

Unofficial translation by La'o Hamutuk

From Tribunal Recurso, Câmara de Contas

Excerpt from Report No. 01/AEO/2017/CC

Accompanying Budget Execution for the First through Third Quarter of 2016

23 April 2018

The complete report in Portuguese, with a response from the Minister of Finance, is available at http://www.tribunais.tl/files/camara_contas/relatorio_acomphamento_execucao_orcamental_1_3trimestre.pdf

IV. CONCLUSIONS

In the light of what has been set out in this report, it is now necessary to draw attention to the conclusions drawn from the budget execution from January to September 2016.

Revenue

1. The rate of execution of Revenue, except for loans, was 42% at the end of the third quarter, not the 54% presented in the Budget Execution Report through the Third Quarter of 2016, *ref. Point 3.1.*
2. Consistent growth in domestic revenues over the three quarters continued at 23%, 54% and 80% execution rates, respectively, *ref. Point 3.1.1.*
3. The execution of *Corporate Tax Revenue* far exceeded the forecast already in the second quarter reaching an execution rate of 135% and 154% at the end of the third quarter, without explanation in the Budget Execution Reports, *ref. Point 3.1.1.1.*
4. Revenues from the sub-line item of receipts from *other employees* reached an execution rate of 189% at the end of the second quarter, similar to what has been seen in the previous years, and a high execution rate of 302% at the end of the third quarter. In other words, the Ministry of Finance has not been able to correct this situation despite successive recommendations of the Court, *ref. Point 3.1.1.1.*
5. The equivalent of 38.5% of the projected amount was withdrawn from the Petroleum Fund, having been used to cover approximately 72.9% of all expenses incurred up to the third quarter, *ref. Point 3.1.2.*

Expenditure

6. The sub-item *Other Miscellaneous Services* and *Other Operational Services* in the Goods and Services category presented significant estimated values, which does not meet the principle of specification, which derives from Article 7.1 of the LOGF (Budget and Financial Management Law) which says that "the State Budget shall specify sufficiently the revenue provided for therein and the expenditure fixed therein, a situation which persists from previous years, *ref. Point 3.2.1.1.*
7. The expenditure line for *Acquisition of Offices* had a high execution rate of 433%, in addition to the committed amount of \$1,512 million at the end of the quarter, i.e. without budget coverage under the heading itself, and without proceeding budgetary changes, *ref. Point 3.2.1.1.*
8. There is a balanced growth in the execution of FCTL expenditure over the three quarters, although weak until the third quarter due to the weak execution of the Infrastructure Fund, *ref. Point 3.2.1.2.*

9. The *Tasi Mane* Program of the Infrastructure Fund (IF) was implemented at 82.6% by the second quarter compared to the original budget, i.e. almost exhausted at the middle of the year, resulting in a significant increase in the rectification budget, *ref. Point 3.2.1.3.*

10. The *Interim Budget Execution Reports* do not disaggregate the expenditures incurred on the programs with disbursements from each funder, which does not allow them to be compared against the expected budget, *ref. Point 3.2.1.3.*

11. The overall execution of the IF expenditure up to September was only 24.9% compared with the rectifying budget, i.e. very low, as in the third quarter of 2015 (26%), which could lead to large payments concentrated on the last budget quarter of the year, *ref. Point 3.2.1.3.*

Global Execution

12. In 2016, RDTL no longer includes past accounts, and only implemented transfers of funds are included, *ref. Point 3.4.1.*

13. To cover the necessary expenses over the quarters, reserves were used in cash, although not established in the OGE (State Budget), *ref. Point 3.4.2.*

14. Consolidated Revenue, excluding cash reserves, amounted to \$797,589 thousand and Consolidated Expenditure on Simple Services, FSA and the DFCH Special Fund reached \$925,457 thousand up to the third quarter, *therefore 14% of expenses incurred were covered by using cash reserves, ref. Point 3.4.2.*

V. RECOMMENDATIONS

In view of the above conclusions, the following recommendations are made.

1. In order to avoid the presentation of non-realistic data in the Interim Reports, the Ministry responsible for the Finance area should take appropriate measures to update and extract actual execution information rather than estimates in force at the end of the quarter when reporting through the Quarterly Budgetary Execution Reports, *ref. Point 3.1;*
2. Whenever there are high deviations in the performance of both revenues and expenditures in relation to their estimates, they should be justified, as recommended in the General State Accounts Reports and Opinions from 2011 to 2015, *ref. Point 3.1.1.1;*
3. The recommendation in the Reports and Opinions of the General State Accounts for 2012 to 2015 should be taken into account in relation to the estimation and individualization of the expenditure under the headings of Other Miscellaneous Services and Other Operational Services, as well as to make greater control of expenses by item in order to avoid payments without budget coverage, that is, higher than the estimate for the respective item, *ref. Point 3.2.1.1;*
4. That the expenditures effected through each project financed by means of loans be disaggregated, that is to say, through disbursements, allowing them to be compared against the corresponding amount entered in the budget, *ref. Point 3.2.1.3;*
5. In case of use of cash reserves during the year, without being provided for in the OGE, this fact must be reflected in the current budget, through budgetary changes within the competence of the Government or of Parliament as well as adjust Petroleum Fund revenues that should not be sacrificed, given the availability of cash, *ref. Point 3.4.2.*