUBLIC OF TIMOR-LESTE

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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November 9, 2010

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in the Democratic Republic of Timor-Leste (TLS) in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF Manual on Fiscal Transparency (2007) (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

TLS has made significant progress on fiscal transparency over the last few years, as a result of a wide range of reforms in line with international good practice. These include: (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, basic budget process; (3) adequate reporting of annual donor –funded commitments and expenditures in the budget, (4) use of a modern integrated financial management information system, and (5) an efficient treasury single account (TSA) that executes almost all budgetary transactions. Budget documentation is comprehensive, and quarterly and annual fiscal reports on general government (GG) and the Petroleum Fund are available to both executive and parliament in a timely fashion. New legislation on budget and financial management, procurement, civil service, and the petroleum sector has supported these reforms, while on the institutional side, restructuring of the ministry of finance (MOF) and, recently, the establishment of a new Public Service Commission and an Anti-Corruption Commission have been important developments.

Nonetheless, there are still many areas where TLS diverges from good practice. Partly these weaknesses are due to TLS's status of young nation with a lack of capacity in public financial management (PFM). For example, an independent State Auditor, while required by the constitution, is still lacking and internal audit is very weak, basic state processes such as tax administration and procurement suffer from a lack of transparency, integrity, process control and appeal options. Planning and budgeting are largely unconnected, and a medium-term perspective is just starting. Strategic planning is largely absent. Budget preparation is input-based and incremental, and split between a current and capital side with disregard for their linkages. Budget review in MOF has very little assessment capacity, especially at the capital side, which is mostly determined politically. Despite recent improvements planning and implementation capacity in line ministries is weak. Payroll integrity is a concern, and arrears, while minimal, are not monitored. Budget reporting should be extended to cover fiscal risks, quasi fiscal expenditures (which occur in the petroleum sector), and tax expenditures.

The report's main recommendations include in the short term: (1) that planned fiscal decentralization to line ministries, and subsequently to local government, does not compromise budget execution and procurement processes, and is done with MOF systems and under its supervision; (2) that a State Audit function is set up as soon as possible, with foreign, commercial audit support; (3) that steps are taken to improve the functioning of the petroleum and domestic revenue administration directorates; (4) that payroll databases are regularly reconciled and updated; and (5) that fiscal information on autonomous bodies and corporations is fully included in the budget. For the medium term a range of reform options is sketched that the government will need to prioritize in its upcoming Public Expenditure and Financial Accountability (PEFA) assessment and PFM Reform Action Plan. Options include: development of a multiyear Public Investment Program (PIP), substantial strengthening of internal audit and expenditure review capacity, further extension of IFMIS functionality and connectivity, introduction of a program classification of the budget, and development of baseline methodology to improve setting of fiscal envelopes. Capacity building is needed in all areas to realize reforms.

Reports on the Observance of Standards and Codes (ROSCs) are undertaken on a voluntary basis by Fund Member countries. Publication of the ROSC occurs with the member's agreement and after prior notification to the Executive Board of the IMF. This preliminary draft has been prepared for consideration by the TLS authorities. Any issues arising from the draft can be discussed during follow-up TA mission of the Fiscal Affairs Department or through Article IV discussions. A revised draft will be prepared, taking account of any comments from the authorities and further review in Washington, DC. The revised draft will be sent to the authorities for further comment, and the authorities' agreement will be sought for the final draft to be published on the IMF's website.

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ACRONYMS

AAP	Annual Action Plan
ADB	Asian Development Bank
ANP	National Petroleum Authority (<i>Agência Nacional do Petróleo</i>)
APORTIL	Port Authority (<i>Autoridade Portuária</i>)
ARCON	Communication Agency Authority
BFML	Budget and Financial Management Law
BIDE	Boston Institute for Developing Economies
BIS	Bank for International Settlements
BPA	Banking and Payments Authority (Central Bank)
BRC	Budget Review Committee
CGU	Comptroller General
COFOG	Classification of Functions of Government
COM	Council of Ministers
DNE	National Statistics Directorate
EITI	Extractive Industries Transparency Initiative
ESI	Estimated Sustainable Income
GDRC	General Directorate of Revenue and Customs
GFS	Government Financial Statistics
GFSM	Government Finance Statistics Manual
GG	General Government
HATAC	High Administrative, Tax, and Audit Court
IAB	Investment Advisory Board
IFRS	International Financial Reporting Standards
IGO	Inspector General Office
IMfTL	Microfinance Institution
JPDA	Joint Petroleum Development Area
MOF	Ministry of Finance
NGO	Non-Governmental Organization
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIP	Public Investment Program
PSC	Product Sharing Contract
ROSC	Report on the Observance of Standards and Codes
RTTL	Radio and Television of Timor-Leste (<i>Radio e Televisão de Timor-Leste</i>)
SAMES	Autonomous Service for Drugs and Health Equipment
TDA	Taxes and Duties Act
TIN	Taxpayer Identification Number
TLS	Democratic Republic of Timor-Leste
TSA	Treasury Single Account
UN	United Nations
UNDP	United Nations Development Program
UNTAET	United Nations Transitional Administration of East Timor
WB	World Bank

I. DETAILED DESCRIPTION OF PRACTICES¹

A. Clarity of Roles and Responsibilities

Definition of Government Activities

1. The budget covers GG almost entirely consistent with Government Finance Statistics (GFS) principles. (1.1.1)

Timor-Leste (TLS) is a unitary State with constitutional provision for establishment of local governments. Local government has not yet been formally established, although government is set to take steps towards decentralization in the coming years. According to the Budget and Financial Management Law (BFML) of 2009, the State budget includes all revenues and expenditures of government departments who do not have administrative and financial autonomy and the autonomous services and funds but this has not been applied consistently (see the listing in categories 1 and 2 in Box 1).

2. There is one extra-budgetary fund and a few public entities that are not included in the budget.

The Petroleum Fund is the only extra-budgetary fund. It is not part of the budget but information on revenues and expenditures and other financial aspects is extensively available in the budget documents. Only the resources withdrawn from the Petroleum Fund are considered budget revenues. There is no social security fund in TLS. Public entities not included in the budget are one nonfinancial public corporation: the Autonomous Service for Drugs and Health Equipment (SAMDES); one financial public corporation: the Microfinance Institution (IMfTL); and one public institution: the National Petroleum Authority (ANP). The ANP is classified as a self-financed public institution and is financed by transfers from the budget and contract services fees paid by the petroleum companies operating in the Joint Petroleum Development Area (JPDA) in accordance with the Timor Sea Treaty. The Banking and Payment Authority (BPA), the central bank of TLS, is a monetary public corporation and also not included in the budget. Finally, there is also a lottery service, which responds to the ministry of commerce and tourism, but is not included in the budget. Notably for a state lottery, it does not deposit its revenues in the consolidated fund of government. There are a number of autonomous agencies established by separate decree laws, but despite the original intention, they still operate in practice as departments of line ministries.²

¹ The mission comprised Holger van Eden (head, FAD), Mario Pessoa, Franck Bessette, Eliko Pedastsaar (FAD), Hari Nayer (FAD treasury resident advisor), and Lone Semmingsen (Norwegian MOF). The mission met with the Minister of Finance, Mrs. Emilia Pires, the Vice-Minister of Finance, the Director General of Finance, the National Director of the Treasury, the National Director of the Budget, the Director of the Policy and Research Department of the MOF, the TLS Tax Authority, the Inspector General, the Governor of the Banking and Payment Authority of TLS, staff from the Ministries of Education, Infrastructure, and Health, members of the Budget Committee of the National Parliament, and the National Petroleum Authority (ANP). The mission also met with the donor community in Dili and representatives of the private sector and civil society.

² Four autonomous agencies have been established: Electricity of Timor-Leste, Port Authority (APORTIL), National Authority for Aviation, and Institute of Equipment Management. The Postal Services (*Correios*) and the Communication Agency Authority (ARCON) are normal budgetary units.

Box 1. General Government (GG)	
	Percent of GNI 2008
The GG in TLS comprises:	
Central government units included in the budget	
1. Executive, legislative, and judiciary systems (Office of the President, Office of the Prime Minister, and President of the Council of Ministers (COM), National Parliament, Tribunals, 12 ministries, 6 Secretariats of State, Prosecutor General, Ombudsman for Human Rights and Justice, National Electoral Commission, and Anti-Corruption Commission)	19.5
2. Four autonomous entities and one nonfinancial public corporation: Electricity of Timor-Leste, Port Authority (APORTIL), National Authority for Aviation, and Institute of Equipment Management, and Radio and Television of Timor-Leste (RTTL)	0.2
Central government units not included in the budget	
3. One public institution: National Petroleum Authority (ANP)	0.05
4. Two autonomous entities and one nonfinancial public corporation: Postal Services (<i>Correios</i>), ARCON, and the Autonomous Service for Drugs and Health Equipment (SAMES)	n.a.
Monetary Public Authority and Financial Public Corporation not included in the budget	
5. The Banking and Payment Authority (BPA)	0.1
6. Microfinance Institution of Timor-Leste (IMfTL)	n.a.
Extrabudgetary fund	
The Petroleum Fund	92.7

Notes: GDP figures are not available. GNI is estimated by the IMF. n.a.= not available.

Government relations with nonfinancial public corporations

3. The legislation on public corporations is adequate but some government entities carrying out typical commercial activities are not treated as corporations as their revenues are part of the budget. (1.1.4)

Although there are formally two public corporations, other public entities operate in typically commercial areas. The Decree-Law No. 14/2003 regulates the creation of public corporations in TLS. This legislation is aligned with good international practices. It establishes that only the Council of Ministers (COM) can approve the creation of public corporations, the annual budget and audited annual accounts have to be presented and approved by the MOF, the corporation has to prepare a multiyear plan to develop its activities, will have administrative and financial autonomy, and will be managed by a Management Board with the oversight of an Audit Commission. Currently, there are only two public corporations functioning at arms-length of government, Radio and Television of Timor-Leste (RTTL) and SAMES, however, even here several of the legal provisions governing their functioning have not been implemented yet. Other typical commercial activities such as electricity and water supply, port, communications, and airport authorities, and one supplying heavy construction equipment to other public entities are performed by so called autonomous agencies. Because

they are not in a position to generate the revenues necessary to maintain operations, they are financed by the budget. At the end of 2009, a directorate entitled the Autonomous Public Authorities Directorate was established in the MOF to supervise and control these entities and corporations but it is not yet fully operational.

4. Arrangements regulating profit transfers from public corporations and autonomous entities to the budget are not well-defined, but some transfers do take place. (1.1.4)

Although not extensively applied in the Timorese context, there is no clear legal provision defining transfers of profits and dividends from public corporations to the government. Except the BPA and the ANP, the rest of the public corporations and autonomous entities are not profitable. The BPA has a legal provision to keep its capital at a level of USD 20 million. The remaining financial result is transferred annually to the budget. On the other hand, there is no provision for transferring surpluses of the ANP to the Petroleum Fund or to the budget.

Government relationships with the central bank and the financial public sector

5. BPA, which is the country's central bank, enjoys legal independence and has no fiscal role. (1.1.4)

Based on the constitution, the BPA is co-responsible for implementing the monetary and financial policy of the country, achieving and maintaining domestic price stability, fostering the liquidity and solvency of a stable market-based banking and financial system, executing the foreign exchange policy, and promoting a safe, sound, and efficient payment system. BPA's mandate in relation to monetary policy is inactive because TLS has adopted the US dollar as its currency. BPA's chief officers are the General Manager, Deputy General Manager for Supervision, and Deputy General Manager for Payments. The General Manager is appointed by the President for a six-year term. The BPA is prohibited from extending funds to the government. The BPA has a service agreement with the MOF to administer the consolidated fund and this agreement establishes that the balances in the consolidated fund should receive the overnight interest rate as remuneration. BPA also holds the Petroleum Fund account and is responsible for preparing the financial information regarding credits and debits to the account. The management arrangement of the Petroleum Fund and the role of the BPA are discussed in more depth in Box 4.

6. There is only one, non-formalized, financial public corporation; it carries out quasi-fiscal activities³ that are not described in the budget documents. (1.1.4)

There is no formal financial public corporation in TLS as the IMfTL does not have a clear framework defining its status. The IMfTL was created as a credit union-type institution in 2003 with an initial capital of USD 8 million granted by the World Bank (WB) and Asian Development Bank (ADB) with the purpose of providing credit for micro and small businesses. The IMfTL is also operating as a deposit institution but the BPA has not yet granted it authorization to perform this kind of operation because it has not been instituted according to the banking legislation. Credits are granted by the IMfTL on a concessional

³ Activities undertaken by public corporations and by the private sector at the direction of the government that aim to provide government goods and services.

basis. The implicit financial subsidy and information on contingent liabilities and fiscal risks are not available in the budget documents. The government plans to set up, next to the IMfTL, a national development bank to operate in the agriculture sector and other production areas, and to finance public infrastructure.

Government involvement in the Petroleum Sector

7. In recent years, oil and gas have become by far the major export earner and revenue source for the budget; the government has developed a very modern and transparent legal and institutional structure to manage and safeguard the newly found wealth.

Given the small size of the non-oil economy, petroleum revenues make up approximately 200 percent of non-oil GDP. Not to overload the absorptive capacity of the domestic economy, and to ensure sustainable use of resource revenues for future generations TLS has, as noted in paragraph 2, a Petroleum Fund to smooth the flow of resources to the budget.⁴ Other aspects of the legal and fiscal management framework for petroleum resources have also been modernized.

8. The ownership of petroleum resources within TLS's territory is clearly established in the constitution and in the Petroleum Act of 2005.

The act states that the resources of the soil, the subsoil, the territorial waters, the continental shelf and the exclusive economic zone are owned by the State and shall be used in a fair and equitable manner in accordance with national interests.

9. The Petroleum Act empowers the authorization of petroleum companies to explore and develop petroleum resources.

Since 2008, this authorization function has been delegated to the ANP by a decree law. ANP is TLS's public institution responsible for managing and regulating petroleum activities in TLS's exclusive continental shelf and in the continental shelf shared between Australia and TLS known as the JPDA, see Box 2 below. TLS has no final maritime boundary with Australia in the Timor Sea, and extracted petroleum is split between Australia and TLS according to international treaties.

⁴ The 2010 budget authorized USD 682.8 million of expenditure. Almost 89 percent of the required funding was drawn from the Petroleum Fund.

Box 2. The Petroleum Sector

Presently, the Bayu-Undan-field is the only petroleum producing field in the Timor Sea. It is located in the JPDA that is regulated by the Timor Sea Treaty of 2002. JPDA is a joint jurisdiction between TLS and Australia, and 90 percent of the petroleum produced within JPDA belongs to TLS and 10 percent to Australia. From 1998 there was also petroleum production from the EKKN-field also located in the JPDA, but this field was closed down in 2007. Other known reserves within the JPDA are found in the fields Kitan and Greater Sunrise. Production in Kitan is expected to start in 2011, while there still is debate on where natural gas from Greater Sunrise should be brought ashore. According to the Treaty on Certain Maritime Areas of the Timor Sea, future petroleum revenue from Greater Sunrise will be shared equally between Australia and TLS.

TLS also has petroleum resources within its exclusive continental shelf and on shore. There are no ongoing explorations on shore, but prior to 1975 onshore wells were drilled. On the TLS exclusive continental shelf there are exploration operations in 6 blocks. The licenses for exploration were awarded in 2006 after an open bid tendering process.

10. At present, there is no government involvement in the petroleum resource sector, neither through equity participation nor through a national resource company.

However, the Petroleum Act and the model product sharing contract (PSC) gives TLS the right to participate in all licenses for petroleum operation within the TLS exclusive area. There is a cap on maximum government equity of 20 percent. According to the annual action plan (AAP) for the Secretariat of State for Natural Resources quoted in the budget for 2010, the government in TLS has plans to establish a National Oil Company. A final draft for the establishment of the company is soon to be submitted to the COM, and a public consultation is planned.

Government relations with the non-petroleum private sector

11. Government holdings in private corporations are small and payment of dividends is reported in public documents. (1.1.5)

Government has participation only in one private company: TLS Telecom. Dividends received are accounted as budget revenues. There is no privatization program.

12. The laws that regulate the nonfinancial private sector are relatively simple, but not always easily accessible for the general public; in addition, government administrative processes are not always client-friendly and, reportedly, often require “incentives” to be set in motion.

The legal framework regulating the private sector includes domestic and international investment laws, a procurement law, and tax laws. Tax and other legislation are available on the internet in Portuguese and in most cases also in Tetum, the two Timorese official languages. However, a large part of the population does not have access to the internet and published material can be difficult to find. There is an effort to provide legislation in other languages, such as English and Bahasa, but quality and availability of legal documents in these languages are uneven. Businessmen claim that is difficult to start and close a business,

receive credit, enforce contracts, and that payment of “incentives” to officials is becoming a day-to-day practice.⁵

13. To counter irregularities in the state administration the government has taken a number of institutional measures.

It enacted in 2009 the Anti-Corruption Commission Law providing the State with a specialized and independent agency with investigative powers to fight corruption. The Anti-Corruption Commission is presently being established. The government has also recently created a Public Service Commission to set standards and impose controls over actions of the civil service, especially with regard to hiring, promotion and misuse of power. There is also a long-standing Inspector General Office (IGO) in charge of review and examination with regard to all actions of central government, including suspected corruption. In addition the MOF and other ministries are in an early stage of setting up internal audit units and the constitution prescribes that a High Administrative, Tax, and Audit Court (HATAC) should be created as independent, supreme audit office of the state. While individually all these initiatives are praiseworthy, lack of coordination and of sufficient funding for full deployment of activities might actually lead to weaker controls over the functioning of the public administration than focusing resources at a few institutions only.

Fiscal management relationships among the branches and levels of government

14. The fiscal roles of the executive, legislative, and judicial branches are clearly defined in law, but a state audit function is still absent. (1.1.2)

The duties and responsibility of the executive are well defined by the constitution, including the responsibility of the government to prepare the state plan and state budget and execute them following the approval of the parliament. The executive is also mandated to establish a tax system. The constitution states that the execution of the budget shall be monitored by the HATAC and by the parliament. The former institution has, however, not yet been set up. The Court of Appeals is from 2010 onwards to stand in for the HATAC, but there is uncertainty if the Court of Appeals is willing or able to fulfill this role. At present, a commercial, external auditor is contracted by the MOF to audit government accounts. The judiciary is an independent branch of government, but is treated as an entity of government for all financial purposes. The duties and powers of the parliament are also defined in the constitution. The budget for parliament is a distinct one agreed between parliament and the executive. All government expenditures and revenues are to be accounted for by the state treasury. The accounts of parliament currently form a part of the audited annual accounts of the government. However, from 2010 the accounts of the parliament will not be a part of the annual accounts of the government. It will be subject to a separate audit.

15. Currently only one level of government exists in the country. (1.1.3)

Subnational governments have not yet been established.⁶ However, there is a proposal to establish municipalities (provinces) in the country. The draft legal framework for local

⁵ World Bank Doing Business Report 2010 evaluates TLS among the less friendly countries in the region to do business. The International Transparency Corruption Perception Index 2009 for TLS is 2.2 (in a 1.0 to 10.0 scale).

government has been drawn up. The draft municipal government financial regulations are also currently under development. In this context, it will be important for MOF to lay down a framework for responsible fiscal decentralization with adequate use of central government financial management standards, systems, monitoring, and control. In many countries without such a framework being in place before decentralization starts, governments have had to reverse course on decentralization strategies.

Box 3. Examples of Good Practice in Fiscal Decentralization

- Local government should have a Chief Finance Officer who is deputed by the treasury to the local government.
- The Chief Finance Officer will establish a municipal finance department responsible for treasury and budget matters, with accountability in financial management in accordance with regulation issued by the MOF.
- The MOF will establish classification systems for budget and accounting records purposes aligned with those of national government.
- Reporting on budget execution takes place to the head of the local government, the assembly and national government, including the MOF.
- There will be similar operating system at the national and local government levels to ensure compatibility in budget, payment and accounting systems.
- The MOF will be responsible for the regulation of local government finances, transfer of funds and for withholding or stopping the transfer of funds.
- Local governments should not have a deficit budget, i.e. estimated expenditures should not exceed estimated revenues for a year.
- The local government budget should be prepared in accordance with the budget circular issued by the MOF.
- Bank account details of local government must be conveyed to the MOF every year. Details of bank accounts should be included in the budget documents.
- A local government will not be permitted to enter into borrowings.
- Local governments should have an internal auditor.
- National government or the State Auditor will be responsible for commissioning and undertaking external audit of all local governments.

⁶ Articles 5, 71, and 72 of the constitution very broadly define the limits for administrative decentralization to local governments by stating that their aim should be organizing the participation of citizens in solving the problems of their own community and promoting local development. The local governments are not allowed to establish own taxes. The main source of revenues is to remain the central government budget. A specific decentralization law is to define further provisions.

The legal and administrative framework for fiscal management

16. The framework for management of public finances is clear and comprehensive.

(1.2.1)

The Budget and Financial Management Law (BFML) covers all aspects of public financial management (PFM) in government including the rules and procedures for the organization, preparation, presentation, and implementation of the budget and the accounts of the state and rules and procedure for financial management. The Law is applicable to the general government. The Law includes standard precepts of control by parliament, a clear definition of duties and responsibilities for financial management by the different organs of state, budget preparation and reporting on its execution and audit. The Law is comprehensive regarding its coverage of preparation of the budget, deadline for submission to the parliament, the period within which the budget should be passed, and the contents of the budget.

Fiscal Management of the Petroleum Sector

17. The legal basis for the fiscal regime for petroleum companies is comprehensive but complex.

TLS uses both product sharing contracts (PSCs) and direct taxation of petroleum companies. Both taxation legislation and a model PSC under the Petroleum Act are published and available. Bidding rounds for the award of petroleum contracts are regulated in a government decree from 2005 and conducted as open tenders. Both the final protocols for the tendering process and a summary of the terms of granted authorizations to explore and produce petroleum are published in the State Gazette, the *Jornal da República*. The contracts awarded in JPDA are however not made public. The tax legislation for the petroleum sector consists of several laws. The rate of income tax is higher for contractor companies in the petroleum sector than for domestic companies, and there is an additional profits tax for the most profitable petroleum projects. The government does not publish an estimate for the overall “government take” for petroleum production in TLS, but it has been estimated to be about 73 percent by Johnston (2007), which can be seen as quite high.⁷

18. A Petroleum Fund focused on fiscal sustainability is the cornerstone of a transparent and state-of-the-art framework for the management of resource revenues.

The Petroleum Fund was established by the Petroleum Fund Law of 2005 to contribute to a wise management of the petroleum resources, and to a sound fiscal policy. The roles and responsibilities regarding the Petroleum Fund, are divided between the parliament, the government and the BPA, and clearly stated in the law, see Box 4 below for details. BPA manages the fund under close supervision of the MOF. The operational rules applied to the Petroleum Fund are clearly stated in the management agreement between the MOF and BPA.

⁷ The “government take is commonly defined as the total amount of revenue that a host government receives from petroleum production. This amount can include taxes, royalties and income from government participation. It serves as one of the aggregate indicators of how well government is reaping the benefits of petroleum production.” Johnston, D. 2007, “How to Evaluate the Fiscal Terms of Oil Contracts,” in Humphreys M., J.D. Sachs, and J.E. Stiglitz (Eds.), *Escaping the Resource Curse* (New York: Columbia University Press).

The fund has no authority to spend or borrow, and is subject to regular auditing by an independent external auditor (currently Deloitte and Touche). Transfers from the fund to the TSA are regulated in the Petroleum Fund Law and in the Management Agreement between the MOF and BPA. Return on the fund is reinvested by BPA, while the management costs are withdrawn directly. The management costs are accounted for in the budget document.

Box 4. The Petroleum Fund

The Petroleum Fund was established in 2005 when the parliament after a thorough debate on how to manage the petroleum resources, unanimously passed the Petroleum Fund Law. The fund was established as a saving mechanism, recognizing the fact that petroleum revenue differs from other revenue by having its origin in depletion of a limited natural resource. The management of the petroleum wealth through the fund is meant to benefit both current and future generations, and to contribute to a sound fiscal policy in TLS. The financial assets in the fund amounted to USD 5.3 billion at the end of 2009.

An important feature of the Petroleum Fund is the division of roles and responsibilities between the parliament, the MOF and the operational manager of the fund, BPA. The government is responsible for the overall management of the fund through the Petroleum Fund Law. Investment rules are stated in the law, and the MOF is embodied with the power to issue investment mandates to the operational manager. The investment mandate gives a detailed description on how the fund is to be invested, describing qualifying instruments and financial performance benchmark. In accordance with the law there is an Investment Advisory Board (IAB) that advises the MOF on the investment mandates. The MOF cannot change the investment mandates without consulting the IAB. A Consultative Council that advises the parliament on Petroleum Fund matters has also been set up.

As operational manager of the fund, BPA is responsible for executing the investment mandates. The total of the fund is invested abroad. Approximately 80 percent of the fund is invested by BPA in US government bonds, while USD 1 billion is invested through an external manager – the Bank for International Settlements (BIS). A separate mandate applies for BIS' investments on behalf of the fund, defining a portfolio of sovereign and supranational bonds including approximately 10 percent denominated in other currencies. Recently, IAB recommended that the fund be further diversified, with 3-5 percent of the fund invested in a global equity mandate and 12-18 percent of the fund in a fixed income mandate benchmarked by a composite index. Upon request from the MOF, BPA is now in the process of selecting external managers to carry out such investment mandates.

TLS's Petroleum Fund has no separate legal status, but is formally a government account in the BPA. The Petroleum Fund Law requires that the management of the petroleum fund shall always be carried out with the highest standard of transparency. There are quarterly and annual reports that describe the activity in and the performance of the fund and the fund is subject to both external and internal audits. Both the reports on the fund and the audits are sent to the COM, parliament, and published.

19. All petroleum revenue of TLS is credited to the petroleum fund.

In addition to revenue from upstream petroleum activities, also revenue from some related sectoral activities is credited to the fund. Revenues from the petroleum sector are invested in the Petroleum Fund. Royalties and revenues from profit oil are paid by the companies to the National Petroleum Authority (ANP). For JPDA, the revenue is split between Australia and TLS according to international treaties. The ANP then forwards the TLS revenues from PSCs into the fund on a monthly basis. Taxation of the petroleum sector is performed by the Petroleum Revenue Directorate in the MOF. Taxes are paid directly into the fund by the liable companies.

Tax Collection in the Petroleum Sector

20. Complex tax legislation for the petroleum sector makes it difficult to understand the companies' obligations, entitlements, and rights. (1.2.2)

This is mostly a problem for the Petroleum Revenue Directorate itself which lacks adequate staff and capacity to fully review and verify received tax assessments. The taxation of income from petroleum related activities is based on self assessment. The task of the Directorate is to review and if necessary amend these self assessments (which are generally prepared by very experienced international tax advisors). The Directorate is also responsible for conducting tax audits, but since 2007 this has not been possible due to a dispute over sovereignty rights with Australia.⁸ The terms in the PSCs in the JPDA are however audited on a regular basis, and this gives some reassurance for the assessment of costs incurred under these licenses.

21. The tax legislation that applies to petroleum companies and service companies is available on the website of the Petroleum Revenue Directorate.

The Directorate advises tax payers on their tax liability on a monthly basis. Other information about tax rules or decisions is not published by the Directorate, but a frequently asked questions section of the website is currently under preparation. The companies liable to the special petroleum taxation are mainly international companies with experience in operating under different fiscal regimes, and there have been no complaints on the complexity in the tax legislation. The complexity does however put especially high requirement to specialized and qualified staff that might not be met with the current staffing of the Petroleum Revenue Directorate.

Domestic tax and customs administration

22. The legislative basis for tax collection was recently reformed and simplified but this modernization process has not yet covered tax administration where old United Nations (UN) regulations still apply. (1.2.2)

In 2008, the parliament passed the Taxes and Duties Act (TDA). It provides a single framework for the imposition of tax in TLS, but has not changed the legal regime applicable for the collection and recovery of tax, for tax offenses and for sanctions. The old UN regulations provide a basic legal framework, but in its current form, it does not meet international standards or the needs of a modern revenue administration. Except for Customs, most of the legislation is available on the MOF website. Dissemination campaigns are conducted through the media and targeted campaigns. Recently, tax information brochures have been posted on the MOF website in four languages (English, Tetum, Portuguese, and Indonesian). There is a critical difference between the Portuguese and English versions of many laws and regulations. **Self-assessment is a prominent feature of the tax system but for customs and domestic taxes there is room for discretionary interpretation by**

⁸ Reportedly, the Timorese tax authorities are not allowed by their Australian counterparts to perform tax audits on the premises of companies based in Australia for tax purposes. Irrespective of whether this issue can be resolved the Timorese authorities should be able to impose access of all necessary documents in TLS itself for tax audit purposes.

officials.⁹ Non tax revenues like user fees, charges, and interest represent around 8 percent of domestic revenue. Land and Property administration, APORTIL, Civil Aviation, and other autonomous agencies collect them. These fees are regulated under the statutes and laws creating each of the autonomous agencies.

23. Tax exemptions are numerous but their cost is not assessed; tax expenditures are not reported. (1.2.1, 3.1.3)

There are a number of exemptions defined in the TDA for income tax and for a sales tax exemption process. The National Investment Law also creates a number of exemptions which are not reflected in the tax law. These exemptions favor companies hiring Timorese nationals, and exporting or investing in specific geographical areas. For example, an firm investing in TLS enjoys during 5 years a tax credit on taxable profit of USD 300 per Timorese worker employed by the firm as an incentive to hire local manpower. The exemptions also concern customs duties. There is no overall evaluation of the cost of such exemptions and they are not reported on in the budget documentation.

24. Tax and customs administration is undergoing a program of modernization to address low tax compliance, weak capacity, and inadequate processes; initial reforms such as a unique Taxpayer Identification Number (TIN) have been introduced. (1.2.2)

Tax administration generally lacks process documentation and procedure manuals, and relies on poor filing systems, missing archives and incomplete financial records. Integrity of records is not sufficiently developed to provide reliable information for taxation purposes. The taxpayer registration system that has been introduced is fairly efficient. Each taxpayer is given a TIN which is shared within revenue administration. However, it is not yet linked with other databases, such as for business registration. Tax assessment audits are hampered by the fact that the three commercial banks in TLS take the position that the tax administration is not authorized under the BPA legislation to investigate taxpayers' bank accounts. The revenue directorates prepare a very minimal annual performance report, included in the annual report of the MOF. It contains little information on the quality of processes.

25. There is currently no Code of Conduct specifically for the Customs and Domestic Tax administrations. Such a Code is generally regarded as a key element of a sound integrity strategy.

Tax officers are subject to the general Ethics and Disciplinary Codes within the Civil Service Act, which have, however, not been widely circulated. Customs and Tax administration also have no internal integrity assessment or investigations mechanism in place.

26. Tax and customs administration officials have not been granted a specific legal status.

This means they do not benefit from a specific career or salary regime, nor from enhanced accountabilities and administrative penalties. They are also generally insufficiently trained

⁹ A 2008 report on Customs to the Minister available on the MOF website states that, "Critically, the overall discretionary powers of officers currently in place within the TLCS (Timor Leste Customs Service) together with the apparent lack of accountability is a concern to the mission".

and do not benefit from enough support from international organizations like the World Customs Organization. This increases the risk for corruption and inadequate practices.

27. Taxpayers' legal rights are not well defined and there is no functioning appeals system for tax and nontax obligations. (1.2.2, 4.2.6)

Tax laws and United Nations Transitional Administration of East Timor (UNTAET) regulations do not provide taxpayers with rights of confidentiality, notice, explanation, and representation. Nevertheless, UNTAET Regulation No. 2000/18 establishes a tax appeals mechanism at the administrative level but not at the judiciary level, as the High Administrative, Tax and Audit Court (HATAC) has not yet been set up. Moreover, the administrative appeals, involving the Appeals Division of the tax administration, does not seem to function properly. Taxpayers willing to contest decisions and assessment made by the tax administration often need to make use of personal relationships or political intervention. The lack of a comprehensive and efficient tax appeals mechanism for petroleum taxes also raises complaints from petroleum companies subject to Timorese tax laws.

Public consultation

28. Public opinion is only occasionally sought concerning proposed laws, regulatory changes and broader policy changes. (1.2.3)

There is no legal provision establishing that new laws, regulatory and broader fiscal policy changes should be subject to public consultation. However, some Non-Governmental Organizations (NGOs) have had active participation in the development of laws in the parliament. The BPA adopts the practice of sharing draft of regulations with the banking sector except for some prudential and anti-money laundering issues.

Contractual arrangements

29. Contractual arrangements between the government and public or private entities are clear but in general, contracts are not publicly accessible. (1.2.4)

The contracts with the petroleum companies to exploit oil in the JPDA are not public but the contracts in the Timorese exclusive area are. Only a summary of the contracts between the government and private suppliers of goods and services are published in the State Gazette. The contracts are neither available to the public nor to the parliamentarians.

Legal framework for asset and liability management

30. Legislation governs liability and asset management, including the granting of rights to use or exploit public assets. (1.2.5, 3.1.5)

The central role of the Minister of Finance in any debt issuance of the State is prescribed by the BFML. At present TLS does not have any public debt. Concessional and other borrowing is being discussed by the government but no debt management strategy has been developed. The MOF Directorate of Asset Management controls mobile assets such as vehicles, computers and equipment, and line ministries are expected to keep records of stores. Disposal of mobile assets is done through public auction and the revenues reverted to the budget. There is no financial statements on the assets and liabilities of the GG. Such a statement is prepared for the Petroleum Fund, however.

31. The overall investment framework for the petroleum fund is clearly stated in the Petroleum Fund Law.

The Management agreement between the MOF and the BPA specifies investment mandates more in detail for the portfolio invested by BPA and for the portfolio invested by BIS. The relationship to BIS is however solely handled by BPA. The investment mandates are also summarized in the annual and quarterly reports on the fund, but are not reported on in the budget documents.

B. Openness in Budget Preparation, Execution, and Reporting

The budget preparation process: clarity and consistency of process and presentation

32. The annual budget process is clearly defined by a budget calendar in the budget circular, and in general followed as planned. (2.1.1)

The main steps and timing for budget preparation are described in Box 5. The BFML does not define a detailed budget calendar. It only prescribes the due date for submission of the draft budget by the government to the parliament (October 15). Additional dates are prescribed through a budget timetable¹⁰ and budget circular every year, which are issued respectively in January and May. The budget calendar included in the budget circular is generally followed for the formulation of the recurrent budget, but not fully observed for the capital budget. In the last two years the budget cycle has mostly followed a regular timetable, which begins in March of each year, with the preparation of a macroeconomic framework and National Priorities that are approved by the COM.

33. An aggregate fiscal envelope for the budget year and fiscal envelopes by line ministries and main economic expenditure categories are set annually; changes from year to year are mainly incremental with few adjustments to reflect the changing government priorities.¹¹

In May, the MOF prepares the fiscal envelopes based on the macroeconomic projections and national priorities. The allocation of aggregate fiscal envelope between recurrent and capital budget is not based on a clearly defined methodology, and the capital budget fiscal envelope is not allocated to the line ministries individually. Both aggregate and detailed fiscal envelopes are discussed and endorsed by the COM, followed by the issuance of instructions in the budget circular to the Organs of State¹² to submit their capital budget projects by mid-June and recurrent budget proposals by end-June. The circular provides guidelines on the preparation of annual action plans (AAPs), capital projects, new initiatives, and includes fiscal envelopes of recurrent budgets by line ministries. The MOF provides the unit costs for formulation of certain expenditures as supplementary guidelines. Line ministries generally submit budget requests above the provided fiscal envelopes; in 2009, the requests were on average 35 percent higher.

¹⁰ The budget timetable covers also activities undertaken in the treasury and procurement area. Several changes are planned for the 2011 budget timetable, for example development of medium-term strategic plans, sectoral expenditure reviews, etc.

¹¹ The government develops and approves National Priorities on an annual basis.

¹² The Organs of State is the terminology used for the first level spending units that have a direct relationship with the MOF.

Box 5. The Budget Preparation Process¹		
Due dates	Activities	Legal basis
Since 2008 the fiscal year is set on a calendar-year basis by the BFML. The main steps in the process are as follows:		
January	The government issues a budget timetable (State Finance Calendar) which outlines the major steps of budget planning	
March	MOF prepares a macroeconomic framework, including preliminary ESI calculations, and presents it to the COM	Budget timetable
March	National Priorities are developed by the prime minister's office and approved by the COM; a macroeconomic framework is approved at the same meeting	Budget timetable
May	MOF presents an aggregate fiscal envelope and fiscal envelopes by line ministries and main economic expenditure categories together with the budget calendar to the COM	Budget timetable
May 29	MOF issues the budget circular	Budget timetable
May 29-June 26	Line ministries prepare their budget requests and annual working plans	Budget circular
June 1	Budget and Planning workshops for line ministries organized by the MOF	Budget circular
June 10	Capital budget submissions due to the National Budget Office	Budget circular
June 26	Budget submissions due to the National Budget Office	Budget circular
June 26-July 13	MOF reviews the submissions and prepares the materials for the BRC	Budget circular
July 13-31	Discussion of submissions in the BRC; line ministries and Secretary of the State justify their budget requests	Budget circular
July 31-September	Line ministries revise their requests after the discussion in the BRC	Budget circular
August 19	COM approves draft budget proposal	Budget circular
September 23	COM approves final draft budget documents, including final calculations of ESI	Budget circular
September 30	Budget proposal submitted to the national parliament	BFML
October 15-November 15	Budget discussions in the Budget Commission "C"	Regulation of the parliament
December 15	Final approval by the parliament	Regulation of the parliament
¹ Described budget preparation process is based on the 2009 and 2010 budget formulation.		

34. The capital and recurrent budgets are developed separately; the capital budget process lacks a multiyear perspective and an assessment-based and disciplined priority setting mechanism.¹³

¹³ For 2010 capital expenditure in the budget amounted to USD 239.6 million, of which USD 22.8 million was from donors. The total Combined Sources Budget amounted to USD 858.9 of which USD 176.1 was from donors.

The capital budget formulation process is not closely linked with the recurrent budget formulation. The MOF coordinates both processes, collects the data from the line ministries in the format requested by the budget circular, and prepares the background materials. No scrutiny or evaluation of capital projects is conducted and there is no assessment of the future recurrent costs of capital projects. There is no cost-benefit analysis for the multiyear capital projects. The decision making and prioritization of the capital projects is mainly led by the prime minister. The preparation time for the capital budget allowed for line ministries, seems, with two weeks, to be overly tight. In some cases submitted capital proposals have only minimal descriptions of characteristics, costing and linkage to government priorities.

35. The budget review process in the executive branch is somewhat compressed and the support role of the MOF seems limited.

The three-week period planned for the MOF to conduct analysis of budget submissions and prepare materials for the Budget Review Committee (BRC) is somewhat short, and in practice is even more compressed as the line ministries submit their recurrent budget requests with some delay. The budget requests are discussed with the ministers and senior department heads at the BRC led by the prime minister, no earlier bilateral negotiations take place between the MoF and line ministries. In September the finalized draft budget is approved by the COM, and submitted to the parliament by October 15 followed by the discussion first in the Budget Committee for a month and then in the Plenary meeting. The 2.5-month period for the parliament to analyze the budget proposal is adequate. Neither parliament, nor, for example NGOs, are invited to give input to the budget process at an earlier stage, leading to complaints that there is less input from society on the budget process than is desirable.

The medium-term framework and policy basis for the budget

36. Aggregate fiscal information and underlying macroeconomic assumptions for the petroleum sector over the medium term are presented in the budget documents; quality of data and projections, however, needs further development. (2.1.2)

The macroeconomic framework which has been jointly developed with the IMF is not based on econometric models, but uses the IMF's basic financial programming approach and is the result of analysis of historic data and surveys on economic activity (including monthly discussions with the line ministries). The projections are prepared by the MOF, but have been subject to regular discussions with and monitoring by the IMF.¹⁴ No other external scrutiny of macroeconomic assumptions or systematic midyear review is undertaken. The data available for macroeconomic analysis and forecasting has substantial limitation. National accounts statistics such as GDP have not been produced since 2003 and this increases the risks and uncertainties in the GDP projections (see also paragraph 91 on national statistics).

37. The main macroeconomic assumptions, like real GDP growth rate and inflation rate, are presented in the budget for three years prior to the budget year and for the budget year, but not for the future three years.

¹⁴ This support became more difficult after the IMF closed the resident representative office in Dili in 2009.

Petroleum revenue forecasts are provided for a longer period: most recently for the period 2002–24.¹⁵ These overall forecasts are reasonably robust. They are based on current and expected production, past and projected international oil prices, and projections of the various revenue categories (royalties, income tax, profit oil, etc.). In addition the savings and earnings of the Petroleum Fund savings are calculated with clear identification of assumptions (oil prices, production, discount rate, etc.). However, there are only limited explanations on how the macroeconomic forecasting framework is used in determining fiscal forecasts, how assumptions compare with alternative projections or actual outturns, or what uncertainties are involved. Some macroeconomic indicators, like wages components, commodity price forecasts, export and import growth, are not explicit and not published in the budget documentation. Annual forecasts for the macroeconomic and fiscal data which form the basis for the calculations of fiscal envelopes and budget guidelines are prepared in February-March, but are not published.

38. The fiscal framework for the budget is defined by the Estimated Sustainable Income (ESI) calculation.

The ESI is a benchmark indicating the sustainable level of withdrawal from the Petroleum Fund that does not reduce the real value of TLS's total petroleum wealth in the long term. According to the Petroleum Fund Law the ESI shall be 3 percent of the Petroleum Fund estimated wealth (which for this calculation includes both its financial assets as well the value of petroleum reserves in production). There are no other fiscal rules specified such as general borrowing limits or balanced budget requirements.

39. The economic and financial analysis presented in the budget documents includes some elements of medium-term budgeting.

The budget documents provide medium-term estimates for revenues (including donor funding), expenditures, and the balance of GG for the budget year plus three forward years. However, there is no clearly defined methodology for forward estimates, no relation to the macroeconomic projections nor are they based on fully costed expenditure proposals. In practice, the medium-term projections are formulated using a bottom-up and largely incremental approach, although the latter is applied not very consistently over line ministries. The existing framework lacks an effective coordinating mechanism to link the resource allocations with sectoral policy priorities.

40. Estimates of the budgetary cost of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents. (2.1.3)

The introductory part of the budget document (Book 1) and budget speech identify in a broad manner the main government priorities explaining major spending areas, including new initiatives which are only partially costed. AAPs contain important and detailed information on planned activities of the budget year. However, the budget documents do not provide a quantification of the costs of new government spending programs nor clearly distinguish them from the cost of ongoing government activities.

¹⁵ The 2010 budget indicates that the petroleum production for the current fields will finish in 2024. As of 2010 an estimated wealth of USD 16.72 billion is estimated. This estimate does not include the new Kitan field which is not yet operational.

Resource Revenues, Fiscal Policy, and the Budget

41. The Petroleum Fund's contribution to fiscal sustainability is not explicitly discussed in the budget, but it is enshrined in the Petroleum Fund Law. (2.1.2)

The budget for 2010 presents forecasts for resource revenues for 2009–13, and actual revenue for 2008. The revenue forecasts are produced by the MOF and are based on the Operator's Low Production Case provided by the operator on the Bayu-Undan-field (ConocoPhillips) and oil prices are based on the US government's Energy Information Administration's estimates for long-term oil prices in the low-price-case. A sensitivity analysis under different assumptions for all relevant variables is provided in the budget, but the presentation does not provide an evaluation of the results from this analysis.

42. Mechanisms for coordinating the operations of the petroleum fund with other fiscal activities are clearly specified.

The fund aims at maintaining the net wealth of TLS and retaining a sustainable source of income for the budget. The construction of an extrabudgetary fund is appropriate as it insulates the transformation of petroleum wealth to financial wealth from pressure to increase spending of petroleum revenues. This is important in realizing a key objective of the Petroleum Act of letting future generations take part in the petroleum wealth. In relation to maintaining sound and sustainable fiscal policy, TLS's petroleum fund reflects best practice principles as the fund ensures that petroleum resources do not overwhelm the absorptive capacity of the domestic economy with the potential of causing inflation, overvaluation of the currency and dissipation of economic wealth into unproductive expenditure. The Petroleum Fund does not undertake domestic expenditure directly, and the risks of the extrabudgetary fund generating a "dual budget" are therefore minimal.

43. Transfers from the petroleum fund are calculated at the start of the budget process on the basis of the ESI concept.

Transfers from the fund can only be made to the TSA, and can only take place after the parliament has approved the budget law. The budget law decides the maximum transfer in the budget year. Transfers are also contingent on the government providing parliament with a report specifying the ESI and a certification of the calculation of the ESI by an independent auditor. In a fiscal year, the transfers from the Petroleum Fund can only exceed the ESI of the year if the parliament is provided with estimates for the effect on ESI for coming years, and a detailed explanation of why increased spending of the petroleum wealth is in the long-term interests of TLS.

44. The method for calculating the ESI is objective, applied consistently, and presented in the budget.

Only non-extracted resources which are part of an approved field development plan and subject to a final production decision are included in the calculation. The method for calculating the ESI is objective and has been used consistently over the last three years. The calculation is also well discussed and described in the budget document. The ESI has a smoothing effect on public spending over time, but there is still inevitably considerable oil price volatility due to a large part of the total wealth still being non-extracted. The system

allows a recalculation of ESI for the purpose of a supplementary budget. Under increasing oil prices a recalculation will allow increased public spending, while a recalculation will advise a reduction in public spending under decreasing oil prices. This has led to the practice where ESI only is recalculated when the oil prices are higher than expected in the original budget document.

Fiscal sustainability analysis

45. There is only limited discussion in the budget documents on the sensitivity of budget estimates to changes in economic variables. (2.1.4)

The budget documents include a sustainability analysis of petroleum revenues and an illustrative graph for sensitivity analysis of ESI. No analysis of other fiscal aggregates to changes in economic parameters or other uncertainties is provided.

Coordination of budgetary and extrabudgetary activities

46. Donor funding is adequately reflected in the budget documents for the budget year. (2.1.5)

Donor funding is generally reflected in the Combined Sources Budget¹⁶ by recurrent and capital expenditures of line ministries, but is not approved by the parliament as part of the budget year appropriation. Currently the execution of the donor funding is mostly done through separate banking arrangements, because most donors are unwilling at this stage to use the domestic systems and especially procurement is seen as a non-transparent process. The treasury cannot track donor funded expenditures during the year, since they are undertaken outside the TSA.

47. Donors do not provide multiyear estimates of planned project volume.

The National Directorate of Aid Effectiveness collects and publishes the donor input data for budget formulation, and also reports on disbursement data on a quarterly basis.¹⁷ However, the data collection is somewhat complicated as donors are not always able to provide information as requested. The multiyear projections are based on the current and approved activities of development partners, and do not include the aggregate of planned projects over the medium term, so the development partners' funding seems to reduce significantly from 2010 onwards, but this mainly reflects that planned activities have not been fully committed yet.

Accounting and reporting on budget execution

48. Accounting and internal control procedures provide a reliable basis for tracking commitments, payments, and revenues; arrears are not defined or tracked. (2.2.1)

The accounts of the government are maintained by the treasury in accordance with international accounting standards (see section D, Guarantees of Integrity) . The treasury has been using the FreeBalance payment and accounting software since 2001. The system has

¹⁶ Combined Sources Budget includes funds from the State budget and external resources (donor projects).

¹⁷ In 2010 MOF has reverted to semiannual publication of disbursement data.

been configured in a manner that in principle does not allow for any commitments and expenditures beyond the appropriations approved by the parliament. The effectiveness of the system is in part dependent on data entering by line ministries. Internal control and audit of those processes can still be enhanced. The payments effected by government and the revenues collected through commercial banks are reconciled on a regular basis between the treasury accounts and those in the BPA. The treasury does not monitor the accounts payable nor is there a system in place to monitor arrears in payments. Arrears have also not been defined in regulation. Regulations for internal controls have also yet to be issued by the treasury, but FreeBalance has provided the treasury with manuals that outline the controls that can be exercised through the system.

49. The treasury manages a central payroll, but employee lists are not systematically updated and reconciled.

Almost all employees of the government including temporary ones are paid through a centrally managed payroll system operated by the treasury. The integrity of the payroll is dependent on personnel databases of line ministries, Civil Service Commission and treasury being kept up to date and reconciled. Reportedly neither takes place systematically. Short-term employees in ministries do not form part of the payroll. The payroll department is also responsible for preparing pension payments to veterans and the elderly twice a year.

50. Almost all government transactions flow over the TSA the so called Consolidated Fund.

The government maintains a consolidated fund for revenues and expenditures at the BPA. For expenditures to be made, commitments and payment requests have to be entered in the Freebalance system by line ministries and agencies. Payments are made through electronic transfer, cheque or, to a limited extent, through cash transfer. Ministries that collect non-tax revenues can open bank accounts for deposit of revenues and transfer them daily to the consolidated fund. The opening of bank accounts by line ministries requires approval of the treasury, but in the past unapproved accounts have been discovered holding idle cash. Outside Dili many government transactions take place in cash as banks maintain few offices in the countryside and many civil servants do not have private bank accounts. For 2010 the government has required civil servants in Dili to open bank accounts for receiving salary electronically. District offices receive advances in cash to effect payments.

51. The procedure for virements has been overly inflexible, but now seems to be moving in the opposite direction.

Virements are regulated by the treasury. Line ministries used to require approval from MOF for virements at the lowest level of the budget classification. For the 2010 budget the freedom for line ministries to affect virements without the approval of the MOF is to be greatly increased. Ministries will henceforth be given full powers to reallocate funds up to the divisional level, i.e., the second administrative level within ministries, but with the restriction that funds can not moved between main economic categories. The expansion of virement would also include movement of funds between divisions. However, ministries will be expected to maintain records of approval from the concerned minister justifying such reallocations. The FreeBalance integrated financial management information system in the MOF will ensure that the approved budget at the appropriation at the ministry and category

level is not exceeded. It will also be able to track the actual expenditures up to the item level against the original budget allocation. Formal procedures for the revised virement process are to be drawn up by the MOF. It will be important to strike a balance between needed flexibility budget execution and not undermining efforts to develop a meaningful planning and budgeting process.

52. The accounting system is capable of producing accurate in-year reports on central government budget outturn.

The BFML stipulates the periodicity of submission of quarterly and annual reports to the parliament. Internal reports in the Executive are produced on a monthly basis. Once line ministries' connections to the FreeBalance system have been established and are reliable, budget users will have real time access to the accounting system. Connectivity has been a persistent problem in TLS. The chart of accounts used in the FreeBalance system is consistent with the budget classification. The accounting and budget modules of FreeBalance are fully compatible and data from one module to the other can be exported and imported. In MOF, the system is capable of producing accurate accounts information at any given point of time.

Box 6. The FreeBalance Integrated Financial Management Information System

FreeBalance is a commercial off the shelf system implemented initially in the MOF to integrate financial management systems. Development of the system began in 2002 and implementation in January 2004. FreeBalance is currently accessible for budget execution only in the MOF, but MOF aims to connect first level spending units to direct execution of the budget in 2010. The major challenge is communication connectivity.

The system registers all the GG budgetary expenditure transactions. The accounting and payment subsystems are fully operational, with modules that register commitments, payments, purchases, inventory of goods, and produce reports. The treasury has developed the interface with the budget preparation system and the payroll system. No cash planning is yet provided and no financial statement of assets and liabilities is prepared.

FreeBalance has already provided considerable transparency to fiscal management and control, but needs to be fully implemented and integrated before it becomes an effective tool. If available to the executing entities, internal auditors, external auditor, parliament (in full) and to the society (through a simplified website version) it would provide means of better monitoring and controlling budget execution.

53. The legislature receives quarterly in-year reports on budget outturn and undertakes a midyear review.

(2.2.2)

Quarterly reports on budget execution have to be presented to the parliament two months after the end of each quarter except the fourth quarter which can be submitted within three months of the close of the financial year. The second quarter report received from MOF, which is the midyear report, is reviewed in parliament and discussed with ministers before submission of the budget. The fourth quarter report is an un-audited final account of the government which is also discussed by parliament. The annual audited statement of accounts is required to be submitted within nine months of the close of the financial year. The reports are submitted to the parliament within the stipulated dates. The reports are also published on the website of the MOF. The quarterly report provides information of actual expenditure up

to the division level against the amounts approved at that level by the parliament. An analysis evaluating the progress made by line ministries in implementing their AAPs is sent to the prime minister but not to the legislature.

54. Supplementary revenue and expenditure proposals during the fiscal year are presented to the legislature in a similar manner to the original budget. (2.2.3)

There is usually one major supplementary budget during the year. This can be used to take care of unforeseen needs, reallocate spending, address natural and/or fiscal emergencies, and/or use higher withdrawals from the petroleum fund based on higher oil prices. No standard practice exists. In 2009 there was no supplementary budget. In 2008, the supplementary budget was much higher than the original budget: the main additional expenditure item (USD 240 million) was the establishment of the Economic Stabilization Fund¹⁸ which was used for emergency purchases of rice and other commodities for subsidized resale. Supplemental budget proposals have the same classification as the budget, and the documents are published on the MOF's website. If the supplementary budget requires additional funding from the petroleum fund, it can either recalculate the ESI (if the assumptions have changed significantly), or withdraw the money above the ESI, and then a justification of long-term benefits needs to be presented to the parliament.

55. The size and budgetary accounting of the contingency reserve are appropriate, but its use is not always for real contingencies.

The budget includes a contingency appropriation, which is meant to be used primarily to finance unforeseen and urgent expenses. For 2009, the contingency amounted to USD 18.2 million, about 2.7 percent of state budget expenditures, and for 2010 the numbers are respectively USD 9.6 million and 1.5 percent. A size of the contingency fund below 3 percent of the budget is seen as good practice. It should be noted that the BFML allows for a contingency fund up to 5 percent. Used contingency funds are accounted for appropriately, however the decision making for utilization is not specified. In practice, utilization of the allocation during the year is proposed by the MOF and requires the prime minister's approval. The allocations from the contingency reserve are tracked by the treasury and the reporting is by usual administrative and economic classifications. The use of funds seems to be in part for budgetary items not adequately planned for.

56. The audited final accounts have been provided to parliament in a timely fashion.

While no formal State Audit institution has been set up, the MOF has had the final accounts of government audited by foreign, commercial external auditors. These auditors perform a financial audit on the accounts provided by the treasury. Presently, Deloitte and Touche Tohmatsu have been contracted to perform this function for a three year period. The audit report for 2008 was transmitted to the parliament in August 2009.¹⁹ The Management Letter

¹⁸ ESF was established to protect the population against the rising prices of commodities, in particular rice, prevent food insecurity, and address exploitative practices in the local market. The allocation for the ESF was significantly higher than the actual implementation, and reportedly the procurement process lacked transparency.

¹⁹ Due to the transition to a new auditor part of the 2008 audit report was finalized after it was sent in draft to parliament.

containing a more detailed analysis of the audit performed and describing the auditor's main recommendations to improve PFM processes is, however, not shared with parliament. The new BFML requires that from 2010 the report will have to be sent to parliament within a time limit of six months.

Accounting for Petroleum Revenues

57. All government resource revenue receipts are identified in the annual report of the Petroleum Fund, in due time for preparation of the budget documents.

The taxes levied on the petroleum sector are payable in installments, and consequently the annual report for 2008 published in August 2009 is the basis for the budget for 2010. Resource revenue is also accounted for in the Extractive Industries Transparency Initiative (EITI) report for 2008 (see box 7). The Petroleum Fund financial statements are prepared according to International Financial Reporting Standards (IFRS). For 2008 this was verified by the external auditor in the Auditor's report (an annex to the annual report). The annual report of the Petroleum Fund and the annual financial statements are submitted at the same time to the parliament, and are published within 15 days after their submission. BPA also makes quarterly reports to the MOF on the finances, performance and activities of the Fund within twenty days after the end of the quarter, and the reports are made public forty days after the end of the quarter.

Box 7. The Extractive Industry Transparency Initiative (EITI)

The EITI is an organization for resource rich countries, supporting countries, resource companies, and civil society. EITI provides a global standard that promotes revenue transparency in resource rich countries. Implementation of EITI requires the country to meet with six criteria. In short, the criteria require regular publication of all payments by companies to governments and all revenues received by governments from oil, gas, and mining companies. The publications must be publicly accessible, comprehensive, and comprehensible. Payments and revenues must be the subject of a credible, independent audit, applying international auditing standards.

EITI has many supporters, including 46 of the largest oil, gas, and mining companies in the world and several organizations from civil society. There are in addition 17 supporting countries, providing political, technical, and financial support to EITI. There are 27 Candidate Countries, but only Azerbaijan and Liberia have reached the status of Compliant Countries. To become a Candidate Country, the government, the companies, and civil society must commit to a work plan that describes how the country intends to meet the EITI Criteria. To achieve EITI Compliant status—or to extend Candidate status beyond two years—among other conditions, the country must complete an EITI validation. The validation provides an independent assessment of the progress achieved and identifies what measures are needed to strengthen the EITI process. The validation is carried out by an independent validator.

In January 2010 TLS was undergoing a validation process and on the way to become only the third EITI Compliant Country. In 2003, the government of TLS was one of the first countries in the world to commit to EITI. In late 2006, the government invited the civil society and the industry to form the TLS EITI Working Group. The first TLS EITI-report was launched in December 2009 for the year 2008. The report gives a comprehensive overview of all payments of royalties, profit oil, taxes and fees made by the petroleum sector, and all such revenue received by the TLS government. The report is audited by an independent auditor, and there were no discrepancies between payments and revenues received.

Source: The EITI-website www.eiti.org and TLS EITI for the year ending December 31, 2008.

58. International petroleum companies working in TLS comply with internationally accepted standards for accounting, auditing, and publication of accounts.

The petroleum companies that have activities in the JPDA are international companies located in Australia or other developed countries. The Timorese Tax and Duties Act states that for the petroleum sector gross income from business activities shall be determined by net profit for financial accounting prepared in accordance with the IFRS.

C. Public Availability of Information

Commitment to timely publication of fiscal data

59. Fiscal information is available to the public and there is a clear commitment to provide information at approximate times, but its comprehensiveness is limited to the State budget.

(3.3.1, 3.3.2)

Budget, quarterly, and annual reports are produced in a timely manner and according to the schedule laid out in the BFML. Quarterly information is disseminated within two months of the end of the quarter, and the report includes data on revenues, expenditures, and GG cash balance. The annual budget execution report is presented to the parliament within three

months and the audited report should be presented nine months after the end of the financial year.²⁰ All reports are available to the public after the presentation to the parliament on the website of the MOF: www.mof.gov.tl. Line ministries report quarterly on the implementation of AAPs directly to the prime minister, and the first consolidated report is planned to be issued in April 2010. Quarterly and annual reports do not contain information on donor funding. The budget and accounts documents are now fully consistent with the chart of accounts and provide information according to both administrative and economic classification.

Box 8. Reports on Budgetary Execution

The quarterly budget execution report: This quarterly report is sent to the parliament within 60 days following the end of the quarter, following the legal requirement. A copy of the report can be found at www.mof.gov.tl.

The quarterly report of the petroleum fund execution: Sent to the parliament 20 days following the end of the quarter, in compliance with the Petroleum Fund law. A copy of the report can be found at www.bancocentral.tl.

Annual Accounts: According to the BFML, the audited annual accounts should include comprehensive information on budget execution, including detailed information on the execution of revenues and expenditures and should be submitted to the parliament in nine months after the end of the fiscal year. The report can be found at www.mof.gov.tl.

The coverage and quality of budget documents

60. The budget documents cover GG fiscal activities comprehensively and provide full data on GG. (3.1.1, 3.1.4)

The main budget documents include: (i) the budget speech; (ii) the government priorities; (iii) a limited discussion of main macroeconomic indicators; (iv) GG balance and its financing; (v) detailed revenue and expenditure projections by administrative and economic classification; (vi) a discussion on petroleum revenues and ESI; (vii) AAPs of line ministries; and (viii) the draft law on the state budget. The state budget also includes information on all geographical levels of the government²¹ and autonomous agencies.

61. Not all fiscal information required by law is produced in the budget documents.

The BFML requires that the budget includes descriptions of short- and medium-term fiscal strategies, estimation of tax expenditures, as well as the information on assets and liabilities (including investment strategy and estimation of contingent liabilities). These requirements are not yet met. The content of the existing budget documentation is largely based on financial inputs, however, it includes an overview of annual actions plans. There is no clear linkage between expenditures and AAPs. All draft budget documents are published on the

²⁰ The new BFML provides for an independent opinion by the Court of Appeals before the report is presented to the parliament, in 2010 for the first time, in absence of the HATAC having been set up .

²¹ Local governments do not exist independently, but draft Local Government Act will be discussed in the Parliament in the next months.

website of the MOF directly after the submission to the parliament, but the approved budget is only published a couple of months after the approval by the legislature: www.mof.gov.tl. Defense expenditures are reported in the budget with the same level of detail as other spending.

62. Fiscal reporting covers all of GG applying the same classifications used in the budget, and receipts from all major revenue sources are separately identified.

The fiscal quarterly report prepared by the MOF treasury directorate presents data on the budget execution for the whole government by appropriation category, budget spending entities, and expenditure item. The report contains summary tables of revenues and expenditures. The overall balance and non-oil balance are the main fiscal indicators and are presented in the budget documents, however, their development is not analyzed during budget execution. The fiscal reports follow the same classifications used in the budget both for revenues and expenditure and it provides information by line item on the percentage of execution compared with the budget estimates. In the quarterly fiscal reports a summary of the execution using the Classification of Functions of Government (COFOG) it is also provided but only for the first level of the classification (Function) and not for the second and third levels.

Past and future forecasts of fiscal data in the budget

63. The analysis of the past budgets compared to the actual budget outturns needs to be expanded in the budget documents. (3.1.2)

The budget documentation contains the information on prior years, but no summary table giving comparisons between original budget and actual data over several prior budget years and no analysis or review of budget implementation is made. Also, the past and forward years' data is not disclosed systematically in the budget documents.

Reporting on the Petroleum Sector

64. Transactions into and from the Petroleum Fund are clearly identified and reported in the budget document.

Key assumptions used to project petroleum revenue for the budget year and the following years and earlier year's transfers from the fund are also reported. The resource revenue inflow is classified by revenue instrument. In addition, all transfers from the Petroleum Fund are identified in the fund's quarterly and annual reports. Here, government receipts from the petroleum sector are also accounted for on a company basis. The report is produced by the external auditor. The reports are regularly published and are publicly available through the websites of the MOF and BPA.

65. Estimates of TLS's net petroleum wealth are published in the budget documents.

The estimate is produced by the MOF based on production projections provided by the operator at the Bayu-Undan-field (ConocoPhillips). The resources not yet extracted in the current producing fields were given an estimated value of USD 11.4 billion at the end of 2009 and production is expected to last until 2024. The estimate is a conservative one in respect of both oil price projections and exploitation. Furthermore, only resources where

production is approved are included in the estimate. The budget document provides a discussion of the assumptions on which projections and estimates are based.

66. The National Petroleum Authority (ANP) is not reported on, or accounted for in the budget documents.

ANP is an important public institution as it responsible for managing and regulating petroleum activities, both in the JPDA and in TLS's exclusive area. Within the JPDA ANP operates as the Designated Authority according to the Timor Sea Treaty. The activity is financed by a contract service fee that amounted to approximately USD 1 million in 2008. However, the auditor statement in the annual report for the Designated Authority indicates that also development fees of approximately USD 3 million collected under PSCs in the JPDA also stayed within ANP in 2007.²² The budget for JPDA-activity is approved by the Joint [Timorese-Australian] Committee established under the Timor Sea Treaty. The activity of ANP within the TLS exclusive area is financed by a transfer from the State Secretariat for Natural Resources. Neither this transfer to ANP nor the JPDA-activity in ANP are explicitly accounted for in the budget document.

Treatment of fiscal risks

67. Fiscal risks, contingent liabilities, and quasi-fiscal activities are not quantified nor discussed in the budget documents. (3.1.3)

Fiscal risks are presently limited as no guarantees are issued and no funds borrowed. However, there are potential fiscal risks that could be reported such as an assessment of the future recurrent expenditure requirements of the present surge in capital investments or pressures of the growing population on future budget expenditures. The budget documents contain no information on contingent liabilities associated with the government owned IMfTL which operates as a commercial bank by taking deposits and giving loans. Also subsidies, like subsidies paid to the electricity provider, subsidized resale of rice to local resellers, or investments in purchase of tractors to be distributed, are not systematically reviewed in the context of the budget nor explicitly and transparently shown in the budget allocations.

Quasi-Fiscal Activities of Resource Companies

68. The petroleum companies are obliged to undertake social and environmental expenditure, but the kind and scope of this activity is not clearly defined or described in the budget.

When applying for a license for exploration in the TLS exclusive area, the companies must propose measures to train and employ nationals of TLS. The companies will also be obliged to buy local goods and services when this is possible. When evaluating the bids for licenses, these proposals are to be taken into consideration. Other evaluation criteria in the licensing process are technology transfers and infrastructural projects in the TLS petroleum sector that must be provided when exploring results in exploitable fields. In practice, the projects might

²² In 2008 the EITI-report for TLS showed that the Timorese share of these development fees were forwarded to the Petroleum Fund.

involve investments in other domestic sectors and do not seem to be combined with capital investment planning in the budget. The extent and character of these contractor obligations are reported neither in the budget document nor in the annual report from the Designated Authority, the ANP.

Publication of data on debt and other liabilities and on financial assets

69. There is no public debt in TLS, but the legal provision for public borrowing is clear. (3.1.5)

The BFML defines the conditions the government can obtain and provide loans and guarantees. The provisions are aligned with good international practices such as the definition that only the MOF can borrow, all the resources should be deposited in the consolidated fund, the parliament has to approve the aggregate value of the resources borrowed and information on debt should be part of the budget documents. However, if TLS starts to borrow either domestically or internationally, further development of specific public debt management regulations on recording, publication, and management of public debt would seem desirable.

70. There are no major non-debt liabilities as no social security or civil service pension scheme exists, no guarantees are provided and there are no major outstanding contractual obligations.

The quarterly fiscal report provides information in relation to the “obligations” already incurred and not paid yet. These “obligations” have the character of commitments and are not substitute for measuring outstanding liabilities (i.e., accounts payable) because invoices have not necessarily been received. The FreeBalance system does not register a liability when the invoice is effectively received, but only when payment to the treasury is requested. As a consequence, the system does not provide information on outstanding liabilities.

Analysis of long-term public finances

71. Analysis of long-term petroleum revenues and estimated sustainable income is only undertaken in the context of resource wealth. (3.1.7)

There is no long-term analysis of domestic revenues and public expenditures, including no sensitivity analysis to changes in critical assumptions, and no detailed long-term fiscal projections are made available. Long-term projections will become more relevant as in the future the high birth rate and limited, non-replaceable natural resources will increase the pressure on budget expenditures.

Guide to the budget

72. There is no clear and simple citizen’s guide to the budget. (3.2.1)

All budget documentation is public and provided both in Portuguese and English, but it is not supported by material in Tetum, the most commonly used language. It also not presented in a simplified format, such as a citizen’s guide, that would clarify the context and objectives of the budget to the average citizen. Access to the published documentation is complicated as most of the population do not have an access to the internet nor speak English or Portuguese.

Media coverage of the budget formulation and execution process is limited. NGOs are involved in the discussions on the budget proposal, and are often asked to participate in the review process by parliament.

Budget classification

73. The annual budget presentation is broadly consistent with international standards. (3.2.2)

The budget classification includes institutional, source, and economic classifications by category of expenditure and revenues. The budget also provides information on geographic location of the expenditure by district. A program classification exists but in practice is focused on activities and is scarcely utilized. There is no information by functional classification in the budget documents but the fiscal quarterly reports provide information at the function level (using the 10 main functions as provided in the COFOG's functional classification).

Box 9. Current Budget Classifications

Economic classification. The economic classification of revenue and expenditure is broadly in line with the IMF's Government Finance Statistics Manual (GFSM) of 1986, i.e., items are recognized on a cash basis. Both economic classifications (for revenue and expenditure) are fully incorporated into the Chart of Accounts, thereby guaranteeing the integrity and comparability of budgeted and executed amounts.

Institutional classification. The budget is presented by ministry and its administrative divisions. It includes also autonomous entities under the authority of line ministries.

Classification by funding source. Funding sources are classified into the following categories: treasury, other sources, treasury from previous fiscal years, other sources from previous fiscal years, earmarked funds originating from treasury sources, and earmarked funds originating from other sources. This makes it possible to identify the funds provided by each individual donor.

Geographic classification. A specific budget document is prepared (Book 3) informing the geographical location of expenditure in each of the 13 districts.

Program classification. A program classification exists but is in fact focused on activities. For each budgetary entity is presented information on the vision, strategy, planning, goal, objectives, program (in fact activities), and results (in fact descriptive activity's targets).

Functional classification. There is information by functions (but not by subfunction and item) according to the COFOG functional classification at the budget execution stage.

GG balance

74. The overall balance and non-oil balance of GG are the main indicators of the fiscal position in the budget and are available in the budget documents. (3.2.3)

The overall balance and non-oil balance are calculated by consolidating the operations of the GG, including the autonomous agencies and administrative districts, and donor-funded operations. However, there is no elaborating discussion of the non-oil fiscal balance as an indicator for measuring the direction and sustainability of fiscal policy. No other indicators of the fiscal position are routinely assessed. During budget execution, the recurrent and overall

fiscal balances, which calculations exclude donor funded operations, are monitored on a quarterly basis.

Results-oriented budgeting and reporting

75. The objectives and expected results from government activities are discussed through a long-term plan and annually in the budget process. (3.2.4)

The main long-term strategic document is the Vision 2020 Plan initially prepared in 2005. A major revision of this plan is envisaged for 2010. The government also conducts annual meetings to define the national priorities for the following fiscal year as part of the budget process. These meetings are led by the prime minister and defined 6 national priorities for 2008, and seven for 2009 and 2010. The priorities have varied considerably over time reflecting TLS's rapidly changing recent history. For 2010 a meeting is planned to define a Strategic Development Plan and update of the Vision 2020 Plan. Both are to be developed under the leadership of the prime minister. The annual national priorities have only to a limited extent been the basis for the prioritization of capital projects. They have been the basis for the AAPs of line ministries, which provide detailed description of line ministry objectives, programs and targets. Some ministries have also initiated the preparation of medium-term expenditure sectoral plans but these are not systematically used in the budget preparation. The MOF does not prepare a medium-term fiscal framework to guide the preparation of such sectoral plans nor uses these for the preparation of fiscal envelopes.

D. Guarantees of Integrity

Integrity of the budget and accounting processes

76. Differences between originally budgeted and actual outturn of main fiscal aggregates are disclosed to the public. (4.1.1)

The quarterly and annual fiscal reports present information on the budget execution compared with the original and updated budget. However, if the original budget is amended, then only in the final accounts is it possible to compare outturns with the original budget.

77. The government is gradually adopting the cash basis of accounting according to the IFAC's international public sector accounting standards for the compilation of fiscal data; a statement on the accounting basis is included in the final accounts. (4.1.2)

The FreeBalance software which is used in the treasury for payment and accounting functions has been configured in accordance with the International Public Sector Accounting Standard *Financial Reporting under the Cash Basis of Accounting*. Since 2008, the government has been moving from modified cash basis accounting to a full cash accounting system. The current modified cash basis allows expenditure to be incurred until a date defined by the government. Budget execution against the budget of 2008 for goods and services received in the country before December 31, 2008 was allowed until May 2009. Similarly, the 2009 execution will be allowed until end-February 2010. The government plans to move to a pure cash basis of accounting by 2011. Information on both accounting standards is available in the final annual accounts with an explanation of the criteria used.

The audited annual accounts, audit report, and accounting rules are available on the MOF's webpage, www.mof.gov.tl.

Reconciliation practices

78. The process of accounting reconciliation is still manual but is improving. (4.1.3)

The accounting reconciliation was brought up to date from 2005 onwards in 2009. The MOF is planning to implement the FreeBalance reconciliation module in 2010. A monthly reconciliation is done by the BPA in relation to the Petroleum Fund.

79. Major revisions to historical fiscal data and any changes to data classification are explained.

In 2007 the annual budget calendar moved from beginning in July 1 to January 1. The government is also changing its accounting standards from a modified cash basis to a full cash basis. Both changes have been explained in the fiscal reports and comparative information on both standards provided. The Petroleum Fund Law establishes that the fiscal year begins in July 1. This has not been changed yet.

Internal oversight

80. Public servants are subject to a well-defined code of behavior but its application is at an early stage. (4.2.1)

The Civil Service Act of 2004, revised in 2009, defines the principles and responsibilities of the civil servants. The principles are of impartiality, integrity, equality, and confidentiality. The Act defines a Code of Ethics and procedures for recruitment, dismissal, disciplinary measures, salaries and benefits, permanent and temporary contracts, duties and obligations. The Public Service Commission was created in 2009 by Law No. 7/2009 and is responsible for the application of the Code of Ethics and for disciplinary measures. Since its creation some of its administrative actions have resulted in dismissal of public servants.

81. Civil service employment procedures have only recently been modernized; the new framework is transparent and equitable, but its application is still uncertain. (4.2.2)

In the past senior civil servants were often politically appointed. The new recruitment process is open and competitive and consists of three stages: curriculum analysis, written test, and professional interview. The result of the recruitment process is submitted to the approval of the Public Service Commission. The Public Service Commission is responsible for recruiting all civil servants up to the position of Director, i.e., only the level of Director General is excluded. The Public Service Commission consists of five members: two appointed by parliament and three by government. The government appoints the president of the Commission. The Commissioners have a mandate of five years. In the budget documents information is presented on the number of permanent and temporary civil servants in each ministry, and hiring new staff depends on availability of resources under the limits defined in the budget. However, the control over civil service procedures is at the initial stages. There has also been no civil service census. The number of temporary positions is high.

Procurement

82. Procurement legislation is largely in line with international standards, but more discretion has been introduced in recent years; procurement processes are not always followed. (4.2.3)

Corruption is, reportedly, a persistent problem in TLS, and the government has responded recently by taking initiatives to restructure the procurement process and setting up a new Anti-Corruption Commission. The current legislation is composed of six decree laws. It provides for a comprehensive, open, and modern framework. A number of shortcomings are noteworthy. First, the framework is quite complex and many counterparts expressed concerns that line ministries that are now to carry out all tender processes are ill-equipped to do so. Secondly, relatively high direct quote options for purchasing goods and services (for contracts up to USD 100 thousand only three quotes are necessary; this has recently been increased to USD 250 thousand) could easily enable collusion between preferred suppliers. Thirdly, to avoid underbidding and nondelivery of capital projects, the latest decree law allows quality considerations to enter the rating of bids. This could create opportunities for preferential treatment and overpayment by line ministries.

83. Procurement has been in a state of flux for a number of years, with decentralization, centralization, and most recently again decentralization following each other.

In 2006–07 procurement was nearly dysfunctional due to an overly legalistic and complex framework not aligned with line ministry capacities. In 2008 MOF centralized procurement to ensure adequate capital budget execution. The legal framework was amended and the process of decentralization towards line ministries was again started, based on accreditation of line ministries' capacities in procurement management. Larger procurements above USD 250 thousand were still carried out by the MOF's Procurement Directorate and needed sign-off by the minister, or the prime minister above USD 1 million. The latest reforms imply that the role of the finance minister is to be substituted by one of the vice prime ministers. The boundaries for sign-off by the vice prime minister and prime minister have been raised to USD 1 million and 3 million, respectively. All procurements up to USD 1 million are to be carried out by the line ministries. The role of the Procurement Directorate will be taken over by a Technical Secretariat under the vice prime minister's office that will provide guidance and support to line ministry procurement implementation and a Procurement Commission comprised of civil servants, business representatives and NGOs. The new structure has only partly been codified in legislation.

84. The transition to the new decentralized institutional structure has been hurried and bears risks for inadequate monitoring and oversight.

The capacity for the two new entities under the vice prime minister's office will have to be built up from scratch as the Procurement Directorate is being disbanded. The linkage to MOF's budget execution system will be tenuous in the transition period, as the procurement module of the FreeBalance system still needs to be installed and adapted to the Timorese circumstances, while training of line ministry staff in use of the system has also not taken place. This means that neither MOF, nor the Technical Secretariat or Commission will be able to monitor procurement processes through Freebalance. Reporting on procurement processes by MOF has been absent. It is hoped that the new FreeBalance module will enable both process monitoring and reporting.

85. Procurement processes are not always transparent, and not audited by internal or external auditors; large discretionary procurements have occurred and only been formalized after the fact.

Tenders are published in local newspapers, but not always on the internet. There is limited reporting on tender awards. Individual tenders are not routinely audited by any of the audit functions, including the audit unit in the treasury or the external auditor contracted by the MOF. In 2009, an amount of USD 72 million was exempted from normal procurement procedures. The resources involved funds for capital projects that faced implementation delays. The exemption to normal procurement was formalized ex post by decree law.

Internal Audit

86. Internal audit is ineffective and audit plans and procedures are not in place. (4.2.5)

The IGO was created in 2000 during the UN interim government. In 2009 its responsibilities were expanded by the Decree-Law No. 22/2009. This legislation provides a mandate of four years for the Inspector General, enables the IGO to undertake inspections and audit in all public entities, and provide full access of documents and information necessary to conduct its activities. The Inspector General reports to the prime minister. An annual audit plan has not been prepared so far. The staff is limited and capacity is weak. There are also some internal audit units in some ministries that respond technically to but are not subordinate to the IGO. An Anti-Corruption Commission with investigative authority was created in 2009 but the unit is not operating because the commissioner has not been appointed and the unit not staffed.

87. Tax audits and fraud investigations are conducted on a very limited basis. (4.2.6)

Although basic audit checklists, technical reference manuals, and other material are maintained on the shared directory of the revenue administration information network, there is insufficient tax, administrative, and audit expertise within the MOF General Directorate of Revenue and Customs (GDRC) to provide an appropriate audit service. There is no comprehensive and documented audit plan and audits are not conducted according to clear risk criteria. There are some sector-based audit plans for small or large businesses. There are currently only two auditors in the audit section for domestic taxes. The GDRC plans to create an audit unit in each of the three National Directorates (Petroleum Revenue, Customs, and Domestic Tax).

Box 10. Strengthening Internal Audit in Brazil

Established in 2000 by merging the previous internal audit units spread out over the line Ministries, the Office of the Comptroller General (CGU) is the central agency of the federal government in charge of assisting the President of the Republic of Brazil in matters related to enhancing fiscal transparency through: (i) internal control, inspection, and internal audit; (ii) corrective and disciplinary measures; (iii) corruption prevention and fighting; and (iv) coordinating ombudsman's activities. CGU was created to improve coordination, provide more independence to audit and investigation, and increase the credibility of the investigations on allegations of corruption. CGU is staffed by independent professional civil service career staff, has an extensive training program, and recruits personnel based on competitive public tenders. CGU not only integrates all audit functions in the government but also conduct all anti-corruption, ombudsman, and disciplinary functions in the government. The centralization of these functions have improved markedly coordination, increased efficiency, reduced cost, and improved the quality, timeliness, and credibility of the internal audit and investigative functions. (www.cgu.gov.br)

CGU's primary task is internal control, inspection, and internal audit. It is responsible for auditing the financial statements and annual report of all entities that execute the budget and is in charge of auditing the projects financed by international organizations such as the WB, United Nations Development Program (UNDP), and the Inter-American Development Bank. All the audit reports produced by the CGU are sent to the Audit Court (*Tribunal de Contas da Uniao*) to support them in the certification of the annual accounts. The Public Prosecutor is also informed if any crime such as corruption is identified. One of the innovations is the way the execution of governmental programs is inspected by checking not only the regular procedures in terms of legal compliance (for example, procurement and payment) but also checking in situ for sample whether the targets set in the budget and in the multiyear plan are being achieved.

Independent external oversight

88. An external audit body is yet to be established, but the constitution defines that it will have to be independent of the executive branch; its exact mandate is still to be determined by new legislation. (4.3.1)

The constitution provides for the setting up of an independent High Administrative, Tax, and Audit Court (HATAC).²³ In the absence of this court, the government has appointed a private external audit firm to conduct audit functions which are limited to the financial audit of annual statements and accounts. As the court has not yet been set up, the new BFML of 2009 stipulates that, temporarily until the Audit Court is established, the Court of Appeals will receive the annual audited financial statements and accounts from the minister of finance and will present them to the parliament.

89. The audit by the commercial, external auditor provides important assurances, but the scope of audit activities could be broadened. (4.3.1)

The commercial firm only performs a financial audit. Only limited compliance, system and performance aspects are taken into account. Areas such as payroll and individual procurement should be covered more materially, on a sample basis. A first step would be to extend the audit to material processes. Presently, mainly the paper trail is audited. As an

²³ Article 129 of the Constitution provides that the HATAC is the highest body in the hierarchy of the administrative, tax and audit courts. The president of this Court is elected from among and by respective judges for a term of office of four years.

example of the present limitations, for the budget year 2008 the independent auditor informed that they could not validate the salaries and pensions payments due to the lack of civil servant contracts in many cases and extensive payment in cash without proper documentation. The independent external auditor prepares a management letter to the MOF with recommendations to improve the internal control system. The management letters used to be available on MOF's webpage but the ones for 2007 and 2008 have not been published yet.

90. External audit reports are submitted to the legislature and published, and audit findings are systematically monitored. (4.3.2)

The external audit reports have in the past been submitted to the parliament within the legal limits of 8 months of the end of the budget year. The new BFML has, however, for the 2010 budget year established a new the deadline for the submission to the Court of Appeals within 6 months (as an interim measure before the HATAC is established). The submission deadline for parliament remains at 9 months. The audit reports are published and are available on the website of the MOF. Recommendations from previous audit reports have generally been acted upon. A detailed management letter from the current auditor on the annual statements of 2008 was received by MOF in mid December 2009. A plan of action has been drawn up to prioritize the implementation of recommendations. The parliament does not receive any follow up reports on the audit report, and does not receive the management letter. The Budget Committee does not discuss government accounts or audit reports explicitly, but they do inform the discussion on the next year's budget.

Oversight of the Petroleum Sector

91. The Petroleum Fund and ANP are subject to internal and external auditing procedures.

Any spending of petroleum receipts are as specified in the Petroleum Fund Law clearly described and disclosed to the public. BPA's Internal Auditor performs an audit of the fund every six months, and the auditor's reports are disclosed in the following quarterly report on the fund. In addition all transactions of the Petroleum Fund are audited by an external auditor, and the auditor's report is made public as an appendix to the Petroleum Fund annual report. In ANP a Single Auditor is appointed jointly by the Secretary of State for Natural Resources and the minister of finance for a three-year term. The Single Auditor is a designated official responsible for internal monitoring of legality, regularity, and financial management of ANP. Additionally, an external auditor does a financial audit on ANP's activities as the Designated Authority under the Timor Sea Treaty. ANP's activities in TLS exclusive areas are not included in this audit. The auditor's report is an appendix to the annual report for the Timor Sea Designated Authority.

92. The National Statistics Directorate (DNE) has technical independence but has not been able to produce the national accounts since 2003 because of insufficient capacity. (4.3.4)

The Decree-law No. 17/2003 provides authority to the DNE to conduct surveys based on principles of technical autonomy, neutrality, reliability, and transparency. DNE is a part of the MOF. DNE publishes only a few indicators such as a monthly consumer price indicator and quarterly import and export statistics (<http://dne.mof.gov.tl/>). The last national accounts

estimate was prepared for the year 2003.²⁴ Annual data on public sector employment and wages are available. No official data are compiled regularly on private sector employment and wages, except for partial data from household surveys conducted jointly by UNDP, ADB, and the WB. The compilation of revenue and expenditure follows the economic classification of the *GFSM* 1986 and the COFOG functional classification. No data are currently reported for the IMF publication *GFS Yearbook* and *International Financial Statistics*. The main constraints are related to insufficient capacity of the unit.

II. IMF STAFF COMMENTARY

93. **Since independence TLS has made significant progress with improving fiscal transparency.**

The authorities have had the foresight to adopt a transparent, fiscally sustainable governance framework for the petroleum sector. A petroleum fund manages the country's petroleum wealth at arm's length of the political realm, regulates the annual transfer of resources to the budget, while being professionally managed, well-supervised and fully audited. In addition, TLS has—albeit with ongoing substantial foreign consultancy support—developed a relatively well-structured annual budget process. It has improved coordination with development partners to plan and track donor projects and better align them with national priorities. It has, importantly, implemented a comprehensive integrated financial management information system that enables comprehensive, timely, and accurate fiscal reporting both within the executive and towards parliament. Expenditures and revenues are almost all transacted through a TSA, the Consolidated Fund, and, except for the Petroleum Fund, there are no other extrabudgetary mechanisms. The budget documentation is basic but quite comprehensive, and adequate for review and approval of the budget by parliament. Quarterly and annual fiscal reports of the GG and of the Petroleum Fund are available in a timely fashion. Important legal and institutional reforms have supported these developments such as new budget and financial management, procurement, civil service, and petroleum laws, a restructuring of the MOF, and very recently the establishment of a Civil Service Commission and a new Anti-Corruption Commission.

94. **Nonetheless, there are still many areas in which TLS diverges from the good practices set out in the IMF Code of Good Practices on Fiscal Transparency.**

In some cases these weaknesses stem from the lack of capacity in MOF and line ministries and an incomplete regulatory framework, aggravated by the fact that in almost all cases the legislation is very recent and is in the first stages of implementation.

- In terms of the **clarity of roles and responsibilities**, main weaknesses are the lack of: an operational, independent State Audit institution (the HATAC as defined in the constitution), a uniform regulatory framework defining and managing autonomous

²⁴ Under a WB-financed project, national accounts data for 2000 (both sector and expenditure basis) were estimated by the Boston Institute for Developing Economies (BIDE). In late 2004, BIDE, under a follow-up WB project, produced GDP estimates for 2001–03 that suffer from limited source data and substantial extrapolation. DNE has not been able to replicate the BIDE estimation exercise.

entities and public corporations; and a well-equipped and transparent tax and customs administration.

- The main issues with the **openness of the budget process** regard: the weak linkage between planning and budgeting, no fully-developed functional or program classification, macro-fiscal forecasting capacity is limited and planned resource provision by donors is not collected for the medium term, capital and recurrent budget are largely developed separately, expenditure review, especially of capital projects, needs to be substantially strengthened, the medium-term planning and budgeting process are embryonic, both for capital and recurrent expenditure, and strategic planning needs to be further developed. FreeBalance does not record accounts payable and there is no monitoring of arrears, its interconnectivity needs to be improved, and the procurement module activated.
- With respect to the **public availability of information** weaknesses are that there is no information in the budget documents on quasi-fiscal expenditures, contingent liabilities, fiscal risks, and tax expenditures. Budget documents could contain more descriptive and analytic information. A budget in brief for the general public is not provided.
- Lastly, in relation to **guarantees of integrity** it is important to note the overall weakness of this area, which is the more worrying given the reported prevalence of misuse and misappropriation of funds. Internal audit in TLS is almost nonexistent, internal controls and monitoring on important processes like payroll and procurement are deficient and could be further aggravated by the planned decentralization line ministries and local government. Finally, the present commercial, external auditor performs only financial audits, and the entity in charge of the national statistics is not capable of producing the national accounts.

95. To improve transparency in each of the mentioned dimensions, we present below a list of short- and medium-term (to long-term) recommendations for improving fiscal transparency.

These include suggestions to improve the functioning of processes and thus realize better, more transparent outcomes. The time horizon for short-term recommendation would be up to 2 years. The medium-term would be within the next three to five years (with some recommendation requiring more time). The sequencing and prioritization will be further developed during the PEFA assessment currently being carried out with support from the IMF's Fiscal Affairs Department. The major risks are in the decentralization of budget execution and procurement to line ministries and districts. Particular attention should be paid in that process to the improvement of the systems consolidating fiscal information and enabling MOF's fiduciary responsibilities.

A. Short-term Recommendations

Procurement

- Activate the FreeBalance procurement module as soon as possible and train MOF and line ministry staff in its use, as well as the new Procurement Technical Secretariat and Monitoring body under the vice prime minister. (4.2.3 paragraph 84)
- Keep MOF oversight over the procurement process given its fiduciary responsibilities in the PFM system, despite the transfer of primary, operational responsibility to the vice prime minister. On investment projects larger than USD1 million, MOF's expenditure review division or the budget directorate should be included on tender panels. The treasury's audit unit should have the powers to investigate transactions on a sample basis, including procurements. The commercial external auditor should be required to audit tenders on a sample and risk-analysis basis. (4.2.3 paragraph 84)
- Publish all procurements and contract awards on the internet, and publish an annual report on government procurement including key process indicators. (4.2.3 paragraph 85)

Fiscal Decentralization

- Include in the draft Financial Regulations for Municipal Governments that they should be approved by the MOF, that accounting standards and the chart of accounts should remain the responsibility of the MOF, and that the monthly, quarterly, and annual accounts of the municipalities be submitted to MOF who would then prepare consolidated accounts for the GG. The accounting and budgeting software that would be used in the municipal governments should be the same as that used in the MOF. Municipal governments finance and accounting functions should be conducted by the MOF staff in view of the low financial management capacities. (1.1.3 paragraph 15)
- MOF should issue regulations on internal controls of payments and accounting to guide decentralized budget execution in the line ministries. (4.2.3 paragraph 84)

Budget process

- Initiate identification and costing of new government initiatives in the budget, both on the expenditure and revenue side, and identify recurring costs of public investment for the medium term. (2.1.3 paragraph 40)
- Require donors to provide estimates of planned expenditure volumes on a multiyear basis (but not on individual projects), and include these in the multiyear fiscal presentation and the expenditure projections in the budget. (2.1.5 paragraph 47)
- Start building capacity in costing and analytic review of capital projects and program expenditure. (2.1.1 paragraph 34)
- Include in the budget documents analysis of revenue and expenditure outturns compared to plan, for the three prior years to the budget year. (3.1.2 paragraph 63)
- Publish a clear and simple summary guide to the budget in Tetum and Portuguese to inform the population. (3.2.1 paragraph 72)
- Specify in the financial regulations the process and conditions for the access to contingency reserve funds to prevent use for other purposes. (2.2.3 paragraph 55)

- Involve parliament and NGOs at an early stage to discuss priorities in the budget process. (3.2.4 paragraph 75)
- Publish the budget immediately after approval by the parliament. (3.1.1 paragraph 61)
- Include all autonomous entities and public corporations (such as the lottery, ANP, and the Microfinance Institute) in the budget and final account documents, prepare legislation covering their management, supervision and reporting, and synchronize publication of their own reports with the budget cycle. (1.1.4 paragraphs 2 and 6)

Tax system

- Define the rules for cooperation, coordination, and information sharing between the ANP and the MOF Petroleum Revenue Directorate to improve tax collection from the oil sector (for example, initiate exchange of audit information, perform joint audits, and promote MOF staff participation in relevant ANP training). (1.2.2 paragraph 20)
- Publish the rulings and decisions of the MOF Petroleum Revenue Directorate on the internet. (1.2.2 paragraph 21)
- Regulate how the petroleum companies should provide to MOF's Petroleum Revenue Directorate all documents and evidence necessary to perform tax audits in TLS. (1.2.2 paragraph 20)
- Resolve access of the tax authorities to taxpayer commercial bank account information through discussion with banks, or legal action. (1.2.1 paragraph 24)
- Complete the legal system for tax and non-tax revenues collections, and put in place coherent procedures, sanctions, and an appeals system under law. (1.2.2 paragraph 27)
- Strengthen capacity of the Petroleum Revenue Directorate to perform tax audits. (1.2.2 paragraph 25)
- Include a measure of the overall "government take" in the petroleum sector (i.e., the overall tax burden as percentage of production) in the budget documents. (3.2.3 paragraph 74)

Financial management

- Define the legal framework governing the payment of dividends by the autonomous entities and public corporations, inclusive ANP. (1.1.4 paragraph 4)
- Define more clearly the type and scope of quasi-fiscal expenditure allowed to be provided by petroleum companies, and report on these expenditures in the budget. (3.1.3 paragraph 68)
- Verify the integrity of the payroll every quarter and initiate a formal procedure for verification of pensions to veterans and elders. (2.2.1 paragraph 49)
- Put in place a formal procedure for collection of non-tax revenues, including specifications such as deposit of such revenues in designated accounts in commercial banks and daily credit to government account with the BPA. (2.2.1 paragraph 50)
- Review recent virement reforms and put in place proper accountability procedures for effecting virements by line ministries. Formulate virement rules that strike a balance between flexibility and accountability for credible budget formulation. (2.2.1 paragraph 51)

- Prioritize in the DNE the preparation of national accounts (GDP). (4.3.4 paragraph 92)
- Ensure adequate resources, coordination and political backing for the various anti-corruption initiatives.

B. Medium-term Recommendations (sequencing dependent on PEFA analysis and PFM strategy development)

Budget process

- Strengthen capacity in basic macrofiscal forecasting and use of the financial programming model. Document the macroeconomic framework. Basic macroeconomic assumptions underlying the budget estimates should be published at an early stage of the budget cycle and clearly presented in the budget documents. Extend the macrofiscal framework towards the medium term by estimating the main revenue and expenditure flows over the medium term; develop of a medium-term fiscal framework. (2.1.2 paragraphs 36 and 37)
- Develop a medium-term PIP with clear principles for the evaluation, prioritization, and approval of investment projects. Capacity building and/or buying in cost-benefit analysis in the context of multiyear investment projects is essential. (2.1.1 paragraph 34)
- Include in the timeline for budget preparation an extended period for line ministries to prepare and for the MOF to analyze and discuss the rationale and costing of the budget. For the latter, additional review capacity in MOF is needed to verify costing and challenge the recurrent and capital project budget submissions requests and correspondent links. (2.1.1 paragraph 35)
- Review and further develop the program classification of expenditure and better link it to line ministry policies; use it initially for budget planning and presentational purposes; extend the functional classification to include subfunctions and items. (3.2.2 paragraph 73)
- Strengthen the strategic planning capacity in the prime minister's office, MOF, and line ministries, and establish clear links to the AAPs and line ministries' budgets and include in budget documents additional analysis on government priorities, programs, and targets. (3.2.4 paragraph 74)
- Cost existing policies and clearly separate them from new policies in the preparation of budget and forward estimates. This would enable the presentation of "baseline" expenditures at the start of the budget process. (2.1.3 paragraph 39)
- Develop a more robust methodology to expand production of baseline and budget estimates over the medium term.
- Decide on line ministry expenditure ceilings in the COM at the start of the budget cycle on the basis of baseline estimates, new expenditure initiatives and possible savings targets. These ceilings should be provided to line ministries in the budget circular, and cover both recurrent and capital expenditure.
- Develop presentations in the budget in the following areas: fiscal risks, quasi-fiscal activities (including by petroleum companies), and contingent liabilities. (3.1.3 paragraph 66);
- Develop an overview of existing and new tax expenditures in the budget. (1.2.1 paragraph 22)

- The MOF should develop or commission occasional reports on long term expenditure and revenue trends. Such analyses would provide a good framework to address structural issues like population growth and the costs associated with this, or the limitations of natural resources. This would be particularly important in the preparation of the Vision 2020 plan update. (3.2.4 paragraph 74)

Tax system

- The three Directorates of the GDRC should prepare annual reports on activities and process performance. (1.2.2 paragraph 25)
- Define a framework for cooperation between MOF Petroleum Revenue Directorate and the Australian Taxation Office on the sharing of information and tax audit. (1.2.2 paragraph 19)
- Hire an experienced external tax auditor to support and provide staff training in tax assessment audits for the Petroleum Revenue Directorate. (1.2.2 paragraph 25)
- Improve tax administration by strengthening the human and technical resources of the Tax and Customs Directorates, and set a specialized career path for tax administration officials. (1.2.2 paragraph 25)
- Create a single tax audit unit adequately staffed and trained reporting directly to the DG of Revenue and Customs. (4.2.6 paragraph 86)
- Adopt a Code of Conduct for tax officers and train the staff to apply it. Provide a special legal status for tax officials. (1.2.2 paragraph 24)
- Develop a tax payer rights statute to strengthen the position of individual tax payers versus the tax and customs authorities.
- Rationalize and limit the use of tax incentives, for example by standard use of expiration clauses.

Financial management

- Exclude requirements for quasi fiscal expenditures by petroleum companies in new exploration contracts as they deter from the budget process and channel resources away from the Petroleum Fund. (3.1.3 paragraph 67)
- Issue a separate public debt management regulation specifying the conditions under which public borrowings can occur, such as the types and limits of borrowing and modalities for repayment. This should be done before any borrowing occurs. (3.1.5 paragraph 68)
- Define clearly governance structure and fiscal role (if any) of the National Resource Company and the National Development Bank before TLS establishes such a corporations. Distinguish clearly commercial responsibilities from policy, regulatory, and social obligations. Ensure integration of quasi fiscal expenditure in the budget. (1.1.4 paragraph 10)
- Strengthen the capacity of the IGO and other internal audit units to perform their internal audit responsibilities. Ideally, all internal audit units should be integrated within the IGO. (4.2.5 paragraph 85)

III. SUMMARY TABLES

Table 1. Summary Assessment of Practices

[Complete only after review—for each principle, the mission should insert its ratings of the level of observance; and, for each practice, the mission should draw on the agreed summary assessments from text]

	Principles and Practices	Summary Assessments	Comments
Clarity of Roles and Responsibilities			
1.1.	The government sector should be distinguished from the rest of the public sector and from the rest of the economy.	Largely observed.	
1.1.1	The structure and functions of government should be clear.	The budget covers GG almost entirely consistent with GFS principles. There are some public entities that are not included in the budget.	
1.1.2	The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.	The fiscal roles of the executive, legislative, and judicial branches are clearly defined in law, but a state audit function is still absent.	Medium term: The three Directorates of the GDRC should prepare annual reports on activities and process performance. Define a framework for cooperation between MOF Petroleum Revenue Directorate and the Australian Taxation Office on the sharing of information and tax audit. Hire an experienced external tax auditor to support and provide staff training in tax assessment audits for the Petroleum Revenue Directorate. Improve tax administration by strengthening the human and technical resources of the Tax and Customs Directorates, and set a specialized career path for tax administration officials. Adopt a Code of Conduct for tax officers and train the staff to apply it.
1.1.3	The responsibilities of different levels of government, and the relationships between them, should be clearly specified.	Currently only one level of government exists in the country.	Short term: Include in the draft Financial Regulations for Municipal Governments that it should be approved by the MOF, standards of accounting and the chart of accounts should remain the responsibility of the MOF, and the monthly, quarterly and annual accounts of the municipalities be submitted to MOF who would then prepare consolidated accounts for the GG. The accounting and budgeting softwares that would used in the municipal governments should be the same as that used in the MOF. Municipal governments finance and accounting functions should be conducted by MOF staff especially in view of the low capacities outside the MOF.

	Principles and Practices	Summary Assessments	Comments
1.1.4	Relationships between the government and public corporations should be based on clear arrangements.	<p>The legislation on public corporations is adequate but some government entities carrying out typical commercial activities are not treated as corporations as their revenues are part of the budget.</p> <p>Arrangements regulating profit transfers from public corporations and autonomous entities to the budget are not well-defined, but some transfers do take place. The BPA, which is the country's central bank, enjoys legal independence and has no fiscal role.</p> <p>There is only one, non-formalized, financial public corporation; it carries out quasi-fiscal activities²⁵ that are not described in the budget documents. In recent years, oil and gas have become by far the major export earner and revenue source for the budget; the government has developed a very modern and transparent legal and institutional structure to manage and safeguard the newly found wealth. The ownership of petroleum resources within TLS's territory is clearly established in the constitution and in the Petroleum Act of 2005. The Petroleum Act empowers the authorization of petroleum companies to explore and develop petroleum resources. At present, there is no government involvement in the petroleum resource sector, neither through equity participation nor through a national resource company.</p>	<p>Short term: Include all autonomous entities and public corporations (such as the lottery, ANP, and the Microfinance Institute) in the budget and final account documents, and synchronize publication of their own reports with the budget cycle. Define the legal framework governing the payment of dividends by the autonomous entities and public corporations, inclusive ANP.</p> <p>Medium term: Define clearly governance structure and limited fiscal role, if any, of the National Resource Company before TLS establishes such a corporation. Distinguish clearly commercial responsibilities from policy, regulatory, and social obligations.</p>
1.1.5	Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.	Government holdings in private corporations are small and payment of dividends is reported in public documents. The laws that regulate the nonfinancial private sector are relatively simple, but not always accessible; moreover, government administrative processes are not easily accessible nor are they very client-friendly and, reportedly, often require "incentives" to be set in motion.	
1.2.	There should be a clear and open legal, regulatory, and administrative framework for fiscal management.	Largely observed.	
1.2.1	The collection, commitment, and use of public funds should be governed by comprehensive budget, tax,	The framework for management of public finances is clear and comprehensive. The legal basis for the	Short term: Resolve access to taxpayer commercial bank account information through discussion with banks or

²⁵ Activities undertaken by public corporations and by the private sector at the direction of the government that are fiscal by character.

	Principles and Practices	Summary Assessments	Comments
	and other public finance laws, regulations, and administrative procedures.	fiscal regime for petroleum companies is comprehensive but complex. A petroleum fund focused on fiscal sustainability is the cornerstone of a transparent and state-of-the-art framework for the management of resource revenues. All petroleum revenue of TLS is credited to the Petroleum Fund. Tax exemptions are numerous but their cost is not assessed; tax expenditures are not reported.	legal action. Medium term: Develop as a budget document an overview of existing tax expenditures. Rationalize the use of tax expenditures.
1.2.2	Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.	Complex tax legislation for the petroleum sector makes it difficult to understand companies' obligations, entitlements, and rights. The tax legislation that applies to petroleum companies and service companies is available on the website of the Petroleum Revenue Directorate. The legislative basis for tax collection was recently reformed and simplified but this modernization process has not yet covered tax administration where old UN regulations still apply. Tax and customs administration is undergoing a program of modernization to address low tax compliance, weak capacity and inadequate processes; initial reforms such as a unique TIN have been introduced. There is currently no Code of Conduct specifically for the Customs and Domestic Tax administrations. Such a Code is generally regarded as a key element of a sound integrity strategy. Tax and customs administration officials have not been granted a specific legal status. Taxpayers' legal rights are not well defined and there is no functioning appeals system for tax and nontax obligations. Mechanisms for coordinating the operations of the petroleum fund with other fiscal activities are clearly specified.	Short term: Define the rules for cooperation, coordination, and information sharing between ANP and the MOF Petroleum Revenue Directorate to improve tax collection from the oil sector (for example, exchange of audit information, joint audits, and MOF staff participation in relevant ANP training). Regulate how the petroleum companies should provide to MOF's Petroleum Revenue Directorate with all documents and evidences necessary to perform tax audits in TLS. Complete the legal system for tax and non-tax revenues collections, and put in place a coherent procedures, sanctions, and appeals system under law. Strengthen capacity of MOF Petroleum Revenue Directorate to perform tax audits.
1.2.3	There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.	Public opinion is only occasionally sought concerning proposed laws, regulatory changes, and broader policy changes.	
1.2.4	Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.	Contractual arrangements between the government and public or private entities are clear but in general, contracts are not publicly accessible.	
1.2.5	Government liability and asset management, including the granting of rights to use or exploit public assets,	Legislation governs liability and asset management, including the granting of rights to use or exploit public	

	Principles and Practices	Summary Assessments	Comments
	should have an explicit legal basis.	assets. The investment strategy for the petroleum fund is clearly stated in the Petroleum Fund Law.	
Open Budget Process			
2.1.	Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.	Largely observed.	
2.1.1	A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.	The BFML prescribes the due date only for submission of the draft budget by the government to the parliament (October 15). Some additional dates are prescribed through a budget timetable and budget circular. The calendar is generally followed for the formulation of the recurrent budget, but not fully observed for the capital budget. The budget review process in the executive branch is somewhat compressed and the support role of the MOF seems limited. The period for the parliament to analyze the budget proposal is adequate. The annual budget process is clearly-defined by a budget calendar in the budget circular, and in general followed as planned. An aggregate fiscal envelope for the budget year and fiscal envelopes by line ministries and main economic expenditure categories are set annually; changes from year to year are mainly incremental with few adjustments to reflect the changing government priorities. The capital and recurrent budgets are developed separately; the capital budget process lacks a multiyear perspective and an assessment-based and disciplined priority setting mechanism. The budget review process in the executive branch is somewhat compressed and the support role of the MOF seems limited.	Medium term: Develop a medium-term PIP with clear principles for the evaluation, prioritization, and approval of investment projects. Capacity building in cost-benefit analysis in the context of multiyear investment programs is essential. Include in the timeline for budget preparation an extended period for the MOF to analyze and discuss the rationale and costing of the budget. For this, additional review capacity in MOF is needed to verify costing and challenge the recurrent and capital project budget submissions requests and correspondent links.
2.1.2 (a)	The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework.	There are no explanations in the budget about how the forecasting framework has been used, how the macroeconomic assumptions compare with alternative projections or actual outturns, or what uncertainties are involved. Also, annual forecasts for the macroeconomic and fiscal data are not published at the early stage of the budget cycle. Aggregate fiscal information and underlying macroeconomic assumptions for the petroleum sector over the	Medium term: The MOF should strengthen capacity in basic macrofiscal forecasting and use of the financial programming model. The macroeconomic framework used should be documented. Basic macroeconomic assumptions underlying the budget estimates should be published at an early stage of the budget cycle and clearly presented in the budget documents. Extend the macrofiscal framework towards the medium term by estimating revenue and expenditure flows over the

	Principles and Practices	Summary Assessments	Comments
		medium term are presented in the budget documents; quality of data and projections, however, needs further development. The main macroeconomic assumptions, like real GDP growth rate and inflation rate, are presented in the budget for three years prior to the budget year and for the budget year, but not for future three years. The economic and financial analysis presented in the budget documents includes some elements of medium-term budgeting. The Petroleum Fund's contribution to fiscal sustainability is not explicitly discussed in the budget, but it is enshrined in the Petroleum Fund Law.	medium term.
2.1.2 (b)	Fiscal targets and any fiscal rules should be clearly stated and explained.	The fiscal framework is defined by the Estimated Sustainable Income (ESI) calculation. No other fiscal rules are specified such as general borrowing limits or balanced budget requirement. Transfers from the petroleum fund are calculated at the start of the budget process on the basis of the Estimated Sustainable Income-concept. The method for calculating the ESI is objective, applied consistently, and presented in the budget.	
2.1.3	A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.	The medium-term estimates are not based on clearly defined methodology nor fully costed expenditure proposals, and have no relation to the macroeconomic projections. There is no linkage between the resource allocations and policy priorities. The budget documents do not provide a quantification of the costs of new government spending programs nor clearly distinguish them from the cost of ongoing government activities. Estimates of the budgetary cost of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.	Short term: The MOF needs to develop a medium-term PIP and clear principles for the evaluation, prioritization and approval of investment projects. Initiate identification of new government initiatives in the budget. Medium term: Cost existing policies and clearly separate them from new policies in the preparation of budget and forward estimates. This would enable the presentation of "baseline" expenditures at the start of the budget process.
2.1.4	The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.	There is only limited discussion in the budget documents on the sensitivity of budget estimates to changes in economic variables.	Short term: The budget documents need to include more descriptive analysis of government priorities and their rationale.
2.1.5	There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy	Donor funding is adequately reflected in the budget documents for the budget year. Donors do not provide multiyear estimates of planned project	Short term: Require donors to provide estimates of planned expenditure volumes on a multiyear basis (but not on the individual projects), and include in the

	Principles and Practices	Summary Assessments	Comments
	framework.	volume.	multiyear fiscal presentation and expenditure projections in the budget.
2.2	There should be clear procedures for budget execution, monitoring, and reporting.	Largely observed.	
2.2.1	The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.	Accounting and internal control procedures provide a reliable basis for tracking commitments, payments, and revenues; arrears are not defined or tracked. The treasury manages a central payroll, but employee lists are not systematically updated and reconciled. Almost all government transactions flow over the TSA, the so called Consolidated Fund. The procedure for virements has been overly inflexible, but now seems to be moving in the opposite direction. The accounting system is capable of producing accurate in-year report on central government budget outturn. The accounting system is capable of producing accurate in-year report on central government budget outturn.	Short term: Verify the integrity of the payroll every quarter and initiate a formal procedure for verification of pensions to veterans and elders. Put in place a formal procedure for collection of non tax revenues, including specifications such as deposit of such revenues in designated accounts in commercial banks and daily credit to government account with the BPA. Put in place proper accountability procedures for effecting virements by line ministries. Formulate virement rules that strike a balance between flexibility and accountability for credible budget formulation.
2.2.2	A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.	The legislature receives a quarterly in-year report on budget outturn and discuss the midyear review.	
2.2.3	Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.	Supplementary revenue and expenditure proposals during the fiscal year are presented to the legislature in a similar manner to the original budget. The size and budgetary accounting of contingency reserve are appropriate, but its use is not always for real contingencies. The audited final accounts are provided to parliament, mostly in a timely fashion. All government resource revenue receipts are identified in the annual report of the Petroleum Fund, in due time for preparation of the budget documents. International petroleum companies working in TLS comply with internationally accepted standards for accounting, auditing, and publication of accounts.	Short term: Specify in the regulations the process and conditions for the access of contingency reserve funds to prevent use for other purposes.
2.2.4	Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.	External audit reports are submitted to the legislature and published, and audit findings are systematically monitored within a year.	

Public Availability of Information

	Principles and Practices	Summary Assessments	Comments
3.1	The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.	The budget and final accounts provide extensive information on past, current and future government expenditure. The comparison between budget plans and outturns is, however, not transparent. The outlook on fiscal aggregates could be extended to future years and made more detailed. Fiscal Risk are presented in a very limited way.	
3.1.1	The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.	The budget documents cover GG fiscal activities comprehensively and provide full data on GG. Not all fiscal information required by law is produced in the budget documents. Fiscal reporting cover all of GG applying the same classifications used in the budget, and receipts from all major revenue sources are separately identified.	Short term: Publish the budget immediately after approval by the parliament.
3.1.2	Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.	The budget documentation contains the information on prior years, but no summary table giving comparisons between original budget and actual data over several prior budget years and no analysis or review of budget implementation is made. The analysis of the past budgets compared to the actual budget outturns needs to be expanded in the budget documents. Transactions into and from the Petroleum Fund are clearly identified and reported in the budget document. Estimates of net petroleum wealth are published in the budget documents. The ANP is not reported on, or accounted for in the budget documents.	Short term: Include in the budget documents analysis of revenue and expenditure outturns compared with the plan for three prior years of the budget year.
3.1.3	Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.	Fiscal risks, contingent liabilities, tax expenditures, and quasi-fiscal activities are not quantified nor discussed in the budget documents. Tax exemptions are numerous but their cost is not assessed; tax expenditures are not reported. The petroleum companies are obliged to undertake social and environmental expenditure, but this is not clearly defined or described.	Short term: Define more clearly the kind and scope of quasi-fiscal expenditure by petroleum companies. Medium and long term: The MOF should develop budget presentation in the following areas: fiscal risks, quasi-fiscal activities including by petroleum companies, and contingent liabilities. Exclude requirements for quasi fiscal expenditures by petroleum companies in new exploration contracts as they deter from the budget process and channel resources away from the Petroleum Fund.
3.1.4	Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.	The budget documents cover GG fiscal activities comprehensively and provide full data on GG. Not all fiscal information required by law is produced in the budget documents. Fiscal reporting cover all of GG applying the same classifications used in the budget,	

	Principles and Practices	Summary Assessments	Comments
		and receipts from all major revenue sources are separately identified.	
3.1.5	The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.	Legislation governs liability and asset management, including the granting of rights to use or exploit public assets. The investment strategy for the Petroleum Fund is clearly stated in the Petroleum Fund Law. There is no public debt in TLS, but the legal provision for public borrowing is clear. There are no major non-debt liabilities as no social security or civil service pension scheme exists, no guarantees are provided and there are no major outstanding contractual obligations.	Medium term: MOF should issue a separate public debt management regulation specifying the conditions under which public borrowings can occur, such as the types and limits of borrowing and modalities for repayment. This should be done before any borrowing occurs.
3.1.6	The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.	Local governments do not exist independently, and currently form a part of central government.	
3.1.7	The government should publish a periodic report on long-term public finances.	Analysis of long-term petroleum revenues and estimated sustainable income is periodically undertaken and published in the budget documents. There is no long-term analysis of domestic revenues and public expenditures.	Medium term: The MOF should develop occasional reports on long term expenditure and revenue projections. These would provide a good framework to address issues like the growing population and the costs associated with this, or limited natural resources.
3.2	Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.	Largely not observed.	
3.2.1	A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.	All budget documentation is public, but it is not supported by material in a simple language that would clarify the context and objectives of the budget to the average citizen.	Short term: The MOF should publish a clear and simple summary guide to the budget.
3.2.2	Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.	The annual budget presentation is broadly consistent with international standards.	Medium term: Review the program classification of expenditure and better link line ministry policies to budget expenditure and extend the functional classification to include subfunctions and items.
3.2.3	The overall balance and gross debt of the GG, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.	The overall balance and non-oil balance of GG are the main indicators of the fiscal position in the budget and are available in budget documents. During the execution, the recurrent and fiscal balances, which calculations exclude donor funded operations, are monitored on a quarterly basis.	Short term: Include a measure of the overall "government take" in the petroleum sector, i.e. the overall tax burden, in the budget documents.
3.2.4	Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.	The objectives and expected results from government activities are discussed through a long-term plan and annually in the budget process.	Short term: Involve parliament and NGOs at an early stage to discuss priorities in the budget process. Medium term: Strengthen the strategic planning capacity in the prime minister's office, MOF, and line ministries, and establish clear links to the AAPs and line ministries

	Principles and Practices	Summary Assessments	Comments
			budgets and include in budget documents additional analysis on government priorities, programs, and targets. The MOF should develop or commission occasional reports on long-term expenditure and revenue projections. These would provide a good framework to address issues like the growing population and the costs associated with this, or limited natural resources. This would be particularly important in the preparation of the Vision 2020 plan update.
3.3	A commitment should be made to the timely publication of fiscal information.	Largely observed.	
3.3.1	The timely publication of fiscal information should be a legal obligation of the government.	Budget, quarterly, and annual reports are produced in a timely manner and according to the schedule laid out in the BFML. Fiscal information is available to the public and there is a clear commitment to provide information at approximate times, but its comprehensiveness is limited to the State budget.	Short term: The reporting on AAPs should be synchronized with the financial reporting, and presented to the parliament together with the budget execution report. The approved budget should be published directly after the approval by the legislature.
3.3.2	Advance release calendars for fiscal information should be announced and adhered to.	Fiscal information is available to the public and there is a clear commitment to provide information at approximate times, but its comprehensiveness is limited to the State budget.	
Assurance of Integrity			
4.1	Fiscal data should meet accepted data quality standards.	Largely observed.	
4.1.1	Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.	Differences between originally budgeted and actual outturn of main fiscal aggregates are disclosed to the public.	
4.1.2	The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.	The government is gradually adopting the accounting cash basis according to the IFAC's international public sector accounting standards to compile the fiscal data, and a statement on the accounting basis is included in the final accounts.	
4.1.3	4.1.3 Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.	The process of accounting reconciliation is still manual but is improving. Major revisions to historical fiscal data and any changes to data classification are explained.	

	Principles and Practices	Summary Assessments	Comments
4.2	Fiscal activities should be subject to effective internal oversight and safeguards.	Largely not observed.	
4.2.1	Ethical standards of behavior for public servants should be clear and well publicized.	Public servants are subject to a well-defined code of behavior but its application is at an early stage.	
4.2.2	Public sector employment procedures and conditions should be documented and accessible to interested parties.	Civil service employment procedures have only recently been modernized; the new framework is transparent and equitable, but its application is still uncertain.	
4.2.3	Procurement regulations, meeting international standards, should be accessible and observed in practice.	Procurement legislation is largely in line with international standards, but more discretion has been introduced in recent years; procurement processes are not always followed. Procurement has been in a state of flux for a number of years, with decentralization, centralization and most recently again decentralization following each other. The transition to the new decentralized institutional structure has been hurried and bears risks for inadequate monitoring and oversight. Procurement processes are not always transparent, and not audited by internal or external auditors; large discretionary procurements have occurred and only been formalized after the fact.	Short term: Activate the FreeBalance procurement module as soon as possible and train MOF and line ministry staff in its use, as should be the new Procurement Secretariat and the Procurement Monitoring body under the vice prime minister. Keep MOF oversight of the procurement process given its fiduciary responsibilities in the PFM system, despite the transfer of primary responsibility to the vice prime minister. On investment projects larger than USD1 million, MOF's expenditure review division or budget directorate should be included on the tender panel. The treasury's audit unit should have the powers to investigate transactions on a sample basis, including procurements. The commercial external auditor should be required to audit tenders on a sample and risk-analysis basis. Publish all procurements and contract awards, including key elements of the award process, on the internet. Issue regulations on internal controls of payments and accounting to guide decentralized budget execution in the line ministries.
4.2.4	Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.	Legislation governs liability and asset management, including the granting of rights to use or exploit public assets.	
4.2.5	Government activities and finances should be internally audited, and audit procedures should be open to review.	Internal audit is ineffective and audit plans and procedures are not in place.	Medium term: Strengthen the capacity of the IGO and other internal audit units to perform their internal audit responsibilities. Ideally, all internal audit units should be integrated within the IGO.
4.2.6	The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.	Taxpayers' legal rights are not well defined and there is no functioning appeals system for tax and nontax obligations. Tax audits and fraud investigations are conducted on a very limited basis.	Medium term: Create a single tax audit unit adequately staffed and trained reporting directly to the DG of Revenue and Customs.
4.3	Fiscal information should be externally scrutinized.	Largely not observed.	
4.3.1	Public finances and policies should be subject to	An external audit body is yet to be established, but	

	Principles and Practices	Summary Assessments	Comments
	scrutiny by a national audit body or an equivalent organization that is independent of the executive.	the constitution has already defined that it will have to be independent of the executive branch; its exact mandate is still to be determined by a legislation not yet submitted to the parliament. The audit by the commercial, external auditor provides important assurances, but the scope of audit activities could be broadened.	
4.3.2	The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.	External audit reports are submitted to the legislature and published, and audit findings are systematically monitored. The Petroleum Fund and ANP are subject to internal and external auditing procedures.	
4.3.3	Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.	The projections have been subject to regular discussions with and monitoring by the IMF. No other external scrutiny of macroeconomic assumptions or systematic midyear review is undertaken.	
4.3.4	A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.	The DNE has technical independence but has not been able to produce the national accounts since 2003 because of insufficient capacity.	Short term: Prioritize in the DNE the preparation of national accounts (GDP).

Table 2. Public Availability of Information—A Summary

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
1.	GG budget estimates	Yes, in the budget documents for the budget year and three forward years	On the website of the MOF: www.mof.gov.tl	Para. 36	2.1.2 2.1.3
2.	GG Defense Expenditures	Yes	On the website of the MOF: www.mof.gov.tl	Para.60	3.1.1 3.1.4
3.	GG EBFs (Petroleum Fund)	Yes	On the website of the MOF: www.mof.gov.tl and BPA www.bpa.gov.tl	Para.40	2.1.2
4.	GG budget outturns	Yes	On the website of the MOF: www.mof.gov.tl	Para.51	2.2.1 2.2.2
5.	GG budget forecasts	Yes, in the budget documents for the budget year and three forward years	On the website of the MOF: www.mof.gov.tl	Para.35-38	2.1.2 3.1.2
6.	GG Contingent liabilities	No	No	Para.66, 67	3.1.3
7.	GG Tax Expenditures	No	No	Para.22	3.1.3
8.	GG QFAs	No	No	Para.66, 67	3.1.3
9.	Macroeconomic assumptions	Partially, in the budget documents	On the website of the MOF: www.mof.gov.tl	Para.35-38	2.1.2
10.	Analysis of fiscal risks/sensitivity analysis	Sensitivity analysis is partially included in the budget documents. No analysis of fiscal risks.	On the website of the MOF: www.mof.gov.tl	Para.44	2.1.4 3.1.3
11.	GG Debt	No borrowing so far	Not applicable	Para.29, 68	3.1.5

	Budget and Fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
12.	GG Financial Assets	Petroleum Fund financial investment information available	On the website of the BPA: www.bpa.gov.tl	Para.29, 30	3.1.5
13.	Sustainability Analysis	For petroleum revenues in the budget documents	On the website of the MOF: www.mof.gov.tl	Para.40-43	2.1.2
14.	GG budget estimates	Everything is included under central government	On the website of the MOF: www.mof.gov.tl	Para.	2.1.2 3.1.2
15.	GG Monthly/quarterly reports on fiscal outturn	Quarterly and annual reports	On the website of the MOF: www.mof.gov.tl	Para.61	3.1.1 3.1.4
16.	GG Monthly/quarterly reports on fiscal outturn	Everything is included under central government	On the website of the MOF: www.mof.gov.tl	Para.61	3.1.1 3.1.4
17.	GG Final Accounts	Everything is included under central government.	On the website of the MOF: www.mof.gov.tl	Para.61	3.1.1, 3.1.4
18.	Consolidated GG Final Accounts	Everything is included under central government	On the website of the MOF: www.mof.gov.tl	Para. 61	3.1.1, 3.1.4