TIMOR-LESTE

Public Expenditure and Financial Accountability (PEFA) Assessment 2018

Public Financial Management Performance Report

PEFA

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of January 1, 2019)

Currency Unit = USD

FISCAL YEAR
January 1 – December 31

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The work was managed by the World Bank and funded by the European Union and the Millennium Challenge Corporation.

Printed in June 2020.

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The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK'**.

PEFA Secretariat

March 6, 2020

Contents

List of Acronyms

Acronym	Name
AAP	Annual Action Plan
ADB	Asian Development Bank
ADN	National Development Agency
AEI	Specialized Investment Agency
AFS	Annual Financial Statement
ALSO	Appeals and Legal Support Office
ANATL	Administration of Airports and Air Navigation of Timor-Leste
ANC	National Communications Authority
ANPM	National Petroleum and Minerals Authority
APA	Autonomous Public Agencies
APORTIL	Port Authority of Timor-Leste
ASA	Advisory Services and Analytics
ASEAN	Association of Southeast Asia Nations
ASYCUDA	Automated System for Customs Data
ATP	Aid Transparency Portal
BCG	Budgetary Central Government
BCTL	Central Bank of Timor-Leste
BEPS	Base Erosion and Profit Shifting
BFM	Budget and Financial Management
BFML	Budget and Financial Management Law
BNCTL	National Commercial Bank of Timor-Leste
BNU	Banco Nacional Ultramarino
CAC	Anti-Corruption Commission
CAFI	Administrative Council of the Infrastructure Fund
CBP	Capacity Building Program
CC	Commission C
CdC	*Camara de Contas* / Chamber of Accounts
CFET	Consolidated Fund of East Timor
CFS	Cash Flow Statement
CFTL	Consolidated Fund for Timor-Leste
CG	Central Government
CGE	*Conta Geral do Estado* / State Annual Financial Statements

Acronym	Name
CI	Press Council
CLN	National Logistics Center
CNE	National Elections Commission
CNR	National Rehabilitation Center
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPV	Commitment Payment Voucher
CSC	Civil Service Commission
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DFAT	Department of Foreign Affairs and Trade
DG	Directorate General
DGC	Directorate General for Customs
DGR	Directorate General for Revenues
DL	Decree-Law
DMFAS	Debt Management and Financial Analysis System
DN	National Directorate
DNCRF	National Directorate of Accounting and Financial Regulation
DNO	National Directorate of Budget
DNP	National Directorate of Payments
DNPE	National Directorate of Economic Policy
DOMRA	Department of Oil and Mineral Revenue Accounting
DP	Development Partner
DPMU	Development Partners Management Unit
DRS	Debtor Reporting System
DSA	Debt Sustainability Analysis
DTI	Department of Tax Inspections
EAN	Expenditure Authorization Notice
EDF	European Development Fund
EDTL	Timor-Leste Electricity Company
EFT	Electronic Funds Transfer
EITI	Extractive Industries Transparency Initiative
EMIS	Education Management Information System
ESI	Estimated Sustainable Income
ESSDP	Education Sector Strategic Development Plan

Acronym	Name
EU	European Union
EV	Expense Voucher
FDCH	Human Capital Development Fund
FDI	Foreign Direct Investment
FMIS	Financial Management Information Systems
FRC	Fiscal Reform Commission
GAI	Office of Internal Audit
GDP	Gross Domestic Product
GfD	Governance for Development
GFIS	Government Financial Information System
GFS	Government Finance Statistics
GGE	General Inspection of the State
GoTL	Government of Timor-Leste
GPE	Global Partnership for Education
GPP	Governance Global Practice
GRP	Government Resource Planning
HCDF	Human Capital Development Fund
HNGV	Guido Valadares National Hospital
HR	Human Resources
IA	Internal Audit
IAB	Investment Advisory Board
IADE	Institute for Business Development Support
IC	Investment Certificates
ICB	International Competitive Bidding
IEG	Inspectorate-General of the State
IF	Infrastructure Fund
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IFMISU	Integrated Financial Management Information System Unit
IGE	Equipment Management Institute
IMF	International Monetary Fund
INAP	National Institute of Public Administration
INS	Institute of Health Sciences
INSS	National Social Security Institute
INTOCDC	International Organization of Supreme Audit Institutions

Acronym	Name
IPG	Petroleum and Geology Institute
IPSAS	International Public Sector Accounting Standard
ISU	Information Systems Unit
JICA	Japan International Cooperation Agency
JPDA	Joint Petroleum Development Area
LCU	Legal Counsel Unit
LGPHR	Logistics and Assets Management and Human Resources
LM	Line Ministries
M&E	Monitoring & Evaluation
MAE	Ministry of State Administration
MAF	Ministry of Agriculture and Fishery
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MDTF	Multi-donor Trust Fund
MoES	Ministry of Education, Youth, and Sport
MoF	Ministry of Finance
MoH	Ministry of Health
MOPTC	Ministry of Public Works, Transport and Communications
MoPW	Ministry of Public Works
MoU	Memorandum of Understanding
MPRM	Ministry of Mineral Resources
MPS	Major Project Secretariat
MSWG	Multi-Stakeholders Working Group
MTDS	Medium-Term Debt Management Strategy
MTEF	Medium-term Expenditure Framework
MTFF	Medium-term Fiscal Framework
NCB	National Competitive Bidding
NCF	National Consultative Forum
NDAFR	National Directorate of Accounting and Financial Regulations
NDDR	National Directorate of Domestic Revenue
NDO	National Directorate of Operations
NDRM	National Directorate of Risk Management
NDTI	National Directorate of Tax Inspection
NGO	Non-Government Organization
NP	Parliament

Acronym	Name
NPC	National Procurement Commission
NSEDP	National Socio-Economic Development Plan
OBI	Open Budget Initiative
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OGE	General State Budget
PB	Performance Budget
PBPEO	Planning, Budgeting and Performance Evaluation Office
PDID	Integrated District Development Plan
PDIM	Integrated Municipal Development Plan
PDR	Public Debt Regime
PEFA	Public Expenditure and Financial Accountability
PF	Petroleum Fund
PFAU	Petroleum Fund Administration Unit
PFCC	Petroleum Fund Consultative Council
PFM	Public Financial Management
PFMCBC	PFM Capacity Building Center
PFMCBP	Planning and Financial Management Capacity Building Programme
PFMO	Public Finance Management and Oversight
PFTAC	Pacific Financial Technical Assistance Center
PGR	Attorney General's Office
PI	Performance Indicator
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PITAA	Pacific Islands Tax Administrators Association
PMIS	Personnel Information Management System
PMR	Performance Management Reform
PNDS	National Program for Village Development / Programa Nasional Desenvolvimentu Suku
PPP	Public Private Partnerships
PPPLU	Public Private and Partnership and Loans Unit
PSC	Production Sharing Contracts
RAEOA	Special Administrative Region of Oecusse-Ambeno
RFQ	Request for Quotations
RTTL	Timor-Leste Radio-Television
SAMES	Autonomous Service of Medicines and Medical Equipment

Acronym	Name
SAR	Special Administrative Region
SBL	State Budget Law
SCR	Special Career Regime
SDG	Sustainable Development Goal
SDP	Strategic Development Plan
SDR	Special Drawing Rights
SEFOPE	Secretariat of State for Vocational Training and Employment
SIGAP	Integrated System for Public Administration Management
SIGTAS	Standard Integrated Government Tax Administration System
SNG	Sub-national Government
SNI	National Information Service
SOE	State-owned Enterprises
SOP	Standard Operating Procedures
TA	Tax Authority
TACU	Technical Assistance Coordination Unit
TIN	Tax Identification Numbers
TL	Timor-Leste
TLEA	Timor-Leste Exclusive Area
ToBUCA	Taxation on Bayu Undan Contractors Act
TPO	Treasury Payment Order
TSA	Treasury Single Account
TST	Timor Sea Treaty
TTL	Task Team Leader
UN	United Nations
UNTAET	United Nations Transitional Administration in East Timor
UNTL	National University of Timor-Leste
UPMA	Unidade Planeamentu, Monitorizasaun e Avaliasaun / Planning, Monitoring and Evaluation Unit
VAT	Value-Added Tax
WCO	World Customs Organization
WTO	World Trade Organization
ZEESM	Special Zone of Social Market Economy

Executive Summary

Introduction

Timor-Leste is making good progress in nation-building and its emerging governance systems have progressively developed into a largely disciplined PFM system. However, critical development challenges remain as the country transitions out of the fragility agenda, with nascent human and institutional capacity amidst large infrastructure gaps. The main challenge facing Timor-Leste is to effectively manage its petroleum wealth to reduce public sector dependence, diversify the economy, generate jobs for a young and fast-growing population and raise living standards.

The main objective of this PEFA assessment is to establish a new baseline for Public Financial Management (PFM) performance measurement based on the 2016 PEFA framework. The assessment provides the Government with an objective, evidence-based diagnostic of the national PFM systems. The assessment also offers an update of progress in PFM systems performance since the last PEFA exercise in 2013 (which was based on the previous 2011 PEFA framework). The diagnostic is expected to inform an updated and comprehensive Government-led reform action plan which will catalyse existing reform programs already in progress.

This PEFA assessment is a joint exercise of the World Bank and the Government of Timor-Leste. The assessment was conducted by a team of consultants under the oversight of the World Bank with technical coordination and input provided by the Ministry of Finance (MoF) assessment team. The assessment was funded by the European Union (EU), the Millennium Challenge Corporation (MCC) and the World Bank. Quality assurance followed the 'PEFA check' requirements and the World Bank's internal quality assurance procedures.

The assessment covers the Central Government of Timor-Leste, including all budget units under the Consolidated Fund of Timor-Leste. The scope encompasses central institutions (mainly line ministries), autonomous public agencies, municipalities, and extra-budgetary units – part of Central Government and integrated in the Consolidated Fund of Timor-Leste (CFTL).[1] All sectors have been included in the assessment (except information on aspects of defense, public order, and safety functions that have been left outside the scope for reasons of national security) with a focus on service delivery sectors. The 12 municipalities are considered first-tier government given the current stage of the decentralization process. However, the Special Administrative Region of Oecusse-Ambeno (RAEOA) meets the definition of a subnational government according to the PEFA guidelines.

The assessment was conducted between June 2018 and July 2019 and the period of analysis was 2015, 2016 and 2017. Parliamentary elections were held in May 2017 leading to a minority government and subsequent elections in May 2018, affecting the budget process and calendar. The 2018 budget was promulgated only in September 2018, and the 2019 budget in February 2019. The cut-off date for consideration of data and other information for the assessment was defined as December 2018, and the last completed fiscal year considered for the assessment is 2017.

1 Although their financial management systems are defined in their respective organic laws and regulations, there is no special financial regime for the autonomous agencies. For financial management purposes, the IF, HCDF and autonomous agencies are under the common regime and will have the same treatment as any other budgetary units for the PEFA assessment.

PFM performance assessment

Although reforms have gradually progressed since the last PEFA assessment, overall performance has stalled and even deteriorated in specific areas. This assessment shows that nine of the 31 indicators score C or C+, which is considered as a basic alignment with the standards of good PFM practice. Seven indicators are above the basic standard (with a score of B or A), while 15 indicators signal a weak performance (with D or D+). Out of the 94 dimensions, 55 dimensions are scored at C or above and 38 are scored D – while one is not scored (NA). A comprehensive, country-owned and country-led PFM reform action plan is under discussion to address impediments to improved PFM performance. A summary of current scores can be seen in Tables A and B below.

Impact on the Main Objectives of Public Finance

"Aggregate fiscal discipline" is supported by a solid capacity to prepare budget projections of macroeconomic and fiscal performance, but affected by the lack of credibility of the budget process. Revenue from the Petroleum Fund is efficiently collected. Accounting and reporting for revenue is supported by a robust integrated Treasury cash and expenditure management function, managed through a Treasury Single Account (TSA). However, original budget envelopes have been systematically circumvented using revised budgets and virements. High-level political decisions regarding public investment management through the Infrastructure Fund have led to significant increases in budget adjustments, followed by systemic under-execution of the budget. Some accounts are maintained outside the TSA and government reporting (e.g., Overseas Development Assistance, RAEOA-ZEESM). Medium-term planning framework and processes have yet to be established, and the budget adjustments, driven by weak planning and procurement mechanisms, affect the capacity to deliver plans at the sector level. Payroll and procurement functions, and related internal controls, are fully decentralized to the line ministries and municipalities and suffer from a fragmented control function and a clear lack of integration and consolidation of information systems. Control activities exist relating to cash management, and payments systems under the Treasury department are generally strong, in particular regarding segregation of duties and reconciliation of accounts, with the exception of manual and irregular bank reconciliation. Ex-post budget scrutiny is supported by a relatively effective oversight performance between the external audit function and Parliament. The role of the *Camara de Contas* (CdC) in the oversight of government spending is essential and even if there is no audit opinion, covers all central agencies and line ministries' budget execution, including RAEOA-ZEESM.

"Strategic allocation of resources" is supported by Parliamentary scrutiny over budget formulation and execution and is based on comprehensive reporting and public access to fiscal information. However, accountability has slightly deteriorated since the last assessment. Budget ceilings are defined and the *pakote fiscal* provides line ministries with the necessary information to set their priorities through their own budgeting processes. The programmatic mapping structure of the Annual Action Plans proposes a tentative framework for line ministries to advocate for funding outputs and outcomes for service delivery. However, the lack of a comprehensive medium-term budget planning framework and updated and operational strategic sector plans prevent the strategic prioritisation of sector spending. The budget allocation mechanism is annual and largely incremental. The situation is aggravated by the impact of budget adjustments often motivated by political decisions and not based on absorption capacity.

"Efficient service delivery" is hampered by the fragmentation in the management of public investments and lack of monitoring and oversight on the decentralized procurement and contract management systems. This leads to a lack of accountability in the use of available resources to achieve value for money and optimal levels of public services. As a result, the Public Investment Management (PIM) framework shows inadequacies in the entire cycle – project preparation, appraisal, execution, monitoring and evaluation. Weaknesses in payroll management and capacity constraints limit the effectiveness of public sector services. Insufficient qualifications and skills limit the capacity of government institutions. The lack of effective internal control and internal audit function in line ministries and across all government institutions permits further suboptimal use of resources. The role of CdC in the oversight of government spending is essential but poor follow-up on external audit recommendations weakens the overall budgeting process. Externally funded projects are monitored separately and there are no systems to track allocations received by service delivery units.

Comparison with last PEFA Assessment

This PEFA has also been evaluated using the previous 2011 framework in order to compare both sets of scores and measure progress since 2013. Performance changes between 2013 and 2018 on the 28 indicators reflect a mix of improvements (7 indicators), deterioration of performance (9 indicators), no performance change (9 indicators), while the remaining 3 indicators have been rated for the first time. This result supports the perception that PFM reform stalled in many areas over recent years as attention was diverted towards new areas with political exposure, such as the execution of the public investment portfolio or the municipal decentralization agenda, or affected by new priorities such as the budgetary governance reform and the creation of autonomous public agencies (APAs).

Improvements are noted in the specific areas where systems and procedures have been strengthened through new regulatory provisions. This is particularly evidenced in the areas of treasury controls over expenditures arrears, non-salary expenditures and internal audit with the establishment of the internal audit function in MoF.

Aggregate fiscal discipline deteriorated due to adjustments to the original budget and reduced control over spending during budget execution. The lack of credibility of the budget process and reliability of initial allocations result in significant adjustments made throughout execution. This also puts pressure on line ministries and other public entities to spend the additional resources without the necessary safeguards on the quality of spending decisions. The lack of timeliness of the budget preparation, with the late release of budget circulars and decision on ceilings, affected the orderliness and transparency of the budget process. Nevertheless, the absorption capacity improved as budget deviations were reduced despite an increase in budget levels. However, forecasts for non-oil revenue were still not realistic. Even if non-oil revenue has only a minor impact on overall government income, it signals the need for a more cost-effective and efficient revenue mobilization strategy in the future. The lack of an effective tax system undermines the credibility of revenue collection. On the positive side, the comprehensiveness of the budget is improving despite the increase of fiscal risks due to the growing number of APAs and a lack of systematic monitoring of the timeliness reporting of public corporations. Control of contractual commitments is still effective, although the information reporting and monitoring on arrears by MoF only started formally in 2016. Internal controls are being strengthened in the FreeBalance Government Resource Planning (GRP) system, and efforts are underway to systematically enforce them across decentralized and fragmented execution mechanisms

The multi-year perspective in the planning and budgeting processes did not improve due to the negative impact of investment budgets and the lack of direct linkage with MoF reporting and accounting systems. The budget documentation and public access to budget information remains high. The introduction of performance information in the budget promotes the transparency of expenditure policy, but the lack of adequately costed sector strategies reduces the relevance of the budget formulation process, while reporting on performance remains weak. More predictable and effective investment management would ensure that recurrent costs implications are factored in the budget in the longer term. The consolidation of treasury systems and reporting procedures at the level of line ministries and agencies has improved, but information on transfers to RAEOA remains inadequate. The fiscal impact of new policies beyond the upcoming budget year and the reporting on fiscal outcomes remain weak. As a result, the scrutiny of the external audit and Parliament over the budget allocation and execution remains limited.

The weaknesses identified in the procurement system and the lack of independence of the external audit function are significant constraints on the accountability mechanisms in place, and do not support efficient service delivery. Commitment and cash management systems are solid and effective. The strength of the process for consolidated annual financial statements enables effective oversight by the *Camara de Contas* (CdC) and Parliament, and it allows formal checks and balances mechanisms on the actual use of resources albeit with delay in case of elections. However, loopholes in the reporting systems (e.g., RAEOA) and delay in the last quarterly in-year budget execution reporting need to be addressed to maintain oversight of the budget execution. The lack of consistent and adequate performance information produced by the performance budgeting process fails to provide clear incentives to service delivery units. The reporting of information on development partners' support to service delivery sectors has improved, but it is not yet on-budget and fully integrated into Government systems.

PFM Reform Agenda

Timor-Leste has been undergoing a continual process of PFM reform since it became independent in 2002 and its approach to PFM reforms mirrors the remarkable commitment and good progress achieved in nation-building. Despite the post-conflict transition and numerous development challenges, PFM reform has generally progressed incrementally, supported by a sustained effort from Government and the donor community. The path of progress varied over the past 15 years as the approach to supporting PFM reform shifted from individual donor projects, such as the Ministry of Planning and Finance Capacity Building Project (MPFCBP), to a more coordinated and integrated multi-donor programme, such as the Planning and Financial Management Capacity Building Programme (PFMCBP), and more country-led and targeted assistance through the EU Budget support operation in PFM since 2013. PEFA assessments, among other diagnostics, such as World Bank Public Expenditure Reviews and OECD analysis, have served over the years to advise on the pace and priorities of PFM reform.

Between 2014 and 2017, the Ministry of Finance focused on three reform initiatives: fiscal reform, performance management reform, and program-based budgeting. The fiscal reform was approved in 2015 with the objective of diversifying revenue sources and supporting fiscal sustainability. It was focused on reforming the revenue and customs administration and their respective legal frameworks. The Government is aware of the need to strengthen human resources in these areas, and a special regime for customs and tax staff is waiting to be implemented, including merit-based recruiting and targeted competency trainings.

Performance management reform was initiated in 2015. The goal was to tackle the capacity gap among PFM professionals. In order to manage human resources in the PFM setting, a team comprising several units (e.g. PBPEO, HRU, PFMCBC, TACU and Legal unit) was established to regulate the reform. The PFM Capacity Building Center (PFMCBC) was established to execute the reform process, manage, organize and develop specialized, differentiated and targeted PFM training for all PFM professionals.

The program-based budgeting reform started in 2015 as an initiative of the Prime Minister's Office to focus the Government's strategic priorities on service delivery. In March 2017, a budgetary governance roadmap drawn up by OECD was approved through Government Resolution 17/2017. In 2018 and 2019, line ministries reported on their annual action plans (AAP) on a quarterly basis using the program-based structure. However, the link between budget and planning remains weak as the Chart of Accounts (CoA) and core financial reporting system is still operating on the economic classification. Moreover, the programmatic framework of the line ministries, structured around the program-based mapping exercise, does not rely on an adequately costed, comprehensive medium-term expenditure framework (MTEF).

The administrative decentralization and financial deconcentration process initiated in 2013 is still ongoing. This has been a Government priority since 2014 (DL 4/2014 on Pre-Deconcentration Structure provides the legal framework for administrative decentralization), but effectively financial de-concentration was initiated in 2015. The successive governments completed the deconcentration of most PFM functions to line ministries, APAs and municipalities between 2016 and 2018.

Despite a strong commitment to PFM reform, development partners' support has generally been fragmented with a low level of coordination inside and outside Government. There appears to be broad support among the main development partners for a more coordinated approach to PFM reform, and to support a unified reform program under the MoF's leadership. A refreshed and fully coordinated donor engagement on PFM reform would be timely and support the ambitions of the Government.

This PEFA exercise, conducted with the support and participation of a wide range of stakeholders, is a step taken by Government towards better coordination and alignment of existing and future PFM support initiatives. The PEFA assessment itself is not meant to include recommendations on the ongoing reforms, but it will contribute to a unified PFM reform action plan led by Government institutions.

Important gaps and challenges exist for the successful implementation of the upcoming PFM agenda. Important challenges lie ahead as the MoF designs and implements a prioritized reform programme in a capacity-constrained environment. Institution building is still high on the PFM reform agenda, including supporting the goal of fiscal consolidation and centralization of fiscal monitoring. Setting the right expectations for the upcoming reform programme will require closer coordination and collaboration with MoF stakeholders, line ministries, other key PFM oversight and audit institutions, and civil society.

Table A **Summary of indicator and dimension scores by pillar**

Pillar	Performance Indicators	Score									Total Ind.	Total Dim.
		N/A	A		B/B+		C/C+		D/D+			
		Dim.	Ind.	Dim.	Ind.	Dim.	Ind.	Dim.	Ind.	Dim.		
Budget reliability	**PI-1 to PI-3**	0	**0**	2	**1**	1	**1**	1	**1**	2	**3**	6
Transparency of Public Finance	**PI-4 to PI-9**	0	**1**	3	**1**	2	**2**	2	**2**	5	**6**	12
Management of Assets and Liabilities	**PI-10 to PI-13**	0	**0**	1	**1**	2	**1**	4	**2**	6	**4**	13
Policy-based fiscal strategy and budgeting	**PI-14 to PI-18**	1	**0**	1	**0**	3	**2**	2	**3**	10	**5**	17
Predictability and Control in budget execution	**PI-19 to PI-26**	0	**1**	9	**2**	6	**0**	2	**5**	11	**8**	28
Accounting, Recording and Reporting	**PI-27 to PI-29**	0	**0**	2	**0**	2	**2**	4	**1**	2	**3**	10
External Scrutiny and Audit	**PI-30 to PI-31**	0	**0**	0	**0**	3	**1**	3	**1**	2	**2**	8
Total		1	**2**	18	**5**	**19**	**9**	**18**	**15**	38	**31**	94

Note: The PEFA performance assessment, based on the 2016 PEFA methodology, provides scores for the 31 indicators and the 94 dimensions.

Table B Performance Status At-a-Glance

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	C				**C**
PI-2	Expenditure composition outturn	M1	D	D	A		**D+**
PI-3	Revenue outturn	M1	B	A			**B+**
Pillar II. Transparency of Public Finances							
PI-4	Budget classification	M1	C				**C**
PI-5	Budget documentation	M1	B				**B**
PI-6	Central government operations outside financial reports	M2	A	A	B		**A**
PI-7	Transfers to subnational governments	M2	A	D			**C+**
PI-8	Performance information for service delivery	M2	C	D	D	D	**D**
PI-9	Public access to fiscal information	M1	D				**D**
Pillar III. Management of Assets and Liabilities							
PI-10	Fiscal risk reporting	M2	C	D	D		**D+**
PI-11	Public investment management	M2	C	C	D	D*	**D+**
PI-12	Public asset management	M2	B	D	C		**C**
PI-13	Debt management	M2	B	A	D		**B**
Pillar IV. Policy-based Fiscal Strategy and Budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	B	C	D		**C**
PI-15	Fiscal strategy	M2	D	D	NA		**D**
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	D	**D**
PI-17	Budget preparation process	M2	D	D	D		**D**
PI-18	Legislative scrutiny of budgets	M2	B	A	C	B	**C+**
Pillar V. Predictability and Control in Budget Execution							
PI-19	Revenue administration	M2	A	B	A	D*	**D+**
PI-20	Accounting for revenue	M1	A	A	A		**A**
PI-21	Predictability of in-year resource allocation	M2	A	A	B	B	**B+**
PI-22	Expenditure arrears	M1	D*	D			**D**
PI-23	Payroll controls	M1	C	B	C	D	**D+**
PI-24	Procurement	M2	D	D*	D	D	**D**
PI-25	Internal controls on nonsalary expenditure	M2	B	B	A		**B+**
PI-26	Internal audit	M1	D	D	A	D*	**D**
Pillar VI. Accounting and Reporting							
PI-27	Financial data integrity	M2	D	C	B	A	**C+**
PI-28	In-year budget reports	M1	C	D	B		**D+**
PI-29	Annual financial reports	M1	C	C	A		**C+**
Pillar VII. External Scrutiny and Audit							
PI-30	External audit	M1	B	B	C	D	**D+**
PI-31	Legislative scrutiny of audit reports	M2	C	D	B	C	**C**

Note: An asterisk (*) marking on a D score indicates that the score defaulted to D because there was insufficient information to reach any determination.

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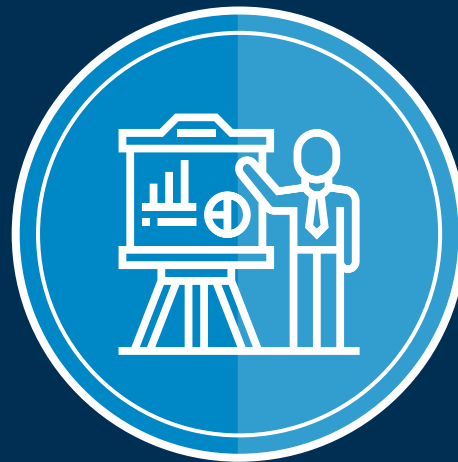


Introduction

1.1 Rationale and purpose

The strengthening of PFM systems has been fundamental to the successful institutional development of Timor-Leste and has been a constant priority in the Government's policy agenda. Efficient utilization of overall resources through sound public financial management (PFM), good governance and oversight have been part of the government's reform agenda and are a key focus of the government elected in 2018.

This PEFA assessment establishes a new baseline for measuring PFM performance by applying the 2016 PEFA Framework. It also aims to review progress of existing PFM and fiscal reform programs since the last PEFA assessment. There is a sense that existing reform programs, while well-intentioned, have been somewhat fragmented. A closely coordinated program supported by a strong evidence base, including this PEFA assessment, will support increased effectiveness of reform efforts and help build a coherent and comprehensive PFM reform action plan.

This is the fourth PEFA assessment in Timor-Leste and the first application of the 2016 PEFA Framework. The narrative also aims to highlight the key areas of ongoing or planned reforms, as well as support the post-PEFA dialogue regarding the priorities and sequencing of reform actions. It should be noted that the assessment identifies PFM performance gaps that may also be attributed to the difficult political context over the period under consideration.

Three previous PEFA assessments have been carried out in Timor-Leste. These included a 2007 assessment led by external reviewers, a 2010 IMF-led assessment using the 2005 PEFA framework, and the 2014 assessment conducted by external assessors (covering the period 2010-2012) using the 2011 PEFA methodology. The 2014 assessment reflected a picture of few strengths and major weaknesses in PFM systems. Key strengths pertained to the budget process, comprehensiveness of budget documentation, cash management, and annual financial reporting. Weaknesses, on the other hand, were identified across dimensions of budget credibility, procurement, internal audit, and fiscal reporting. Many indicators described reform efforts as "work in progress".

There has not been a comprehensive PFM diagnostic conducted since 2014, but the Council of Ministers approved a roadmap on budgetary governance in 2017. The OECD developed a PFM reform document together with representatives from the Government of Timor-Leste and other key stakeholders. The roadmap is currently under revision and it is expected that it will also support the reform dialogue for the design of future PFM assistance by development partners.

This assessment is an opportunity for the government to define a common diagnostic as a basis for dialogue with development partners on its future PFM reform and assistance needs. Since 2013, various development partners have actively supported PFM reforms through funding and technical assistance. The European Union (EU) launched a budget support operation to strengthen Public Finance Management and Oversight (PFMO) in 2016 and will continue supporting this process. Other donors like DFAT and ADB have also been providing specific assistance in the PFM area. The Millennium Challenge Corporation is currently in the design phase of the upcoming Compact program for Timor-Leste. The IMF provides technical assistance on fiscal reporting and in updating the Chart of Accounts. The World Bank is supporting the design and coordination of a PFM reform action plan based on the PEFA findings.

The final phase of the PEFA assessment is expected to inform a further consultation exercise to define an action plan for strengthening PFM systems. It will draw on other relevant diagnostics and seeks to identify critical issues for PFM reform to tackle that are reflected both by the diagnostics and in the experiences of public service officials. This exercise will apply an additional, country-specific 'lens' to the PEFA findings in order to prioritize those reforms that are most important to achieve in the context of Timor-Leste, that are feasible, and are appropriately sequenced.

1.2 Assessment management and quality assurance

The PEFA assessment was conducted by a team of consultants funded by the EU, MCC and World Bank, with technical coordination from the MoF assessment team and inputs from various government agencies. The Government set up the PEFA assessment governance structure as per recommended structure of the PEFA methodology. The Ministry of Finance (MoF) was the overall government lead of the activity. The oversight of the task was supported by an Oversight Committee, constituted of key technical leads of the government and a representative from the World Bank (Task Team Leader of the ASA). Organizations and officials involved in budget formulation, budget execution, procurement, internal audit, control and accounting and reporting were actively involved to ensure the correct data is used for the scoring of indicators (see Annex 3 B). Additionally, some line ministries have been involved to triangulate information and assess performance of decentralized systems applying a sampling approach (PI-8, PI-24, PI-26). The main extra-budgetary units and funds have been covered, as well as the municipalities and the Special Administrative Region of Oecusse-Ambeno (RAEOA) under the respective performance indicators.

The World Bank country team provided support to the assessment with technical guidance and quality assurance throughout the assessment process. While the consultants supported the government in all PEFA inputs and outputs, the World Bank team has been closely involved and responsible for the overall dialogue with government counterparts throughout the assessment process.

The formal PEFA quality assurance process (PEFA check) was applied and internal and external peer reviewers were involved in the review of the concept note and the final report. A validation workshop was carried out in April 2019 in Dili with technical and political counterparts of the Government's team. Comments were sought from external peer reviewers, including the Government, the PEFA Secretariat, and donor representatives (EU, MCC, World Bank, IMF and other development partners). The assessment management and quality assurance arrangements, with the names of all individuals who participated in the different stages of the assessment process, are presented in Box 1.

Box 1 Assessment Management and Quality Assurance Arrangements

PEFA assessment management organization

Oversight Team/Steering Committee – Chair and Members:
Sara Lobo Brites, Minister in Exercise/Vice-Minister of Finance (chair)
Helder Lopes, Senior Adviser to the Minister of Finance in exercise
Januario da Gama - Director General for State Finance
Rui Magno - Director General Treasury
Jose Abilio - Director General Customs
Monica Rangel - Director General Revenue
Jose Alexandre de Carvalho - Internal Audit Office
Joanico Pinto - Integrated Financial Management Information Unit
Lourenco Pinto – Planning, Monitoring and Evaluation Unit (under Prime Minister Office)
Pedro Martins – World Bank Task Team Leader

Assessment Manager(s):
Pedro Martins, World Bank Task Team Leader (since July 2018)
David Knight, World Bank Task Team Leader (until June 2018)
Alberto Piedade, Coordinator Planning Budget Performance Evaluation Office (since January 2019)
Antonio Goncalves, Coordinator Planning Budget Performance Evaluation Office (until December 2018)

Assessment Team Leader and Team Members:

Government Team:
Adelviberto Ramiro Da Costa Nunes, Ministry of Finance - PBPEO
Frederick Ferderick Nelson, Ministry of Finance - PBPEO
Manuel S.C. Marques Ministry of Finance - PBPEO
Claire Potdevin, Ministry of Finance - PBPEO
Epifanio Martins Ministry of Finance – Directorate-General State Finances (Economic Policy)
Francisco da Silva Ministry of Finance - Directorate-General State Finances (Budget)
Luisa Soares Ministry of Finance - Directorate-General Treasury
Aguido da Silva Ministry of Finance - Directorate-General Treasury
Nenik Maria Imaculada Ximenes Ministry of Finance - Directorate-General Treasury
Euliterio Pereito Guterres Ministry of Finance - Directorate-General Treasury
Abrao P. Soares Ministry of Finance – Internal Audit Office
Hermingardo Albano Soares – National Procurement Commission
Aidil Auxiliadora Amaral de Oliveira – Court of Account
Eduardo Leitão – Court of Account

International Experts:
Sylvie Zaitra, Lead PEFA consultant
Eric Vitale, Local PFM consultant
Nicolas Drossos, International PEFA consultant
Arcotia Hatsidimitris, Tax consultant
Luis Almeida, Legal PFM consultant
Ian Storkey, Debt consultant

The World Bank:
Alma Kanani, Practice Manager
Ahsan Ali, Procurement Lead
Manuela da Cruz, Procurement Specialist
Achmad Zacky Wasantara, Procurement Specialist

Box 1 Assessment Management and Quality Assurance Arrangements

Review of concept note and/or terms of reference
Date of reviewed draft concept note: June 2018
Date(s) of final concept note: June 2018
Invited reviewers and reviewers who provided comments:
Carlos Augusto Duarte de Burgo, PFM Senior Advisor, Ministry of Finance
Julia Dhimitri, PEFA Secretariat
Lorena Vinuela, Senior Public Sector Specialist, World Bank
Pierre Yves Lucas, Project Manager, European Union
Richard Neves, Public Finance Management Advisor, IMF (PFTAC)
Hanna Freymiller, Country Team Lead, Millennium Challenge Corporation

Review of the assessment report
Dates of circulation of draft report for review: 18 June 2019
Invited reviewers and Reviewers who provided comments:
Carlos Augusto Duarte de Burgo, PFM Senior Advisor, Ministry of Finance, comments received on 25 June 2019
Julia Dhimitri, PEFA Secretariat, comments received on 4 July 2019
Winston Cole and Tobias Haque, World Bank, comments received on 26 June 2019
Joanna Plizka-Ribeiro, European Union, comments received on 1 July 2019
Jason Wynnycky, Millennium Challenge Corporation, comments received on 26 June 2019
Richard Neves, IMF (PFTAC), comments received on 5 July 2019
David Freeman, Asian Development Bank, comments received on 28 June 2019
Simon Flores, DFAT, comments received on 25 June 2019

Review of the revised report (and follow up matrix of comments) sent by World Bank on 7 February 2020
Julia Dhimitri, PEFA Secretariat; last comments received on 6 March 2020
William Gallagher, World Bank; edited final report, 9 April 2020

1.3 Assessment methodology

This assessment is based on the 2016 PEFA framework. The PEFA 2016 framework was issued by the PEFA Secretariat in February 2016. This assessment uses all the 31 performance indicators and 94 dimensions of the new 2016 framework. The report was prepared in accordance with the PEFA handbook (Vol. I, II and III) and the guidelines available on its website.

The PEFA assessment focuses on the national level of Timor-Leste's PFM systems. The assessment seeks to cover the entire PFM architecture, the revenue side and the expenditure side, through the budget cycle – from planning to execution, control, reporting, and audit. The scope of this PEFA assessment covers central institutions (mainly line ministries), autonomous public agencies, municipalities, and extra-budgetary units - part of Central Government and integrated in the Consolidated Fund of Timor-Leste (CFTL). All sectors have been included in the assessment – except information on aspects of defense, public order, and safety functions that have been left outside the scope for reasons of national security – with a focus on service delivery sectors.

The 12 municipalities are considered as first-tier government given the current stage of the decentralization process. While this exercise only includes subnational analysis to the degree that it is covered in the Central Government PEFA assessment, the 12 municipalities established in 2016 and responsible for their own budgets in 2017, do not qualify as subnational governments according to the PEFA guidelines. They do not own assets or raise revenues and their budget is fully covered by the State Budget transfer. Their staff has the status of Central Government civil servants. Two municipalities (one authority and one administration) were visited in order to describe the systems at that level (see Annex 5).

The special autonomous region of Oecusse fulfils the requirements of a subnational government according to the PEFA guidelines.[2] The special nature of Oecusse region was originally recognized in the country's Constitution but it was only regulated in June 2014 under Law 3/2014 ("elevating the territory of Oecusse to a special region with administrative, financial and patrimonial autonomy, a legal personality and capacity to establish its own institutional bodies"). This regime created the Special Administrative Region of Oecusse (RAEOA) and established the Special Zone of Social Market Economy (ZEESM), which also includes the subdistrict of Atauro. The same Law also states that the Authority of the Special Administrative Region of Oecusse-Ambeno (ARAEOA) has powers to administer the Special Administrative Region. It is considered as local government funded by the general government budget with financial and administrative autonomy.

This report will identify the impact of the organic laws passed in 2017. Under the VII Constitutional Government, organic laws were passed but not necessarily acted upon with the corresponding organisational restructuring. This concerns some key PFM functions. For example, the Ministry of Planning and Finance (MoPF) was established in 2017, but the planning function is so far maintained with the Prime Minister's Office.

The assessment was conducted between June 2018 and April 2019 and the period of analysis at the start of the exercise was 2015, 2016 and 2017. Parliamentary elections were held in May 2017 leading to a minority government and subsequent elections in May 2018, affecting the budget process and calendar. The 2018 Budget was promulgated only in September 2018 and the 2019 Budget in February 2019. At the end of the assessment, the periods of analysis used in accordance with the methodological requirements defined for each indicator are defined below:

2 The PEFA definition requires: Specifically, state and local governments have authority over smaller geographical areas than do Central Governments; have the authority to own assets, incur liabilities, and spend some funds on their own initiative, and within their own area of responsibility; and may appoint their own officers, independent of external administrative control.

Table C Periods of analysis for the PEFA assessment

Period covered for the analysis	Fiscal years in reference
Last three year' financial report	2015-2016-2017
Last Budget submitted to the legislature (with cut-off date December 2018)	2018
Last annual financial report submitted for audit	2017
Last three completed fiscal years	2015-2016-2017
Last completed fiscal year	2017
At time of assessment	June 2018 to April 2019
Cut-off date	31 December 2018

The cut-off date to update the evidence and change the scores has been defined as 31 December 2018. When possible, information available up to the time of the final mission in April 2019, when the scores were presented to and validated by MoF officials and World Bank, has been updated.

A comparison between the 2013 and 2018 scores is included as part of Annex 1-b. The assessment team scores using the 2011 PEFA methodology (28 performance indicators) are used to track performance over time based on the same assessment framework. The main objective of this PEFA is to establish a new baseline for the PFM reform monitoring and dialogue with development partners using the latest PEFA methodology.

The list of persons consulted is provided in Annex 3A, while other the sources of information can be found in Annex 3B. Several documents were obtained from ministries and budgetary agencies. The list also includes studies and analysis produced by the World Bank and other development partners as inputs to the assessment. Other diagnostic assessments have been carried out in the period that have findings relevant to the areas of public expenditure and financial accountability. In 2014, the World Bank conducted a Health Resource Tracking Study, which found arrears constraining budgeted health expenditure at subnational level. In 2015, the World Bank published a Public Expenditure Review on Infrastructure. In 2016, the IMF and World Bank prepared a Public Infrastructure Management Assessment (PIMA), and in 2017, the World Bank prepared a Public Expenditure Analysis.

02

Country Background Information

2.1 Country economic situation

Timor-Leste is a small, lower-middle income, island nation and one of the newest countries in the world. With a population of 1.3 million people, Timor-Leste consists of the eastern half of the island of Timor, two additional small islands (Atauro and Jaco) and Oecusse, a small coastal exclave within the Indonesian half of the Timor island. Gross national income (GNI) per capita in 2017 was USD 1,748. Timor-Leste is a mountainous, tropical country measuring 14,874 square kilometres. One quarter of the country is classified as agricultural land and only 2.5 percent is urban land. There are 32 indigenous languages spoken, with only 30 percent speaking Tetum as a mother-tongue, while a further 55 percent speak it as a second language (Census 2015). Timor-Leste is the newest country in Asia and second newest in the world after South Sudan. Until 1975, Timor-Leste was a territory of Portugal. Just ten days after independence was declared in late 1975, Indonesia occupied the country. After a long resistance and guerilla war against Indonesian rule, the Timorese voted for independence in 1999 in a UN-supported referendum. Following a period of UN administration, the Democratic Republic of Timor-Leste formally regained its independence on 20 May 2002.

Today Timor-Leste is a free and sovereign nation and has made good progress in nation-building. From 2002 to 2006, the nation struggled to accelerate development progress, lacking much of the state apparatus, capacity and resources needed. The formation of the new country was accompanied by a near-total collapse of both the public and private sectors. About 70 percent of government buildings were destroyed immediately after the vote for independence, telecommunications and electricity networks were substantively damaged, and all equipment was either removed or destroyed at airports and ports. There were few Timorese with significant experience in government, and the number of professionals and the general level of formal education of the population was extremely low. Over the period following independence, sporadic outbreaks of violence continued, culminating in the 2006 civil unrest that led to the internal displacement of 150,000 people. Following the cessation of violence, a new UN peacekeeping mission was established until 2012. Since 2012, democratically elected governments have achieved great progress in maintaining peace and stability, and building democratic institutions.

Offshore petroleum production and public-sector growth from the resulting revenue have been the main development drivers to date. Between 2002 and 2018, Timor-Leste received USD 22 billion in revenues from the extraction of oil and gas.[3] Shortly after independence, Timor-Leste struck an agreement with Australia to exploit oil and gas reserves in the Timor Sea, which allocated 90 percent of the area's petroleum revenues to Timor-Leste. With little other economic activity spurring growth in Timor-Leste, the offshore oil and gas sector became by far its largest source of income, and at its peak made up over 90 percent of exports and 95 percent of government revenues. Petroleum production peaked in 2012 but has been declining since then. The government expects the last producing field to be depleted by 2023. From 2007, the government began utilizing larger amounts of petroleum revenues to scale up government spending, especially on public infrastructure. In the last 10 years, growth in the public administration and the construction sector has accounted for nearly three-quarters of GDP growth.

3 Scheiner: After the oil runs dry: Timor-Leste economics and government finances. May 2019.

Eradicating extreme poverty and developing new engines of growth and jobs are the most pressing and ongoing challenge. Despite progress in the last 10 years, more than 30 percent of the population live below the international extreme poverty line (USD1.90 in 2011 prices). In 2017, the Human Capital Index for Timor-Leste stood at 0.43, as compared to the regional average of 0.61. Employment is still dominated by subsistence agriculture, the source of livelihood for over 70 percent of the population outside of Dili. Except for oil and gas, other economic sectors have been slow to develop and spurring a long-term strategy for sustainable domestic economic development has been a long-standing priority of the government. The Strategic Development Plan 2011-2030 set out a vision and implementation strategies, including the frontloading of public infrastructure development to crowd-in private investment, and the development of a petrochemical industrial complex on the south coast.

Table D Selected economic indicators

	2014	2015	2016	2017	2018
GDP (USD million)	1,447	1,597	1,656	1,610	1,569
GDP per capita (USD)	1,233	1,335	1,358	1,295	1,237
Real GDP growth (%)	4.7	3.5	5.1	-3.8	-0.8
CPI (annual average change) (%)	0.9	0.6	-1.5	0.5	2.3
Credit to the private sector (% GDP)	12.2	12.1	11.0	14.1	14.1
Lending interest rate (%)	13.1	13.9	14.5	12.2	14.5
Real effective exchange rate (index)	129	141	137	135	137
Current account balance (% GDP)	75	13	-33	-18	-12
Financial account balance (% GDP)	-95	2	29	31	15

Source: MoF and World Bank

2.2 Fiscal and budgetary trends

Fiscal performance

With weak human and institutional capacity and large infrastructure gaps, the main challenge facing Timor-Leste is to effectively manage its petroleum wealth. Timor-Leste has been able to secure a good share of the proceeds from petroleum production in a well-managed sovereign wealth fund. Timor-Leste implemented a robust framework for the petroleum revenue management with the 2005 Petroleum Fund Law designed to establish the Petroleum Fund as a perpetual fund, providing the government with continual budget financing of 3 percent of total petroleum wealth each year, termed Estimated Sustainable Income (ESI). It became one of the first countries in the world to be compliant with the Extractive Industries Transparency Initiative (EITI) and has produced annual national EITI reports since 2008. In 2007, the decision was taken to scale up spending beyond what the ESI could finance to speed the pace of development. The present challenge lies in the capacity to reduce public-sector dependence, diversify the economy, generate jobs for a young and fast-growing population, and raise living standards.[4]

4 IMF, Art.IV, March 2019

The last five years have seen the value of Petroleum Fund assets plateau, as receipts decline while withdrawals remain elevated. From 2006 to 2012, Timor-Leste's state spending increased five-fold, the second fastest rate of increase in the world. Between 2013 and 2017, the government continued the policy of "frontloading", that is to say, accelerate spending in the short-term to support investment and longer-term growth potential. Capital expenditure, which includes development projects, averaged 42 percent of GDP over the four years, while current expenditure rose from 52 percent in 2013 to over 60 percent of GDP by 2016. Utilization of loan financing, all of which concessional, began in 2013 and has remained at relatively low levels. Timor-Leste has no external financing apart from the loans contracted with the World Bank, the Asian Development Bank (ADB), and the Japan International Cooperation Agency (JICA) on infrastructure projects.

The latest year of the assessment saw a new government take office at mid-year, and some fiscal consolidation. Presidential and Parliamentary elections were held in May 2017, and a change of government took place in the second half of the year. Expenditures were lower under the new government, partly because they were unable to pass a proposed rectification budget for 2017. As a result, total expenditure fell back to 80 percent of GDP, with both capital and current expenditure declining over the year. While this is the lowest level of expenditure for the last five years, there was still a large fiscal deficit.

The State Budget is funded through domestic revenues, the Petroleum Fund (PF), and loans from international finance institutions. Loans represent a small proportion of the overall expected resources. Domestic revenue represents on average 13 percent of all sources of revenue, while the Petroleum Fund provides the other 87 percent of the State Budget.

Table E Aggregate fiscal data (percentage of GDP, USD million)

	2015		2016		2017	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Total Expenditure (incl. loans)	**1,570.0**	**1,342.4**	**1,562.2**	**1,632.2**	**1,386.8**	**1,190.2**
Total Revenue	**808.9**	**821.7**	**716.2**	**743.7**	**687.8**	**669.0**
Domestic Revenue	170.4	183.2	171.4	198.9	206.2	187.4
Estimated Sustainable Income	638.5	638.5	544.8	544.8	481.6	481.6
Fiscal Balance	**761.1**	**520.8**	**846.0**	**888.5**	**699.0**	**521.2**
Financing	**761.1**	**528.2**	**846.0**	**885.7**	**698.9**	**523.5**
Excess Withdrawals from the PF	689.0	640	739.0	700	597.1	597.1
Use of Cash Balance	2.1	-136	0.0	155.1	0.0	-103.7
Borrowing/Loans (disbursements)	70.0	24.2	107.0	30.6	101.8	30.1

Source: World Bank

Total revenues have tightened as the Estimated Sustainable Income declines and domestic revenues remain stagnant. Domestic revenues, which primarily consist of indirect and final withholding taxes, have remained at a low level. Development grants (which are off-budget) have declined from USD 260 million in 2013 to USD 177 million in 2017. The major change has been in the ESI. Since 2013, oil and gas prices have dropped considerably while from 2013 onward the government has withdrawn more than the sustainable level of funds from the Petroleum Fund. Both factors have led to the ESI being revised down every year and in 2017 it stood at just 28.5 percent of GDP, compared to 51.6 percent in 2013. In nominal terms, the ESI has fallen from USD 730 million in 2013 to USD 482 million in 2017. With petroleum taxes in 2017 only constituting a tenth of their value in 2013, PF receipts are now overwhelmingly derived from investment returns. Investment returns vary from year to year but have averaged just over 4 percent since the inception of the PF. The table below presents aggregate fiscal data as a percentage of GDP.

Table F Aggregate fiscal data (percentage of GDP)

	2014	2015	2016	2017	2018
Total Revenue	55	51	44	42	46
Domestic revenue	12	11	12	12	11
Estimated Sustainable Income	44	40	32	30	35
Total expenditure	93	84	97	75	73
Recurrent expenditure	63	64	61	58	52
Capital expenditure	29	19	36	17	21
Fiscal balance	-37	-33	-53	-33	-27
Financing	37	33	53	33	27
Cash balances	29	-9	9	-7	-2
Excess withdrawals from the PF	7	40	42	37	27
Loans	1	2	2	2	2
Memorandum items					
Oil production (million BOE)	45	48	49	41	38
Petroleum Fund, closing balance (USD million)	16,539	16,218	15,844	16,799	15,804

Source: World Bank

Allocation of resources

The table below shows the distribution of actual expenditure by function based on the available sectoral budget classification. The breakdown of expenditures by function shows that approximately 30 percent of the spending occurs in the social sectors (social solidarity, education and health).

Table G Actual budgetary allocations by sector (percentage of total original budget)

	2014	2015	2016	2017	2018	2019
Social solidarity	9.8	13.2	10.9	12.7	12.7	11.5
Education	8.2	7.6	7.7	8.7	8.0	8.3
Health	4.6	4.4	3.8	5.1	5.4	4.8
Agriculture	1.9	1.8	1.5	1.6	0.9	1.4
Tourism	0.4	0.6	0.4	0.5		
Justice	2.3	2.4	2.0	2.4	1.9	2.6
Police and Defence	4.7	4.8	4.7	5.3	4.9	6.2

Source: PEFA assessment team based on Ministry of Finance reports 2019

The table below shows the distribution of government spending in terms of economic classification. Capital expenditures represent a steady expenditure trend at around 30 percent, together with public transfers (including social transfers and the new Special Administrative Region of Oecusse-Ambeno). Salary and wages show an increasing trend while spending on goods and services are declining as a share of the total.

Table H Actual budgetary allocations by economic classification (percentage of total budget)

	2013	2014	2015	2016	2017	2018
Current expenditure	**67.5**	**68.3**	**78.5**	**64.3**	**79.9**	**70.3**
Salary & Wages	13.1	12.1	12.9	10.8	16.8	16.6
Goods and services	35.3	33.3	32.3	23.5	28.0	25.6
Transfers	18.1	21.8	32.5	29.0	34.4	26.6
Contingency - Salary & Wages	0.0	0.0	0.2	0.3	0.1	0.4
Contingency - Goods & Services	0.8	1.1	0.2	0.2	0.3	0.7
Contingency - Transfers	0.2	0.0	0.3	0.4	0.4	0.4
Capital expenditure	**32.5**	**31.7**	**21.5**	**35.7**	**20.1**	**29.7**
Minor Capital	3.7	3.8	2.6	1.3	1.1	0.2
Capital Development	28.8	27.7	18.9	34.4	18.7	29.0
Contingency - Minor Capital	0.0	0.2	0.0	0.0	0.0	0.5
Contingency - Capital Development	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure by economic classification	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Ministry of Finance, Budget Books 2018

The tables below show the structure of the public sector in Timor-Leste. The annual financial statements include Central Government entities funded under the Consolidated Fund of Timor-Leste, autonomous public agencies, municipalities and one special fund – the Human Capital Development Fund (HCDF).

Table I Structure of the public sector (number of entities)

	Public Sector				
	Government Subsector		Social Security Funds	Public Corporation Subsector	
	Budgetary Unit	Extra-budgetary Unit		Nonfinancial Public Corporations	Financial Public Corporations
Central	62[5]	2[6]	1	3[7]	2[8]
1st tier subnational	12 municipalities	0	0	0	0
Lower level of subnational	0	0	0	0	0

5 Includes 62 public institutions and the "whole of government" budget. Public institutions are distributed between 35 Autonomous Public Agencies, 1 Fund (HCDF) and 26 central institutions (mainly line ministries).

6 The Petroleum and Geology Institute (IPG) and the National Petroleum and Minerals Authority (ANPM).

7 TIMOR GAP, the Administration of Airports and Air Navigation of Timor-Leste (ANATL), and Radio Television of Timor-Leste (RTTL).

8 The Central Bank of Timor-Leste (BCTL), and the National Commercial Bank of Timor-Leste (BNCTL).

Table J Financial structure of the public sector – 2018 budget estimates (USD thousand)

	Central Government			
	Budgetary operations	Extra-budgetary operations	Social security funds	Total aggregated
Revenue	850.3	9.2	41.1	900.6
Expenditure	1,277.4	9.3	41.1	1,327.8
Transfers to (-) and from (+) other units of general government	Unavailable	Unavailable	Unavailable	

Sources: Camara de Contas and annual reports (IPG and ANPM)

Table K Financial structure of the public sector – 2018 actual expenditure (USD thousand)

	Central Government			
	Budgetary operations	Extra-budgetary operations	Social security funds	Total aggregated
Revenue	1,034.1	9.6	n/a	1,043.7
Expenditure	1,157.6	8.8	n/a	1,166.4
Transfers to (-) and from (+) other units of general gov't	Unavailable	Unavailable	Unavailable	

Sources: Camara de Contas and annual reports (IPG and ANPM)

Autonomous public agencies are categorized as revenue collecting and non-revenue-generating entities. Revenue collecting agencies cover 23 public entities: Port Authority of Timor-Leste (APORTIL), Equipment Management Institute (IGE) , Autonomous Service of Medicines and Medical Equipment (SAMES), National University of Timor-Leste (UNTL), Guido Valadares National Hospital (HNGV), Timorese Resistance Archive and Museum, Forensic Police, Institute for Business Development Support (IADE) , National Logistics Center (CLN), Specialized Investment Agency (AEI), National Defense Institute, National Communications Authority (ANC), SERVE, Press Council (CI), National Rehabilitation Center (CNR), Institute of Health Sciences (INS), National Laboratory, Bamboo Institute, National Agency for Academic Evaluation and Accreditation (ANAAA), SENAI, Food Inspection and Economic Activity Inspection Authority (AIFAESA), National Center for Employment and Vocational Training – Tibar, and the Infrastructure Fund.

Twelve public entities are supported exclusively through the budget: Parliament, the Presidency of the Republic, National Elections Commission (CNE), all judicial Courts, Attorney General's Office (PGR), National Information Service (SNI), Civil Service Commission (CFP), Anti-Corruption Commission (CAC), General Inspection of the State (GGE), Council for the Definitive Delimitation of Maritime Borders (GFM), National Institute of Public Administration (INAP), National Institute for the Development of Manpower.

All autonomous public agencies use the Government's FMIS-GRP system, and their operations (including revenues) are recorded in keeping with Central Government's and included in the annual financial statements. Their allocations are registered at the fund level in the Financial Management Information System (FMIS), which enables separate monitoring of their financial operations and consolidation with Central Government operations. The annual financial report provides detailed information for each APA including original budget, rectification, virements, actual expenditures and obligations at the appropriation category level. In 2017, all autonomous agencies and municipalities – including municipal administrations and municipal authorities – were allocated an original budget of USD 469.5 million (including loans) and benefited from an additional USD 1.99 million from the contingency fund (largely to the benefit of SAMES). Budget execution resulted in overall spending of USD 350.2 million, which represents an aggregate outturn of 74 percent. The Infrastructure Fund (including loans) represents 45 percent of the variance between budgeted allocation and spending.

National public companies are classified as financial and nonfinancial corporations (covered under PI-10) as follows:

- **Timor Gás & Petróleo (TIMOR GAP)** was established by Decree-Law 31/2011. The law requests an annual report to be submitted to the Council of Ministers and published within six months of the end of each fiscal year.
- **Administration of Airports and Air Navigation of Timor-Leste (ANATL)** was established as a public company through Decree Law 8/2005 for the management and administration of national airports under the guardianship of the Ministry of Public Works and the Ministry of Finance. However, it has limited administrative autonomy and cannot consolidate revenue (transferred back to the CFTL at the end of the financial year). Until 2016, it was nevertheless considered as an autonomous public agency under the CFTL.
- **Radio Television of Timor-Leste (RTTL)** was established has a public enterprise through Decree Law 42/2008 but only started to independently control its own revenues in 2016. The RTTL is under tutelage of the Secretariat of State for Social Communication. It renewed a 10-year concession with the Government on March 2012. RTTL's revenue still benefits from an annual public transfer from the state and its staff is partly composed of civil servants.
- **Central Bank of Timor-Leste (BCTL)** is classified as a monetary financial institution under GFS terms.
- **National Commercial Bank of Timor-Leste (BNCTL)** was the result of the reconversion of the microfinance institute into a public company through Decree Law 3/2011. BNCTL should submit to the Parliament and the Ministry of Finance a summary of its quarterly balance sheet within 30 days of the end of each quarter, an accurate summary of its balance sheet within four months of the end of each financial year, as well as the opinion of the audit concerning the previous exercise within 4 months of the end of the financial year. The reports are also published on the BNCTL's website. In 2018, due to changes in the IT system, the production and audit of the financial report was delayed.

For the social security funds, the National Institute of Social Security (INSS) was not yet operational in 2017 and its budget was executed by the National Directorate of Social Security contributory regime. In 2016, the Parliament approved Law no. 12/2016, which created the Social Security Contributory Regime, a public, single, obligatory and self-financed regime, but capitalized at inception by the Government. To manage the fund and implement the social security system, the Government established the National Institute of Social Security (INSS), through Decree No. 47/2016 of 14 December, as an autonomous agency. The 2017 budget law approved the social security budget, which integrates the budget of the contributory regime and the budget of the security administration.

2.3 Legal and regulatory arrangements for PFM

The Constitution of Timor-Leste provides the guiding principle for PFM systems as well as the overall institutional PFM framework. It details Government's responsibilities, Parliament's role, and the High Administrative, Tax and Audit Court's role.[9] Part III of the Constitution details the exclusive competencies of the Parliament (e.g., areas of legislation that require the Parliament's approval, such as the country's tax policy and the State Budget); the Government's exclusive competences (e.g., preparing and executing the State Budget and approving regulations on the economic sector); and the High Administrative, Tax and Audit Court's powers to evaluate the annual financial statements and assess the legality of public expenditures. Specific primary and secondary legislation specify powers of different public entities. For instance, each line ministry is defined by an organic law describing its organic structure and roles and responsibilities assigned to its departments.

The Timorese legal system is a combination of legal and administrative tradition from the civil and common law legal systems. The PFM legal framework derives from the Portuguese legal system as well as the Resolutions and Directives put in place by the United Nations Transitional Administration in East Timor (UNTAET).

The PFM Law 13/2009[10] is the main legislation governing the overall PFM system in Timor-Leste. The law establishes main budgetary principles regarding the framework for public debt, the formulation and execution of the General State Budget (which is an annex to the General State Budget Law), a section on amendments to the State Budget, a section on oversight and reporting mechanisms to the Parliament and to the High Administrative, Tax and Audit Court, and a final section concerning autonomous agencies. It also specifically stipulates that transfers within budget allocations may take place as long as they occur at the Directorate level of the Ministry (and do not exceed 20 percent of their budget allocation).

The PFM Law provides the basis and principles for all other PFM legislation. Each year the Parliament approves the budget law, which is further regulated by the Government's budget execution decree that serves as a guideline for government agencies to execute their budget allocations. In 2015, the Government established the Planning, Monitoring and Evaluation Unit (UPMA), which is responsible for coordinating and supervising the planning, monitoring and evaluation process of the policies and programs of all Government agencies receiving allocations from the annual State Budget. Revenue management is governed by the Tax and Duties Act (Law 8/2008), the Customs Code (Decree Law 14/2017) and the Petroleum Fund Law (Law 9/2005 as amended by Law 12/2011) that governs the management of petroleum resources. Expenditure management is covered by several legislations established on public procurement, a general framework on Public Private Partnerships (PPP) and a specific legal diploma on public contracts and public debt. In 2016, a new legislation was adopted to implement a social security regime as of 2017.

9 This court is yet to be implemented. In 2011, the Chamber of Accounts (Câmara de Contas) came into force (Law 9/2011) as an interim supreme audit institution until the full High Administrative, Tax and Audit Court foreseen by the Constitution is put in place.

10 As amended by Law 3/2013 and Law 4/2013.

The budget execution decree prepared by the Government is approved by the Parliament and promulgated every year by the President. As per the PFM act, the law structure and content can be summarized as:

a. Annual limit for the transfer from the Petroleum Fund;

b. Annual limit for public debt;

c. Description of the different budget allocations that are deemed to be included in the "whole of government" (although this budget allocation does not derive from the PFM law);

d. General budget execution rules;

e. Annexes with budget allocations and estimates of revenue for both the direct and indirect administration (including for special funds).

Internal control arrangements are described in the PFM Law and the annual execution decree of the budget. They are further translated in the description of the roles and responsibilities prescribed in the organic laws approved for each ministry and public entity. The GRP FreeBalance system and the Treasury manual provide the specific set of guidelines and instructions to implement the internal control procedures relating to the budget cycle.

At the end of the 2017 financial year, the VII Constitutional Government was not able to obtain parliamentary approval for its 2018 budget proposal and was forced to apply the duodecimal budget regime foreseen in the PFM law. The PFM Law establishes a general framework that allows the Government to make use of the previous fiscal year's budget through a duodecimal mechanism whereby in each month the government may spend one-twelfth of the previous year's fiscal budget. The regime was maintained until the adoption of the 2018 State Budget in September 2018.

The Tax and Duties Act, as well as the Customs Code, are the main source of legislation on revenue. They cover most direct and indirect taxes in the country, including a section that covers petroleum operations. It includes specific sections on compliance procedures for taxpayers and addresses some aspects of international taxation. A new Customs Code was approved in 2017. With the objective of attracting foreign direct investment, legislation has also been put in place that grants tax incentives to private investors that fulfil certain criteria.

The Petroleum Fund Law (Law 9/2005 as amended by 12/2011) regulates the Petroleum Fund, and focuses on technical and management aspects. It also establishes the conditions for the Government to be able to withdraw funds to finance the annual State Budget, based on the ESI and specific conditions under which the ESI can be exceeded. Finally, the PF Law also establishes the reporting mechanisms between the Central Bank, Government and Parliament.

The Decree Law 10/2005 on Procurement, as amended[11], provides the framework for the procurement regime in the country. It establishes the principles of public procurement (e.g., transparency, good-faith) and defines the responsibilities of the entities that are empowered to authorize the procurement process. It also includes regulations on suppliers (e.g., situations that may lead to their exclusion from the procurement

11 The Decree-Law on Procurement suffered significant changes throughout the years as a result of five different amendments in 2006, 2008, 2010 and twice in 2011.

process), public procurement entities (e.g., conflict of interest); types of procurement procedures (e.g., public tender, pre-qualification, restrict tenders, etc.), tender guarantees, the bid evaluation process, and appeal procedures. It is also complemented by execution rules in the budget execution decree and in the Budget Law that establish restrictions on the use of single source selection (e.g., limiting single source selection to 10 percent of the entity's budget).

The Decree Law 12/2005 on public contracts contains specific principles on competency to sign public contracts. Such competency includes provisions for delegation of authority, the relevant formalities on each type of contract (e.g., language, entry into force), specific provisions on guarantees (e.g., execution, quality); and provisions on termination of contract.

The PPP regime was established in 2012 through Law 42/2012, as amended by Decree-Law 2/2014, establishing the general framework of the PPP regime. It contains the definition of a public-private partnership (PPP),[12] the competencies of the Council of Ministers and the MoF, the types of financial contributions (e.g., user fees, financial contribution from the Government), the approval stage of PPP projects, and reference to the need for additional legislation to regulate PPPs.

Law 13/2011 on Public Debt Regime establishes the legal framework on public debt. It is to be read in accordance with the provisions in both the PFM act as well as the yearly approved budget law (which establishes the yearly public debt limit). The law establishes the general principles of public debt management, the role of the MoF as the main negotiator (after authorization from the Council of Ministers), the requirement for the annual State Budget law to establish the maximum amount of public debt and the debt maturity, and reporting mechanisms from the Government to the Parliament.

2.4 Institutional arrangements for PFM

Timor-Leste is a unitary state. The Government (through the Council of Ministers, the MoF and the Unit for Planning, Monitoring and Evaluation), the Parliament and the Chamber of Accounts are the main entities responsible for PFM policy. Other public entities such as the Infrastructure Fund and the National Procurement Commission have a specific technical role. Government regulations have been put in place to establish a specific budgetary regime for autonomous agencies.

The Government's PFM powers are established by the Constitution. It grants the responsibility to define and execute the country's public policy (including preparing and approving legislation that does not fall under the Parliament's purview) and in the preparation and execution of the State's annual budget. These powers are further detailed in the Government's organic structure approved each time a new Government is nominated. In this context, Decree-Law no. 35/2017 broadly defines the structure, mandate and operational functions of the VII Constitutional Government and further developed under each ministry's own organic law.

12 An agreement between a private entity and the Government to design and/or construct and/or operate and/or maintain a given infrastructure in which the financing and responsibility for the said investment lie either fully or partially on the private entity (Article 2, section 1 a).

The Council of Ministers approves all PFM legislation prior to being published or sent for approval by the Parliament and/or the President. While each ministry has specific competencies, they will ultimately report to the Council of Ministers prior to approving any external legislation. For the purpose of PFM this is especially relevant during the budget process in which the Council of Ministers approves the fiscal ceilings, the draft proposal for the annual State Budget law to be submitted to the Parliament, and the rules for executing the State Budget.

The MoF is the central fiscal authority of the Government. The organic structure in the aforementioned Decree Law establishes the MoF's mandate and operational functions with respect to PFM policies of the Government, and states its powers to propose and draft regulations on the Government's macroeconomic, fiscal, budgetary and treasury policies, and the power to negotiate and manage external loans, manage the PF, and negotiate and manage PPP contracts.

UPMA was established in 2015 under the VI Constitutional Government to implement annual monitoring of the budget and finances under the direct supervision of the Prime Minister's Office (Decree-Law 22/2015). For the budgeting process, UPMA is responsible (in coordination with the MoF) for the coordination, organization and supervision of the planning, monitoring and evaluation processes of the policies and programs of the entire Government and the General State Budget. This requires the unit to work together with all Government agencies to guarantee that budget execution is aligned to Government's policy objectives.

The Parliament scrutinizes the Government's policies and oversees the State Budget execution. The Parliament has the exclusive power to approve legislation prepared by the Government in areas such the tax policy and the annual State Budget. Parliament's internal regulation (approved by Law 15/2009 as amended by Law 1/2016) has six permanent special committees. One of them, Commission C, is responsible for subjects related to the economy, finances and anti-corruption; and reviews and provides technical feedback to the budget proposal. The Government has a legal obligation to present to the Parliament quarterly reports on the budget execution (including revenue and expenditure) as well as an obligation to present audited financial statements after the closing of the fiscal year.

In 2011, the Chamber of Accounts (*Câmara de Contas,* CdC) was established (Law 9/2011) as an interim supreme audit institution until the full High Administrative, Tax and Audit Court foreseen by the Constitution and the PFM Law is established. Notwithstanding its interim nature, the CdC's main roles legally remain the same as the ones that will apply to the High Administrative, Tax and Audit Court. As such, the CdC has the power to scrutinize the execution of the State Budget and the annual financial statements (in coordination with the Parliament). The CdC is currently operating within the Court of Appeals (*Tribunal de Recurso*), and its President is also the President from the Court of Appeals.

2.5 Other important features of PFM and its operating environment

The PFM Law provides for a high level of centralization in the PFM system. The PFM system is predicated on the Treasury Single Account (TSA) and a defined FMIS architecture utilizing the FreeBalance suite of PFM software solutions. The line ministries and municipalities have direct access to the FreeBalance commitment and payment modules, but the ultimate control lies with the Treasury. This covers both the central and the deconcentrated municipal level, except for the Special Administrative Region of Oecusse-Ambeno (RAEOA). External control is exercised by the CdC responsible for assisting Commission C on public finances in the process of examining the annual financial statements and scrutinizing the execution of the budget.

Recent changes or reforms

The number of reforms undertaken in areas relevant to the PEFA assessment since 2014 reflect the Government's commitment to continue to develop and improve PFM systems and policy. Important reforms to highlight since the last PEFA assessment include:

- Further development and roll-out of an integrated financial management information system (IFMIS) to line ministries and municipalities;
- Mapping of government programs and adoption of the budgetary governance roadmap in 2017;
- Redevelopment of the Chart of Accounts to support improved program monitoring;
- Establishment of teams to oversee debt management within the Ministry of Finance;
- Creation of a new Ministry of Planning and Strategic Investment to oversee the Government's public investment program;
- Establishment of UPMA in the Prime Minister's Office;
- Establishment of the Customs and Revenue authorities;
- Commencement of external audit;
- Creation of an internal audit function in the Ministry of Finance; and
- Establishment of the PFM Capacity Building Center in the Ministry of Finance.

More detailed references are integrated in the following sections of the report.

Administrative and Fiscal decentralization

Law 3/2014 creates both the Special Administrative Region of Oecusse-Ambeno (RAEOA) and the Special Economic Zones for Social Market Economy (ZEESM). The special nature of the Oecusse region was originally recognized in the Constitution (Article 71) and established the need for the region to have a different administrative and economic regime. More detailed information is provided under PI-7.

The decentralization agenda was launched in 2016, with the objective to initiate administrative deconcentration towards phased decentralization. Decree-Law 3/2016 established eight municipal administrations and four municipal authorities ("municipalities"). It specifically excludes from its scope the RAEOA. Powers are granted to the municipalities in education, health, food safety, public works and transportation, water and sanitation, agriculture, tourism, social action, civil protection, management of natural disaster, civil and cadastral registration, and support to NGOs and local communities. Provisions are made for the transfer of further powers to the municipalities via inter-organic contracts between sector ministries with powers in each area and the Ministry of State Administration. These contracts operate as a delegation of power and effected in 2016 a transfer of funds to the municipalities from the ministries.

Since 2017 the municipalities have their own budget allocation in the State Budget and manage the allocation themselves. The format of the municipalities' budget is aligned with the general rules of the State Budget, even if the municipal budget process involves the support and review by the Ministry of State Administration. The municipalities are entitled to their respective budget allocation and the transfers that result from the inter-organic contracts. There is no reference within the Decree Law to the possibility of the municipalities charging fees and collecting taxes. Municipalities receive their annual budget allocation in tranches paid on a quarterly basis. While the first transfer should take place automatically (within 10 days of the entry into force of the yearly budget), the remaining transfers are dependent on a budget execution report submitted to the Ministry of State Administration. In the absence of these reports, the Ministry of Finance may suspend the transfer of the municipality's budget allocation. Municipalities' spending authorization, applicable on procurement, is limited to contracts up to a USD 150,000 threshold, and those contracts not included in the project portfolio of the Integrated Municipal Development Plan (PDIM). Above the threshold, approval by the Ministry of State Administration is required. The decree specifically stipulates the obligation for municipalities to use the existing MoF financial management information system.

The Petroleum Fund

Withdrawals from the Petroleum Fund are categorized as ESI and excess withdrawals. ESI is a non-binding benchmark indicating the sustainable level of withdrawal from the PF that does not reduce the real value of the total petroleum wealth in the long-term. When the Government and Parliament reach agreement, amounts above the ESI can be transferred from the PF. The ESI is calculated as 3 percent of the total petroleum wealth, which comprises the PF balance and the net present value of expected future revenues from oil and gas.

03

Assessment of PFM Performance

Pillar One: Budget Reliability

PI-1 Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. The assessment is based on the budget and actual expenditure for the fiscal years 2015-2017. Coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief Explanation
PI-1 Aggregate expenditure outturn	C	The aggregate expenditure outturn exceeded 85% for the three years under review but remained below 90% for two of the three years.

Budget outturn was 85.6% in 2015, 104.5% in 2016, and 85.8% in 2017, as per the table below:

Table 1.0 Actual and budgeted expenditure (USD million)

	2015		2016		2017	
	Original budget	Actual	Original budget	Actual	Original budget	Actual
Total	1,567.90	1,342.43	1,562.23	1,632.19	1,386.83	1,190.20
Actual Budget (%)		85.6		104.5		85.8

Source: FMIS-GRP

Political change and leadership uncertainty led to limited spending decisions and under-execution of the budget in 2015 and 2017. In early 2015, the Prime Minister of the V Constitutional Government stepped down to form a national coalition with the former opposition, welcoming a new generation of leaders. Parliamentary elections were then held in 2017, but the Prime Minister appointed by the President was not able to secure a parliamentary majority. The VII Constitutional Government's program was rejected by the Parliament. The relatively long transitional period translated into a high turn-over at the managerial level.

In mid-2016, the Government requested a 25 percent increase of its original budget allocation, the largest budget rectification since 2008. The VI Constitutional Government initially committed to a prudent level of spending, but subsequently requested a large budget rectification – increasing the budget to USD 1,953 million. The main objective was to frontload large investments in anticipation of the election year (2017), to ensure that large infrastructure projects would not be slowed down.

Despite a formal and rigorous budget formulation process, the Government often adjusts its original budget through in-year budget revisions. Budget adjustments are done through budget rectifications and virements. As a result, the Ministry of Finance compares actual spending against the revised budget allocations. In 2016, the aggregate expenditure outturn against the revised budget is 83.6 percent, reflecting the challenges to absorb a significant increase in the capital development appropriation.

The aggregate expenditure outturn exceeded 85 percent for the three years under review but remained below 90% for two of the three years, the score for this indicator is therefore a C.

PI-2 Expenditure composition outturn

This indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. The assessment is based on the budget and actual expenditure for the fiscal years 2015-2017. Coverage is Budgetary Central Government.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-2 Expenditure composition outturn	**D+**	
2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by administrative classification exceeded 15% for two of the last three years (2015 and 2016). The Infrastructure Fund and the "whole of government" appropriation contributed largely to the overall deviation (more than 60% in 2016 and 2017).
2.2 Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification exceeded 15% in two of the last three years (2015 and 2016), with main variances registered under capital development (48.5% on average) and public transfers (27.8% on average).
2.3 Expenditure from contingency reserves	A	A 'contingency fund' has been established in 2011 for unforeseeable and unpostponable expenses. Actual expenditure charged to the contingency expenditure was on average 0.8% of the original budget in the 2015-2017 period.

2.1 - Expenditure composition outturn by function

From 2015 to mid-2017, the VI Constitutional Government introduced changes in the organizational structure of government. The main organizational changes concern the increased number of autonomous public agencies from 2016 onwards, the administrative and financial decentralization process, and the establishment of municipal budgets in 2017. As a result, central ministries transferred part of their budget allocation to municipal budgets, including for services previously budgeted under the Ministry of State Administration. The variance is presented in the table below, which excludes contingency items and debt service. Details of the calculations are presented in Annex 4.

Table 2.1 Calculation of variance by administrative/sectoral classification

Year	Administrative classification variance (%)
2015	**16.3**
2016	**17.2**
2017	**10.6**

Source: FMIS-GRP

The budget allocations for the Infrastructure Fund and "whole of government" contribute to more than 60 percent of the variance. The Infrastructure Fund represented more than 80 percent of all the capital development budget and expenditure in 2015, and more than 90 percent in 2016 and 2017. It accounts for 35 percent (2015) and 50 percent (2016) of the overall budget deviation. The appropriation "whole of government" managed by the Ministry of Finance includes all budget appropriations decided at political level (e.g. RAEOA-ZEESM since 2016), one-time expenses (e.g. population census), or expenditure that cannot be mapped to other public institutions (e.g. bank capitalization). In 2016 and 2017, this category represented 18.3% and 20.8% of government spending, respectively, and contributed also significantly to the overall budget deviation.

Overseas Development Assistance (ODA) is not included in the Consolidated Fund for Timor-Leste. Foreign assistance is self-reported through the Aid Transparency Portal, which is maintained by the Development Partners Management Unit (DPMU) under the Ministry of Finance and is included in the annual budget documentation. During the period under review, ODA decreased from USD 222.7 million in 2015 to USD 176.7 million in 2017.

Considering that the variance in expenditure composition by administrative classification exceeded 15% for two of the last three years, the score for this dimension is D.

2.2 - Expenditure composition outturn by economic type

The difference in composition between the originally approved budget and outturn by economic classification, including interest on debt but excluding contingency items, is summarized in the table below. Detailed data are presented in Annex 4.

Table 2.2 Calculation of variance by economic classification

Year	Composition variance (%)
2015	**16.0**
2016	**15.7**
2017	**10.0**

Source: FMIS-GRP

The budget variance is consistent from one year to another with a systematic under-execution in capital development under the Infrastructure Fund (IF). The performance of the Infrastructure Fund was already identified as a key constraint during the previous PEFA assessment. The outturn in the capital development budget, even when compared with the revised budget, was 75.6% in 2015, 70.0% in 2016, and 70.1% in 2017. Public transfers also contributed significantly to the overall variance at 28% of the overall variance for the period. In 2017, the Ministry of Social Solidarity underperformed across most of its social protection programs.

Variance in expenditure composition by economic classification was calculated at 16%, 15.7% and 10% in the three years, respectively. **Considering that the variance in expenditure composition by economic classification exceeded 15% in two of the last three years, the score for this dimension is a D.**

2.3 - Expenditure from contingency reserves

The PFM law establishes a cap for contingency appropriation at 5 percent of total spending. The Annual Financial Report provides details on contingency spending. In the past three years, most of the contingency spending has been used for recurrent expenditures. In 2017, its composition was 52% on public transfers, 32% on goods and services, and 16% on salary and wages. For instance, it has been used to pay civil servant salaries (e.g. 13th month) and ad-hoc activities such as the organization of the "Tour de Timor" cycling event.

With an average of 0.78 percent of the total budget over the period, contingency spending is marginal. It should be noted that contingency spending does not include expenditures on large capital investments projects and large services contracts labelled "emergency", which authorize the use of fast-track procurement and contracting modalities (e.g., single sourcing). For instance, in the 2016 budget rectification, three new emergency packages were introduced in the Infrastructure Fund for a total USD 50 million allocated under capital development.

Table 2.3 Contingency Fund (USD)

	2015	2016	2017
Whole of Government original budget	1,567,901,757	1,562,232,046	1,386,825,735
Contingency - original budget	18,935,000	12,130,926	8,564,056
Contingency - expenditure	10,943,971	14,865,499	9,461,291
Contingency share (%)	0.70	0.95	0.68
Contingency share (%), average			**0.78**

Source: FMIS-GRP

Actual expenditure charged to the contingency allocation averaged 0.78 percent, less than 3 percent of the original budget. The score is an A.

PI-3 Revenue outturn

This indicator measures the change in revenue between the original approved budget and end of year outturn. The assessment is based on the budget and actual revenue from fiscal years 2015-2017. Coverage is Budgetary Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-3 Revenue outturn	**B+**	
3.1 Aggregate revenue outturn	B	Actual revenue deviation was between 94% to 112% of budgeted revenue in two of the last three years (2015 and 2016).
3.2 Revenue composition outturn	A	The variance in revenue composition was less than 5% in two of the last three years (2015 and 2017).

3.1 - Revenue outturn

Based on the PEFA methodology for this indicator, government revenues comprise the petroleum revenues included in the State Budget and (non-oil) domestic revenue outturn.[13] The main sources of non-oil domestic revenues consist of income tax, general consumption taxes and customs duties, non-tax and capital revenues. Petroleum revenues included in the State Budget can be disaggregated between the ESI and excess withdrawals from the PF.

Table 3.1 Aggregate revenue outturn and revenue composition outturn

Fiscal Year	Total Revenue Deviation (%)	Composition Variance (%)
2015	94.6	3.3
2016	94.4	5.4
2017	93.3	1.6

Since 2016, investment returns from the PF have been exceeding petroleum revenue itself. As a result, the PF's main drivers of growth or decline are now the return from equities and withdrawals, respectively, to fund the State Budget. The PF performance is subject to the volatility of the stock market and fluctuation of primary commodity prices. The PF underperformed in 2015 (largely due to a negative rate of return of PF equities) and 2016 (driven by lower than expected oil prices). However, in 2017 the Fund exceeded its performance target by more than 80% due to high return on equities and an increase in oil and gas prices. During the period under review, excess withdrawal from the ESI amounted to 58%. To implement its front-loading investment policy, government has been planning to withdraw from the PF more than both the planned annual Petroleum Revenue and the expected interests together, with a risk of depleting the fund earlier than originally planned.[14]

Prior to 2015, domestic revenue had experienced steady growth. In 2015, the Government projected a 2.6% increase over the previous year in a context of low inflation, relatively strong economic activity, and improved compliance – while no major policy changes were planned. The estimates for 2016 projected a slowdown of domestic revenue growth with a 0.6% increase compare to 2015, as tax collection was expected to experience a contraction caused by falling international oil prices. The substantial 24.7% increase in fees and charges reflected improvements in the collection, administration and monitoring procedures within line ministries, and expanding Government services.

In 2016, the VI Constitutional Government established the Fiscal Reform Commission to diversify sources of revenue and increase revenue collection.[15] The main goal was to offset decreasing petroleum revenues as Bayu-Undan field is expected to run dry by 2022. However, no major policy changes were included in the 2016 baseline scenario. A one-off payment of arrears contributed to the higher than anticipated tax revenue collection for the year.

13 The calculation should include grants from development partners, but they are off-budget and cannot be estimated.

14 In its 2017 Article IV mission, the IMF considered the existing expenditure plans to be unsustainable as the Petroleum Fund will be depleted in the long term given large excess withdrawals.

15 The FRC was since closed in March 2019.

In 2017, political instability resulted in low public spending, leading to a contraction of the non-oil economy. In an economy largely driven by public spending, the low execution of the capital budget contributed to weaken the domestic economy, in-turn lowering the level of domestic revenue. The Government nevertheless projected a 4.3% increase in total domestic revenues compared to 2016. The assumption was that revenue increase would be driven by a combination of improvements in tax administration systems and improved compliance in an environment of strong economic growth. Withholding tax has been performing strongly due an increasing number of state-funded infrastructure projects. Additional revenue from Timor-Leste Electricity Company (EDTL) has also been expected as the grid connections expand and the use of electricity metering improves (electricity fees and charges account for almost 70% of all fees and service charges).

The aggregate revenue outturns were 94.6%, 94.4% and 93.3%, in 2015-2017, respectively. The score for this dimension is a B.

3.2 - Revenue composition outturn

The variance is revenue composition outturn was less than 5% in two of the last three years, at 3.3%, 5.4% and 1.6% for 2015-2017 and detailed calculations in Annex 4.

It should be noted that non-oil tax revenues increased from 66.3% of total revenue in 2015 to 82% in 2017. Domestic revenue comprises:

- Tax Revenue account for 71% of all domestic revenue sources. Key components are taxes on commodities 39% and taxes on income 31%.
- Non-Tax Revenue (fees and charges) is the second category of revenue, accounting for 21% of all domestic revenue.
- Interests and Revenue Retention Agencies (including tax revenue from OECUSSE-ZEESM)[16]. Detailed information about revenue forecasts down to the line item level (two-digit) are provided in the Budget Book 1, as follows:

16 The Special Zone of Social Market Economy (ZEESM), in the Oecusse-Ambeno exclave, transfers back collected tax revenues to central Government (Treasury Single Account) but is authorized to retain its non-tax revenue.

Table 3.2 Detailed non-oil domestic revenue composition outturn (USD million)

	2015		2016		2017	
	Budget	Actual	Budget	Actual	Budget	Actual
Tax Revenue	**125.5**	**129.2**	**116.4**	**143.7**	**149.3**	**132.7**
Other tax revenues	0.2	0.2	0.2	0.7	0.5	1.3
Service tax	3.6	3.1	2.8	2.7	3.2	2.5
Taxes on commodities	76.1	69.8	61.2	76.2	77.9	74.2
Taxes on income	45.7	56.1	52.2	64.2	67.7	54.7
Non-Tax Revenue	**37.2**	**46.5**	**46.1**	**46.1**	**51.9**	**48.9**
Fees & Service charges	30.2	36.9	36.5	39.9	44.4	43.6
Other non-tax revenue	7.0	9.6	9.7	6.2	7.5	5.2
Revenue Retention Agencies	**7.6**	**7.4**	**8.9**	**9.0**	**5.0**	**5.9**
Revenue Retention Agencies	7.6	7.4	8.9	9.0	5.0	5.8
Revenues - Municipalities						0.2
Total	**170.4**	**183.2**	**171.4**	**198.9**	**206.2**	**187.5**

Source: FMIS-GRP

The detailed list of tax and non-tax revenues budgeted and collected over the last three fiscal years is available in PI-19.

Performance in revenue collection varies during the period under review. For instance, income tax exceeded its forecast by 20% in 2015 and 2016, but it under-performed by 19% in 2017. In 2015, actual domestic revenue collection exceeded forecasts due to higher-than-anticipated withholding taxes, dividends, visa fees, and improved revenue collection from EDTL. In 2016, domestic revenue exceeded projections, largely because of higher than planned collection of income and commodity taxes. USD 4 million were collected by the National Directorate of Revenue from arrears and penalties of corporate tax. In 2017, lower excise taxes, withholding taxes and individual income taxes lowered the overall domestic revenue performance.

Variance in revenue composition was less than 5% in two of the last three years. The score for this dimension is A.

Pillar Two: Transparency of Public Finances

PI-4 Budget classification

This indicator evaluates whether the classification of the Budget in the budget submission and reporting are in line with internationally recognized standards. The time period is at time of assessment. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief Explanation
PI-4 Budget classification	**C**	**Budget formulation, execution, and reporting are based on administrative and economic classification (at least level 2 of the GFS standard—2 digits), but not based on a functional/sub-functional classification fully compliant with COFOG.**

The PFM Law grants the Ministry of Finance the responsibility to produce the Chart of Accounts (Article 43). The Chart of Accounts (CoA) is regularly updated by DG Treasury to reflect changes in the government's organizational structure and progress in reform implementation (e.g., decentralization and programme budgeting). The CoA is structured around the following five groups: fund source, organization, program, economic classification, and geographical location. Each group is composed of one or more elements which are coded into 2-digit blocks as described below.

Group	Content	No. digits
Fund Source	Level 1 – Type of Fund (2 digit) Level 2 – Sub-account (2 digit) *e.g. [1] Consolidated Fund Timor-Leste / [01] Treasury Account / [0101] Treasury CFTL*	4
Organization	Level 1 - Ministry Code (2 digits) Level 2- Directorate (2 digits) Level 3 –Division (2 digits) *e.g. [58] Ministry of Agriculture & Fisheries / [5803] Director General / [580307) National Directorate of Human Resources*	6
Program	Program (2 digits) Sub-program (2 digits) Activity (2 digits)	6
Economic classification	Appropriation Category (2 digits) Item (2 digits) Line Item (2 digits)	6
Geographic location	National/Municipal/Embassy Country level (2 digits) Sub-district level (2 digits) Suco (village) level (2 digits)	6

The economic classification is broadly compatible with the GFS 2014 standards, but not fully aligned with the COFOG. Government classification at appropriation level (level 2-digit) can be mapped to categories and levels within the GFS. For instance, "salary and wages" and "goods and services" have their exact counterpart within the GFS (level 2). However, "public transfers" include grants, subsidies and part of the social benefits. "Capital development" and "minor capital" are registered under transactions of nonfinancial assets/fixed assets and would correspond respectively to "buildings and structures" and "machinery and equipment" (GFS level 4).

Petroleum taxes and royalties do not form part of the government revenue classification. Petroleum taxes and royalties are paid directly to the PF pursuant to the PF Law and are classified as follows:

- Article 6.1(a) receipts are the gross revenues, including tax revenue, of Timor-Leste from any petroleum operations.
- Article 6.1(b) receipts are amounts received by the National Petroleum Authority pursuant to the Timor Sea Treaty.
- Article 6.1(c) receipts are amounts received from the investment of the capital of the Petroleum Fund.
- Article 6.1(e) include any other petroleum-related receipts.

Funds are transferred to the State Budget from the PF pursuant to an appropriation of Parliament. The Government does receive non-petroleum related mineral royalties, which are included in "fees and charges (non-fiscal) revenues" on receipt in the CFTL account.

The CoA provides a mapping table between the budget code structure used in Timor-Leste and the GFS. This mapping table was previously used to prepare the GFS Compliant Quarterly Publications – following international standards. However, since early 2017, due to outstanding discrepancies between the source of data and the ProClarity-generated report, MoF decided to suspend the publication of budgetary outturns against the GFS classification. The annual report to the IMF, under the Article IV mission, is currently done manually.

A tentative alignment to the COFOG classification exists in the current CoA. The MoF has developed a mapping table for COFOG. Until 2016, the mapping table could only rely on the administrative structure of Government, which limited the mapping accuracy and this classification was not used for budgeting or reporting. The "organization" group is comprehensive and covers all Central Government Institutions. However, sub-levels within the "organization" group do not always mirror the actual organizational structure of line ministries. While level 1 mapping is accurate, level 2 and 3 are less consistent with the actual structure.

The CoA structure was reviewed during the initial phase of the programme budgeting reform launched in 2015 to strengthen the relationship between the planning and budgeting functions. The first phase (2016-2018) focused on mapping the service delivery functions across several ministries and agencies and updating the multi-level "program" group within the budget classification. While the system allows for a 3-level reporting, only 2 levels are actually used (program and activity) with the exception of the Ministry of Education.

The PFM Law only refers to the fund source as well as level 1 and 2 of the administrative classification and of the economic classification. The budget submission to Parliament and monitoring reports does not provide financial information based on a functional/sub-functional classification. The budget template provides detailed financial information at the administrative level at budget head (level 1), directorate (level 2) and item (level 2 of the economic classification) level.

Budget formulation, execution, and reporting are based on administrative and economic classification (at least level 2 of the GFS standard—2 digits), but not based on a functional/sub-functional classification. The score for this indicator is a C.

Recent or ongoing reform activities

In April 2017, the Government committed to a budgetary governance reform, through a government resolution building on a roadmap prepared by the OECD. In 2018, the programme budgeting reform extended to most institutions, with the exception of the Prime Minister Office, the Ministry of Finance, the Chamber of Accounts, the President of the Republic, the Parliament, the Ombudsman for Human Rights and Justice, the Public Prosecutor, and ZEESM. As a result, the harmonization and alignment of the functional/ programmatic classification is expected to improve. With the support of the IMF, the Ministry of Finance continues to work on improving the mapping tables between the CoA and the GFS. In parallel, the National Directorate of Economic Policy (DNPE) is working with IFMISU to improve the ability to report against the GFS on the ProClarity application.

PI-5 Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. The time period is the last budget submitted to the legislature (2018 budget) and the coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief Explanation
PI-5 Budget documentation	**B**	**The budget documentation fulfils 7 elements, including the 4 basic elements.**

The annual budget documentation presented to the Parliament consists of six books:

- **Budget Book 1: Budget Overview** includes a statement by the Prime Minister, with an overview of the budget strategy, a review of the current reform and new policy initiatives, a brief presentation of key socio-economic indicators, expected revenue and planned expenditures. A copy of the state budget law is also provided as well as the ESI value and a justification for withdrawal in excess of the ESI.
- **Budget Book 2: Annual Action Plans** presents the staffing table and the annual action plan of Central Government institutions.
- **Budget Book 3:** Infrastructure Fund (volume 3-A), Municipalities (volume 3-B), and RAEOA & ZEESM (volume 3-C):

Budget Book 3-A describes the Infrastructure Fund, its regulations, and a description of its portfolio by program. Detailed budget tables are provided by program at the level of individual investments (with few exceptions for emergency projects).

Budget Book 3-B provides key socio-economic indicators disaggregated at the municipal level, and describes the 12 municipalities' workforce and budget, with detailed information on PDIM, PNDS, and existing local engagement of development partners.

Budget Book 3-C is dedicated to RAEOA (the administrative region) and ZEESM (the investment program). The book includes a description of the regulatory framework, a description of key socio-economic indicators with maps, planned revenues and expenditures, annual action plan and an update on major investments. Detailed staffing table are provided, down to individual level. While detailed data are provided on planned expenditures, no data on past expenditures are presented.

- **Budget Book 4: Budget Line Items** presents the detailed budget of Central Government institutions with Budget Book 4-A and 4-B are dedicated to Central Government institutions, including municipalities and autonomous public agencies . Budget data are provided down to the National Directorate level. Tables provide detailed data on past expenditure (previous year), as well as next year's budget and forecasts for the 4 following years, down to the item level.
- **Budget Book 5: Development Partners** is dedicated to development partners' engagement in Timor-Leste. It provides a description of the current policies and government's initiatives, the current reform, and expenditures and budget forecasts by sector and by Central Government institutions, including municipalities. Financial data are extracted from the Aid Transparency Portal.
- **Budget Book 6: Special Fund – FDCH** describes the Human Capital Development Fund (HCDF) and provides data about past expenditures and performance since its establishment in 2011. Budget forecasts cover the next fiscal year as well as the three following years.

Table 5.0 Summary of information submitted to the Parliament (2018 Budget)

Basic elements	Yes or No?
1. Forecast of the fiscal deficit or surplus (or accrual operating result).	**Yes**. BB-1 provides data on planned revenues and expenditures, as well as audited forecasts of the ESI.
2. Previous year's budget outturn, presented in the same format as the budget proposal.	**Yes**. BB-1 reports on past expenditures for year N-3, N-2 and N-1, the final budget for year N, and the budget forecasts for year N+1, N+2 and N+3.
3. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	**Yes**. BB-1 reports on the revised budget for year N, and the budget forecasts for year N+1, N+2 and N+3. Budget Book 3A provides current year's revised budget and estimated outturn for the Infrastructure Fund.
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-4), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates.	**Yes**. BB-1 provides aggregate budget data for both revenue and expenditure at a level equivalent to GFS level 2 for the current year, the past 3 years, the next fiscal year and forecasts for the following 3 years.
Additional elements	
5. Deficit financing, describing its anticipated composition.	**Yes**. BB-1 provide data on expected domestic revenues, loans, ESI and excess withdrawal from the PF for the next fiscal year and the following 3 years
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	**No**. GDP growth estimates are provided, with information on macroeconomic assumptions including past inflation figures as well as the IMF forecasted CPI inflation for the 2 following years, GDP growth forecasts. Estimates of interest rates and exchange rate are not provided.
7. Debt stock, including details at least for the beginning of the current year (presented in accordance with GFS or other internationally recognized standard).	**Yes**. Data on loans are provided in BB-1 and BB-3A, with detailed information for each loans and projects, including debt stock, outstanding principal and debt servicing payments. Loans are exclusively used for Capital Development.

Additional elements	
8. Financial assets, including details at least for the beginning of the current year (presented in accordance with GFS or other internationally recognized standard).	**Yes**. The PF is the only financial asset own by Government. Detailed information is provided in BB-1 including on revenue, interest, and withdrawals. More detailed information is provided on the monthly report published by the Central Bank of Timor-Leste and open to public access on the BCTL website.
9. Summary information on fiscal risks (including contingent liabilities such as guarantees, and contingent obligations embedded in Public-Private Partnership (PPP) contracts, etc.)	**No**. There is no comprehensive information on fiscal risks (e.g. pension fund).
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	**No**. The budget books do not provide systematically explanation of budget implication of new policy initiatives and major new public investment, e.g. resulting cost of operations and maintenance of new infrastructure investments is almost never forecasted.
11. Documentation on the medium-term framework.	**No**. The budget books include medium term figures of expenditure, revenue, and fiscal balance, but with very little information on the assumptions made to build these projections. In addition, for most recurrent expenditures a fixed rate increase (4%) is applied across the board, except for Capital Development spending within the Infrastructure Fund. Most domestic revenues are also applied a fixed rate across their various components, with the exception of revenues from Fines and Forfeits and Auctions.
12. Quantification of tax expenditures.	**No**. There is no information on revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.

Note: Information formally included in the State Budget implementation documentation submitted to the Parliament.

Budget documentation fulfils 7 elements, including the 4 basic elements. The score for this dimension is a B.

PI-6 Central Government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside Central Government financial reports. The assessment of this indicator is based on the information and reports available for fiscal year 2017. The coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-6 Central Government operations outside financial reports	**A**	
6.1 Expenditure outside financial reports	A	Extra-budgetary expenditure is fully monitored by MoF. Information provided by donors on externally financed projects is reported and available. Expenditure outside government financial reports largely do not exceed 1% of total Government expenditure.
6.2 Revenue outside financial reports	A	Revenue outside government financial reports largely do not exceed 1% of total government expenditure.
6.3 Financial reports of extra-budgetary units	B	Detailed and complete annual financial reports are submitted to the Government covering the largest extra-budgetary units ANPM and IPG.

This indicator does not cover social security funds, as the National Institute of Social Security (INSS) was not yet operational in 2017.

6.1 - Expenditure outside financial reports

This dimension assesses the magnitude of expenditures realized by budgetary and extra-budgetary units (including social security funds) not reported in the government's financial statements. Annual financial statements include Central Government entities funded under the Consolidated Fund of Timor-Leste, autonomous agencies, municipalities and one special fund – HCDF. Autonomous agencies are categorized as revenue collecting and non-revenue-generating public entities. 23 entities are considered revenue collecting agencies and 12 entities are supported exclusively through the State Budget.

The Petroleum and Geology Institute (IPG) and the National Petroleum and Minerals Authority (ANPM) are considered extra-budgetary entities and report revenue collected outside Central Government reports. All other entities identified as financial and nonfinancial public corporations or state-owned enterprises (namely, BCTL, BNCTL, TIMOR GAP, RTTL, and ANATL) are covered in PI-10. In 2017, the IPG and ANPM's expenditures represented 0.8% of Government total budgetary expenditures.

Table 6.1.1 Expenditure and revenue of IPG and ANPM, 2017 (USD)

	Expenditure	Appropriation from Government	Own revenue
IPG	2,330,424	1,800,000	none
ANPM	6,789,519	2,241,111	5,224,213

Source: IPG annual financial report and ANPM audited financial statements

Foreign assistance activities are self-reported to Government through the Aid Transparency Portal (ATP), which is managed by DPMU. Development partners are requested to update their commitment and disbursement information on a quarterly basis directly in the system. The DPMU has made regular improvements to the ATP in order to improve its interface, its reporting capabilities and its integration with the government planning and accounting systems. The ATP allows government to integrate financial information from donor-funded projects into the government budget cycle and inform both budget preparation and budget negotiation. A budget book (Budget book 5) is entirely dedicated to donor-financed activities. Aggregate disbursement by donors are also included in the Central Government Annual Financial Report and covered under the Report and Opinion on the State General Accounts.

Table 6.1.2 Donor reported commitments and disbursements (loans and grants), USD million

Year	Planned Disbursements	Actual Disbursements	Aggregate outturn (%)
2015	165.5	206.2	124.6
2016	143.4	212.2	147.9
2017	156.6	176.9	112.5

Source: Budget Book 5 and Central Government annual financial statements

Over the period 2015-2017, donors' reported disbursements amounting to 14.6% of Government own expenditures. These projects are managed largely off-treasury and the Government has little control over these resources. Line ministries do not report development partners' investments in their respective sectors, which are not covered by the oversight of the Camara de Contas (CdC). In 2017, in a survey performed by the Global Partnership Monitoring Round, development partners reported that 14.3% of their disbursement used government budget execution systems (including loans), which is equivalent to USD 22.3 million or 11.9% of Government domestic revenue.

ODA is reported in the budget documentation, even if managed outside country systems, and expenditure outside government financial report is estimated at less than 1 percent of total government expenditure. **The score for this dimension is assessed as an A.**

Recent or ongoing reform activities

In 2017, a national aid policy was approved by the Council of Ministers to improve aid effectiveness and clarify the principles and institutional arrangements for development assistance. The aid policy was revised in 2019 in line with the country-owned and country-led development principles emphasized in the "New Deal for Engagement in Fragile States".

6.2 - Revenue outside financial reports

This dimension assesses the scale of revenues received by budgetary and extra-budgetary units (including social security funds) not reported in the government's financial statements. The extra-budgetary entities, IPG and ANPM, had revenues equivalent to 0.4 percent of total government revenue collection.

IPG does not collect its own revenues and ANPM receives its income from the management of the Joint Petroleum Development Area (JPDA). These include development fees and contract service fees complemented by an annual allocation from the Government. The ANPM collects government license fees (prospecting, exploration and mining), mining fees, and compensation fees, which are later transferred to the CFTL (after deduction of bank charges), and which amounted to USD 1,034,569 in 2017.

Considering that the identified extra-budgetary revenues are estimated not to exceed 1 percent of the total Budgetary Central Government revenue, the score for this dimension is assessed as an A.

6.3 - Financial reports of extra-budgetary units

This dimension assesses the extent to which ex-post financial reports of extra-budgetary units are provided to the Central Government.

In compliance with the PFM law, all public entities must prepare their accounts in accordance with the International Accounting Standards (Article 52). They submit them to the CdC (Article 42) within the legally established deadlines. The table below summarizes the information available about extra-budgetary units financial reporting.

Table 6.3 Financial reports of extra-budgetary units

Extra-budgetary units	Date Annual Report completion	Received by (CG)	Content of annual financial report (Yes/No)			2017 expenditure as % of total expenditure
			Expenditures and revenues by economic classification	Financial and nonfinancial assets and liabilities	Guarantees and long-term obligations	
ANPM	NA on website but statutory audit due within 6 months and published	Ministry of Petroleum and Mineral Resources	Yes	Yes	NA	6,789,519 (74%)
IPG			Yes	Yes	NA	2,330,424 (26%)
TOTAL						**100%**

In 2017, both the IPG and the ANPM published their annual reports on their respective websites within six months of the end of the fiscal year and were audited by an external auditor.[17] The IPG is audited by Stantons International Audit and Consulting Pty Ltd, while the ANPM is audited by Ernst and Young (2017 financial report audited in May 2018 but not published).

Since both annual reports are submitted to the Government within six months of the end of the fiscal year, the score for this dimension is a B.

Recent or ongoing reform activities

From 2018 onwards, the annual financial statements of the IPG and ANPM will be included as an annex to the Central Government Consolidated Financial report.

PI-7 Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from the Central Government to subnational governments with direct financial relationships to it. It considers the basis for transfers from Central Government and whether subnational governments receive information on their allocations in time to facilitate budget planning. The assessment of this indicator is based on fiscal year 2017. The coverage is Central Government and the subnational governments who have direct financial relationship with the Central Government.

17 http://ipg.tl/annual-report/ and http://www.anpm.tl/category/annual-report/

Indicator/Dimension	Score (M2)	Brief Explanation
PI-7 Transfers to subnational governments	**C+**	
7.1 System for allocating transfers	A	Transfers to RAEOA-ZEESM are based on high-level political agreements, but it is approved by the Parliament, and rely on a due budget review process and considered transparent. The amounts actually transferred are equal to the annual budget allowed, transferred at the beginning of the fiscal year, and the calendar seems to be respected.
7.2 Timeliness of information on transfers	D	The information provided by the Central Government to the RAEOA-ZEESM about its annual transfers is included in the Budget Books submitted to the Parliament. The budget is confirmed usually on time for the RAEOA-ZEESM administration to plan for the next fiscal year.

ZEESM refers to the special economic zone that includes Oecusse and the island of Atauro. It was established with the objective of attracting private investment and to establish a social market economy.

7.1 - System for allocating transfers

The special regime of the RAEOA-ZEESM is described as a legal entity with administrative and financial autonomy. Decree-Law 5/2015 extended the regional powers to Atauro as part of the ZEESM. The law describes the region's authority and powers, although subject to the Prime-Minister's supervision. The law also specifically states (Article 8) that the RAEOA is subject to the existing legislation in Timor-Leste granting the region powers to issue regional executive orders and regulations as long as they comply with the overall scope of the existing national legal framework.

The law also defines provisions related to PFM applicable in the RAEOA. It assigns to the Central Government the responsibility to prepare the regional component of the State Budget and to monitor budget execution within the region. The Government maintains its powers to prepare legislation on public finances and systems related to the financial sector applicable in the region. The President of the RAEOA has executive powers and is nominated by the President of the Republic upon recommendation from the Prime Minister. The President has the power to manage RAEOA, define its policies, sign the region's budget proposal to the Central Government, as well as the responsibility to report (for record purposes) the final budget and financial statements (Article 22).

The regional authority serves as a deliberative body and is nominated by the Council of Ministers. The regional authority is mainly responsible for preparing the region's plans and approving the proposed annual budget to be submitted to the President of the RAEOA. An Advisory Council (*Conselho consultivo*) is nominated and presided over by the President to serve as an advisory board.

The RAEOA has its own budget, prepared and managed by the region, but ultimately approved and monitored by the Central Government. The region has the powers to define and collect its own sources of revenue (Articles 10 and 11 of the Law and Article 8 of the Decree Law). The region manages the State's assets within the region (Article 12 of the law and Article 8 of the Decree Law), although up to this date there is no specific regime that details how this responsibility should operate. The Law mentions (Article 28) that the region can opt to maintain an independent financial system, but the general 2009 PFM act is still applicable. Effectively, the RAEOA is not using the FreeBalance system as of 2019, although it is foreseen that budget execution will be covered by the Central Government's systems – including FMIS-GRP.

The RAEOA-ZEESM budget is first approved by the Council of Ministers after the MoF presents the entire top-down budget allocation. Once the breakdown for all institutions is approved, along with the overall budget ceiling, all line ministries, autonomous agencies and municipalities receive their individual budget ceiling. This includes RAEOA-ZEESM. Its budget process is the same as the other budget entities. RAEOA-ZEESM sends its budget plan to UPMA (to which it is reporting) with copy to MoF. This is also discussed in the Budget Review Committee. Based on the decision of the Budget Review Committee, the Council of Ministers gives the final approval for the RAEOA-ZEESM budget.

The RAEOA-ZEESM budget must follow the same process and MoF calendar along with the other government institutions. For 2017 and 2018, RAEOA-ZEESM followed the same budget calendar as the rest of the institutions, which was different from a normal budget process and was delayed.

Based on the analysis, budget transfers to the RAEOA-ZEESM can be considered transparent and rule-based, and follow the agreed calendar foreseen in the Law. The score for dimension 7.1 is an A.

7.2 - Timeliness of information on transfers

According to Government Decree 1/2009 on the Regime of the Public Transfers, the allocation of funds under the public transfer category is normally transferred twice a year. For RAEOA-ZEESM, there is no agreed calendar for the transfer. The transfer is made once MoF receives the request from RAEOA-ZEESM based on protocol being made between RAEOA-ZEESM and the Government. In 2017, the first transfer was made on 28 February and the second transfer on 12 September; the Oecusse administration was notified that the funds had been transferred. In 2018, with the application of the duodecimal regime, four transfers were made on 12 March, 27 April, 14 August, and 7 November. The RAEOA-ZEESM has the same process as other institutions. Any delays to the others apply to it as well. **The score for dimension 7.2 is a D.**

PI-8 Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal and its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. The time period covered for dimension 8.1 is 2018; for dimension 8.2 is 2017; and for dimensions 8.3 and 8.4 is 2015, 2016 and 2017. The coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-8 Performance information for service delivery	**D**	
8.1 Performance plans for service delivery	C	Information is published annually on the activities to be performed under the policies or programs for the majority of ministries, while very few institutions present key performance indicators.
8.2 Performance achieved for service delivery	D	The Government reports internally on progress against the annual action plans, but the information is not published.
8.3 Resources received by service delivery units	D	No recent survey in one of the last three years providing estimates of the resources received by service delivery units for at least one large ministry.
8.4 Performance evaluation for service delivery units	D	Despite initiatives in the past three years looking at elements of sector efficiency and effectiveness, there has been only one evaluation of the efficiency or effectiveness of service delivery (for the education sector, which represents less than 25% of the service delivery allocation in 2018).

The table below shows that service delivery[18] represents approximately 80 percent of the total expenditures of all line ministries and agencies.

Table 8.0 Performance data on planned service delivery

Institutions	Total (USD ,000)	Service Delivery	% Service Delivery	Program Objectives	Planned outputs	Planned outcomes	Activities
Infrastructure Fund	386,007	Y	100	Y	Y	N	Y
Ministério das Obras Públicas/Public Works	101,405	Y	100	Y	Y	N	Y
Ministério para os Assuntos dos Combatentes da Libertação Nacional	100,829	Y	100	N	Y	N	Y
Ministério da Educação, Juventude e Desporto Excluindo SEJD/Education, Youth and Sports	72,726	Y	100	Y	Y	Y	Y
Ministério da Solidariedade Social e Inclusão	52,232	Y	100	Y	Y	N	Y
Ministério da Saúde/Health	42,709	Y	100	N	Y	N	Y
Municipal Authorities [4] and Municipal Administrations [8]/Municipalities	34,128	Y	100	N	Y	N	Y
Polícia Nacional de Timor-Leste	27,379	Y	100	Y	Y	N	Y
Human Capital Development Fund	15,794	Y	100	Y	Y	N	Y
UNTL	13,033	Y	100	Y	Y	Y	Y
Ministério do Planeamento e Investimento Estratégico/ Planning and Investment	10,032	Y	70	Y	Y	N	Y

18 Service delivery refers to programs or services that are provided either to general public or to specifically targeted groups of citizens, either fully or partially using government resources.

Institutions	Total (USD ,000)	Service Delivery	% Service Delivery	Program Objectives	Planned outputs	Planned outcomes	Activities
Ministério da Agricultura e Pescas	7,016	Y	100	Y	Y	Y	Y
Hospital Nacional Guido Valadares (Serviço e Fundo Autónomo)	6,896	Y	100	Y	Y	N	Y
Secretário de Estado da Juventude e Desporto	3,610	Y	100	Y	Y	N	Y
Ministério do Ensino Superior, Ciência e Cultura, Excluindo SEAC	2,369	Y	100	Y	Y	N	Y
Ministério dos Transportes e Comunicações	2,076	Y	100	Y	Y	N	Y
Secretário de Estado para Formação Profissional e Emprego	2,045	Y	100	Y	Y	N	Y
Secretário de Estado da Arte e Cultura	842	Y	100	Y	Y	N	Y
Centro Nacional de Reabilitação (Serviço e Fundo Autónomo)	547	Y	100	Y	Y	N	Y
Centro Nacional de Emprego e Formação Profissional - Tibar	298	Y	100	Y	Y	Y	Y
Centro de Formação SENAI (Serviço e Fundo Autónomo)	204	Y	100	Y	Y	N	Y
Total	882,177						
Percentage of service delivery ministries by value				80%	100%	11%	100%

Source: FMIS and 2018 State Budget Book 2

8.1 - Performance plans for service delivery

National long-term development strategic objectives are set out in the Strategic Development Plan (2011-2030). Each elected government outlines its program, and specific contributions to the Strategic Development Plan (SDP), with information on targeted outputs and expected outcomes. Complementary information on some of the planned outputs and outcomes can be found in the Prime Minister's budget speech to Parliament published as the introduction to the Budget Book 1 (Budget Overview). It also provides an update on progress against Timor-Leste's MDG/SDG overall commitments but does not include annual targets. The Government's annual priorities for the budget formulation process are presented at the annual Yellow Road workshop.

In addition, some sectors have developed specific strategies, including sets of sector objectives and targets. As part of their budget submission package, all public institutions are also required to provide an annual action plan to be included in the submission to Parliament (Budget Book 2), which is published and provides the programme structure of each public institution at the activity level. In some cases, the sector strategy is also complemented by sector investment programs (typically for 3 to 5 years) and sector operational plans. For instance, the Ministry of Agriculture adopted its Strategic Plan 2014-2020 in 2012, which was operationalized through its Medium-Term Operational Plan (MTOP) 2014-2018, and its associated five-year investment plan (MTIP).

The introduction of programme structures could enable a discussion on the allocation resources and outputs at the activity level. The Government initiated a systematic mapping of government functions and activities against Timor-Leste's strategic framework. A list of activities is presented for each program with a responsible unit, implementing unit, fund source, tentative budget by appropriation category (with few exceptions, such as the Parliament), as well as the progress indicator, its baseline, and the annual objective/outputs.

Table 8.1 Program Structure of service delivery sectors

Education	Health	Agriculture
• 1 - Preschool education • 2 - Basic education • 3 - Secondary education • 4 - Recurrent education • 5 - Higher education • 6 - Cross-cutting activities • 7 - Quality assurance system for higher education • 8 - Manage the Technical Secretariat • 9 - Education, Investigation and extension services • 10 - Student assistance	• 1 - HR development and health workforce • 2 - Primary health care • 3 - Secondary and teartiary health care • 4 - Medical supply chain management and health logistics	• 1 - Sustainably increase production and productivity • 2 - Improve access to markets and value chains • 3 - Sustainable use of resources

Source: 2018 Budget Book 2 and 2018 Chart of Accounts

Since 2011, capital development investments are no longer under the direct control of line ministries but centralized under the Infrastructure Fund. The Infrastructure Fund's activities are structured around key sectoral programs. Agriculture, Education and Health have their own program, while activities related to transport, communication and overall public works are covered by six programs, namely Water and Sanitation, Electric Energy, Airports, Ports, Roads, and Bridges. Through these programs, the Infrastructure Fund represents 44% of service delivery spending (2018 State Budget). The Infrastructure Fund has no specific targets and physical baseline. Only disbursement targets are provided in the budget documentation, complemented by information on individual contract amounts and disbursements to date. There are no direct explicit connections with the annual action plans of other public institutions.

One of the key drivers of the decentralization reform was to improve public service delivery and devolve responsibility for front-line services to municipalities. As a result, all identified service delivery sectors have a corresponding municipal service in each municipality. There is no specific sector program for municipalities, but each sector is considered as a program (e.g. municipal health services), further disaggregated into a mix of area of intervention (e. g. management of primary health care services) and specific program or activities (e.g., alphabetization program, and school feeding program). In 2018, all municipalities implement the same annual action plans, with the same set of activities, using the same indicators of progress (outputs). In the 2018 state budget, municipalities were allocated about 4 percent of the service delivery allocation and most operations are still centralized at the line ministry level.

Starting in 2015, autonomous agencies were created to improve public services and make service delivery more efficient. However, the autonomy at sector level also resulted in a fragmentation of operations and difficult reporting on effective service delivery execution. For instance, public investments in the health sector are covered by the Ministry of Health, the National Hospital Guido Valadares, SAMES, the National Health Science Institute, the National Laboratory, the Municipal Health Services and the Health Program within the Infrastructure Fund. In addition, health related infrastructures are eligible under the PDIM program (subnational municipal investment program), and the Human Capital Development Fund implements specific activities in the health sector.

While the coverage and presentation of the annual action plans (AAP) have gradually improved, they do not yet provide a clear and effective tool for prioritization, performance measurement and reporting. Programs covered by key performance indicators at objective level represent 10.6% of the service delivery budget in 2017. This structure needs further development to provide consistent and comprehensive programmatic and performance information to strengthen the planning process and improve the alignment of the budget to national strategies and priorities. The information still lacks coherence and consistency across the service delivery sectors. Detailed information is provided on activities and planned outputs, but there is limited information about the expected outcomes.

Although information is published annually on the activities to be performed under the policies or programs for the majority of ministries, very few institutions present key performance indicators. The score for this dimension is a C.

8.2 - Performance achieved for service delivery

Information on the AAP implementation and performance indicators are reported quarterly to MoF and annually in the government financial reports submitted to Parliament. With the establishment of UPMA in 2015, the Government has strengthened its internal reporting on AAP implementation progress. Public agencies have 30 days after the end of the quarter to submit their progress report to UPMA. A consolidated report is then submitted by UPMA within 60 days of the end of the quarter. UPMA produces quarterly progress reports covering all government agencies, excluding RAEOA-ZEESM, and other agencies reporting directly to the Parliament (e.g., President's Office, Court of Appeals). The report is circulated to both the Parliament and the CdC.

However, the quarterly AAP implementation progress report is for internal use only and is not published. In addition, progress against AAP is self-reported, with no further data quality control than ensuring consistency with the submitted AAP. Considering that very few institutions have adequate information management systems and functional M&E systems, the reliability of the information is limited.

Every new Government also reports on progress against its plan after its first 100 days in office. The VI Constitutional Government published its 100 days report covering the period from 16 February to 26 May 2015. When a change of Government occurs, the outgoing Government prepares a detailed handover report about its achievements, including qualitative information about public service delivery. The detailed handover reports at line ministry level are not published. However, the VI Constitutional Government published a "Snapshot" of their achievements during their mandate 2015-2017.

The Government reports internally on progress against AAP, but the information is limited in scope, not fully reliable, and not systematically published. The score for this dimension is a D.

8.3 - Resources received by service delivery units

As part of the programme budgeting initiative, the program structure of most public institutions has been revised, and the budget documentation provides a detailed plan with budget at the activity level. However, expenditure aggregates are only reported against the organizational structure (Division – national directorate level) with details by economic classification. Salary and wages are not included in the AAP. Capital development is either included in the AAP (if the budget holder is a line ministry) or reported under the Infrastructure Fund workplan for large investments.

Front-line service delivery in key sectors has been decentralized under the responsibility of municipalities, however, most of the budget and operations are still managed centrally. Large service delivery units have been granted the status of APAs (e.g., UNTL, National Hospital Guido Valadares) and manage their own budget and operations. However, the budget allocation of frontline units such as primary schools and health posts are still largely included under the budgets of their supervisory technical department at Central Government level (e.g., National Directorate of Basic Education for primary schools). This is also true for national programs (e.g., school feeding program). As a result, central ministries continue to handle directly most human resources, administrative, financial, and procurement functions, and they also control most of the operational budget. For instance, "municipal services in health" represented 8.5 percent of the Ministry of Health original budget. In education, municipal services represented 15 percent of the Ministry's budget.

The structure of the Chart of Accounts does not allow tracking of resources received at service delivery level. If planning for service delivery is based on a bottom-up planning approach, budget allocations are aggregated at administrative level and information on execution can be traced only at the municipal level. The Ministry of Education established a system to track some of the resources transferred at the service delivery unit level (basic education schools), by registering them as vendor in the system. However, there is no consolidated report at the level of the service delivery unit or at the municipal level.

The Infrastructure Fund reports capital development spending estimates at infrastructure level (e.g., new school). In addition, the ADN reports planned PDIM investments at the municipal level with a list of planned infrastructures including their name, their administrative post and their village (*suco*) – 2018 Budget Book 3-B. Service delivery units are all eligible under the PDIM (school and health point construction or renovation, small scale irrigation, etc.). However, actual expenditure is not reported.

Some Development Partners report their activities at the level of the service delivery unit. They report commitments and spending through the Aid Transparency Portal. The system does not allow reporting of resource allocations down to the service delivery unit but allows the geotag-ing of commitments and disbursements. However, most partners only provide aggregate program and project data (at the national level).

There has been no survey in one of the last three years to provide estimates of the resources received by service delivery units for at least one large ministry. The score for this dimension is a D.

8.4 - Performance evaluation for service delivery

To date, there is no systematic performance evaluation of service delivery agencies. The government units in charge of internal control and performance measurement do not have yet the capacity to report on performance. UPMA is in charge of performance evaluation of all government agencies, but this mandate is not yet fully operational. Internal Audit Services within line ministries have been largely focusing on inspections and internal investigations. The GAI is still mainly focusing on financial and compliance audits and does not have the capacity and resources for performance auditing. The *Camara de Contas,* while including elements of performance audit in the external audits, has not yet extended its activities to performance audits.

Ad-hoc review exercises conducted with the support of development partners will occasionally consider performance of public service delivery, including sector reviews. A mid-term evaluation of the implementation of the SDP first phase (2011-2015) was completed in March 2017 with the support of the European Union. It aimed at assessing progress against SDP targets and made recommendations for prioritization, but it has not been published or even circulated within government. In 2017, the Civil Service Commission conducted a survey to better understand the citizen's perception of the performance of the public service.

Various reports and technical sector studies have also been produced, such as the Health Pressure Study published in 2016, but there is no comprehensive information available in the period.[19] In 2018, the Ministry of Education, jointly with the World Bank, conducted an Education Sector Assessment with the support of the Global Partnership for Education (GPE). This assessment covers the internal and external efficiency of the education system at large, from pre-school to higher education considering also infrastructure investments. Some elements of performance of public service delivery at local level have also been included in government's surveys, for instance in the population census (last iteration in 2015), the Demographic and Health Survey conducted every 3 years (last iteration in 2016) and the Timor-Leste Survey of Living Standards (last iteration in 2015).

Despite several initiatives in the past 3 years looking at elements of sector efficiency and effectiveness, there has only been one comprehensive review of efficiency and effectiveness of service delivery for the education sector, representing 22 percent of the overall service delivery allocation in 2018. The score for this dimension is a D.

19 World Bank: http://documents.worldbank.org/curated/en/593891480572877831/Turning-challenges-into-opportunities-the-medium-term-health-expenditure-pressure-study-in-Timor-Leste

PI-9 Public access to fiscal information

The indicator evaluates comprehensiveness of fiscal information available to the public. The time period is last completed fiscal year. The coverage is Budgetary Central Government.

Indicator/Dimension	Score	Brief Explanation
PI-9 Public access to fiscal information	**D**	**The Government makes available to the public only three of the five basic elements, and three additional elements in accordance with the specified time frames.**

The Government has set up various platforms to disseminate fiscal information. The PFM Law 13/2009, under Article 11 on publicity broadly states that "the Government shall ensure publication of all documents necessary to ensure appropriate dissemination and transparency of the Government Budget and its execution, making use, whenever possible, of the most advanced means of communication existing at each time." These include websites, press release and media coverage. General communication can be found on the Government's website, http://timor-leste.gov.tl/. The MoF publishes budget related documents on its website https://www.mof.gov.tl/ and provide public access to daily update of the Government's budget execution through its Budget Transparency Portal, http://www.budgettransparency.gov.tl/. The CdC publishes external audits as well as its opinions and report on the Government annual financial statements under the website of the Court of Appeals, https://www.tribunais.tl/. The table below shows the fulfilment against the nine PEFA elements.

Table 9.0 Public Access to Key Fiscal Information

Basic elements	Yes or No?
1. Annual executive budget proposal documentation	**Yes**. The budget documents are published within a day of submission to Parliament (https://www.mof.gov.tl/budget-spending/budget-treasury-documents).
2. Enacted budget.	**Yes**. The 2017 General State Budget law was approved by Parliament on 9 December 2016, promulgated by the President on 28 December and publicized on 29 December in the 'Jornal da Republica' - Parliament Law N.º 13/2016 http://www.mj.gov.tl/jornal/public/docs/2016/serie_1/SERIE_I_NO_50_A_pdf
3. In-year budget execution reports.	**No**. Quarterly budget execution reports are normally made available to the public more than 4 weeks but less than 8 weeks after the end of the reporting period and can be downloaded on the website of the Ministry of Finance (https://www.mof.gov.tl/category/documents-and-forms/treasury-documents/budget-execution-reports). In addition, daily updates of budget execution aggregates are available to the public on the Budget Transparency Portal (http://budgettransparency.gov.tl). Reports of the last quarter are issued after the end of the fiscal year together with the annual report more than 8 weeks after the end of the last quarter (see PI-28).
4. Annual budget execution report.	**No**. The 2017 annual budget execution report, while transmitted to the Minister of Finance on 25 July 2018, and to the Court of Accounts on 1 August, had not yet been published by the Government in January 2019.
5. Audited annual financial report, incorporating or accompanied by the external auditor's report.	**Yes.** The audited financial statements, including the external auditor reports, are published by the CdC within 12 months of the fiscal years' end. The 2017 financial statements were received by the CdC in August 2018, the audit approved on 21 December and submitted to the legislature on 24 December. (https://www.tribunais.tl/)
Additional elements	
6. Pre-budget Statement.	**No.** No pre-budget statements are being made available to the public at least four months before the start of the fiscal year. Copies of the Yellow road presentation are not published directly by MoF, but some elements can often be found on Lao' Hamutuk's website. Press releases from the Council of Ministers inform the public about progress in the budget preparation, but the broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are not shared.
7. Other external audit reports.	**Yes.** CdC publishes all external audit reports within 6 months of their submission (see PI-30 for more details). https://www.tribunais.tl/
8. Summary of the budget proposal.	**Yes.** The budget proposal is complemented with a Citizen's guide (Matadalan) published in Tetum, providing a summary of its key elements of the budget proposal (https://www.mof.gov.tl/budget-spending/budget-treasury-documents).
9. Macroeconomic forecasts.	**Yes.** The macroeconomic forecasts are included in Budget Book 1, available at the same time as the submission of the draft budget proposal to the Parliament (https://www.mof.gov.tl/budget-spending/budget-treasury-documents)

The Government usually complies with the law regarding the timeframe for completion of the annual budget execution report, but the fourth quarterly report has recently been delayed and combined with the annual reporting. It should also be noted that following Article 45 of the PFM Law, annual budget and financial statements should be submitted to the supreme audit institution, *Camara das Contas*, within 7 months from the end of the fiscal year, when the PEFA methodology considers 6 months to be the internationally recognized good practice. The Government started to publish quarterly in-year budget execution reports in 2015 (PI-28). In 2016, however, reports for the first three quarters were only made available in late November. In 2018, under the duodecimal system, monthly execution reports were published and later aggregated into quarterly reports, but the last quarterly report was not available at the time of the assessment. It should be noted that a first Pre-Budget Statement was produced for the 2020 State Budget.

Three of the five basic elements, and three additional elements are made available to the public in accordance with the specified time frames. The score for this indicator is a D.

Pillar Three: Management of Assets and Liabilities

PI-10 Fiscal risk reporting

This indicator measures the extent to which fiscal risks to Central Government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments (SNG), public corporations, and contingent liabilities from Central Government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks, such as market failure and natural disasters. The assessment is based on the information available for the most recent fiscal year 2017. The coverage for dimension 10.1 is Central Government-controlled public corporations, for dimension 10.2 it is subnational government entities that have direct fiscal relations with the Central Government, and for dimension 10.3 it is Central Government.

Indicator/Dimension	Score	Brief Explanation
PI-10 Fiscal risk reporting	**D+**	
10.1 Monitoring of public corporations	C	Government received financial reports from most public corporations (BCTL, TIMOR GAP, BNCTL) within nine months of the end of the fiscal year. However, some smaller SOEs do not publish their financial reports (ANATL, RTTL).
10.2 Monitoring of subnational governments	D	Reports from RAEOA-ZEESM are sent manually to the Parliament and MoF, but it is not clear whether they are submitted on time and no monitoring system is in place to review and assess reported information.
10.3 Contingent liabilities and other fiscal risks	D	Central Government entities and agencies do not quantify any contingent liabilities in their financial reports.

10.1 - Monitoring of public corporations

In the context of Timor-Leste, public corporations are referred to as national public companies and can be categorized as financial and nonfinancial public corporations. Financial public corporations cover the National Commercial Bank of Timor-Leste (BNCTL) and the Central Bank of Timor-Leste (BCTL), while nonfinancial public corporations include the Administration of Airports and Air Navigation of Timor-Leste (ANATL), the Radio Television of Timor-Leste (RTTL)[20] and TIMOR GAP – a state-owned oil company that undertook equity positions in joint venture projects (production sharing contract with ENI JPDA and INPEX Offshore Timor-Leste).

Decree-Law 14/2003 regulates functions, duties and structure of national public companies. The Decree-Law establishes all requirements to be satisfied for a public company, which includes the provision of services charged at economically significant prices (GFS 2014). Among the requirements, MoF must be a member of the board, and national public companies must prepare for each financial year an operating and investment budget, by comprehensive budget lines, to be submitted to MoF for approval. Accounting documents, including a balance sheet and a statement of outputs, must be submitted by the end of the calendar year. In the State General Account, the Government considers five entities to be outside the perimeter of the consolidated budget and established under different regimes:

20 RTTL is financed through the government budget, but also charges broadcasting services at economically significant prices.

1. Central Bank of Timor-Leste (BCTL)
2. TIMOR GAP E.P.
3. National Commercial Bank of Timor-Leste (BNCTL)
4. Timor-Leste Radio-Television (RTTL)
5. Administration of Airports and Air Navigation of Timor-Leste (ANATL)

Table 10.1 Financial reports of public corporations in 2017

Public corporation	Parent Ministry	Date of audited financial statement	Total expenditure (USD)	As a % of total expenditure of public corporations	Are contingent liabilities of the public corporation included in the financial report?
BCTL	MoF	27 Apr 2018	1,225,000	4.6	Y
BNCTL	MoF	18 Jul 2018	8,990,123	33.9	Y
ANATL	MTC	NA (within 9 months)	1,180,404[21]	4.4	Y
RTTL	SSCS	NA (within 9 months)	2,767,811[22]	10.4	Y
TIMOR GAP	Ministry of Petroleum	27 Apr 2018	12,367,603	46.6	Y

Central Government does not prepare a consolidated annual report on the financial performance of the public corporation sector. Audited annual financial statements are usually published for most public corporations within six months of the end of the fiscal year, except in 2017 when the audit report of the BNCTL was delayed.

The Government received financial reports from most public corporations within nine months of the end of the fiscal year 2017. The score for this dimension is a C.

10.2 - Monitoring of subnational government (SNG)

At this stage of the decentralization reform, municipalities do not yet meet the requirements to be considered as subnational governments. Under the ongoing public administration reform led by the Ministry of State Administration, key public services have been administratively deconcentrated before being transferred to newly established municipal administrations and authorities. While municipal budgets have been allocated separately since 2017, they follow the same process as line ministries and have been included in the assessment as part of the Central Government.

RAEOA-ZEESM qualifies as a subnational government and has financial autonomy, even if the President of the Authority is appointed by the President of the Republic on a proposal from the Prime Minister. The members of the Authority are appointed by the Council of Ministers, on a proposal from the President of the Authority. Its budget must be approved by the Parliament along the budget of the Central Government, and budget implementation (including reporting) must comply with the PFM law.

21 The annual consolidated financial report on CFTL report a transfer of USD 1,180,404 in 2017. Its budget as APAs was USD 1,068,000 in 2016.

22 RTTL received USD 2,767,811 from Government in 2017, but also collect its own revenue.

RAEOA-ZEESM has its own revenue but depends financially on a public transfer from the State Budget and is not independent from the Government's external administrative control. Article 36 of Decree Law 3/2014 requests the RAEOA-ZEESM authorities to report annually to the Parliament. However, CdC's opinion is that RAEOA-ZEESM is also required to report annually to the CdC, in accordance with Articles 37 and 38 of Parliament Law 9/2011. Interviews conducted with the RAEOA-ZEESM administration established that quarterly financial reports (produced manually) are sent in paper version to the MoF and the Prime Minister's Office. However, no system has been set to review and consolidate these reports, and they are not published. The Central Government considers this obligation to not have been fulfilled. The 2014-15 report has recently been audited by CdC and its report published.

The Decree Law mandates that the region's own revenues must be reinvested in the region or, upon approval by the Central Government, outside of the region and/or Timor-Leste (Article 28/2 of the Law and Article 8/2 of the Decree Law). A specific Decree-Law was approved that regulates the procurement regime for the acquisition of goods and services within the RAEOA, excluding Ataúro (Decree Law 28/2014). The President of the Authority has the power to authorize directly the procurement procedure and approve adjudication up to a USD 5 million threshold, while procurement processes above that threshold require the authorization and adjudication by the authority (that is ultimately also chaired by the President). The President is the only authority within the region with powers to sign public contracts.

The government consolidated financial report presents detailed information on revenue collected by RAEOA-ZEESM on behalf of the State. However, there is no information on the amount of own revenue collected in 2016 and 2017. In 2015, own revenue collected by RAEOA-ZEESM amounted to USD 0.7 million. The law does not address the exact relationship between the RAEOA (and its entities) and the ZEESM, but states that imported goods aimed at projects and programs of economic and social development within ZEESM are exempt from customs duties. In addition, contracts that are within the legal framework of ZEESM are not subject to the control by the Court of Audit, albeit the court still has the powers to audit the actions and contracts that are concluded within the ZEESM legal framework. Finally, the Decree Law also references a committee to monitor the implementation program of the ZEESM (government members as appointed by the Prime Minister, the President of the Authority and members of the authority that the President of the Authority appoints).

Following an external audit from the *Camara de Contas* for the period 2014-2015, the Central Government is in the process of reviewing the institutional arrangement for RAEOA-ZEESM, including its financial monitoring mechanism and oversight over the RAEOA-ZEESM operations.

Considering that the financial reports for RAEOA-ZEESM for 2017 have not been published, there is no public information available about its financial position and performance. The score is a D.

10.3 - Contingent liabilities and other fiscal risks

The PFM Law 13/2009 instructs the Government to include all information relating to contingent liabilities in the budget documentation. Article 22, paragraph 4 states "Projected amount of Government contingency liabilities that may be transferred to actual liabilities; and other information considered relevant by the Government". Article 44 states that "reports on the progress of the budget […] must include […]

information on the assets and liabilities." Article 45, paragraph 5 explicitly mentions that the annual report must include "Details of the difference between the amount projected for the Government contingency liabilities and the amount of the contingency liabilities that truly existed".

The 2017 annual financial report includes limited information related to contractual retention and guarantees, the Tibar Bay PPP operation and Oecusse revenue collection performance. The information does not however provide an assessment of the risk exposure, nor a quantified estimate or a narrative describing the potential fiscal impact, and corresponding mitigation measures. In addition, no information is provided on contingent liabilities arising from operations from public corporations (e.g. TIMOR GAP, BNCTL), from bank guarantees issued against infrastructure contract payments including the new guarantee fund for private investment. There is no mention about the ongoing legal action against the Government on the maritime border from unpaid tax refunds and from the Government's participation in the capital of private companies (e.g., the Government holds 20.59 percent of Timor Telecom shares).

For example, the financial liabilities from government's contribution under the Tibar Port PPP agreement signed in June 2016 correspond to 47% of the total cost of the project amounting to USD 129.5 million. The agreement between the Government of Timor-Leste and the Timor Port, SA consortium, establishes a 30-year concession and includes a Viability Gap Funding (VGF). The money was deposited in an escrow account at the United Overseas Bank of Singapore and funds are to be released as construction progresses over the expected three year-period. The balance of the escrow account generates interest in favour of the Government for management fees under the Infrastructure Fund, to be transferred after completion of the project and account closure.

Explicit contingent liabilities originating from tax operations are not, or only partially, reported. The Government's Annual Financial Reports provide information about taxes collected and retained by Oecusse RAEOA-ZEESM but no information relating to contractual and tax obligations. They do not mention any provisions for overdue tax refunds, while the 2018 budget included a provision for the reimbursement of exploration taxes for the Kitan field amounting to USD 64.5 million.

The Government's Annual Financial Report includes the annual report on the Social Security Fund. According to the Social Security Fund annual report, expenses were insignificant, while the expenditure budget was USD 4.95 million – largely for transfers to beneficiaries. The revenue was only 40 percent of the budgeted income. The overall fund balance at the end of the year was USD 16.3 million to be carried over to the following year.

A new credit guarantee scheme was established in 2017 to be implemented in 2019. It will assign to the Government the responsibility to cover a defined percentage of the liability in case of default by small and medium companies. This project, largely supported and monitored by the Central Bank of Timor-Leste, requires the Parliament to approve an annual budget allocation that will serve as a de facto guarantee.

At present, Central Government entities and agencies including the narrative under the consolidated annual financial report of the government do not quantify significant explicit contingent liabilities. The score for this dimension is a D.

PI-11 Public investment management

This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects.

The assessment is based on fiscal year 2017 and covers Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-11 Public investment management	**D+**	
11.1 Economic analysis of investment proposals	C	The project selection criteria include the need for economic analysis. The MPS has published "feasibility study guidelines" to support project owners. Economic analyses are conducted to assess some major investment projects but are not published.
11.2 Investment project selection	C	Prior to their inclusion in the budget, all major investment projects are prioritized by a central entity, CAFI. The team could not confirm that the selection was based on the published criteria.
11.3 Investment project costing	D	While the capital costs for the forthcoming budget years was included in the budget documents, no information was provided about the total capital cost of major investment projects, or future recurrent costs.
11.4 Investment project monitoring	D*	The team could not verify that the total cost and physical progress of major investment projects were monitored by MPS and ADN.

Since its establishment in 2011, the Infrastructure Fund (IF) is the major instrument for managing capital spending. Between 2015 and 2017, it represented over 80% of the annual allocation to capital development. The Infrastructure Fund was converted into an autonomous public agency in 2016, with more autonomy to control its expenditure on a multi-annual basis and disbursement mechanisms.[23] It remains financially dependent on an annual transfer from the State Budget. It is managed by the Council for Management of the Infrastructure Fund (CAFI). Until March 2015, the Infrastructure Fund board was chaired by the Prime Minister and composed of the Minister of Finance, the Minister of Public Works and Transport and Communication. Since March 2015, the Prime Minister no longer sits in the CAFI and the Minister of Planning and Strategic Investments is the chairman. The IF's management and financial statements are audited by the Infrastructure Fund's auditing board and the CdC.

Responsibility for Public Investment Management is shared among the National Development Agency (ADN), the Major Project Secretariat (MPS), and the National Procurement Commission (NPC). The project owner (line ministries) retains the responsibility of the project design, and once selected, its implementation and later the infrastructure operations and maintenance. The CAFI is supported by the MPS, which provides CAFI with the necessary technical and administrative support for the management of the Infrastructure Fund.[24] The ADN is under the Ministry of Planning and Strategic Investment and

23 Law 1/2016 dissolved the Infrastructure Fund as a special fund and subsequently transferred all of its obligations and rights to the newly created autonomous agency. This was further regulated by Decree-Law 13/2016 (IF regulation).

24 Decree Law 13/2016 – Infrastructure Fund.

evaluates the technical merit and feasibility of capital development projects.[25] It also monitors and certifies physical progress during execution in coordination with the respective line ministry (as project owner). It is responsible for capital development with the PDIM. The NPC is responsible for conducting procurement procedures above the USD 1 million threshold and for providing technical support to line ministries in the remaining projects.[26] All three agencies work in close collaboration during the selection and implementation of infrastructure projects. The members of the Infrastructure Fund auditing board and MPS director are all appointed by the CAFI.

The Government's front-loading investment policy resulted in a large contribution of capital development to the overall public spending. This has been estimated at 32% over the period under review (see table below). A 27.5% budget increase (additional allocation of USD 390.7 million) was granted in 2016 through a rectified budget to the Infrastructure Fund (IF) for major infrastructure programs: ports (Tibar Bay Port PPP's VGF), Tasi Mane (highway and supply base), and roads – 32.7%, 30.5% and 28.6% of the supplementary allocation, respectively.

The Strategic Development Plan 2011-2030 identifies sectors and investments that have the highest potential. In addition, some sectors have developed a Strategy which sometimes includes an investment plan (e.g., Ministry of Agriculture and Fisheries Medium Term Investment Plan 2014 – 2018).

Table 11.0.1 Contribution of capital expenditure to the State Budget (nominal, USD million)

	2015	2015 Rev.	2016	2016 Rev.	2017
Total Original Budget	**1,570**	**1,570**	**1,562.2**	**1,952.9**	**1,386.8**
Capital development	441.5	391.3	436.5	827.2	349.0
IF (including loans)	367.0	317.3	393.8	784.5	325.6
Loans	70.0	70.0	107.0	107.0	101.8
Capital development as % of budget	28.1%	24.9%	27.9%	42.4%	25.2%
IF as % of Capital development	83.1%	81.1%	90.2%	94.8%	93.3%

Note: Rev. = Revised

For the purpose of the assessment, 10 major projects have been identified in accordance with the PEFA definition of major investment projects. The total investment cost of each of the 10 major projects identified represents 1% or more of the annual budget expenditure, and each project is among the largest 10 projects of the Infrastructure Fund as extracted from the approved lists in the 2015-2017 Budget Books. These major investment projects are illustrated in the table below.

25 ADN was established under Decree-law 11/2011 (ADN regulation). ADN also directly manages construction projects up to USD 250,000 allocated to local companies in the sub-districts (Integrated Municipal Development Planning - PDIM) and supports the Millennium Development Goals Program for the Suku. The agency was initially under the supervision of the Prime Minister but with the changes in the Government's structure in 2015 it was placed under the supervision of the Minister of Planning and Strategic Investment of the VI's Constitutional Government and ultimately under the Minister of Development and Institutional Reform of the VII's Constitutional Government.

26 NPC was established under Decree-Law 14/2011.

Table 11.0.2 Largest 10 major investment projects funded through the IF 2015-2017

#	Project owner	Project	Contract amount or estimate (USD million)	Economic analysis
1	MPRM	Design and Construction of Suai Supply Base in the South Coast	719.2	**Y**
2	MPRM	Construction of Suai Bauco Highway Road Project Section 1: Suai - Fatucama/mola	298.1	**Y**
3	MOPTC	Construction and Supervision Tibar Port (PPP)	170.0	**Y**
4	MOPTC	Design, Construction and Supervision for the development of Dili Airport	128.0	**NA**
5	MOPTC	Design, Construction and Supervision for the development of Dili-Manatuto- Baucau highway (L-CF)	70.0	**Y**
6	MOPTC/MPRM	Upgrading of Existing Suai Airport, Suai, Timor Leste	67.7	**Y**
7	MOPTC	Connectivity National Roads	64.0	**NA**
8	MOPTC	Design, Construction and Supervision of Dili-Ainaro highway (Lot 3, Lot 4, Lot 5 & Lot 2 -LB)	60.0	**Y**
9	A.D.N.	Construction of 11.145 (5 by aldeai) social and community houses	48.3	**NA**
10	MOPTC	Construction Water drainage/collection of Dili (L-CF)[27]	47.0	**NA**
		Total of 10 major projects	**1,672.3**	
		Total 10 Projects as % of the original 2017 Budget	**120.5%**	

Source: Budget Books

11.1 - Economic analysis of investment proposals

Except for the project preparation phase, the public investment management function is mostly centralized. Feasibility studies are undertaken at the level of each line ministry/agency, after which projects are submitted to and assessed by MPS as part of the budget formulation process. CAFI confirms the selection and the funding decision (Article 9 of the Infrastructure Fund regulation), which may differ from the technical analysis and recommendation provided by the MPS. The selection criteria (see dimension 11.2), which is published by MPS, provides guidelines for line ministries to include an economic analysis of the proposed infrastructure in their investment proposals. In addition, ADN also has the legal mandate to evaluate major infrastructure proposals (Article 7 of the ADN's regulation) and its technical advisory role entails both the support to project selection and the contribution to the completion of the project design once selected.

For externally-funded infrastructure loans, lending institutions conduct economic analysis in accordance with their own rules and regulations. All projects with a loan financing counterpart have benefited from an economic analysis at their design stage. As a result, economic and financial analyses were

27 See PI-13.

conducted and available for 6 out of the 10 major projects selected, including the Tibar Port PPP (with the support of the International Finance Corporation), and the Tasi Mane project.[28]

Specific guidelines have been prepared by the MPS to support project owners in preparing their submission (e.g., feasibility study guidelines). Based on these guidelines, the project selection criteria require the availability of economic analyses. However, there are no provisions for the publication of the analysis of investment proposals.

Economic analyses are conducted to assess some major investment projects but are not published. The score for this indicator is a C.

11.2 - Investment project selection

Line ministries have a clear incentive to submit proposals with a strong narrative supported with appropriate studies. This includes environmental and social impact assessment, cost benefit analysis, etc. When line ministries prepare the documentation for their capital budget submission to the IF, they can ask for MPS technical support. However, the assessment team could not confirm that the selection for the 10 major projects selected for this exercise was based on the published criteria.

At the project selection stage, the MPS is responsible for providing an assessment of each project proposal for CAFI to decide on which projects to fund. After the project is selected, CAFI is then responsible for the decision on the project's financing structure (e.g., loan, self-funded, and/or PPP).

The MPS initial appraisal and selection process is based on a formal assessment of all investment proposals against eight dimensions. These dimensions are aligned to the international standards for public investment management and are listed below. Each dimension scores on a scale from 1 to 3. Scoring the eight dimensions also allows projects to be mapped to one of three categories: "important and ready", "important but not ready", and "ready but not important". Within each category, each project is ranked by final score, total score, importance and readiness, and submitted to CAFI for approval and funding.[29]

1. Alignment to the Strategic Development Plan
2. Economic viability;
3. Economic impact;
4. Social impact and job opportunities (direct and indirect);
5. Environmental impact;
6. Dependence of the project on additional infrastructure;
7. Readiness of the project for construction; and
8. Readiness of land availability for construction and assessment of possible resettlement;

28 "Tasi Mane Project, Report on the Potential Implications for the Economy of Timor-Leste", ACIL ALLEN Consulting, August 2016, report to TIMOR GAP.

29 The scoring methodology is detailed in the MPS & IF 2018-2022 Business Plan and summarized in Budget Book 3-A.

However, the MPS technical ranking and selection process is not binding and CAFI has sole responsibility for the decision on selection and funding. The inclusion of projects in the Infrastructure Fund budget proposal to the Parliament relies ultimately on a political decision made by the CAFI. The overall Infrastructure Fund annual allocation will first be allocated to fund on-going investments and cover existing contractual obligations. The remaining balance is then allocated to new projects.

Prior to their inclusion in the budget, some of the major investment projects are prioritized by a central entity, CAFI, based on published criteria. The score for this dimension is a C.

11.3 - Investment project costing

Article 3 of the PFM law requires for pluriannual projects to be included in the annual State Budget with a detailed estimated expenditure per project for at least the following two years. However, as the budget is only approved on an annual basis and annual budget allocations (including the IF's one) are disclosed only for each year, this pluriannual estimate is only indicative and not monitored by the Parliament.

In the absence of consolidated and updated data on actual project costs contracted and disbursed on a year-to-year basis, a comprehensive overview of actual project costs is not available. In 2017, Budget Book 3-A on the Infrastructure Fund provided the budgeted expenditure for the current year and disbursement forecasts for the five following years for each investment. However, the information on capital expenditures are not updated based on contracted amount. Additionally, the recurrent cost implications for the years beyond the current budget year are not factored into the forward estimates. Project co-financing from State Budget and loans and grants is not consolidated. The capital costs are disclosed for the current and forthcoming budget years and included in the budget documents, but with no information about the total capital cost of major investment projects, and no estimate of the recurrent costs.

Information on the total projected costs for the major projects is not available in the budget documents. The score for this dimension is a D.

Recent or ongoing reform activities

It is worth noting that for the first time in 2019, the total contract value of all projects is provided in Budget Book 3-A. Budget Book 1 also provides information about the Government co-financing aggregated at the level of the lending institution (but not at project level). This improvement regarding information on large infrastructure investments would improve the score for this dimension to a C.

11.4 - Investment project monitoring

The total cost and physical progress of IF-funded projects are monitored during the implementation stage by ADN and MPS. ADN is responsible to ensure that projects are implemented according to approved specifications and, as a result, carries out field inspections of projects funded by the IF. Following inspection and assessment of physical progress, ADN makes recommendations on the payment of invoices (Article 8 of the ADN regulations) submitted by contractors to the MPS which are ultimately approved by the CAFI (with powers to delegate).

ADN reported to have adopted a project checklist by type of infrastructure to standardize its monitoring procedure. Physical progress is supposed to be assessed against contract advance payments. There are, however, no official guidelines that regulate how the monitoring should take place, including the obligation to produce periodical project-monitoring reports.

Information on the implementation of major investment projects is published in Budget Book 3-A. It provides an overview of Infrastructure Fund annual spending since it started in 2015, an update on completed, active and pipeline projects, current annual expenditure and spending forecasts by the end of the current year by program, as well as the requested budget for next year and expenditure forecasts for the four following years. Financial reporting at individual project level is limited to annual expenditures for the current fiscal year and expenditure forecasts for the coming five years. In many cases, the contract amount is not published, and the cumulative expenditure to date not reported. There is also no systematic information about physical progress of individual infrastructure investments funded by the state budget, and physical progress rate is reported only for investments funded through loans. The assessment team could not get access to the relevant information to validate the monitoring process for the 10 major projects selected for the analysis.

The total cost and physical progress of major investment projects are supposed to be monitored by MPS and ADN, but the evidence could not be validated. The score for this dimension is a D*.

PI-12 Public asset management

This indicator assesses the management and monitoring of government assets, and transparency of asset disposals. The assessment is based on the fiscal year 2017. Coverage for dimension 12.2 is Budgetary Central Government, and for dimension 12.3 is Central Government for financial assets and Central Government for nonfinancial assets.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-12 Public asset management	**C**	
12.1 Financial asset monitoring	B	The main financial asset, the PF, is directly managed by the Central Bank, and its annual audited reports are published in line with international accounting standards. Cash and foreign currency reserves are reported. Other minor financial asset holdings in private companies (Timor Telecom) are recorded and monitored by the Treasury department but information on performance of these assets is not published.
12.2 Nonfinancial asset monitoring	D	The government maintains fragmented registers of some of its fixed assets in various line ministries, without including information on their usage and age. Public land has not been mapped. However, information is published on the extractive industry (mainly marble) representing the country's main subsoil public asset.
12.3 Transparency of asset disposal	C	Information on the main financial asset (PF) is clearly disclosed. There are clear government regulations in place for mobile assets' disposal, and a list of assets (mainly cars) to be disposed is produced and sent to MoF, which is responsible to organize auctions to sell them. No consolidated information on asset disposal is submitted to Parliament.

12.1 - Financial asset monitoring

The Petroleum Fund is the main national financial asset. The legal framework of the PF was established to fulfil the constitutional requirement set by Article 139 of the Constitution of the Republic that mandates a fair and equitable use of natural resources in accordance with national interest. The income derived from the exploitation of these resources should lead to the establishment of a mandatory financial reserve. Its management arrangements are clearly defined in the PF Operational Management Agreement, including its Annex 1 – Qualifying Instruments, Benchmark and Investment Mandate, dated 8 October 2010, and its amendments, signed between the Ministry of Finance and the Central Bank. There is a systematic monitoring of the PF; its annual financial statements are systematically audited, including the investment performance of the fund, in accordance with international accounting standards.

Other financial assets are recorded and monitored by MoF, but there is limited information on their actual stock, valuation, and performance in the annual financial statements. Financial participation in private companies' equity, such as Timor Telecom, are recorded by DG Treasury and the respective annual financial statements are submitted to the MoF. However, these are neither consolidated nor disclosed in the annual financial statements (see PI-10.3). The total value of cash reserves represents less than five percent of the PF.

Considering that information on the major financial asset's performance is recorded at fair value and disclosed annually in the State financial statements, the score for this dimension is assessed as a B.

12.2 - Nonfinancial asset monitoring

The government does not maintain a systematic and comprehensive register of fixed assets. Nonfinancial assets are recorded in different registers across multiple public entities without value – mostly for payment verification, logistical management, storage and maintenance purposes. Most fixed assets, such as public buildings, office furniture, IT equipment and vehicles, are under the jurisdiction of the respective line ministry/owner, but with no formal obligation to register.

Fixed assets related to capital development expenditures – such as buildings, roads and bridges – are also registered and monitored. Some of the responsibilities lie within the Ministry of Public Works (e.g., DN Roads, Bridges and Flood Control) and is reported to MoF. Registers are monitored and managed separately through various systems and Excel databases. However, none of them is reported or published in the annual financial statements.

The land recording and management, both for public and private land and properties, is under the jurisdiction of the Ministry of Justice, as per the law 1/2003 and the Decree Law 19/2004. However, the register is only manual and paper-based, and there is no regulatory framework specific to the recording, maintenance and valuation of land and land property. The Ministry of Justice lacks resources and logistical capacity to fulfil its obligations. A project for the establishment of a National Cadastre is ongoing and expected to be concluded in 2020, although covering only private property.

Mineral and energy resources are under the authority of the Ministry of Petroleum and Mineral Resources. The extractive industry, mainly marble, is the main subsoil public asset with relevant information published.

Mobile assets are under the control of the DN State Assets Monitoring and Management in MoF, but it mainly covers the government's car fleet management. Minor procurement is also monitored by the department of logistics and maintenance, while all ministries have their own department of logistics and assets control. Mobile assets are reported in quarterly reports by ministries, but only for the purchase of new goods. Currently, the asset management module in the GRP is not used and reporting information is submitted manually to MoF for annual consolidation.

The government maintains fragmented registers of some of its fixed assets in various line ministries, without including information on their usage and age, and the land ownership has not been mapped comprehensively. The score for this dimension is assessed as a D.

12.3 - Transparency of asset disposal

Clear Government regulations about mobile assets' disposal are in place. They include a list of assets (mainly cars) to be disposed of provided by line ministries to MoF which organizes public auctions. The legal framework for the management and disposal of public mobile assets is based on the Decree Law 32/2011 relating to mobile assets. Management and disposal of mobile assets is monitored by the *Direcção Nacional da Gestão do Património do Estado* under MoF. It carries out the evaluation and management of the disposal process performed by the Auction Commission.

However, disposal of other assets is decentralized to each line ministry and agency, and no information is available on the processes and/or write-off procedures. Information on asset disposal is not submitted to Parliament but included in budget reports from ministries. The Ministry of Public Works advised that a manual stipulating the methods and rules for assets disposal exists but is not yet published.

Clear procedures and rules are in place only for mobile asset disposal. Partial information is included in budget documents and financial reports on transfers or disposal. The score for this dimension is assessed as a C.

Recent or ongoing reform activities

According to MoF, an inter-ministerial commission to monitor public assets will be set up and the five-year program of the VIII Constitutional Government includes a provision for the establishment of an independent institution for public asset management. A new project is also under negotiation with Freebalance Inc to establish a new program/module in GRP for asset management.

PI-13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records and controls are in place to ensure efficient and effective arrangements. The assessment is evaluated for dimension 13.1 at time of assessment; for dimension 13.2, it is based on the last completed fiscal year; and for dimension 13.3, at time of assessment, with reference to the last three completed fiscal years. Coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-13 Debt management	**B**	
13.1 Recording and reporting of debt and guarantees	B	Timor-Leste has no domestic debt. Foreign debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.
13.2 Approval of debt and guarantees	A	The PFM Law and the Public Debt Regime grant only to the Ministry of Finance the authorization to borrow, issue new debt, and issue loan guarantees on behalf of the Central Government. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, and monitor debt management transactions by the Ministry of Finance. Annual borrowing must be approved by the Council of Ministers and the Parliament.
13.3 Debt management strategy	D	Due to the lack of financing needs outside the PF and infrastructure loans, the government has not yet produced a medium-term debt management strategy covering existing and projected government debt.

The primary legislation that governs public debt is the PFM Law (13/2009) and the Public Debt Regime Law (13/2011). The responsibility for debt management and reporting is divided between the Ministry of Finance's Public-Private Partnership and Loan Unit (front-office and middle-office functions) and DG Treasury, with back-office functions of records and payments. This is described in the Treasury Manual. While authorized by law, no domestic debt has been officially contracted by the Government to date.

The level of public debt is low, and the risk of debt distress is limited. Timor-Leste's external debt remains at low risk of debt distress, while the IMF has encouraged a greater use of concessional financing for large capital investments. The Government's frontloading strategy uses withdrawals from the PF and external loans to finance large investments. In 2016, the IMF-WB Debt Sustainability Analysis (DSA) downgraded Timor-Leste from a low risk of debt distress to a moderate risk of debt distress. Concerns related to the development of the Greater Sunrise fields and lack of proper safeguards to minimize funding risks. The latest 2019 DSA reclassified Timor-Leste at a low risk of debt distress, mainly due to a change in the DSA methodology – which now considers public assets (in this case, the PF) when evaluating an economy's capacity to withstand external shocks.

While infrastructure development loans have increased in recent years, their overall amount remains moderate. The Strategic Development Plan (2011-2030) mandates that concessional loans should be mainly used to finance "infrastructure programs such as the rehabilitation of roads and bridges". External loans signed since 2012 to 2018 totalled USD 354.8 million (7-8 percent of GDP by MoF's projections) in ten loans under six loan packages contracted with the Asian Development Bank, the World Bank, and the Japan International Cooperation Agency (JICA).[30] Loans have currently only been used for road projects. The current loans program has also considerably contracted since 2017 projections from a total USD 1.5 billion over 6 years (2016-2021), to a total USD 272 million. By the end of 2017, public debt amounted to less than 8 percent of GDP, in contrast to an average of 38 percent of GDP for emerging and developing countries in Asia. Disbursements of loans as of 25 August 2018 were USD 128.64 million, equivalent to 36% of the total

30 There are one Japanese Yen loan, six in US dollars, and three in SDRs.

loan amount. However, the anticipated decline in the PF balance may lead to rising debt financing needs in the medium-term.

13.1 - Recording and reporting of debt and guarantees

As per PFM Law (Article 20), the MoF has the responsibility to maintain the original documents and records regarding all lending or borrowing agreements. The MoF reports to the Parliament the costs of borrowing operations as part of the annual public revenue and expenditure estimates. The Public Debt Regime (Article 8) further requires the Government to report to Parliament through the quarterly and annual intermediate budget execution report, as well as the audited annual financial statements. These reports are prepared by the Public-Private Partnership and Loans Unit (PPPLU) of MoF and are based on information obtained from the GRP as well as manual records, cross-checked with information provided by departments of the MoF. The unit also regularly briefs the Minister of Finance on loans and PPPs through internal monthly executive reports and detailed Quarterly Debt Financial Reports. The PPPLU also publishes an annual report on its activity including loan disbursements, interest payments and principal repayments.

Currently, the PPPLU records and manages debt through an in-house system, although it is planning to adopt the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). The PFM Law prescribes that loans and interest payments should be recorded at the stage of disbursement and accounted for in the Consolidated Fund of Timor-Leste by MoF, DG Treasury. PPPLU reconciles disbursement data on a quarterly basis to ensure that the same amounts are recorded in the Government's debt records and the creditor's institutional records. ADB and World Bank systems allow for direct online reconciliation while JICA's loans are reconciled manually. Debt data is also used as an input to the preparation of the budget scenario by the National Directorate of Economic Policy. As a member of the World Bank Group, Timor-Leste also submits data on public debt to the Debtor Reporting System (DRS).[31]

Debt data is available in the Budget Books, as well as in the Quarterly and Annual Budget Execution Reports. Under Budget Book 1, capital spending data is presented with and without loans, and provides actual and projected expenditures under loan financing. The aggregate amount of loan repayment is presented as a public transfer under "whole of government", under "good and services". A detailed narrative is provided with information by project and more technical financial information on the different loans. A summary is also provided in Budget Book 3A under the Infrastructure Fund. In addition, donors provide disbursement information on loans through the Aid Transparency Portal.

Loans and guarantees are also covered under the CdC's Report and Opinion on the State General Account. In the 2017 external audit report of the annual consolidated government's financial statements, discrepancies between the Infrastructure Fund report and the Annual Financial Report were reported. The CdC also noted that the content of the annual report is not always consistent, as in 2017 no information was provided on the payment of interest, commitment fees and other charges, while it was reported in 2016.[32]

31 Timor-Leste scores a 1 on the World Bank's debtor reporting system (DRS) indicating no issue with the external debt reporting.

32 In addition, the CdC reported that payments of interest and other charges associated with loans, are recorded under "Transfer – public subsidies" rather than "interest payments and loans".

Foreign debt records are complete, accurate, and updated quarterly, with most information reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually. The score for this dimension is a B.

13.2 - Approval of debt and guarantees

Primary legislation grants the MoF the authorization to borrow, issue new debt, and issue loan guarantees on behalf of the Central Government as a single responsible debt management entity. Annual borrowing must be approved by the Council of Ministers and by the Parliament. After being granted borrowing authorization, MoF has the sole responsibility to negotiate and request or provide loans on behalf of the State (Article 4 of the Public Debt Regime Law and Article 20 of the PFM Law). Since 2013, the annual State Budget Law approved by the Parliament includes a specific provision detailing the maximum amount of loan financing to be contracted and used during the fiscal year, as well as their respective maturity.

The 2011 Public Debt Regime covers the principles of public debt management and restricts the purpose of borrowing to the construction of strategic infrastructure projects. After receiving project proposals from line ministries, the PPPLU will assess – in coordination with the Ministry of Planning and Strategic Investments – the optimal funding modality and recommend if a project should be financed via loans, PPP or by the State. In certain cases, lending agencies also provide technical support to establish the overall project financing structure. At a later stage, CAFI will analyze the recommended list of projects to be funded by loans and make a final recommendation to the Council of Ministers. The Council of Ministers will decide to validate borrowing proposals and include it in the State Budget submission. Loans and guarantees are included in the State Budget submission, and are, as such, submitted to the Parliament for approval.

In addition to the Public Debt Regime, a policy note has been developed by the MoF providing guidance for the mobilization of external lending. It provides a list of criteria to apply for the project selection to be funded by loans, as well as a description of the procedure to contract loans, including how to best evaluate loan proposals. Once approved by the Government and Parliament, all loan agreements and their amendments must be audited ex ante by CdC if the project amount exceeds USD 5 million. To date, all project proposals co-financed or fully financed through loans have been pre-audited. A USD 50 million project with the EXIM Bank (for the Dili drainage system) was rejected by CdC in 2016. The decision was confirmed in appeal in 2017.

In 2017, the Government – in coordination with BCTL – adopted Decree-Law 23/2017 establishing a credit guarantee scheme, although it is yet to be implemented at the time of the assessment. The regime aims to assist small and medium enterprises (with a maximum of 50 employees) to obtain financing from local banks, with the Government assuming the initial liability in the event of default. Although no maximum loan ceiling was established, the liability of the State is capped at 70 percent of the loan and excludes interest. The legal framework also mandates that a budget allocation to support the scheme must be included in the annual State budget. The 2017 Budget includes a USD 4 million appropriation for this scheme within the budget allocation for "whole of government".

A general legal framework for private public partnership (PPP) was approved under Decree-Law 42/2012 as amended by Decree-Law 2/2014. This overarching legal regime establishes the general principles that regulate PPPs and the specific provisions that PPP contracts may include (including the State's financial obligations). A further regulation was also approved under decree-law 8/2014 that details the coordination mechanisms between the different agencies involved in the PPP process, as well as the PPP life cycle. The Government approved a specific legal framework for the Tibar Port PPP project (decree-law 43/2015) that establishes the rules and procedures for the project and specifically mentions the need for the concession agreement to regulate possible compensations to be paid by both parties, as well as any payments by the State to compensate the fees and charges that would be due for the use of the port (Article 11). In addition, the legal regime set forth for the Infrastructure Fund (decree-law 13/2016) also includes a provision (Article 18) allowing the IF's capital and patrimony to be used as a guarantee to cover for its contractual obligations. This is only allowed to cover the Fund's direct obligations and cannot be used to serve as a guarantee for projects funded by the IF.

The legal regime of the RAEOA-ZEESM also references the region's powers to request loans. However, they must be duly authorized by the Central Government (Article 5 of Decree-Law 5/2015) and to date no such authorization has been made.

By law, the Minister of Finance is also authorized to issue official guarantees. However, the guarantee amount cannot exceed the unspent budget appropriations allocated to MoF or when duly authorized by law (Article 20/5).

Documented policies and procedures are in place that provide guidance to borrow, issue new debt and undertake debt-related transactions, and monitor debt management transactions by the Ministry of Finance. Annual borrowing must be approved by the Council of Ministers and the Parliament. The score for this dimension is assessed as an A.

13.3 - Debt management strategy

The Government has had a conservative approach to project financing through borrowing. Having access to a large PF to finance its operations and investments, the Government has elected to use loan financing when it provided access to expertise and an assurance of the delivery of quality strategic products. However, in 2018 it started to explore opportunities to extend its loan portfolio to other sectors, such as education and water and sanitation.

Timor-Leste has not yet adopted a medium-term debt management strategy (MTDS), although some elements of an MTDS are already in place. The State Budget Law provides both an overall ceiling for debt stock and an annual ceiling on annual expenditure financed by loans. For instance, the 2017 State Budget Law (Article 6) approved a maximum loan ceiling of USD 500 million (as a total of all projects) over a maximum period of 40 years.

Since the Government has not yet adopted a medium-term debt management strategy covering existing and projected government debt, the score for this dimension is a D.

Recent or ongoing reform activities

The MoF is currently strengthening the regulatory framework and management of its public debt. Improved debt management guidelines have been produced and are in place since 2018 for debt stock management. In early 2019, an excel-based debt management application was developed. The 2019 Budget Book 1 includes a set of guidelines used for the mobilization of external lending. The PPPLU is also planning to operationalize the Public Debt Regime through a Decree Law. New guidelines are being prepared by PPPLU for the preparation, procurement and implementation of PPPs and for the issuance of government guarantees.

Pillar Four: Policy Based Fiscal Strategy and Budgeting

PI-14 Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts. Such forecasts are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The time period is the last three completed fiscal years. The coverage for dimension 14.1 is Whole Economy, and for dimensions 14.2 and 14.3 is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-14 Macroeconomic and fiscal forecasting	**C**	
14.1 Macroeconomic forecasts	B	The government prepares forecasts of key macroeconomic indicators, which are included in the budget documentation submitted to the legislature, with information on the underlying assumptions. These forecasts cover the budget year and the two following fiscal years.
14.2 Fiscal forecasts	C	The government forecasts include revenue, expenditure and the budget balance for the budget year and the two following fiscal years. They form part of the budget documentation submitted to the legislature and underlying assumptions are presented and discussed during the budget submission.
14.3 Macrofiscal sensitivity analysis	D	The macrofiscal forecasts prepared by the government do not include a qualitative assessment of the impact of alternative macroeconomic assumptions.

14.1 - Macroeconomic forecasts

Medium-term macroeconomic projections focus on GDP and are carried out on an annual basis for fiscal planning and budgeting processes. DN Economic Policy (under DG State Finance) is responsible for carrying out macroeconomic forecasts and fiscal sustainability analysis. Forecasts for key macroeconomic indicators are prepared once a year as part of the budget preparation process. For macroeconomic forecasts, DNPE relies on its own GDP forecasting model, developed with World Bank assistance and documented in a manual for internal use only. The model provides output projections for GDP (expenditure) and its components based on historical trends. DNPE is responsible for producing annual macroeconomic projections and collecting data from various institutions, including the DG Statistics (National Accounts), Customs, TradeInvest, and the Ministry of Agriculture. However, DNPE projections are not reviewed by any other government entity. Civil society organizations have also in the past conducted their own economic analysis and challenged the Government's GDP forecasts.

The budget documentation submitted to the legislature includes short- to medium-term macroeconomic forecasts. It includes GDP forecasts, with the main underlying assumptions (e.g., private investment, consumption, and world commodity prices). DNPE presents various expenditure scenarios for decision in the Council of Ministers at an early stage of the budget preparation cycle, and the adopted baseline scenario is reported in the budget submission. The set of assumptions used to prepare projections of economic indicators is described in brief terms. The forecasts cover the budget year and the two following fiscal years.

Provision of inflation forecasts has varied over the years. A detailed analysis of the inflation trend over the past few years was included in the 2016 Budget Books with projections for the 2 following years, but the 2017 budget documents only provided estimation for the budget year. In 2018, MoF used the IMF forecast data for the budget year and the following fiscal year. The 2019 budget documents submitted to Parliament contain key macroeconomic indicators (GDP and inflation), covering both the budget year and the two following fiscal years.

The government prepares forecasts of key macroeconomic indicators covering the budget year and the two following fiscal years, accompanied by the underlying assumptions. The score for this dimension is a B.

14.2 - Fiscal forecasts

DNPE prepares forecasts of the main fiscal indicators, including revenues (tax and non-tax), aggregate expenditure and the budget balance, for the budget year and four following fiscal years. In conjunction with the MoF revenue forecasting and debt sustainability models, a debt sustainability analysis is also produced along with the IMF Article IV report with support from the IMF and the World Bank. Revenue forecasts are prepared in collaboration with revenue collecting agencies, namely the Customs Authority and the Tax Authority, as well as other revenue collecting institutions (e.g. APORTIL). Mid-year review between all collecting institutions covers in-year expenses, historical trends, the economic context and relevant policy reforms, and produces revised forecasts for the end of the fiscal year and for the new budget year.

A fiscal sustainability model is used to assess the impact of Government policy on the Petroleum Fund. The main variables are related to the output of the government's fiscal policies (composition and level of public spending, domestic revenue), the macroeconomic situation (GDP growth and inflation) and the PF (opening balance and expected revenue). Underlying assumptions are presented including on the incremental capital return ratio, domestic revenue, recurrent spending, inflation rate and the expected budget execution rates. The main output is the rate of depletion of the PF and the forecast of the PF balance.

The fiscal framework is defined by budget ceilings and fiscal rules applied for the annual budget formulation. An analysis of policy scenarios is formulated based on the GDP forecasting model and a fiscal sustainability model. The latter is documented in a handbook - for internal use only - describing its design, the measurement methods used, as well as the underlying assumptions used and their limitations. Scenarios are built to assess the policy impact of variations in the budget composition and ceilings. Underlying assumptions of the baseline fiscal scenario are partially presented in the budget submission to the legislature.

The annual budget submission includes an analysis of recent macroeconomic performance and key changes in public policies including ongoing reforms. Detailed revenue forecasts (oil and non-oil) are included for the budget year and the 4 following years. The forecasts include data on the loan portfolio and contribution to the State Budget, as part of the Infrastructure Fund portfolio.

There is no medium-term expenditure framework and Government recurrent expenditures are only calculated for the budget year. A fixed growth rate of 4 percent is applied to all categories for the following years (see PI-15). Capital development spending under the Infrastructure Fund is estimated based on ongoing contracts and the pipeline of infrastructure investments projected for the budget year and the following four years. The budget submission provides limited explanation on the differences from the previous year's budget forecasts, and it does not present the projected revenue by type.

The government prepares – for the purpose of the budget submission - forecasts of revenue, expenditure and the budget balance for the budget year and the two following fiscal years. The score for this dimension is a C.

14.3 - Macrofiscal sensitivity analysis

The Government prepares, for its internal use, a range of fiscal forecast scenarios based on alternative spending assumptions. DNPE develops three alternative scenarios: expansionary, sustainable, and contractionary. These scenarios are first presented during the government budget formulation workshop (*Jornadas Orcamentais*) and one scenario will be retained by the Council of Ministers as the baseline for the budget discussions. Scenarios are prepared for internal use and presented as charts and tables without qualitative narrative analysis. Only the revised baseline scenario is included in the budget submission to Parliament (GDP growth, inflation, ESI, excess withdrawals). The underlying assumptions for the fiscal scenario retained for the budget submission are not presented.

The macrofiscal forecasts presented by the Government do not include a qualitative assessment of the impact of alternative macroeconomic assumptions. The score for this dimension is a D.

PI-15 Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. The time period for dimension 15.1 is the last three completed fiscal years, and for dimensions 15.2 and 15.3 is the last completed fiscal year. Coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-15 Fiscal strategy	**D**	
15.1 Fiscal impact of policy proposals	D	The estimates of the fiscal impact of revenue and expenditure policy adjustments cover the budget year and not all policy adjustments. Medium-term expenditure forecasts are only calculated for the IF and the HCDF.
15.2 Fiscal strategy adoption	D	The government has not yet adopted a consolidated and consistent fiscal strategy.
15.3 Reporting on fiscal outcomes	NA	The government has submitted to the legislature, along with the annual budget, a report that describes progress made against some of its fiscal objectives and provides an explanation of the reasons for some of the deviation from the objectives and targets set.

15.1 - Fiscal Impact of policy proposals

Information on the impact of existing expenditure and revenue policies is provided to the legislature through the annual budget speech and Budget Book 1. Budget Book 1 provides revenue and expenditure estimates for the four consecutive years following the budget year. Budget Book 1 presents the detailed quantitative composition of expected revenue with an analysis of the previous year performance and trends. New fiscal policies and reforms (e.g., revised Custom Code and the new Customs and Tax Authorities) are mentioned, but information on their fiscal and development impact is very limited. As an illustration, neither the fiscal impact of the new Social Security contributory regime adopted in November 2016 (the budget allocated to the contributory regime presents a 51% increase year-to-year), nor the medium-term impact of the 2017 revision of the civil service general career regime (revised salary scale), were presented in the 2017 State Budget documents submitted to Parliament.

Gaps in the assessment of the medium- and long-term impact of major policy proposals show that policy decisions are mostly driven by the political agenda. Development needs have led the Government to adopt a front-loading investment policy with the intention to convert resources from the PF into physical capital that could contribute to economic diversification and economic growth. However, as discussed in PI-11, while the assessment of the social, economic, and revenue impact of these capital investments can be sometimes discussed at the time of the project evaluation and selection, there is no assessment of the fiscal implications of these decisions to ensure their affordability and sustainability in the longer term.

The Government prepares estimates of the fiscal impact of revenue and expenditure policy adjustments for the current budget year, but not all policy decisions are included and not for the following two fiscal years. The score for this dimension is a D.

15.2 - Fiscal strategy adoption

The Government does not have a consolidated fiscal strategy. Elements of the Government's fiscal priorities are formulated in various strategic documents -- including the SDP 2011-2030, the VIII Constitutional Government Program, and the Annual Budget Law – with additional details provided in the Budget Books and the PF Law.

The SDP 2011-2030 sets several assumptions to define economic and fiscal targets. These assumptions have been used as objectives for successive governments, including the inflation target range of 4 to 6 percent, a 95% execution rate for government's spending, and double-digit economic growth during the first SDP decade. To ensure long-term, sustainable, inclusive development of Timor-Leste, the SDP relies on a high level of government consumption (increase in cash transfers) and investment (Infrastructure Fund) to support the economy, with the aim of achieving the status of upper middle-income country by 2030. In this context, the SDP has justified excess withdrawals from the PF since 2011. In parallel, the Government has also initiated a fiscal reform of both revenue and expenditure to improve spending efficiency and revenue collection.

The VIII Constitutional Government Program also describes the expected outcomes and impacts, with some of the priority reforms and their expected outputs. Some of the set targets are quantitative (for instance, average economic growth above 7 percent during its five year mandate, and domestic revenue to reach 15 percent of GDP by 2020), but most of them are qualitative. For instance, current fiscal reforms will be consolidated under one umbrella, the "Fiscal Reform and Public Finance Management".

The Annual Budget Law sets out quantitative fiscal objectives and debt targets for the coming year, but they are not binding and are considered as political announcements. In the past 10 years, between 2009 and 2018, withdrawals from the Petroleum fund have systematically exceeded the ESI in all but one year (2013). Some elements of a fiscal strategy for the short and medium-term are presented to the Parliament through the Budget Speech delivered by the Prime Minister as an introduction to the budget proposal. The budget books provide a description of some of the short-term fiscal goals within a four-year timeframe (five years for capital development spending under the Infrastructure Fund), as well as the fiscal trends over the past four years. For instance, the 2018 budget books set a target tax-to-GDP ratio at 18% of GDP by 2023 with the introduction of a VAT.

The government has developed elements of a fiscal strategy but has not established, even for internal use, a consistent and consolidated fiscal strategy with qualitative and quantitative objectives for fiscal policy. The score for this dimension is a D.

15.3 - Reporting on fiscal outcomes

In the absence of a consolidated fiscal strategy, there is no consolidated report of progress against these objectives. Partial reporting on progress made against some of the fiscal targets are reported annually in the Budget Books and in the annual financial report, and through the quarterly financial reports submitted to the Parliament and shared with the public.[33] The Budget Books provide detailed information about revenue performance, including explanations on deviations from the initial targets. Progress made against some fiscal targets (e.g., revenue and expenditure outturn, fiscal deficit, and loans) is included with detailed quantitative data about Government's spending, but not with a systematic analysis of the budget execution performance.

The annual financial report provides general information about some of the fiscal outcomes of the last completed fiscal year. However, it lacks a comprehensive performance analysis on budget execution, including a systematic explanation of substantial variations against initial targets.

In the absence of a consolidated fiscal strategy, there is no consolidated report of progress against these objectives. Per PEFA guidelines this dimension is not scored (NA).

33 The budget for year n+1 is prepared and submitted to Parliament during year n. The budget proposal includes actual budget outturns for year n-1, while figures for year n are either estimated or kept at budget allocation level.

PI-16 Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium term estimates and the degree of alignment between medium-term budget estimates and strategic plans. For dimensions 16.1, 16.2 and 16.3, the assessment is based on the last budget submitted to the legislature (2017); for dimension 16.4, it is the last budget submitted to the legislature (2017) and the current budget (2018). The coverage is Budgetary Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-16 Medium-term perspective in expenditure budgeting	**D**	
16.1 Medium-term expenditure estimates	D	The annual budget presents expenditure estimates by administrative and economic classification for the budget year and following two fiscal years, but mostly calculated through an incremental increase.
16.2 Medium-term expenditure ceilings	D	Aggregate expenditure ceilings are only approved by the government for the budget year, but not for the two following fiscal years.
16.3 Alignment of strategic plans and medium-term budgeting	D	Medium-term strategic plans have been prepared for some ministries, but are mostly aspirational.
16.4 Consistency of budgets with previous estimates	D	The budget documents do not provide a systematic and clear explanation of some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.

16.1 - Medium-term expenditure estimates

The annual budget submission includes estimates for both expenditure and revenues for the upcoming year and the four following fiscal years allocated by economic classification and by administrative unit. However, only the Human Capital Development Fund (around 2.5% of the total budget allocation) and the Infrastructure Fund (around 27%, excluding loans) are subject to an actual forecasting exercise based on existing contracts and total planned investments. Provisions for recurrent spending and minor capital are applied a fixed growth rate of 4% in line with the SDP inflation lower-bound target range. The increase calculated for salary and wages is incremental and not based on a workforce planning exercise. Public transfers composed of grants and consigned payments are also estimated based on a fixed incremental rate, while past experience demonstrates that this appropriation category can experience significant variation year-to-year (public transfer spending increased by 8.6% between 2015 and 2016 and decreased by 13.8% between 2016 and 2017).

The annual budget presents expenditure estimates by administrative and economic classification but for more than 70% of the State Budget allocation (2018 Budget), the estimates are calculated applying a fixed incremental rate. The score for this dimension is a D.

16.2 - Medium-term expenditure ceilings

The aggregate expenditure ceiling for the upcoming budget year is normally approved by the Government before the first budget circular is issued. However, in 2015 for the first time, the aggregate expenditure ceiling for the upcoming fiscal year 2016 was approved with an indicative ceiling for the following year 2017. Subsequent budget discussions brought significant changes to the initial 2016 envelope (20% increase) as well as to the 2017 allocation (16% increase). Indicative "soft" ceilings are approved at the ministry level for the first budget year only. Budget submissions are reviewed by MoF and UPMA to ensure that the budget submissions are within the indicative ceilings as provided in the budget circular and aligned with the relevant institutions' overall mandates and government priorities. The budget circular only applies to recurrent spending (69.1% of the overall allocation in the 2018 budget).

The Infrastructure Fund receives 97.3% of the total budget allocation for capital development in the 2018 Budget and is formulated through a separate budgeting process. Capital budgets are discussed separately (see PI-11). Infrastructure investment proposals are submitted for each construction project having an estimated amount exceeding USD 1 million. No budget ceiling is circulated, as the final budget allocation will be the result of technical and political decisions, balancing existing contractual obligations, current priorities, and the overall estimated fiscal space. In the absence of a medium-term framework for the infrastructure sector, and the separate decision made on annual budgetary allocation for each ministry's proposal, there is no basis for sector investment's planning.

Expenditures ceilings are approved at aggregate level and for some budget categories at ministry level before the first budget circular is issued, but only for the upcoming budget year and not for the two following fiscal years. The score for this dimension is a D.

16.3 - Alignment of strategic plans and medium-term budgets

The link between policy, medium-term planning and budgeting needs to be improved. The overarching instrument for medium-term planning is the SDP, which is aligned with the United Nations' Millennium Development Goals and structured around three phases: short-term (2011-2015), medium-term (2016-2020), and long-term (2021-2030). In addition, medium-term strategic plans are prepared at sector level, and partially or not costed. UPMA initiated the programme budgeting reform introducing the foundations of a program structure for most public institutions, with a view to ensuring that national and sector policies and plans are consistently aligned. Some public entities currently plan and budget against an initial programmatic budget structure. Budget submissions include a budget proposal by program and activity submitted to UPMA. The annual procurement plan must be aligned to the program structure, and budget adjustments and virement requests must be supported by a description of impact on related program and activities. Public subsidy payments are formally based on the annual plan at programme and activity level and quarterly implementation reports must identify related program and activities.

Most of the strategic plans are not consistently aligned to the current mandate of the institutions, are inadequately costed, and the link to budget allocations is weak. Furthermore, in the absence of multi-annual budgeting perspective, plans are often indicative and aspirational, and do not reflect actual political commitments. As an example, the 2018 budget allocation for the agriculture sector (including Ministry of Agriculture and Fisheries, municipal services, the Infrastructure Fund agriculture program and the

PDIM), covers only 21% of the investment planned for 2018 in the Ministry's medium-term operation plan (including operational costs like salary and wages). The National Education Strategic Plan (NESP) for 2011-2030 provides a sector-wide national plan to achieve the SDP targets. It is included in the Government's priority programs and recommends investment in pre-school education from an initial annual budget of USD 3 million in 2011 to USD 17.8 million in 2020. However, the actual budget submission for the National Directorate of Pre-School Education was USD 1.35 million in 2018.

The Government has nevertheless taken significant steps and focused its efforts to improve alignment between its strategic planning framework and its annual budget process. A review of the implementation of the short-term development plan (2011-2015) was conducted in 2016.[34] Its main recommendation is to update the SDP to reflect the new development context and the broader commitment to the SDGs, and to be reflected in the sector strategies. The 2017 budget execution decree already places stronger emphasis on the program structure for procurement monitoring, budget adjustments, and public transfers.

Medium-term strategic plans are not yet consistently formulated across all sectors and existing investment plans are mostly aspirational. The score for this dimension is a D.

16.4 - Consistency of budgets with previous year's estimates

Annual budget forecasts are updated without referring to previously approved estimates. In the period under review, the budget formulation process was driven by three successive governments which had an impact on the consistency of budget priorities. The 2015 change of government resulted in a budget rectification with no change to the overall budget envelop. The approved 2016 budget was substantially lower than the initial forecasts prepared by the previous government, but it was followed by a budget rectification with a large increase in the allocation for capital development. As a result, the 2017 budget was lower than forecasts provided in the original 2016 state budget. In 2018, the VII Constitutional Government was unable to get its budget approved by Parliament, which meant that the Government operated under a duodecimal system for 9 months with serious cash constraints. After early parliamentary elections were organized, the new VIII Constitutional Government submitted a budget which included the first completed half of the year under the duodecimal system. Considering that the Government only had a couple of months to start implementing its program and executing its budget, the requested allocations were considerably lower than previous estimations.

The budget documents do not provide, at the aggregate level, a clear explanation of some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget. The score for this dimension is a D.

Recent or ongoing reform activities

The Government adopted a budgetary governance roadmap in 2017, which foresees the development of a medium-term expenditure framework.

34 It has yet to be presented to the Council of Ministers.

PI-17 Budget preparation process

This indicator measures the effectiveness of stakeholder engagement in the budget preparation process, including the consistency and timeliness of involvement of persons conducting the policy. The time period for dimensions 17.1 and 17.2 is the last budget submitted to the legislature (2018), while 2019 is presented for reference only; and for dimension 17.3 it is the last three completed fiscal years. The coverage is Budgetary Central Government.

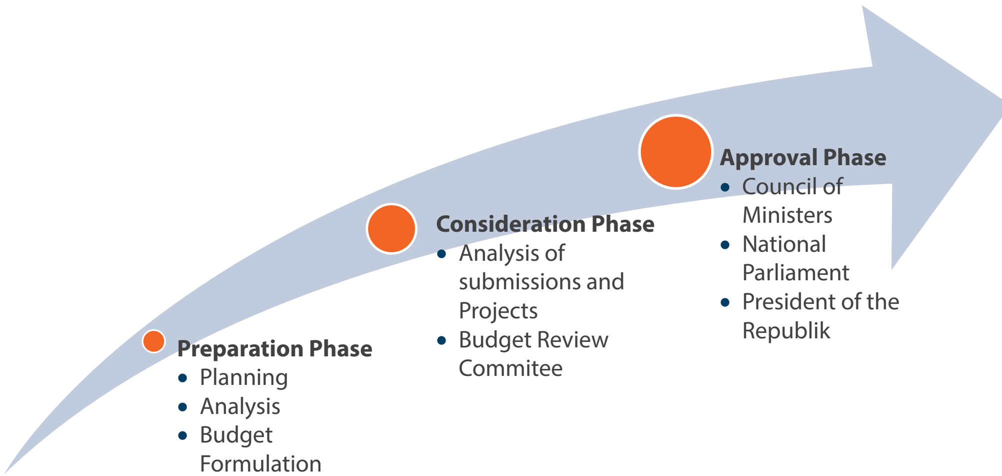
Indicator/Dimension	Score (M2)	Brief Explanation
PI-17 Budget preparation process	**D**	
17.1 Budget calendar	D	An annual budget calendar exists and is updated every year in the annual budget circular, but it was not adhered to during the last two years (2017 and 2018).
17.2 Guidance on budget preparation	D	The 2018 and 2019 budget circulars were issued late to budgetary units and the ceilings were not (or only partially) included.
17.3 Budget submission to the legislature	D	The annual budget proposal was submitted to the Parliament at least one month before the start of the fiscal year only once (2017) in the last three years.

The mandate for budget formulation is defined in the Constitution. The Government prepares the State Plan and the State Budget and executes them following their approval by Parliament. PFM Law 13/2009 further introduces the legal framework on Budgeting and Financial Management, establishing the general budget framework, as well as the rules and procedures concerning the organization, drafting presentation, discussion, voting, alteration and execution of the State Budget.

17.1 - Budget calendar

A formal budget process and calendar have been in place since 2013, followed by MoF and line ministries and covering all stages for the annual budget formulation and approval. It starts from setting the calendar for the budget elaboration process, through to the promulgation of the budget by the President. It also includes procedures for the execution and revision of the budget during the fiscal year. The annual budget preparation cycle follows three main stages, as described in Budget Manual:

1. The Preparation Phase – January to July
2. The Submission/Consideration Phase – July to September
3. The Approval Phase – September to December



The three-phase budget formulation process follows a fixed calendar, as detailed in the table below.

Table 17.1 Budget formulation calendar

	Date	Action
Preparation phase	**Jan - Mar**	Policy priorities, large projects and fiscal envelope with total expenditure level
	Jan	Planning of the budget process // collection of data and information
	Feb-Mar	Macroeconomic analysis
	May	Discussions on ceilings for MDAs (Yellow Road Workshop, now Budget Journey)
	Jun	Resource envelope approval by Council of Ministries
	Jun	Budget Circular and Fiscal Envelopes distributed
	Jul	Submission of budget proposals by the line Ministries, local authorities and APAs
Consideration phase	**Jul**	MoF final review of budget proposals sent by line Ministries, local authorities and APAs
	Aug	Budget Review Committee review of recurrent and minor capital
	Aug	Submission of adjusted budget proposals by the line Ministries, local authorities and APAs and data entry into PB
	Aug	Approval of capital projects and FDCH
	Aug	Draft State Budget recommended to the Council of Ministries
	Aug-Sep	Final Preparation of Budget documentation (Budget Books)
Approval phase	**Sep**	Draft State Budget approval by the Council of Ministries
	Oct 15	Draft State Budget Law and budget documents submitted to the Parliament
	Nov	Audience and budget panorama
	Dec	Parliamentary review and approval of the State Budget
	Dec	State Budget promulgation by the President and published in the MoF website

Source: MoF Budget Manual (draft under revision, not published)

Up to 2017 the budget formulation process was orderly and transparent. The budget circular and calendar were clear and adhered to. The process granted approximately four weeks to all budgetary units – from receipt of the budget circular, instructions and ceilings – until submission of their budget proposal. Most, if not all, budgetary units were able to complete their detailed proposal on time.

The 2017 elections interrupted the regular budget process, and the 2018 and 2019 budget calendars had to be adjusted. The changes were meant mostly to mitigate the impact of the political impasse caused by successive elections and change of governments. The 2017 budget was approved by a government that had lost the mid-year elections. The 2018 budget was submitted and approved in September 2018. For the 2019 budget, the circular was distributed with delays on 30 October 2018. The MoF conducted a working session before issuing the budget circular on 25 September to present the "expedited" procedures, deadlines and ceilings, allowing less than three weeks to the budgetary units for the submission of their budget proposal (by 12 October 2018). In a period of political changes and a minority government, the Government had to adjust the calendar due to political circumstances, allowing less than three weeks to the budgetary units to elaborate and submit their budget proposal.

In the period under review, the multiple changes of political leadership had a negative impact on the orderly budget process assessed under the previous PEFA assessment. The budget calendar was not respected in the period. The score for this dimension is assessed as a D.

17.2 - Guidance on budget preparation

According to the PFM Law, the Council of Ministers endorses the process, timetable, priorities and strategy for the next budget. The MoF is tasked with setting the direction for the next budget to provide guidance to budgetary units on the fiscal envelope – expenditure ceilings. DN Budget prepares a submission to the Council of Ministers for approval of the priorities and strategy for the next budget and the annual budget fiscal envelope. DN Budget, in consultation with the DN Economic Policy, allocates the aggregate fiscal envelope for CFTL recurrent costs to each line ministry and State institution to guide the preparation of their budgets.

A capital development envelope is also defined, but not allocated at the ministry level. These categories are further assessed on a case by case basis by the Budget Review Committee. The amount of capital development to be used for the Integrated District Development Plan (*Planeamentu Dezenvolvimentu Integrado Distrital*, PDID) and the National Program for Village Development (*Programa Nasional Desenvolvimentu Suku*, PNDS) projects is agreed with the Ministry of State Administration.

The draft Annual Budget Circular prepared by MoF is based on the decisions made at the Council of Ministers meeting on the budget process and normally includes the following:
- The decision of the Council of Ministers on budget priorities and strategies;
- The expenditure ceilings for all ministries and secretariats of state for salaries and wages, goods and services, minor capital, and capital development;
- The timetable and the deadlines that ministries must meet;
- The templates ministries must complete;
- A list of DN Budget focal points.

The information included in the Budget Circular for budgets since 2015 is described in the table below:

Table 17.2 Items included in Budget Circular distributed by budget department

Included in Budget Circular	2015	2016	2017	2018	2019
The decision of the Council of Ministers on budget priorities and strategies;	Yes	Yes	Yes	Yes	No[35]
Ceilings for all Ministries and Secretariats of State for Salaries and Wages, Goods and Services, Minor Capital and Development Capital	Yes (Annex 2)	Yes (Annex 2)	Yes (Annex 2)	Annex 2 (but distributed already before circular)	No[35]
The timetable and the deadlines that Ministries must meet	Yes	Yes	Yes	Yes (partial calendar)	No[35]
The templates Ministries will need to complete	Yes (Annex 3 to 8)	Yes (Annex 3 to 8)	Yes (Annex 3 to 8)	Yes (Annex 3 to 8)	Distributed before the circular
A list of Budget Directorate Focal Points	Yes (Annex 10)	Yes (Annex 10)	Yes (Annex 10)	Yes (Annex 10)	n.a.

Due to the 2018 elections, the 2019 budget preparation process was unusual. The circular for the 2019 budget arrived late to the budgetary units and did not provide all the information usually available. It did not set annual and medium-term expenditure ceilings. Information was instead disseminated to all line ministries and other budgetary units during a work session held on September 25, 2018 and included ceilings pre-approved by the Council of Ministers for the upcoming fiscal year, before the dissemination of the circular.

The 2018 and 2019 budget circulars were issued late to budgetary units and the ceilings were not (or only partially) included. The score for this dimension is assessed as a D.

17.3 - Budget submission to the legislature

According to the PFM Law, the budget submission to the Parliament should occur before October 15 of each year. However, the 2016 and 2017 annual budget proposals were submitted to Parliament about one month before the year end. The 2018 budget proposal was submitted during the same year, due to the elections that affected the normal budget preparation process. During the same year and after approval of the 2018 Budget, the Government initiated the preparation of the 2019 Budget in late August 2018. The budget preparation process was accelerated, and the Government was able to submit the budget proposal in less than two months before the year end.

35

Table 17.3 Dates of the budget submission to the Parliament

Year	Date of budget submission	Months/weeks before new fiscal year
2015 (2016 Budget)	2 December 2015	< 1 month
2016 (2017 Budget)	23 November 2016	>1 month
2017	No submission	
2018 (2018 Budget)	27 August 2018	Late submission
2018 (2019 Budget)	8 November 2018	<2 month

Note: 2019 Budget for reference only

In the last 3 years, only the 2017 budget proposal was submitted by the Government to the Parliament at least one month before the start of the fiscal year. The score for this dimension is assessed as a D.

PI-18 Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The time period is the last completed fiscal year for dimensions 18.1, 18.2 and 18.4; and for dimension 18.3 it is the last three completed fiscal years. The coverage is Budgetary Central Government.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-18 Legislative scrutiny of budgets	**C+**	
18.1 Scope of budget scrutiny	B	The parliamentary review covers projections of revenue, programs/sub-programs/activities, the Infrastructure Fund, municipalities, and the special economic zone, as well as details of committed funds from development partners and the Human Capital Development Fund, but not medium-term fiscal forecasts and medium-term priorities.
18.2 Legislative procedures for budget scrutiny	A	According to the Constitution, the PFM Law 13/2009, and Parliament's regiment 2016, it competes to the Commission C the scrutiny of the annual budgets and regulate the detailed parliamentary procedures to review budget proposals, technical support, and negotiation procedures in advance of budget hearings and approval of the annual budget law by the Plenary. The established procedures are respected by the Parliament.
18.3 Timing of budget approval	C	The Parliament has approved the annual budget before the start of the year in two of the last three fiscal years, but with a delay of 8 months in the third year.
18.4 Rules for budget adjustments by the executive	B	The PFM Law sets the rules for in-year budget adjustments (virements) by the executive. The rules set strict limits on the extent and nature of amendments up to 20% of the total budget, and they are adhered to. Furthermore, MoF regulates the different types of in-year budget adjustments and approval authority within the government, while UMPA undertakes an impact evaluation on the Government's programs.

Parliamentary scrutiny is defined under the PFM Law 03/2009. It defines, among others, the relationship between the Parliament and the Government, the distribution of financial management responsibilities, and establishes the core budgetary rules and procedures related to the budget elaboration, submission to the Parliament, and its approval.

18.1 - Scope of budget scrutiny

The Parliament plays a critical role in the budget process. The scope of budget scrutiny by the Parliament covers a broad and extensive range of budget documentation compiled in six Budget Books, as follows:

- BB 1: Budget Overview;
- BB 2: Annual Action Plan;
- BB 3A: Infrastructure Fund;
- BB 3B: Municipalities;
- BB 3C: RAEOA-ZEESM;
- BB 4a and 4b: Budget Line Items;
- BB 5: Development Partners; and
- BB 6: Special Fund – FDCH.

The budget documents are reviewed by Commission C on Economy and Finances. The latter produces a report with recommendations presented to the plenary session of the Parliament, debated with line ministries and in public hearings. There is no restriction to the coverage of the debates and, in general, it focuses on critical issues, mainly related to oil resources and the PF's investment portfolio, capital development, and priorities of the social sectors.

The parliamentary review covers all the budget information contained in the Budget Books submitted by the Government. The budget documentation includes fiscal forecasts, projections of revenue, programs/sub-programs/activities, the Infrastructure Fund, municipalities, and the special economic zone, as well as details of committed funds from development partners and the Human Capital Development Fund. Most fiscal policies are presented, even if not in a systematic way (see PI-15). However, it does not include specific medium-term fiscal forecasts, medium-term priorities, and projections for growth**.**

The parliamentary review covers fiscal policies and aggregates for the coming year, as well as details for expenditure and revenue. The score for this dimension is assessed as a B.

18.2 - Legislative procedures for budget scrutiny

The procedures for budget scrutiny by the Parliament are clear and established in Parliament's bylaws 2009 (*regimento interno*). According to Article 52, paragraph 3 of the Parliament's bylaws, the budget proposal is discussed in a plenary session, while Article 163 stipulates that after reception, the law proposals (including the budget law proposal) are distributed immediately to the parliamentary parties and transmitted to the Commission C for the elaboration of a documented report and opinion. The reports and opinions should be elaborated within 20 days. For the appreciation of the proposed budget law, Commission C can convoke members of the Government, including the MoF to clarify and justify the proposed budgeted expenses or revenues. These members should send to Commission C written information about the budget proposals in their respective areas. Commission C has access to and relies on foreign technical expertise during the process.

The adoption of the budget follows a participatory and transparent process. After reception of the report and opinion from Commission C, the President of the Parliament convokes a plenary session for the discussion and vote of the budget proposal that can last up to three days. The debate and public hearings are initiated and closed by the Prime Minister. After the vote on the general budget law proposal, a debate involving representatives from line ministries and civil society takes place until the final vote in the plenary session.

The Parliament procedures are approved in advance of the budget review proceedings, based on the Constitution and Parliament's bylaws. Commission C is the specialized review committee responsible for the scrutiny of the annual budgets and issues a report with recommendations to the plenary, with negotiation procedures in place in advance of budget hearings and approval of the annual budget law by the plenary session in Parliament.

The Parliament procedures for the budget review are well established, include internal arrangements for specialized committees, technical support and negotiations procedures, and are generally respected. They include arrangements for public consultations. The score for this dimension is assessed as an A.

18.3 - Timing of budget approval

According to Article 30 of the PFM Law and Article 162 or the Parliament's bylaws 2009, the budget proposals should be submitted to Parliament by 15 October of each year. This timing is not applicable when the Government has been dismissed, when there is a new Government, or at the final period in the mandate of Parliament. The dates of budget proposal submission to and approval by Parliament are presented below.

Table 18.3 Dates of budget proposal submission to and approval by Parliament

Budget of FY	Date of budget submission	Date of approval by Parliament	Enacted by the President
2016	29 October 2015	*18 December 2015, 8 January 2016	14 January 2016
2017	14 October 2016	1 December 2016	28 December 2016
2018	7 August 2018	7 September 2018	27 September 2018
2019	22 November 2018	23 December 2018	7 February 2019

**Note: The 2016 budget was initially vetoed by the President, and then reapproved by Parliament.*

Budget approval procedures are usually timely and approved before the start of the year. It was the case for the 2016 and 2017 budgets, but not for the last completed fiscal year (2018 budget). The budget proposal was approved in September of the same year (2018), with a delay of more than 8 months, due to the dissolution of the Parliament and anticipated elections in May 2018 that disturbed the timeliness of the budgeting process.

Considering that the legislature has approved the annual budget before the start of the year in two of the last three fiscal years, but with a delay of eight months in the third year, the score for this dimension is assessed as a C.

18.4 - Rules for budget adjustments by the executive

The Budget and Financial Management Law 13/2009 under Articles 34 and 38 establishes a clear legal framework and procedural rules that govern in-year amendments by the executive. According to Article 34, the Government can present adjustments to the budget when they are justified by the circumstances. Article 38 on "budgetary changes to the budgets of services which do not have administrative and financial autonomy" stipulates the following:

1. The Government's competence to amend the budget of services that do not have administrative and financial autonomy from a ministry or State secretariat, provided that the amount of the transfer does not exceed 20% of the budgetary allocation from which the amount is transferred.
2. The transfer from the budget appropriations allocated to the services referred to in the preceding paragraph does not require authorization from the Minister of Finance.
3. Transfers of funds from the budget category of capital development to any other budget category are prohibited.
4. Transfers of funds from the budget category of wages and salaries to any other budget category are prohibited.
5. The Government is responsible for transfers of funds from the budget of services that do not have administrative and financial autonomy between different chapters (i.e., between directorates within the same ministry).

The rules do not allow extensive administrative reallocations and set strict limits on the extent and nature of amendments. An increase in the originally allocated budget has occurred twice during the last 6 years, in 2010 and 2016. Budget reallocations across ministries are not frequent, as most of the virements occur between budget categories within the same line ministry budget. In this case, they take place only after the minister's approval and request for UPMA's review before reallocation. UMPA is tasked to assess the impact of the proposed virements on the government's programs and notifies MoF.

The PFM Law 13/2009 sets the rules for in-year budget adjustments (virement) by the executive. The rules set strict limits on the extent and nature of adjustments up to 20% of the total budget at the ministry and budget category level with restrictions regarding salary and wages and capital development, and they are usually adhered to. Furthermore, MoF regulates the different types of in-year budget adjustments and approval authority within the government through the annual decree on budget execution.

Clear rules exist for in-year budget adjustments by the executive and are adhered to in most instances. Extensive administrative reallocations may be permitted. The score for this dimension is assessed as a B.

Pillar Five: Predictability and Control in Budget Execution

PI-19 Revenue administration

This indicator relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contributory administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. It therefore covers the PF. The assessment period for dimension 19.1 and 19.2 is at time of assessment, for dimension 19.3 and 19.4 it is the last completed fiscal year. Coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-19 Revenue administration	**D+**	
19.1 Rights and obligation for revenue measures	A	Entities collecting most revenues provide payers with access to information on the main revenue obligation areas and on rights, including (as a minimum) redress processes and procedures.
19.2 Revenue risk management	B	ANPM, the entity collecting petroleum revenues, uses approaches that are comprehensive, structured and systematic for assessing and prioritizing compliance risks on revenue collection. Royalty rates and profit share are agreed to up front and audited annually.
19.3 Revenue audit investigation	A	ANPM ensures operator's compliance through evaluation of industry reports, audits and inspection of facilities, vessel rigs and through audits required by the applicable of the JPDA and Timor-Leste Exclusive Area (TLEA). Other revenue collecting entities do not have a compliance improvement plan and do not complete the majority of planned audits and investigations.
19.4 Revenue arrears monitoring	D*	The stock of revenue arrears at the end of 2017 could be assessed with certainty only for the PF, and there is no system to categorize the revenue arrears based on their ageing. Additionally, important refund and repayments of the PF are still pending, questioning the effectiveness of the PF reconciliation procedures.

Diversifying and increasing domestic revenues is a priority for the Government. The Fiscal Reform Commission (FRC) was established in 2015[36] to assist the Government to stabilize and diversify sources of revenue (such as forestry, fisheries, tourism, mining, agriculture and manufacturing); raise more domestic revenue; and ensure that the PF is properly managed. The government's ability to collect revenues is an essential component of its PFM system, therefore "collecting more" is an integral component of the Strategic Development Plan 2011-2030.

The Petroleum Fund represents 85% of the total 2017 revenue and is enough to reach the materiality coverage for this indicator. However, informative comments are provided on indirect taxes representing 6% of the total 2017 revenue, and income taxes representing 4% of the total 2017 revenue. It excludes other taxes such as fees and service charges, revenue from other agencies, social contributions, other non-tax revenues of customs, etc. The distribution of revenue collection by tax categories is presented below.

36 It has been subsequently dissolved in May 2019 to establish a new PFM reform structure with a more comprehensive mandate.

Table 19.0 Distribution of revenue collection in 2015-2017 (USD)

	2015	2016	2017	% of Total Revenue in 2017	% of GDP
Non-Tax Revenue	**53,921,461**	**55,165,922**	**54,703,768**	**4.24**	**3.40**
Fees and Service Charges	36,917,376	39,947,143	43,608,176	3.38	
Other non-tax revenue	9,622,461	6,187,969	5,248,726	0.41	
Revenue Retention Agencies	7,381,624	9,030,810	5,846,865	0.45	
Social Security Contributions			**22,752,189**	**1.77**	**1.41**
Tax revenue	**129,241,755**	**143,733,239**	**132,728,773**	**10.30**	**8.25**
Other Tax Revenues	**239,647**	**706,319**	**1,260,308**	**0.10**	**0.08**
Other Non-Tax Revenues of Customs and NDDR	239,647	706,319	1,260,308	0.10	
Service Tax	**3,095,285**	**2,680,238**	**2,515,235**	**0.20**	**0.16**
Service Tax	3,095,285	2,680,238	2,515,235	0.20	
Taxes on commodities (Customs)	**69,772,088**	**76,167,796**	**74,211,948**	**5.76**	**4.61**
Excise Tax	42,169,827	47,170,871	41,552,971	3.22	
Import Duties	13,184,087	14,205,305	15,324,299	1.19	
Sales Tax	14,418,175	14,791,619	17,334,678	1.34	
Income taxes	**56,134,735**	**64,178,886**	**54,741,282**	**4.25**	**3.40**
Corporate Taxes	8,758,436	13,861,223	10,723,411	0.83	
Individual Income Tax	5,533,770	8,211,023	7,364,212	0.57	
Individual Income Tax Others	14,012,143	9,079,950	11,962,458	0.93	
Withholding Tax	27,830,386	33,026,690	24,691,202	1.92	
Petroleum Fund (withdrawals)	**1,278,500,000**	**1,244,800,000**	**1,078,800,000**	**83.69**	**67.02**
Grand Total	**1,461,663,217**	**1,443,699,161**	**1,288,984,730**	**100.00**	**80.08**

Source: MoF and BCTL

19.1 - Rights and obligations for revenue measures

Petroleum Fund

The Petroleum Fund Administration Unit (PFAU) is responsible for monitoring and assessing the use of the PF. Its tasks include, inter alia, organizing clarification sessions in order to improve knowledge on the management of the PF by all interested parties.[37] The Department of Oil and Mineral Revenue Accounting (DOMRA), previously the Petroleum Revenue Management Department, under the DN Revenue Accounting, is responsible for issues related with the estimation and monitoring of petroleum revenues, excluding royalties and profit sharing which falls under ANPM.

37 https://www.MoF.gov.tl/about-the-ministry/organisation-structure-roles-and-people/executive-office/petroleum-fund-administration-unit/?lang=en

ANPM acts as the regulatory authority for the oil, gas and mineral related activities. It uses multiple channels to provide payers information on their main revenue obligations and rights. Information is easily available on the up-to-date multilingual website[38] and through various comprehensive reports. The authority is also actively engaging in dialogue with the private sector via a formal consultation process,[39] and regular announcements are made regarding changes to the legal framework.[40] In relation to Production Sharing Contracts (PSCs), the payers' rights and redress process and procedures, are documented in the PSCs. Some PSCs are publicly available on the ANPM website. Payers consulted have confirmed that their obligations and rights are very clearly stipulated, understood and well managed by the ANPM.

Timor-Leste is an implementing country of the Extractive Industries Transparency Initiative (EITI). The EITI sets the global standard to promote the open and accountable management of oil, gas and mineral resources and seeks to address the key governance issues of these sectors. Timor-Leste took corrective actions on multiple requirements and achieved satisfactory progress[41] in meeting the EITI Standard on 14 February 2018, during the second validation process. The EITI Reports tracks how much of the PF is transferred annually to the government budget. The EITI website is linked to the MoF website and contains comprehensive and easily accessible, although slightly dated, information – excluding the validation process which is up-to-date.[42]

Information about Timor-Leste's sovereign wealth fund (the PF) satisfies the international standard set by the EITI, is transparent, comprehensive and accessible through multiple channels. The BCTL and the MoF have provided multiple channels of access (internet, publications, seminars, consultations, press releases, TV talk shows), so that payers can easily access comprehensive and up-to-date information on their revenue obligations. Overall, the level of disclosure and transparency of PF is satisfactory, especially given existing capacity restraints. Information regarding the payment process to the PF is simple, clear and well documented. Communication across all the PF entities is adequate.

Indirect Taxes

In 2018, the Customs Authority (Customs) was established as a semi-autonomous agency.[43] The overarching law governing indirect taxes is the Tax and Duties Act (Law 8/2008). In 2017, the Customs Code (Decree Law 14/2017)[44] codified the customs legal framework (DL 10/2003; DL 9/2004; DL 10/2004; DL 11/2004; DL 8/2006; DL 15/2005). In 2016, the Arusha Declaration (revised version) was adopted by the Council of Ministers declaring the intention of "making Customs free of corruption" a top priority for the Government.[45]

38 http://www.anpm.tl

39 http://www.anpm.tl/category/public-consultation/ includes engagement with international organizations, universities and research centres

40 http://www.anpm.tl/category/procurement/announcement

41 Satisfactory progress designates that all aspects of each requirement have been implemented and the broader objectives of the requirements have been fulfilled. TL is currently coloured dark green on the EITI map.

42 https://eiti.org/timorleste

43 https://www.MoF.gov.tl/frc_menu/?lang=en

44 Available only in Portuguese

45 http://www.wcoomd.org/-/media/wco/public/global/pdf/about-us/legal-instruments/declarations/arusha-e.pdf?la=en

All Customs laws are available via the website, mostly in English and Portuguese, even if not always up to date.[46] For example, only laws from 2003-2007 are listed. Information regarding Customs policies and notices and the payers' obligations pertaining to importing, exporting, exemptions, inspection process, seizure of goods are published on the website in English, Portuguese and Tetum. Operators and other stakeholders can also obtain information, forms, register, lodge filing, make payments online and/or directly through numerous Customs posts located throughout the country.

Since the last 2013 PEFA assessment, Customs has made positive progress through the successful installation of ASYCUDA World. ASYCUDA World[47] is compliant with the World Customs Organization (WCO) and World Trade Organization (WTO). Operators are currently provided with access to publicly available information through various sources (online, printed form, awareness emails, media)[48] regarding their obligations and rights. As part of the new system, Customs has been provided training to its staff, brokers, shipping agents and other stakeholders involved in the Customs clearance process. Customs has also conducted a brokers' accreditation program (merit-based selection) to license brokers and has established the National Consultative Forum (NCF) that regularly meets with the private sector and other border agencies to discuss issues related to Customs clearance and trade processes.[49] All importers must use a broker, who are central to the distribution of information and collection of revenue. The MoF publishes a list of brokers with their functions and contact details on their website[50] and there is an active Customs Brokers Association.

Income Taxes

As part of the modernization of the tax administration system, the Tax Authority[51] has adopted a new structure in 2018 (Decree Law 13/2016). The overarching law governing all income taxes is the Taxes and Duties Act (TDA) (Decree Law 8/2008). Easy access to information is provided to taxpayers through multiple sources: MoF central office; municipal offices; MoF website (the Tax Authority does not have a dedicated website); media outlets and billboards; public awareness and training sessions; and SERVE[52] one-stop-shops. Website navigation is challenging as the specific information is not always easy to search. The Tax Identification Number (TIN) re-registration program commenced in November 2013 and continued until 2015. The 2013 PEFA reported significant issues due to duplicated TINs. Since then, registration can also be made by going physically to the Tax Authority or via a SERVE office.

A redress process is in theory accessible. Prior to issuing a final assessment, the Tax Authority provides the taxpayer with a pre-assessment, which gives the taxpayer the opportunity to raise any concerns or additional information before the assessment is finalized. Once a final assessment is issued, the taxpayer can lodge an appeal with the Appeals and Legal Support Office (ALSO) which has 4 staff members and reports directly

46 https://www.MoF.gov.tl/category/documents-and-forms/customs-documents/customs-law/?lang=en

47 The upgrade was based on a 2014 agreement between the Ministry of Finance UNCTAD implemented in 2017

48 Included press and news releases and TV appearances e.g. the CPLP of Custom meeting

49 Sixth Constitutional Government 2015-2017 Report

50 https://www.MoF.gov.tl/customs/importing-cargo/customs-brokers-list/?lang=en

51 https://www.MoF.gov.tl/frc_menu/?lang=en

52 SERVE continues to offer taxpayers an option to access information about their obligations and rights although the legislation via the SERVE's website is not available in English.

to the Tax Authority. ALSO is tasked with providing an independent review to any taxpayer who lodges an appeal[53] on the grounds that they are either dissatisfied with a decision made, a tax assessment issued, or an additional tax liability imposed by the Tax Authority.

Entities collecting most revenues use multiple channels to provide taxpayers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on the redress process and procedures. The score for this dimension is assessed as an A.

19.2 - Revenue risk management

Petroleum Fund

The Government needs to identify sustainable long-term revenue from diversified sectors or secure new petroleum inflows. In 2017, the PF benefitted from favourable economic conditions from overseas financial markets, resulting in a 10.4% investment return (USD 1.6 billion). The PF is audited annually by an external auditor and is designed to provide a high standard of accountability and transparency to reduce the risk of mismanagement. The investment return portion of the PF revenue has been excluded from the PEFA assessment, given that it reflects a commercial third-party return on a transparent and audited investment portfolio.

In this report, the risk management of the Petroleum Fund (which collects the majority of government revenue) is concerned with the risk in collection of non-investment revenues totalling USD 421.6 million in 2017. The revenue depends on the geographical location of the petroleum operations, as it determines the Government's ownership percentage, and on the PSC agreements between the government and the oil and gas companies, whereby the oil company contractor agrees to meet the exploration and development costs, and revenues are shared with the Government.

The 2017 Petroleum Fund revenue includes two[54] main elements:

- **Contractors' tax obligations** arising under the Tax Acts and the ToBUCA (Taxation on Bayu Undan Contractors Act, which is applied exclusively to JPDA PSC 03-12 and JPDA PSC 03-13) for USD 188 million and,
- **Royalties collected by the ANPM** from one large gas field operated by ConocoPhillips, represents the Government's share of production before cost recovery and profit share ("profit oil", which is calculated after allowing oil companies to recover exploration, development and operating costs), for USD 234 million.

There are currently two jurisdictions under the PF:

- **Joint Petroleum Development Area (JPDA),** established by the Timor Sea Treaty (TST) in 2002. Revenues are divided between Timor-Leste (90%) and Australia (10%), but this will change as per the 2018 Maritime Boundary Treaty between Australia and Timor-Leste; and

53 An appeal must be lodged in writing within 60 days of receiving notice of the decision made, taxation assessment, or additional tax liability imposed.

54 In 2017, ANPM also collected mineral revenues (prospecting license fees, compensation fees, exploration and mining license fees) totalling USD 1,034,568 recorded under "fees".

- **Timor-Leste Exclusive Area (TLEA),** which refers to the territory of Timor-Leste as defined by the Petroleum Act (Law No. 13/2005), and Timor-Leste retains all revenues.

The ANPM established an interactive online fiscal database called LAFAEK to manage all aspects of the petroleum activities and all operators are by law audited annually. The risk management is defined by very clear and specific contractual terms and followed up by the ANPM on a structured, systematic approach for each contract.

Indirect Taxes

ASYCUDA World provides an effective platform for risk management. The platform is an integrated system that records all import and export data, through which both cargo and air goods are now reported electronically. Customs are in the process of simplifying the clearance process, developing process flow charts, guidelines and internal policies. In May 2017, Customs started the process of transitioning from paper processing to online via ASYCUDA World. Customs rely on ASYCUDA World's electronic capabilities to supplement the predominately manual processes, currently in place to manage revenue risk.

ASYCUDA World operates on five established risk selection criteria that select the operators that pose the highest risk to revenue collection:

(i) New Profile, whereby all new companies are automatically added;

(ii) Risk Country includes countries that are known to breach customs rules and regulations;

(iii) Risk Commodity includes goods that are subject to excise duties with a high risk of evasion and/or fraud (e.g. drugs, weapons, explosives, cigarettes, alcohol, high end motor vehicles);

(iv) Risk Company is based on the operator's historical performance. Red flag indicators include slow or incomplete payments; insufficient documentation provided and/or contains errors; and/or there is a history of varying degrees of non-compliance behaviour;

(v) Customs Broker performance and compliance history.

Most payment activities are handled via customs brokers. There are currently 25 brokers, 22 belonging to the Customs Brokers Association. Payment methods include:

- Point of Sale (POS)[55] machines available in every port; taxpayer takes the receipt to Customs to verify the amount paid, Customs then reconciles the payment to the assessment;
- Direct Online Payment;
- Cash Payment at the bank and the payers takes the receipt to Customs who reconcile the payment to the assessment.

Customs operates four channels of release:

- Green Channel: the broker submits all details and payment in the system and there is no further action;
- Yellow Channel: the goods are subject to a scan or x-ray;

55 Customs encourage payment via card at POS, however some operators explained this method can be problematic. Operators' own internal control procedures may not permit automatic POS payments for large amounts e.g. greater than $100,000. There is no streamlined direct payment system via online banking and no fully automated reconciliation process.

- Blue Channel: the company will be subject to a document review (also referred to as a desk audit);
- Red Channel: requires inspection and companies are selected randomly by DN Risk Management (NDRM).

At the time of the PEFA assessment, there was no evidence of an effective risk assessment process in place. Cases are supposed to be reviewed monthly by a Risk Management Committee comprising 6-7 Customs staff and approval from the Director-General of Customs is necessary before an inspection is initiated. The Risk Management Committee was developing the risk assessment criteria to be integrated in the ASYCUDA World system and support the selection of cases for further review/audit. During the period May 2017 to August 2018, 2,689 active operators and 21,324 transactions were recorded. Approximately 50 operators are selected annually for comprehensive follow-up action, but in 2017 only 15 operators were effectively formally inspected. Customs' capacity and resources are limited as it is understaffed[56] and the current staff do not possess the necessary skill set or have the required equipment to carry out a thorough inspection. Customs operates under a self-assessment regime and NDRM handles small, medium and large operators. NDRM supplement the automated risk-based process with information obtained from third party intelligence, usually via informants.

Income Taxes

Since 2015, the Tax Authority and the FRC have been implementing new procedures, IT systems and investing in developing tax auditing, taxpayer services, risk management and tax return processing but significant gaps remain. The Information Systems Unit (ISU) had five staff and manages the SIGTAS system, which handles registrations, filings, payments and assessments. A review of the functionality of SIGTAS revealed that it lacks the functionality to support a comprehensive risk-management model, predominately because it does not allow for electronic processing (registration, filing, payment, assessment) and it does not interface with data from other entities (e.g., Customs, banks, FreeBalance, taxpayers). Data extraction from SIGTAS to provide the number of companies, revenue, profitability and tax paid per sector was not possible at the time of the assessment.

The Government operates under a self-assessment regime and DN Tax Inspection (NDTI) is responsible for the revenue risk management for all audits of small and large taxpayers. Currently taxpayers are classified as either small (revenue below USD 1million) and large (revenue above USD 1 million). NDTI plans to introduce a medium classification in 2019 (between USD 600,000 and USD 1 million). There are 165 entities in the large taxpayer category, which are managed by a total of eight staff in NDTI. A register identifying the compliance risks for the top-100 taxpayers was produced by the NDTI, but a complete register identifying compliance risks for each taxpayer segment is currently not available.

The NDTI approach for assessing and prioritizing compliance risks is still rudimentary. A summary of the tax return for a group of taxpayers is accessed directly by the NDTI via SIGTAS. The information is analyzed manually and taxpayers that pose the greatest potential risk of non-compliance are highlighted in an Excel spreadsheet supported by the management's decision. In 2017, plans required that the top-100 taxpayers with the highest compliance risk be identified for audit, but due to resource constraints only 60 taxpayers

56 There are only 15 people in the NDRM, 1 Director, 7 staff dedicated to the Department of Risk Analysis and 7 staff under the Department of Anti-Fraud who carry out the inspections.

were subject to either a desk or a field audit. Technical skills to complete a comprehensive, structured and systematic revenue risk process in line with international best practice still need to be developed internally.

The Tax Authority revenue risk management of registration, filing and payment relies predominately on manual time-consuming processes, but it is nevertheless partly structured and systemic. Duplication of TINs continue to be reported as a weakness of the control mechanisms. The SIGTAS system does not support the implementation of an automated risk management approach. The ISU is understaffed and there is a lack of qualified human resources with the know-how to implement a comprehensive risk assessment process. The noticeable absence of a transfer pricing regime exposes the Government to potential profit shifting.

There is room to improve the efficiency of assessing and prioritizing compliance risk applied by Customs (indirect taxes) and the Tax Authority (income taxes) to small, medium and large taxpayers. However, based on the information available for the PF representing most of the collected revenue, the score for this dimension is assessed as a B.

19.3 - Revenue audit and investigation

Petroleum Fund

The Petroleum Fund is a member of the International Forum for Sovereign Wealth Funds (IFSWF) and observes the Santiago Principles based on international best practice.[57] The Single Auditor (SA) is responsible for monitoring legality, regularity and proper financial and patrimonial management of the APNM.[58] Deloitte, an internationally-recognized external audit firm, has audited the PF's annual financial statements. ANPM invests heavily in its 99 staff's technical and management capacity (through workshops, conferences, secondment, internships). The benefits generated from the tailored capacity building program, is echoed in the sentiment of the private sector which generally considered the ANPM to be one of the most professional, qualified and well-prepared PF agencies.

ANPM ensures operator compliance through evaluations of industry reports, audits and inspection of facilities, vessel rigs and through audits required by the applicable of the JPDA and Timor-Leste Exclusive Area (TLEA). Revenue receipts are managed via the LAFAEK system and given the nature of the revenue (royalties and profit sharing), the revenue, expenses and profits are intrinsically linked to production activities. In the last fiscal year, ConocoPhillips paid the full amount collected by the ANPM and are by law audited in accordance with the agreed PSC. Transfer pricing risk is not an area that ANPM is concerned with as the royalty rates and profit share are agreed to upfront and audited annually.

Indirect Taxes

Customs compliance laws include the penalty regime for non-compliance and outline the process of a post clearance audit. Although migration of data into ASYCUDA World commenced May 2017, the data migration was only completed in March 2018. The system's functionality did not allow for data to be

57 Page 4 Petroleum Fund Annual Report Financial Year 2017

58 APNM 2017 Annual Report Page 8

extracted to prepare a Compliance Improvement Plan. However, with the enhanced capabilities of ASCUYDA World, the system is now in place to support the development of a Compliance Improvement Plan. The 2018 Customs Key Performance Indicators are defined as:

1. Improve clearance time of the Green Channel to an average of 36 hours;
2. 80% of all transaction data to be entered in ASCYUDA World;
3. Maintain physical examination of Red Channel goods;
4. Maintain third-party intelligence gathering to improve risk profile and compliance record of brokers, importers and exporters. Third parties include Immigration, Police, Quarantine and Security Agencies; and
5. Maintain relationships with other agencies and operators.

For the last fiscal year under review there was no Compliance Improvement Plan, but some elements of a risk-based approach were available. For example, ASYCUDA World is set up to identify risks (supplemented by Customs entered information) and allocate a risk profile to each operator. Currently the system attributes a risk classification to each transaction: Green Channel = no further action; Yellow Channel = goods are subject to a scan or x-ray; Blue Channel = documentation review (i.e. desk audit); Red Channel = inspection. Information about the various actions taken by Customs is not available to the public and only manually and partially shared with other government agencies.

The current penalty regime in place can deter evasion and reveal instances of routine non-compliance, but it is not adequate to deal with criminal activities and fraud. Severe breaches are not properly dealt with, mainly due to the lack of capacity and equipment normally found in a modern Customs organisation (e.g. computers, printers, body scanning equipment, sensors, surveillance monitors). To adhere with international standards, at a minimum, Customs need to analyze the existing information by industry sector, revenue source, operator type, country of origin, etc., and use that intelligence to identify potential compliance risks across several dimensions.

There is significant room for improvement of the controls at the borders. Border smuggling poses a serious risk of revenue leak. A vast network of smugglers still operates at the Indonesian border illegally, bringing cigarettes, alcohol, high end motor vehicles, motorbikes, etc. into the country. Lack of capacity and resources are two reasons that Customs mentions for not being able to effectively enforce the Customs Code. The new Organic Structure Decree Laws (CA 9/2017 an TA 13/2017) provide the mapping of competencies required to set up of a functioning compliance function.

Income Taxes

For the last fiscal year under review there was no Compliance Improvement Plan. A Compliance Improvement Plan is a high-level plan that describes the most significant risks (usually linked to a taxpayer segment or sources of revenue); the actions to be taken to mitigate those risks; and how audits and investigations are managed and reported. In the Tax Authority, the term 'Audit' is synonymous with 'Desk Audit', and 'Investigations' are called 'Field Audits'. A comprehensive analysis of the taxpayer population has not been conducted in order to guide the Tax Authority in preparing a well-conceived, practical and realistic compliance improvement plan.

The Department of Tax Inspections (DTI) under NDTI is responsible for the audits of all domestic taxpayers (petroleum and non-petroleum). The DTI has four dedicated staff supported by a group of external auditors. As noted in the 2013 PEFA assessment, due to capacity constraints audits were outsourced in order to ensure an acceptable level of quality and it was noted that it should be a priority to raise staff skills.[59]

External auditors have been operating since at least 2012 but their work has had limited impact. In 2017, they were engaged to conduct 10 audits (subject to an approved audit plan) and deliver capacity-building activities. The current approved audit plan is three pages long, and contains very high-level basic information, mainly outlying the external auditors' fee structure and charges per audit. The external auditors are expected to deliver extensive training annually, but only one very basic audit training has been delivered in the last two years and there is little evidence that there has been any effective transfer of knowledge to local staff. The external auditors generate significant tax adjustments per audit, in line with their terms of engagement, but most assessments are appealed by the taxpayers. In 2017, 100 taxpayers with the highest compliance risk were identified for desk and field audits, but due to resource constraints, only 60 audits were carried out. Approximately half were subject to desk audits (document review) and the others were subject to investigation (field audits). Documentation describing how audits and investigations are managed and reported was not available to the assessors. A lack of technical skills hampers the completion of comprehensive audits and investigations.

The Government has not entered into any double-tax agreements and does not have any Tax Information Exchange Agreements (TIEAs). It limits its ability to access third-party intelligence information held abroad. It may be worthwhile to evaluate to what extent entering into TIEAs will assist the Tax Authority compliance program.

Based on the Petroleum Fund, the performance for this dimension is an A. However, performance measured for the other entities collecting government revenue that use only partly structured and partly systematic approach for assessing and prioritizing compliance risks, would be a C.

19.4 - Revenue arrears monitoring

For the purpose of the PEFA assessment, the term "revenue arrears" refers to the total amount of due and uncollected tax or revenue. It includes interest and penalties that are overdue for payment and which are not subject to collection impediments, excluding: (i) amounts formally disputed by the taxpayer and for which collection action has been suspended pending the outcome, (ii) amounts that are not legally recoverable (e.g., debt foregone through bankruptcy), and (iii) arrears otherwise uncollectible (e.g., the debtor has no funds or other assets).

The law governing the control of debts and the management of arrears is UNTAET Regulation 2000/18, as amended by the Revenue System Amendment Act (Law 5/2002). Management of tax arrears falls under the responsibility of the DN Tax Justice, but information could only be provided at the aggregated level due to SIGTAS's inability to retrieve information by tax type and age. Under the current SIGTAS system, reconciliation of tax payments is performed manually against the tax payments received by the Bank and Treasury and a daily summary is produced that identifies the taxes still outstanding.

59 PEFA Assessment 2013 Timor-Leste, page 41.

The Collections Procedures Manual of 26 April 2011 provides the administrative framework for revenue arrears monitoring. A hard copy of the manual was reviewed and it contained a flowchart of the debt collection process; checklist for case selection (both for current and complex/old cases); checklist to be followed for contacting the taxpayer to try to secure payment of arrears; analysis of taxpayer's ability to pay based on assets and income; powers to obtain information; copies of standardized letters and processes; garnishee process; process and standard letters to have a case referred for legal action; and the cancellation of debt process. The table below details the revenue arrears data available at the end of 2017.

Table 19.4 Revenue arrears data (31 December 2017)

2017 Fiscal Year (31 December 2017)	Total Revenues Collection	Closing Stock of Revenue Arrears	% Arrears to Total Revenue Collected	Closing Stock of Revenue Arrears > 12 months	% Arrears > 12 months to Total Revenue Collected
Tax Authority Domestic Tax					
Total	**50,212,937**	1,874,310	3.73%	NA	NA
Tax Authority Petroleum Fund					
Total	**180,996,000**[60]	**0**	**0.00%**	**NA**	NA
Customs					
TOTAL	**83,509,335**	NA		NA	NA
ANPM Petroleum Fund					
Petroleum Fund revenue collected	**233,992,343**	0	0%	0	
Grand Total	**548,710,615**	**1,874,310**	**0.34%**	NA	NA

Source: Tax Authority (National Directorate of Tax Justice), Customs (ASYCUDA World Project Team), ANPM and PFAU

According to BCTL and ANPM, there were no petroleum revenue arrears as at 31 December 2017, and therefore there were no arrears older than 12 months. The BCTL holds the PF account on behalf of the MoF. Withdrawals (i.e., transfers to the Treasury account) are regulated by law and guided by the Estimated Sustainable Income (ESI), which is set at 3 percent of the total petroleum wealth. In 2017, the actual transfer of USD 1 billion was approximately 6 percent of the total petroleum wealth. The BCTL is responsible for reconciling the PF on a monthly basis. Firstly, all royalty payments in the PF are cross-checked with ANPM and with the *'Publish What You Pay'* website. At this stage, discrepancies arise mainly due to timing issues. Secondly, all other payments are sent to the Department of Oil and Mineral Revenue Accounting (DOMRA) under DN Revenue Accounting to ensure payments are made promptly and fully. The reconciliation sheet is sent from the BCTL to DOMRA electronically and discrepancies (usually because of grouping of payments, incorrect TINs, additional payments, and timing issues) are dealt with mostly via email. Accounts in both cases are always reconciled and paid before the due date. The ANPM Commercial Directorate confirmed there were no outstanding payments as at 31 December 2017.

However, as at 31 December 2017, large amounts of overpaid revenue (a portion of the revenue is paid in advance by the contractors) dating back several years was still due to be refunded to the contractors. At the time of the PEFA assessment, this included refunds to reimburse Kitan field exploitation

60 During the 2017 fiscal year, the BCTL collected USD 188 million on behalf of the Tax Authority, from 38 Oil and Gas Companies and the ANPM collected USD 234 million. The discrepancy between the figure provided by the Tax Authority (USD 181 million) and the BCTL figure of USD 188 million is explained by the classification of $7 million as 'other petroleum revenues'.

overpaid taxes for USD 64.5 million (representing 15 percent of the total amount collected in 2017). There are concerns about the lack of control over refunds that need to be paid in a timely manner.

Indirect Tax

The Customs Code requires that all payments of duties and taxes be settled within 10 days after a declaration is lodged. If a payment is not received within 10 days, all operators are automatically disabled from the system and are no longer able to process any additional goods for clearance. ASYCUDA World is programmed to automatically send a daily list of unpaid declarations (arrears) that have not been settled within 10 days to the DN Compliance for appropriate follow-up action.

Follow-up action is a notification to the operator, allowing a further 20 days for the payment of any arrears. Failure to comply with the notification within the specified period results in the goods being considered as abandoned. Once payment of the arrears is received, operators are once again enabled in the system. There is an automated daily reconciliation between the Bank and Customs receipts.

ASYCUDA++ was operational as of 31 December 2017, but given the limitations of the system, revenue arrears could not be reported for the purpose of the PEFA assessment. There was no information to determine the percentage of arrears at 31 December 2017. The Tax Authority's IT systems (SIGTAS) is not yet able to provide information to determine the percentage of arrears older than 12 months. According to Customs management, arrears would in any case be less than 5 percent at any given point in time. There are currently no manuals or written procedures regarding the assessment and treatment of outstanding taxes and duties.

Income Tax

The Tax Authority definition of tax arrears is 'the amount of taxes due but not paid by the due date and includes amount subject to appeals, litigation process and write-offs'. As at 31 December 2017, the total amount of arrears was USD 1,874,310. However, USD 1,070,000 are due to be written-off because taxpayers held an Investment Certificate (such certificates either exempt a company from income taxes, reduce the tax rate, or limits the tax base). The Investment Certificates were issued without the knowledge of the Tax Authority.

The current SIGTAS system is not yet able to:

- Identify how much of the arrears (other than the cases already noted above) is considered not collectible but not yet written-off;
- Categorize the arrears by age (e.g., greater than 12 months);
- Consider whether a business has been terminated;
- Consider the taxpayer's ability to pay; and
- Differentiate between amounts pending legal action and other cases.

The write-off policy and procedures for treating uncollectible arrears, and the process of recording and monitoring arrears is established (although it will be substantially improved when the IT system is upgraded) and documented in the Collections Procedures Manual. **The magnitude of revenue arrears could not be ascertained due to lack of available data. The score for this dimension is assessed as a D*.**

Recent or ongoing reform activities

One of the barriers to a comprehensive revenue risk management system is that government agencies cannot easily share information because they all operate under different operating systems. Customs has the system (ASYCUDA World) in place to ultimately facilitate a risk management approach that will be able to adhere to international standards. Standard operating procedures (SOP) for Customs are in the process of being developed which should strengthen the revenue risk management framework.

PI-20 Accounting for revenue

This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling the tax revenue accounts. The assessment period is at the time of the assessment. The coverage is Central Government.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-20 Accounting for revenue	**A**	
20.1 Information on revenue collections	A	The Treasury centralizes data on the collection of information on most revenue, with revenue collection data broken down by revenue type for most of the Central Government revenue and consolidated daily in a report submitted to the Minister of Finance.
20.2 Transfer of revenue collections	A	The State Finance Law No. 03/2009 and Treasury instructions require all public revenue collected by all Central Government entities to be transferred daily into the TSA from all authorized public accounts in commercial banks and this procedure is followed by the entities collecting most of the Central Government revenue.
20.3 Revenue accounts reconciliation	A	Revenue accounts reconciliation is automated, covering most Central Government revenue accounts and performed daily, but it is incomplete and excludes the tax suspense accounts. Reconciliation of APAs' revenue and reporting are not systematic.

The Consolidated Fund of East Timor (CFET) was established in 2000, equivalent to a TSA at BCTL. Revenue collection, recording and reporting of tax and non-tax revenue collections is based on the PFM Law 13/2009, amended by Law 9/2011 and Law 3/2013, annual Budget Execution Decree Law and Appropriations Regulation.

DG Treasury is mandated by the PFM Law to ensure that all revenue is collected in accordance with relevant laws. Its responsibilities include the registry and accounting of all government revenue. These responsibilities are also defined under the MoF Organic Law 38/2015. All Treasury's responsibilities and activities are further detailed in the Treasury Manual, drafted in 2017, for the functioning of DG Treasury and directorates and finance departments in line ministries, APAs and municipalities. DG Treasury has the responsibility to facilitate the budget execution, to account and consolidate all public revenues, and to make all relevant payments. The Consolidated Fund of Timor-Leste (CFTL) TSA was established as a unified structure of government bank accounts that gives a consolidated view of government cash resources. The CFTL sub-accounts have been opened at the Central Bank for line ministries, municipalities, APAs and the special funds, as well as accounts at commercial banks within the national territory of Timor-Leste and overseas for Timor-Leste's embassies.

20.1 - Information on revenue collections

Under the existing procedure, all revenues are deposited in designated authorized banks and can be identified by source of revenues, received by importers, exporters and other taxpayers, as well as by revenue type. Each revenue category has a dedicated account in each designated commercial bank and revenues can be correctly accounted for and reported. Treasury accounts for all collected revenues are based on the coding in the CFTL bank statement, and a reconciliation process is carried out by each revenue officer based on the Commercial Bank Statement to ensure that the full amount of the receipts have been transferred to the CFTL account. Revenue codes for the various government revenues are compiled in the Revenue V1 Crystal Report, as follows:

- For the Central Government, the registration is recorded manually into the GRP, with information provided by the Central Bank's IT system (R-Timor) daily.
- For 10 out of the 35 autonomous entities (APAs) that are collecting entities, the registry is not performed daily and can be delayed.

Although information on revenue collected is available, there is no systematic report by the Tax Authority about gaps between their collection records and the Treasury's report on collection.

Other accounts are still maintained outside the control of the Treasury. Donor-related projects and trust fund bank accounts are not fully consolidated in the TSA and are not consolidated in the daily or quarterly reports by Treasury. Bank accounts for primary schools' school grant transfers are also kept under the responsibility of the Ministry of Education. However, the revenue collected on these accounts is not material. In total, these accounts represent less than 5 percent of the total revenue collected.[61]

Treasury collects and consolidates revenue data for most of the revenue collected daily and produces a consolidated report broken down by revenue type for most Central Government revenue. The score for this dimension is assessed as an A.

20.2 - Transfer of revenue collections

Transfers of revenue collected into the TSA take place daily. According to the PFM Law and the Treasury manual, all tax and non-tax revenues, including income and corporate taxes and customs and excise duties, are deposited in authorized commercial bank accounts. The Treasury accounts for the revenues based on the coding in the CFTL bank statement, and the revenue officer counterchecks the commercial bank statement to ensure that the full amount of the receipts have been transferred to the CFTL account. All entities, including APAs and municipalities follow the procedure, except RAEOA-ZEESM. Its revenue collection is not controlled by the Treasury and the collected funds are deposited in a commercial bank outside the CFTL.

The regulatory framework in place requires that public revenue collected by Central Government entities be transferred daily into the TSA – from all authorized public accounts in commercial banks – and this procedure is followed by the entities collecting most of the Central Government revenue. The score for this dimension is assessed as an A.

61 Information estimated with DNCRF.

20.3 - Revenue accounts reconciliation

Reconciliation of revenue collected in the TSA is the responsibility of DN Accounting and Financial Regulations (DNCRF) within DG Treasury. The latter is responsible for State revenue and expenditure accounting and its reconciliation with CFTL ,and public funds under MoF responsibility. At the end of each business day, commercial banks transfer the full balance in all designated accounts, coded according to the nature of the revenue, to the CFTL account at the Central Bank. The Treasury is only responsible for incorporating the reconciliation results into the MoF consolidated report. The Department of Accounting and Reporting (DCR) within DNCRF is responsible for supervising the government accounting of all tax and non-tax revenues and carry out reconciliations with revenues of collection agencies and banks records and to produce accurate financial reports daily. The accounting security and reconciliation of funds of APAs, municipalities and other revenue collection entities fall under their own responsibility and represent less than 20 percent of the collected revenue.[62]

DG Treasury maintains a general ledger to record all government's payments and receipts. All revenue credited to public institutions into their respective sub-account must be posted into the GRP when received, and match the amount credited in the sub-account. Regular bank reconciliations to the balance of the cash account in FreeBalance are performed monthly. It is the responsibility of each agency and public institutions possessing a sub-account at the BCTL to prepare bank reconciliations to ensure there are no outstanding reconciling items that require correction in the General Ledger. Any discrepancies between the General Ledger (GRP system) and bank statements must be corrected via manual journals which must be reviewed and approved in accordance with Treasury procedures. Financial statements are only prepared once relevant reconciliations have been completed.

There is no evidence that revenue transferred to the Treasury from Customs revenue accounts are systematically reconciled. Customs transfers its revenues daily and reconciles with the ASYCUDA World system providing automatic reconciliation of revenue collection that can report on receivables and to some extent on arrears (see PI-19.4). The Tax Authority, however, does not provide detailed reconciliation of revenue accounts considering that information on arrears is confidential. It occasionally informs the Treasury about gaps between their collection records and the Treasury's report on collection. Other budgetary entities do not have receivables/arrears, since the payments are paid before service delivery.

Furthermore, DCR is not keeping records reflecting amounts levied and paid by each taxpayer. This may be done in some systems such as ASYCUDA Word but there is no systematic confirmation and reconciliation about collection data by the Tax Authority. Thus, DCR cannot fully aggregate such information to be able to report how much of amounts levied is: (i) not yet due, (ii) in arrears (the difference between what is due and what has been paid), and (iii) collected by the responsible entity but not yet transferred to the Treasury.

There is an interface for the GRP with R-Timor (the system used by the Central Bank), but the reconciliation is carried out manually with data extracted from R-Timor. The existing module for automatic bank reconciliation in GRP is not operational and still needs to be tested and effectively implemented. The Tax Administration IT system is based on old technology and it cannot be interfaced with GRP and R-Timor as it is. It would require upgrade or substitution by a newer technology. system.

62 As confirmed with the DNCRF.

For 10 out of 35 autonomous agencies that collect their own revenues, revenues will be credited in the sub-account of the respective agency at the Central Bank. Regular bank reconciliations to the balance of the cash account in GRP must be performed monthly, but this is not always the case. Delays can occur in the recording into the GRP and revenue accounts reconciliation done manually are not systematic and can be irregular. The total revenue falling outside the scope of the Treasury daily reconciliation – revenue transfers from the Tax Authority and APAs are not reconciled systematically – is estimated at less than 5 percent of the Central Government revenue. However, the material coverage represented by the revenue not reconciled with Treasury on a regular basis represents less than 20% of the total collected revenue.

Revenue accounts reconciliation is automated and performed daily for most Central Government revenue. The score for this dimension is assessed as an A.

PI-21 Predictability of in-year resource allocation

This indicator assesses the extent to which MoF can forecast cash commitments and requirements for cash management purposes. The provision of reliable information on the availability of funds to budgetary units is critical for service delivery. The time period is at time of assessment for 21.1, and for remaining is the last completed fiscal year. The coverage is Budgetary Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-21 Predictability of in-year resource allocation	**B+**	
21.1 Consolidation of cash balances	A	Most cash balances within the CFTL are consolidated daily. Some accounts are reconciled monthly (commercial bank) but represent less than 10% of the total.
21.2 Cash flow forecasting and monitoring	A	A cash flow forecast is prepared for the fiscal year and is updated monthly based on actual cash inflows and outflows.
21.3 Information on commitment ceilings	B	Budgetary units are provided with reliable information on commitment ceilings on a quarterly basis.
21.4 Significance of in-year budget adjustments	B	Budget rectifications never took place more than once in a year, follow similar requirement as the regular budget, and in-year budget virements are done in a fairly transparent way (see PI-18).

21.1 - Consolidation of cash balances

All public expenditures are funded through the Consolidated Fund of Timor-Leste,[63] including the Infrastructure Fund (since 2016), the Human Capital Development Fund and loans. The CFTL is managed at the BCTL through a TSA. Its objective is to ensure proper oversight of Treasury over all government banking operations, optimal utilization of government cash resources for "whole of government", including facilitating monitoring of the consolidated cash position. The Social Security Fund and development partners' related project bank accounts (including EU budget support to the Ministry of Finance) are not part of the TSA.

63 Historically, when the government budget was largely funded through external assistance, the various sources of funding were combined under a Government medium-term combined sources budget (CFTL). It consisted of the Consolidated Fund for East Timor (CFET) and various financial support provided by development partners. With the phasing out of large donor support, the CFET and the CFTL became one and the same. CFTL and CFET are now used interchangeably.

All CFTL expenditures and revenue collection are recorded through the TSA. In addition to the CFTL DG Treasury has opened sub-accounts for special funds (IF until 2016 and the HCDF) and for various autonomous agencies and municipalities. In December 2018, sub-accounts for the 35 autonomous agencies had been opened at the Central Bank and they have full responsibility over their own sub-accounts for budget execution, except for payroll. The payment of salaries to civil servants working in autonomous agencies and municipalities is still processed by Treasury and charged directly to the sub-account at BCTL of each autonomous agency and municipality. Only RAEOA-ZEESM is operating outside the TSA, with an annual allocation representing an average of 12% of the initial CFTL allocation over the period 2015-2017.

A few bank accounts are still maintained outside the TSA, but represent less than 10 percent of the cash balance centralized into the TSA.[64] While most government transactions are operated through the TSA (see PI-20), the CdC Report and Opinion on the 2016 General State Account reported 94 official bank accounts known to MoF, including 50 for development partner funded projects, 29 for municipalities relating to cash advances, and a few operational accounts for public institutions, including autonomous agencies. In 2016, an escrow account was established under the viability gap funding scheme of the Tibar Bay Port PPP. With an initial balance of USD 129.5 million, it is not considered a cash equivalent as it is expected to be executed in the medium-term. The VGF is monitored monthly by MoF.

The Government adheres to strict rules to ensure that operating cash balances are kept to a minimum. Withdrawals from the PF above the ESI, and up to the deficit limit approved in the budget, are only authorized when the "whole of government" cash balances – which includes the CFTL and its sub-accounts, as well as Special Funds – are below USD 200 million (Decree 1/2017 on Budget Execution). DG Treasury uses a replenishment trigger point of USD 60 million, which increases to USD 120 million in the last 3 months of the year when there is a surge in budget execution. For the Infrastructure Fund and HCDF, Treasury requests cash flow requirements at the end of the month to cover estimates of expenditures in the following month. If there is an expected shortfall to their monthly end-balance, DG Treasury transfers additional funds to meet their forecasted monthly expenditure needs.

Amounts appropriated to public institutions are systematically transferred on a quarterly basis to their respective CFTL sub-account. Early replenishment can be obtained through the submission of a Cash Flow Statement (CFS). At any time, the balance in the sub-account of each agency represents the unspent budget appropriations transferred by Treasury during the year plus revenues collected. However, revenues collected by most public institutions are not retained in their respective sub-account. To facilitate revenue collection, daily sweeps into the CFTL are performed. In the following fiscal year, fund transfers are adjusted to account for any revenues collected and retained, as well as unspent funds from the appropriations of the previous year.

From January to September 2018, under the duodecimal system, the threshold system was suspended and cash more strictly monitored to limit risks of cash shortages. While the duodecimal system provides the Government with an authorization to spend up to 1/12th of its previous annual budget, the Government had to manage public spending within the tight limit of the available cash balance of the previous year – USD 120 million. A first transfer of USD 70 million from the PF was requested in May 2018 before the organization of early parliamentary elections, followed by a second cash transfer of USD 140 million in August before approval of the 2018 budget by the Parliament.

64 Based on the information received from Treasury.

The GRP-R-Timor interface was officially launched in January 2018 to improve the national payment system. The Government and BCTL started working in 2014 on interfacing the Integrated Financial Management Information System, Government Resource Planning (IFMIS-GRP) with BCTL's automated electronic payment system, called "*Rede Transferências iha Momento Real*" or R-TiMOR. As a result, the payment system now allows for direct reconciliation of government accounts at the BCTL.

Under the CFTL, most cash balances are swept into the TSA and reconciled daily. However, some accounts held in commercial banks for development partner funding and operational advances are only reconciled on a monthly basis, but they account for less than 10% of the total bank and cash balances operated by BCTL or commercial banks holding government accounts. The score for this dimension is an A.

21.2 - Cash forecasting and monitoring

The Department of Cash and Public Debt Management, under DN Accounting and Financial Regulation, is responsible for cash-flow forecasting and monitoring. The cash position is monitored on a monthly basis to maintain a cash flow of USD 120 million.

Cash flow forecasts for the CFTL and special funds are prepared at the beginning of the fiscal year and at regular intervals as determined by the National Director (currently on a monthly basis). They are based on the annual appropriation of budgetary units (State Budget Law) and inputs on the timing of payments from budgetary entities, particularly from larger budget heads such as the Infrastructure Fund and public transfers – such as RAEOA-ZEESM and veteran pensions. DNPE coordinates with revenue collection agencies and prepares revenue forecasts, which are then consolidated in the cash flow forecasts. Experience from prior years is also considered to prepare cash inflows and outflows forecasts, which are used to anticipate monthly shortfalls or surpluses and determine when withdrawals from the PF will be required.

Cash flow forecasts rely on the quality of information provided by budgetary units. Information on cash requirements are largely built on information already recorded in the system (e.g., obligations). Lack of appropriate or accurate information can lead to cash shortage at budget head level, for instance in the case of an unforeseen large payroll amount (e.g., for the Ministry of Education 13th month salary allowance in December 2016).

A cash flow forecast is prepared for the fiscal year and is updated monthly based on actual cash inflows and outflows. The score for this dimension is an A.

21.3 - Information on commitment ceilings

The annual appropriations amount for each ministry, autonomous agency or any other budgetary entity are approved by the Parliament through the annual Budget Law. The spending limits for each division in a ministry are detailed down to the item level under each category of expenditures (see PI-4 for more information). Collecting agencies cannot use collected revenues to directly fund their expenditures, which are strictly limited to the amount appropriated by Parliament. Once the annual appropriation has been approved by the legislature, funds are released by the Treasury to the budgetary units.

Payments are made individually by the budgetary bodies within their approved budgets. The procedure is formalized through an Expenditure Authorization Notice (EAN) as per Article 39 of the Budget Law. The amount of the EAN is subject to availability of funds (for instance, under a duodecimal system) and considering that total EANs for any appropriation category does not exceed the approved amount for that category. In most cases, the EANs release appropriations quarterly. The time period for EANs' validity can be adjusted considering the type of appropriation and the projected expenditure flow requirements.

Public institutions can plan and commit expenditure on their own, in accordance with their budgeted appropriations and their current EANs. Funds released are based on the public institutions approved budget and the level of execution. The commitment stage results in funds being reserved for the procurement function through a CPV (Commitment Payment Voucher). At the end of the procurement process (after the signing of the contract), a Purchase Order is raised in order to procure the goods or services. At this stage the commitment becomes an obligation. The level of commitment, obligation and actual spending is monitored and reported on a monthly basis and reported through the Quarterly and Annual Financial Reports prepared by MoF.

Budgetary units are provided reliable information on commitment ceilings on a quarterly basis. The score for this dimension is a B.

21.4 - Significance of in-year budget adjustments

Articles 34 to 35 of the PFM Law provide the conditions for adjustment to the budget allocations, which should be approved by Parliament. In-year adjustments to public institutions' annual appropriation can be made through a change in the budget appropriation approved by Parliament, by regulation (budget rectification), or through an appropriation transfer from one budget item to another (virement), which also covers access to the contingency fund.

Proposed virements are reviewed by UPMA and DN Budget before being recorded in the GRP. Rules for virements are clear and transparent, and even include a programmatic check by UPMA against the annual action plans (AAPs). However, there are no clear criteria for their justification and approval, they are not systematically consolidated and reported, and there is no clarity and reporting on whether the reallocation rules are systematically adhered to. Authorized virements are then communicated to DG Treasury and entered in the FreeBalance system. Budgetary entities are not allowed to make commitments or incur expenditure against anticipated supplementary budget proposals, but only after their appropriation has been approved by Parliament or after a transfer of appropriation from the contingency fund. They can be mostly tracked through the online Budget Transparency Portal.

Budget rectifications have taken place once a year and are submitted to Parliament for review and approval, following similar requirements as the regular budget. Revision to the original appropriations have taken place either in the form of supplementary appropriations (in 2016) or transfer of appropriation within the overall existing envelop (in 2015). The 2015 budget rectification was submitted by the newly-appointed VI Constitutional Government. The changes largely aimed at reflecting the new government structure and increasing the allocated public transfer to RAEOA-ZEESM by an additional USD 50 million. The rectification was approved and promulgated on 13 April 2015. The 2016 budget rectification substantially increased the allocation for capital development, including USD 129.5 million for the Tibar Port PPP VGF, USD 127 million for the Tasi Mane project, USD 104 million for roads, and USD 35 million for electricity. The increase in capital allocations was proposed to be entirely funded through excess withdrawal from the PF. The budget rectification was approved and promulgated on 10 August 2016. In 2017, the new VII Constitutional Government, without a parliamentary majority, submitted a budget rectification on November 9, when the Government program had already been rejected a first time on 19 October. The rectification proposed to increase appropriations by USD 223 million, including an additional USD 147 million for the Infrastructure Fund. The opposition rejected the budget rectification proposal. As a result, the Government was unable to get its budget rectification approved for 2017 and was also in no position to get a 2018 budget approved.

In-year virements are used to revise the initial appropriation of budgetary units. They are duly authorized, but also reflect the lack of consistent planning and discipline in budget execution. On average, virements represented 11.5 percent of the overall original budget in the period under review. Virements are largely justified by budget reallocation between capital development projects within the Infrastructure Fund. Overall, capital development represents on average 73.1 percent of all virement operations, while "goods and services" is the second category with 17.3 percent. The Infrastructure Fund largely dominates the net inflow of transfers from recurrent (mainly from goods and services, and public transfers) to capital spending. Virements are mainly used to transfer appropriations within a category rather than between categories. However, virements can have substantial impacts on some categories/budget heads. For instance, the original allocation to "minor capital" has been systematically increased, by an average of 42 percent, through virements.

Significant in-year budget adjustments to budget allocations take place no more than twice a year and are done in a fairly transparent way. The score for this dimension is assessed as a B.

PI-22 Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem is being addressed and brought under control. For 22.1, the time period is the last three completed fiscal years, and for 22.2 is at the time of assessment. The coverage is Budgetary Central Government.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-22 Expenditure arrears	**D**	
22.1 Stock of expenditure arrears	D*	In 2016 and 2017 the stock of arrears represented less than 6% of the budgetary Central Government annual expenditures, but data on 2015 arrears is not available.
22.2 Expenditure arrears monitoring	D	The expenditure arrears monitoring relies on a manual tracking by line ministries and is not fully reliable, and data on the stock has been reported since 2016 but not on the composition and ageing of expenditure arrears.

In Timor-Leste, an unpaid claim or obligation becomes an arrear when it has not been paid at the end of each fiscal year and at the date stipulated in the contract (or the corresponding law or financial regulation). The Government's data recording and reporting system does not analyze payments, legal and contractual payment deadlines, and invoices, including suspensions and rejections, so that arrears can be calculated only as the pending payments at the end of each fiscal year.

22.1 - Stock of expenditure arrears

Article 43 of the PFM Law 13/2009 stipulates that the Treasury shall maintain accounting records on liabilities in arrears. However, the Treasury Manual does not provide any further information on the definition of arrears. Currently, arrears are considered the pending payments at the end of each fiscal year and are reported in the Annual State Accounts as "nonfinancial debt". The annual reports do not differentiate arrears by age. The amount of arrears (*dividas*) officially recorded by MoF at the end of the fiscal year is very limited and has been reported only since 2016. The table below shows the expenditure arrears for the FY 2016 and 2017 provided by DNCRF.

Table 22.1 Expenditure arrears as recorded in annual financial statements (USD)

Year	Total BCG expenditures	Expenditure arrears	%
2015	NA	NA	NA
2016	1,622 million	11.9 million	0.7
2017	1,183 million	29.3 million	2.5

These amounts are underestimated as the monitoring system in place to track and report arrears does not capture all actual financial obligations carried over from the previous year. There are some technical constrains related to the GRP infrastructure that does not track invoices and advances unliquidated at the end of the fiscal year. The Treasury expects arears to be monitored by line ministries, which are required to submit a list to DNCRF at the end of the fiscal year. Various problems have been identified by the Treasury with the year-end payments and the accuracy of unliquidated obligations and amounts to be carried over from one year to another. DNCRF usually send requests in January to line ministries to confirm the amounts and justifications about the arrears to be reallocated in the new fiscal year for payment. Currently, the advances' tracking is done manually at DNCRF. However, despite the lack of a systematic monitoring by MoF, based on the analysis of expenditures reported for the period, the amount is not assessed as significant and represented less than 6 percent of total expenditure in 2016 and 2017. There is no information available for 2015 as the tracking system had not been established yet.

In the absence of information for 2015, the score for this dimension is assessed as a D*.

22.2 - Expenditure arrears monitoring

The PFM Law and the Treasury Manual do not provide a definition of arrears. Currently, arrears are considered the pending payments at the end of each fiscal year and they are reported in the Annual State Accounts as "nonfinancial debt".

The monitoring of arrears is manual and there is no tracking of arrears by age. Data on the stock and composition of expenditure arrears are managed by the line ministries and the MoF annually, but the segregation of the arrears by age is not monitored, and their composition is presented by responsible entity (9 line ministries and 7 autonomous agencies) while their type is usually limited to two budget categories (goods and services, and capital development). Recent data produced by the Treasury rely on manual processes and information provided by the line ministries to MoF and it does not include autonomous agencies, the municipalities and RAEOA-ZEESM. The GRP is not configured to provide reliable and timely information about arrears, so the data on the stock of areas is limited and provided annually with some delays.

Data on the stock – but not on the composition – of expenditure arrears has been reported annually only since 2016 (last 2 years). The score for this dimension is assessed as a D.

PI-23 Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. The time period for dimensions 23.1, 23.2 and 23.3 is at the time of assessment, and for dimension 23.4 it is the last three completed fiscal years. The coverage is Central Government.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-23 Payroll	**D+**	
23.1 Integration of payroll and personnel records	C	Systematic reconciliation of the payroll with existing personnel records takes place at least every six months and control over the decisions on staff movement is in place.
23.2 Management of payroll changes	B	Required changes to personnel records and payroll are updated at least monthly, generally in time for the following month's payments. However, retroactive adjustments are not rare. The Treasury report shows corrections over 3% of salary payments.
23.3 Internal control of payroll	C	Authority and basis for changes to personnel records and the payroll are clear and adequate, but the integrity of data remains an issue.
23.4 Payroll audit	D	No payroll audits have been undertaken within the last three completed fiscal years.

Management of the public workforce and corresponding staffing table financed through the State budget is fully decentralized to line ministries and agencies based on their own systems for personnel records. This function is usually under the responsibility of a directorate of human resources responsible to maintain a personal database (e.g. EMIS for the Ministry of Education).

The Government established an independent Civil Service Commission[65] (CSC) in 2009 to strengthen the efficiency and effectiveness of the civil service. The CSC reports directly to Parliament and its mandate is defined in the Civil Service Commission Act (7/2009). The CSC is responsible for the overall civil service management and development framework[66] and for ensuring compliance of line ministries decisions with relevant regulations. Any changes to individual records (e.g. recruitment, promotion, leave without pay, etc.) must be submitted to and approved by the CSC. To better track employee's history, the CSC manages individual records through a Personal Information Management System (*Sistema Integrado de Gestão da Administração Pública* - SIGAP).

65 Comissão da Função Pública (CFP)

66 although some categories of contracts fall out of their scope (e.g. political appointment)

As per the PFM Law Article 19, DN Payments (under DG Treasury) is responsible for the payroll. All payments of salaries and benefits are processed through the payroll module of the GRP interfaced with the budget module. Payroll covers both civil servants, budgeted under "salary and wages", and casual employees, budgeted through the appropriation category "good and services" under the item "professional services". Consultants and advisers are also budgeted under "professional services", but payments are processed through Commitment Payment Vouchers (CPVs) and not through payroll.

Over the years Government has increased the number of special regimes that complement the general career regime. Along with 17,000 civil servants under the general regime, 11,000 teachers serve under the teachers' regime, 3,400 as health professionals, and 1,950 under management and Xefe positions. In addition, the following regimes have been established: anti-corruption specialists (55), scientific police and criminal investigation (75), labour inspection (20), auditors (30), UNTL teachers (394), justice officers (346), and parliament (40). Special regimes deviate from the general career regime with additional (and more constraining) eligibility criteria, but with higher salaries and benefits. The proliferation of regimes within the civil service makes compliance checks by relevant entities and payroll variations review by MoF more complex.

23.1 - Integration of payroll and personnel records

Information management systems developed as standalone systems are in place at each level to implement specific payroll management functions. At the time of the assessment, none of these systems were interfaced and updates must be done manually. Proposed changes by line ministries are first recorded in their human resources information management system. Once approved by the CSC, the changes are updated manually in SIGAP, and communicated to the MoF. The DN Payments will then reflect these changes in the payroll module of the GRP. Changes to payroll are made daily. At each stage, data are updated in the three systems through manual entry. The Government Decree 1/2017 on budget execution instructs all public institutions, autonomous agencies, municipalities and special funds to improve coordination with CSC.

The CSC has sole authority to validate recruitment and promotion of permanent and casual staff. Proposed changes to the staffing table are submitted to a Budget Review Committee to ensure that requested changes are undertaken within approved personnel budget allocations. The line ministry Directorate of Human Resources is requested to provide supporting documentation (such as performance evaluations) for a CSC decision. CSC is also involved in the State Budget preparation process and provides an annual consolidated staffing table, as well as a consolidated recruitment plan based on the information provided by line ministries, to the MoF by the end of April during the annual budget formulation process. However, a diagnostic conducted by CSC in 2016 highlights the poor quality of the staffing planning function and human resource forecasts provided by line ministries.

Funds from the State Budget allocated to salary and wages are released through quarterly appropriations based on approved annual staffing table. The payroll department prepares mid-year payroll forecasts for each institution on the basis of Q1 and Q2 staffing tables and actual staff costs. The projection ensures that their appropriation will be enough for Q3 and Q4, and eventually sufficient to cover for a 13th month – as the Government systematically grants this benefit to public employees but does not formally budget for it in the State Budget.

Systematic reconciliation of the payroll with existing personnel records takes place at least every six months and control over the decisions on staff movement is in place. The score for this indicator is a C.

23.2 - Management of payroll changes

The payroll system is centralized and the SIGAP and payroll systems manage individual employees rather than positions. The classification consists of six different employee categories: (i) civil servants (permanent and casual employees), (ii) members of Government, (iii) members of Parliament, (iv) PNTL, (v) FDTL, and (vi) ex-members of Government. The CSC oversees all civil servants, including autonomous agencies and municipalities, while the DN Whole of Government (MoF) manages Government and ex-Government members, who receive payments (similar to a pension) through the payroll system. Non-administrative staff under PNTL and FDTL are under a different regime and manage their own records.

Changes to personal records with financial implications must be submitted by the relevant entities to DN Payments before the 12th of each month. They are usually processed within three days. Changes to personnel records in the payroll system can therefore only be requested by CSC, DN Whole of Government, the Parliament, PNTL and FDTL for their respective workforce. SOPs have been published by DG Treasury to help line ministries manage each step of the payroll payments process, from employee registration to changes in the personal files for permanent and casual employees. Payroll is processed monthly. The Treasury Manual states that "the payroll data is frozen after necessary analysis and verification by the 20th of each month for that month's salary". DN Payments verifies the variation by comparing with previous records and the database is updated manually before the 19th of each month. Key steps, timeline, and responsibilities are also described in the Government Decree on budget execution. A payroll verification report is sent to each line ministry for verification, and DN Payments then generates and approves EVs and deliver Treasury Payment Orders (TPOs) by the 24th of the month. The same procedure applies for permanent employees, casual employees, and pensions to former employees. Employees do not receive payslips to justify their monthly payment.

A monthly Treasury report summarizes all payroll adjustments and details the type of variations. It is divided in 18 categories, such as new employee, extension of contract, upgrade in salary, overtime, and overpayment. A total of 103,240 variations were registered in 2017, for a total value of USD 19.1 million, in majority due to employee transfers, overtime, and retroactive adjustments, as per table below.

Table 23.2.1 Summary of payroll adjustments for permanent staff

	2015	2016	2017	2018
Number of transactions	93,006	89,918	103,240	68,075
Volume (USD)	10,525,075	11,694,294	19,051,563	27,421,777
Total S&W[67] budget (USD)	179,002,000	181,874,072	209,700,911	200,253,000
Total S&W expenditure (USD)	170,516,435	173,620,633	195,692,656	192,861,443
Changes as % total S&W expenditure	**6.2%**	**6.7%**	**9.7%**	**14.2%**

Source: estimations from MoF payroll data

67 "Salary and Wages" (S&W)

Three types of retroactive corrections are being monitored and reported: retroactive payments, unpaid salaries and overpayments. In 2017, the sum of 30,462 retroactive corrections amounted to 3.8% of total payroll expenditures, as per tables below:

Table 23.2.2 Payroll variation – number of retroactive adjustments

	2015	2016	2017	2018
Retroactive Salary	13,331	19,269	27,379	16,171
Unpaid	1,585	955	1,838	230
Overpayment deduction	1,405	1,130	1,245	1,112
Total	**16,321**	**21,354**	**30,462**	**17,513**

Source: Annual Treasury Payment Monitoring Report

Table 23.2.3 Payroll variation – volume of retroactive adjustments (USD)

	2015	2016	2017	2018
Retroactive Salary	4,112,742	3,821,075	6,933,960	18,624,092
Unpaid	118,215	513,224	403,266	7,661
Overpayment deduction	162,057	106,024	61,267	93,306
Total	4,393,014	4,440,323	7,398,492	18,725,059
As % of salary payments	**2.6%**	**2.6%**	**3.8%**	**9.7%**

Source: Annual Treasury Payment Monitoring Report

The high number of retroactive payments in 2017 can partially be explained by the late implementation of the new salary scale for the general career regime. The amendment to the general career regime was approved by the Council of Ministers in May 2016 and published in June 2016.[68] However, most institutions had not budgeted for the resulting salary increase and salaries were adjusted retroactively in 2017. In 2018, under the duodecimal system, public institutions were exercising a strict control over their cash flow. Most public institutions waited for the new budget to be approved by Parliament to effectively apply their changes in the payroll. Almost 65% of all retroactive salary adjustments were implemented in the last quarter of the year, after the 2018 budget promulgation (27 September 2018).

Authorized changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. Large scale changes are contingent on budget availability. Retroactive adjustments are frequent, and the treasury report shows corrections over 3% of salary payments. The score for this dimension is a B.

23.3 - Internal control of payroll

Payroll internal controls are solid and based on strict definitions and application of the regulatory framework governing civil service. Salary scales are established by law for all levels of responsibility and

68 Government Decree Law 24/2016, 2nd amendment to Decree Law 27/2008 on the General Career Regime for the Public Administration.

grade within the civil service for both the general career regime and special regimes. Human resources processes, including recruitment, promotions and transfers, are detailed in a human resources manual produced by the CSC. There are clear controls mechanisms in place to make changes to the payroll data, with well-defined roles and responsibilities. SIGAP and Payroll-GRP systems and records provide a comprehensive audit trail. Restricted access rights (functions and authority) guarantee that payroll data changes are strictly controlled. The recording or change of personnel data for permanent staff in the personnel information management system (PMIS) is centralized and can only be made by the CSC. Changes to payroll data can only be requested with the approval of the CSC (permanent staff), DN Whole of Government (political appointments), Parliament (Member of Parliament), PNTL and FDTL for their respective workforce.

Additional verifications are performed with line ministries during the payroll payment process, allowing for cross-checking changes to the payroll data. Between the 19th and 22nd of each month the Payroll department runs a pre-payroll report and generate a payroll verification report shared with individual line ministries for review and confirmation. Once payments have been processed, a payroll information report is prepared and delivered to line ministries for verification by the 25th of each month, which are reviewed and confirmed by the 27th of each month.

DG Treasury prepares quarterly payment monitoring reports, which include detailed information about payroll variation and changes to the payroll data. Ad-hoc quality and compliance checks can be performed at the request of CSC, ensuring that changes are consistent with the payroll records and in compliance with the regulation. However, the CSC annual reports mention that line ministries often fail to communicate changes that have no budget implications (such as horizontal transfers between departments). In addition, financial information is not always updated in a timely manner (e.g., conversion from fixed-term to permanent positions) to avoid having to reflect changes in the budget composition that do not affect the overall allocation of the appropriation category (salary and wages). As a result, payroll data and staff budget might not reflect accurately actual staffing within public institutions.

A diagnostic conducted by the CSC in 2016 based on a comparison of data sources identified numerous discrepancies between the payroll data, the SIGAP and the staffing tables.[69]

Table 23.3 Total number permanent civil servants (September 2016) by data source

Payroll	SIGAP	Mapa do Pesoal (HRs staffing profile)
33,677	29,532	35,585

In the 2017 Report and Opinion on the State General Accounts, the CdC reported inconsistencies between aggregates and breakdown of civil servants by grade or category reported in the Annual Financial Report. As part of the effort to interface SIGAP and GRP, the CSC and the MoF Payroll department are currently working on a reconciliation of the staffing data across their respective systems.

Authority and basis for changes to personnel records and the payroll are clear and adequate but the integrity of data remains an issue. The score for this dimension is a C.

69 *Mapa do pesoal*, which regroups the data collected by HR offices in LMs and APAs).

23.4 - Payroll audit

There have been no external audits of the whole payroll system in the last three fiscal years, but measures have already been taken to address the weaknesses identified in 2016. A joint taskforce with representatives from DG Treasury, the CSC and the State General Inspector (*Inspetor Jeral do Estado)* has been established and is currently conducting a data reconciliation process to prepare the interfacing of SIGAP and Payroll-GRP. To strengthen the internal audit function, the Orientation note (*Orientação*) 16/2018 (March 2018) establishes a monthly audit procedure to be performed by each budgetary entity, aiming at certifying the regularity of salary and wage payments for all Government (with the exclusion of a few entities regulated by a particular status) on a sample basis (minimum 200 names).

No payroll audits and staff surveys have been undertaken within the last three completed fiscal years. The score for this dimension is D.

Recent or ongoing reform activities

In 2018, the Ministry of Finance and the CSC started to work on interfacing SIGAP and the GRP. Final integration and common interface are expected to be completed by end of 2019. A delegated payroll pilot project is currently ongoing with five pilot ministries and agencies. Focal points were trained on payroll data entry and they come monthly to DG Treasury with a payroll user ID to do the data entry. Similarly, the CSC is planning to provide access to SIGAP and delegate HR data entry to some qualified institutions.

PI-24 Procurement

This indicator examines key aspects of procurement management. It focuses on the transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The time period is last fiscal year. The coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-24 Procurement	**D**	
24.1 Procurement monitoring	D	The centralized data base managed by MoF is intended to record all contracts awarded under all procurement methods for goods, services and works, but the database is not systematically used and updated in a timely manner, and therefore currently unable to provide a consolidated and complete record in real time of the contracts awarded by the various procuring agencies.
24.2 Procurement methods	D*	Due to the lack of complete data on awarded contracts, it is not possible to determine how many were procured through competitive or non-competitive methods.
24.3 Public access to procurement information	D	Out of the six criteria, only two are determined to be met as being complete and reliable: (i) legal and regulatory framework for procurement, and (ii) bidding opportunities are published. However, government procurement plans, data on resolution of complaints and annual procurement statistics are not published, and there is insufficient information to determine the extent to which contract award information is published.

Indicator/Dimension	Score (M2)	Brief Explanation
24.4 Procurement complaints management	D	Decree Law 10/2005 of the Procurement Legal Regime provides procedures for bidders affected during the procurement process to file claims and appeals. However, the complaints are to be acknowledged and solved by the entity that was authorized to initiate the procurement process, in other words the procuring entity. Therefore, complaints, are not reviewed by a body that is not involved in any capacity in procurement transactions or in the process leading to contract decisions.

The government's total spending through public procurement is estimated at USD 542 million. This is equivalent to about 40 percent of the total value of government expenditures, with the majority of spending covering infrastructure projects, which represents 55 percent of the total procurement spending.

Procurement planning is included in the budget cycle. During budget preparation, procuring agencies are required to submit their annual action plan supported by the annual procurement plan. Individual procurement plans are reviewed by UPMA. While annual action plans and budgets are presented in the Budget Books, the annual procurement plans are not included and therefore not published.

The procurement regulatory framework is currently defined through a list of 10 Decree Laws and regulations governing public procurement. They are published on the Government's e-Procurement Portal as well as on the websites of the National Procurement Commission, the Ministry of Finance, and the Ministry of Justice. Hardcopies can also be ordered at the National Printing Office. The Decree Law 10/2005 on Procurement sets out the seven available procurement methods as follows:

- Public Tender. National and international competitive bidding, mandatory for contracts valued more than USD 100,000, in which any interested party can choose to bid [*Koncursu Publiku*];
- Limited Tender by Pre-qualification. After a publicly-advertised pre-qualification procedure, bids are invited from only the prequalified applicants [*Koncursu limitadu por pre-qualifikasaun*];
- Restricted Tender. Only those invited can submit bids [*Koncursu restritu*];
- Two-Stage Tendering with negotiations [*Procedimento por negosiasaun de propostas*];
- Request for Quotations (RFQ). The process of obtaining three written quotes for simple purchases valued less than USD 100,000 [*Procedimento por solisitasaun de cotasaun*];
- Direct appointment. Single source [*Ajuste directo*];
- Simplified procedure [Procedimento simplificadu].

The responsibility for carrying out the procurement process is decentralized to various agencies according to legal contracting thresholds. Procuring line ministries and agencies are responsible for procurement under USD 1 million. Contracts exceeding USD 1 million, or those using the Infrastructure Fund, are required to be procured centrally by the National Procurement Commission (NPC).

An e-Procurement Portal was established and enhanced with a procurement module in the Government Resource Planning (GRP) system. Its aim is to provide a centralized platform for procuring agencies to publish tender notices and contract award information, and to serve as a repository of procurement and contract data. The regulations require a fee to be charged for making bidding documents available to potential bidders, which was originally intended for covering document production costs and to discourage unscrupulous suppliers from unfairly restricting competition by collecting all the available printed copies of the tender documents. The e-Procurement Portal is not used for publishing bidding documents. Most public tender documents and contract templates are in English, although the level of English literacy in Timor-Leste is very low.

24.1 - Procurement monitoring

There is no mechanism in place for systematic analysis and reporting of procurement data for monitoring procurement performance. It was not possible during the assessment to make an accurate determination of the annual procurement spending due to the lack of complete and updated data on awarded contracts. As a rough estimate, the annual procurement spending is expected to be close to the government's combined annual expenditures for goods and services (including HCDF) and capital development, which amounted to USD 591.7 million in 2017. Thus, it can be approximately deduced that the total procurement spending is about 49.5% of the government's total expenditure by appropriation category (including loans), which was USD 1,194.7 million in 2017.

The centralized procurement database managed by MoF covers contracts awarded under all procurement methods for goods, services and works, but the data is not updated on a timely basis. As a result, it does not enable a complete consolidated record of all contracts awarded to be readily available. Most of the procuring line ministries and agencies, including NPC, also maintain their own separate decentralized databases, which are not linked to MoF's central database. MoF's central data base, which is meant to serve as a repository of information of all contracts awarded by all procuring agencies/line ministries in the country, was not up-to-date at the time of assessment and there appears to be large gap of missing data of contracts awarded by the procuring agencies/line ministries, including NPC. At the time of the assessment, the data available in MoF's centralized data base for contracts awarded in 2017 amounted to USD 195,114,549, which is only 33% of the roughly estimated total procurement spending in 2017. This is likely due to limited use of the e-procurement portal by procuring agencies/line ministries and the delay in entering the data.

In the absence of any external reports verifying the data entered, the centralized database is currently unable to provide a complete and reliable record in real time of all the contracts awarded in the country. Accordingly, the score for this dimension is assessed as a D.

24.2 - Procurement methods

There is no data available for publication as no databases on procurement operations are maintained. The ministries could not retrieve data on procurement methods applied from the filing records of transactions. Due to the non-availability of complete, updated and reliable contract data, it was not possible during the assessment to determine what proportion of the awarded contracts were procured though competitive methods. Accordingly, the score for this dimension is assessed as a D*.

24.3 - Public access to information about procurement

The following table shows the status of key procurement information required to be made available to the public.

Table 24.3 Status of key procurement information

Elements/Requirements	Met (Y/N)	Evidence Used/Comments
(1) Legal and regulatory framework for procurement	Y	Legal and regulatory framework for procurement is published in the MoF website https://www.mof.gov.tl/government-procurement and the e-Procurement Portal http://www.eprocurement.gov.tl; These include relevant laws, regulations, implementing decrees, procedural guidance and standard procurement documents.
(2) Government procurement plans	N	Annual procurement plans are prepared by the procuring agencies but not published. The anticipated activities are listed in the budget documents, and the Decree Law states that ministries must develop a report or profile accounting for their planned expenditures for each financial year and how to do this is also explained.
(3) Bidding opportunities	Y	Bidding opportunities are required to be published in the press, and in practice this is generally followed. The bidding announcements can also be published through electronic means, but in practice these are not published systematically and on a timely basis on MoF's website and e-Procurement Portal.
(4) Contract awards (purpose, contractor and value)	N	Contract award information for each procurement carried out by the procuring entities is required to be posted in the usual place that was used to initiate the procurement process. However, there is no data available to indicate that award information of a majority number of contracts awarded by all procuring entities is being published in the press. It appears that in practice the contract award information is not systematically published in the press by all procuring entities, nor in MoF's website and the e-Procurement Portal.
(5) Data on resolution of procurement complaints	N	Data on the resolution of procurement complaints is not available and therefore not published.
(6) Annual procurement statistics	N	Annual procurement statistics are not available and therefore not published. The e-Procurement Portal has the capability to provide some statistics for the competitive procurement transactions that are processed through the portal, however the portal is not regularly used by procuring agencies for processing procurement transactions, which are still mostly done manually. There are no reports available to provide comprehensive data and analysis of procurement performance.

Only two of the six criteria for public access to procurement information are met: (i) legal and regulatory framework for procurement and (ii) bidding opportunities. The score for this dimension is assessed as a D.

24.4 - Procurement complaints management

Decree Law 10/2005 on the Procurement Legal Regime defines the complaints management arrangements for procurement. Chapter V (Claims and Appeals, Articles 96-102) allows bidders to file claims and appeals and specifies the procedure for review and resolution of the complaints. There is no fee required to be charged for submission of complaints, the competent authority can suspend the procurement process, and there is a specified time frame for the decision by the competent authority on the complaint.

However, the complaints are not reviewed by a body that is not involved in any capacity in procurement transactions or in the process leading to contract decisions. Given that the complaints are first to be acknowledged and solved by the entity that was authorized to initiate the procurement process, in other words the procuring entity, the procurement complaint system does not meet the PEFA criterion 1. **The score for this dimension is assessed as a D.**

PI-25 Internal control on nonsalary expenditures

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The time period is at time of assessment. The coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-25 Internal control on nonsalary expenditure	**B+**	
25.1 Segregation of duties	B	Segregation of duties is clearly prescribed throughout the expenditure process, but weakly enforced within public institutions due to insufficient resources and capacity.
25.2 Effectiveness of expenditure commitment control	B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for most types of expenditure.
25.3 Compliance with payment rules and procedures	A	Payment rules and procedures are strictly enforced through the GRP system. Payment statistics are closely monitored by DG Treasury.

25.1 - Segregation of duties

Since 2016, significant steps have been taken in the delegation of PFM authority and functions to line ministries, autonomous agencies, municipalities, and special funds. Responsibilities for commitments and payment authorizations have been moved to decentralized public institutions. By decision from the Council of Ministers and endorsed by the Parliament, all PFM functions (budgeting, payment, reporting) were decentralized to autonomous agencies as of 1 January 2016, and to municipalities starting as of 1 January 2017. The Treasury has an on-going training program to assist municipalities and autonomous agencies in developing these functions. At this stage, the Treasury still oversees the payment and reporting functions in autonomous agencies and municipalities.

The regulatory framework, guidelines, and systems establish clear principles and mechanisms for the segregation of duties across PFM systems. The Treasury Manual clearly defines the principles for segregation of duties at the stages of payment initiation, payment authorization, record keeping and its custody. Detailed guidelines exist to mitigate risks for individuals to "be in a position to commit and conceal errors (intentional or unintentional) or perpetrate fraud in the normal course of his/her duties".

Appropriate segregation of duties is prescribed through the expenditure process, and related levels of responsibilities for commitment, authorization, and recording. The annual Government decree on budget execution further details specific roles and responsibilities (for instance authorization to carry out expenditure/commitment of expenditure for municipalities). SOPs and work instructions, prepared by MoF and Internal Audit Guidelines, prepared by the GAI detail roles and responsibilities for a range of PFM processes (e.g., commitment, payment verification, recording process).

The Treasury, autonomous agencies, and municipalities keep a list of all delegations of signature for authorizing, approving and certifying responsibilities. This list is maintained by all agencies and must be updated respectively to the Treasury, autonomous agencies and municipalities, to be used as a base for verification at all steps of the PFM procedures. In addition, authorization access to the FreeBalance system are integrated with the lists of authorized approvers and signatories, including differentiation of level of access. The system provides complete audit trails of users.

The lack of segregation of duties is regularly reported as a critical issue for small and new public institutions (e.g. APAs, municipalities) due to insufficient resources and lack of knowledge and understanding of internal control. DG Treasury conducted a payment function assessment in May 2017, monitoring over 27 public institutions. In its Payment Monitoring Report, DG Treasury highlights weak segregation of duties within the institutions surveyed and identify the lack of human resources as one of the key obstacles to appropriate segregation of duties within public institutions, particularly between the procurement and the payment functions. The same findings were raised during an assessment conducted in August 2017 in all municipalities by DNCRF and DNDF, linking the lack of segregation of duties to inadequate human resources (both in capacity and quantity). A MoF monitoring mission conducted in late 2016 to assess PFM practices within autonomous agencies, reported a lack of segregation of duties due to insufficient personnel and lack of knowledge around basic principles of internal control systems. Further documentation for the specific environment of these institutions and clear support for the enforcement of existing rules are needed.

Internal and external assessments highlighted weaknesses in the application of principles of segregation of duties within a few public institutions requiring more developed procedures and enforcement of internal control procedures, elsewhere clearly prescribed throughout the expenditure process. The score for this dimension is a B.

25.2 - Effectiveness of expenditure commitment controls

Controls over expenditure commitments are effectively established throughout the regulatory framework and relevant budget and payment systems. Once annual budget appropriations have been approved by the legislature and promulgated by the President, the Treasury delivers EAN to authorize public institutions to spend or commit funds. The funds released are then entered into the GRP with allocations at the department level and by appropriation category type. An EAN can release the total appropriation at the beginning of the fiscal year, or the release could be in monthly, quarterly or half-yearly stages. No money can be released from the CFTL for expenditures that are not authorized by an EAN. There are strict rules governing the issuance of EANs. EANs are subject to availability of funds and the total of EANs for any appropriation category can never exceed the appropriation amounts for that category. EANs are time-bound and their validity period depends on the type of budget appropriation and projected cash flows. The annual Government Decree on Budget Execution provides specific and complementary information on commitment rules for the fiscal year.

Commitment controls are effectively enforced through the GRP FreeBalance system. All budgetary institutions are using the GRP, and the same set of rules apply to line ministries, autonomous agencies, and municipalities. The expenditure commitment starts with the initial commitment authorization process. When a decision is made to spend public funds on a specific activity, a Commitment and Payment Voucher (CPV) is issued to be approved by the public institution's authorizing officer (or her/his delegate), and then recorded into the GRP FreeBalance system which records all transactions from commitment to payment and prevents expenditure from exceeding available balances. The rules are strictly enforced through the GRP, which has been confirmed by successive audits. The CdC's Report and Opinion on the 2017 General State Account confirms that the control is strictly applied at the budget category level and recommend the extension of this control at item level. The GRP system currently allows payment commitments to be made when there are funds available at the appropriation level (budget category) and not at the item level.

A weakness identified relates to the monitoring of unliquidated commitments and obligations throughout the year. A stricter follow-up on the balances and unused obligations during execution could optimize the use of available funds. The level of unliquidated obligations at year-end represents on average 4.8 percent of the total expenditures (or USD 67 million), which could have been reallocated. Furthermore, there is less clarity on the commitment procedures relating to investment projects and contract payments as the FMIS system does not allow for multi-year commitments. These expenditures would not represent more than 20% of the total.

Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for most types of expenditure. The score for this dimension is a B.

25.3 - Degree of compliance with payment rules and procedures

Payments rules and procedures are clearly in place and effectively applied. Payments are processed in several stages, from invoice, to Good Receipt Notes, Payment Request and Expense Voucher until a TPO or cheque is issued. Payment rules and procedures are detailed in the Treasury Manual and complemented with specific instructions in the Government Decree for Budget Execution (e.g. Decree 1/2017, Article 26: Payment Authorization for Municipalities). Additional SOPs, including flowcharts, have been prepared by MoF (e.g., SOP for payment processing for line ministries, SOP for payment processing for autonomous agencies). The control over payments is built within the GRP system as per the provisions of the existing financial rules and regulations and all budgetary bodies must adhere to it. In 2017, the average rate of payment requests rejected was 2.56 percent of the total payment requests. Compliance with payment rules and procedures is also systematically assessed as part of the external audits conducted by the CdC and can result in the recovery of undue payments (e.g., per diem).

Treasury systems provide clear records of the effectiveness of compliance with payment rules and procedures. Payments are almost entirely done through a Treasury Payment Order (TPO), and in some limited occasions by cheques and letters of credit. In 2017, 85 percent of all payments were done through TPOs. Quarterly and annual Payment Monitoring Reports are generated by DG Treasury, closely tracking and monitoring different payment statistics, including payment request (created and returned), payment instruments (cheque and TPO), returned TPOs, professional services payments, social benefits payments, advance payments and acquittals. The reports also provide a summary of all activities initiated and implemented by DG Treasury to improve the system and its overall performance (e.g., trainings, new SOPs, GRP enhancements). Monitoring missions from DG Treasury (to autonomous agencies and municipalities) also assess institutional capacity to process payments and identify training needs.

All payments are compliant with regular payment procedures. All exceptions are properly authorized in advance and justified. The score for this dimension is an A.

PI-26 Internal audit

This indicator assesses the standards and procedures applied in internal audit. The time period for dimensions 26.1 and 26.2 is at time of assessment; for dimension 26.3 it is the last completed fiscal year, and for dimension 26.4 audit reports used for the assessment should have been issued in the last three fiscal years. The coverage is Central Government.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-26 Internal audit	**D**	
26.1 Coverage of internal audit	D	Internal audit is in principle operational for all Central Government entities, but the direct coverage under the MoF represents less than 50 percent of all budget outturns.
26.2 Nature of audits and standards applied	D	Internal audit activities are primarily focused on financial compliance with no evidence of a strict adherence to defined standards.
26.3 Implementation of internal audits and reporting	A	Annual audit programs exist. All programmed audits are completed, but as plans are adjusted to limited capacity and resources constraints, the program is very limited in scope.
26.4 Response to internal audits	D*	Management provides a formal response to audit recommendations for most of entities audited, but there is little evidence of any follow-up to the GAI audits in the audited institutions and there are no consolidated records of implementation of recommendations.

There is currently no comprehensive regulatory framework for the internal audit function in the Government. Establishment of an internal audit function remains at the discretion of public sector agencies. As a result, most line ministries, autonomous agencies and municipalities lack an internal audit function. For most public institutions the function is covered by the Inspections departments carrying out ex-post controls.

The Inspectorate-General of the State (IEG) was established through Decree Law 02/2009, with inspection and auditing functions. The IEG reports directly to the Prime Minister. Its expertise extends over internal control of central services and deconcentrated public entities (Article 13). However, it has essentially been focused on inspections and investigations. Contact with other institutions which are also mandated to perform internal audit functions has been limited.

Law 9/2011 establishes the Chamber of Auditors of the High, Administrative, Tax and Accounting court (mandate temporarily transferred to the CdC). The law states that internal control bodies (of institutions under its jurisdiction) should submit their annual and multi-annual programs and their activity reports, as well as the reports of their actions, whenever they contain material of interest to the CdC – in particular in situations resulting in possible financial infractions. In its Report and Opinion on the 2017 General State Account, the CdC reported that none of the State's internal control bodies were complying with this legal obligation, including the IEG.

26.1 - Coverage of the internal audit

In 2013, MoF established the Office of Inspection and Audit, restructured in 2015 as the Office of Internal Audit (GAI), reporting directly to the executive office (Vice Minister). It was only in 2017 that GAI started developing its activity by performing risk-based system audits. GAI is responsible for providing advisory services to public sector institutions, as well as external audit and stakeholder coordination services. GAI also administers the internal audit service for MoF. As a coordinating unit, GAI issues internal audit guidelines and provides standard operating procedures. GAI has jurisdiction over all public institutions but too limited resources to effectively fulfil its responsibilities. In principle, GAI's mandate and coverage extend through MoF's overall mandate to all spending units. Under MoF direct control, the GAI portfolio directly covers 22.8% of the state budget represented by the "whole of government" heading and 72% of revenue collected by the revenue and customs agencies – and therefore under the direct jurisdiction of GAI.

GAI's current resources are insufficient to deliver its mandate effectively. The GAI is currently staffed with one national director, four internal auditors and one administrative staff, and its budget is centralized under the DG Corporate Services. GAI's annual audit plan and activities are established formally based on a risk-assessment approach but its implementation is subject to resource availability. As a result, not all identified high-risk units are provided internal audit services. The impact of internal audit is also constrained by limited capacity at the public agency level.

Internal audit is in principle operational for all Central Government entities, but the direct coverage under the MoF represents less than 50 percent of all budget outturns. The score for this dimension is a D.

26.2 - Nature of audits and standards applied

GAI's activities are mostly aligned to basic principle of internal audit standards, but their focus is on financial compliance, with an assessment on adequacy and effectiveness of internal controls. Thematic audits on systems have also been introduced in 2017 (procurement, asset management, contract management). GAI reports are circulated to the respective senior management and ministers. In the absence of clear follow-up obligations, and as ministry counterparts do not have the necessary skills and competencies to enforce recommendations at line ministry level, the impact of the GAI work is very low. The lack of enforcement capacity limits the extent of what GAI can achieve in terms of capacity building and advisory services.

GAI has adopted Institute of Internal Auditors international standards for the practice of internal auditing. All guidelines, templates and SOPs produced by GAI are guided by these standards. Audit engagements focus on adequacy and effectiveness of internal controls and are still largely limited to ex-post reviews of financial compliance. Thematic performance-based audits were introduced in 2017 (procurement, asset management, contract management) through the GAI annual workplan. There is no quality assurance process as prescribed in Institute of Internal Auditors standard 1300. No external assessments have been conducted yet and while the GAI has prepared a self-assessment checklist for internal audit engagement across the Government, it has yet to be implemented.

A risk assessment methodology was developed by the GAI in 2015 and formalized in the internal audit strategic planning practical guidelines. The methodology assesses both impact and likelihood to prioritize risks. In consultation with Ministry of Finance's departments, the GAI used this methodology and established its audit universe in 2016, identifying priority areas for internal audits. Internal audit plans are formulated before the beginning of the fiscal year based on this risk assessment, and these are approved by the Minister. However, the internal audit has not been a priority for MoF so far and the planned activities have been delayed.

Internal audit activities are primarily focused on financial compliance, but there is no evidence of a strict adherence to the standards applied in the reports produced by the GAI. The score for this dimension is a D.

26.3 - Implementation of internal audit and reporting

The GAI's annual internal audit plans are established on a risk-assessment approach but implementation is subject to resource availability. New human resources allowed GAI to increase the number of internal audits initially planned. In 2017, GAI's annual plan has been amended twice following the recruitment of two junior professionals. The plan for 2017 has been fully implemented and the internal audit reports have been shared with the respective management of audited institutions. A very limited number of other public institutions include internal audit related activities in their annual action plan (e.g., SEPFOPE in 2017). Most line ministries do not have internal audit functions and related activities are therefore not included in their annual action plan. They focus mostly on investigations at the request of the respective Minister. GAI can also undertake specialized audits upon request of other public institutions.

GAI reports quarterly to MoF's management on the progress of its activities and the implementation of its annual workplan. The GAI shares with the CdC its annual workplan for the year, its annual report for the previous year, as well as a copy of relevant audits and investigations. The 2018 annual workplan, the 2017 annual report, and relevant documentation were sent to the CdC in November 2018. Annual audit programs exist and programmed audits are normally completed, but plans are adjusted to limited capacity and resources constraints. As a result, the program is very limited, and the circulation of the reports has very little impact.

Table 26.3 GAI 2017 annual audit plan and implementation status

Initial 2017 annual plan	Status at 31 December, 2017
Audit of Procurement Process - MoF,	Completed
Pilot audit of Cash Advance in LMs	Completed for MAP and MOPTWC
Pilot audit of Cash Advance in Embassy	Completed for GOTL permanent representation at UN
Audit of Asset Management - MoF	Completed
Addition after revision (August 2017)	
Audit of Contract Management – MoF	Completed
Tower of Ministry of Finance – MoF	Completed

Source: GAI and MoF

Considering that the planned program is fully implemented, although its scope is limited and adjusted to very limited resources, the score for this dimension is assessed as an A.

26.4 - Response to internal audits

The internal audit reports are prepared in close collaboration with the audited institution and the finalized report is shared with both the responsible manager and the executive office of the Ministry of Finance. Most of the findings relate to financial compliance. GAI's internal regulation recommends two follow-up missions within a year interval. The first internal audits were conducted in 2017; follow-up missions were planned and conducted during Q4 2018. A second follow-up is planned for Q4 2019, when needed. Follow-up activities are formalized through a matrix considering the status of implementation and a description of the activities implemented to date for each recommendation.

Table 26.4 GAI audit follow-up in 2017-2018

Internal audit theme	Institution audited	GAI follow-up
Procurement	Ministry of Finance	Yes
Asset Management	Ministry of Finance	Yes
Contract Management	Ministry of Finance	Yes
MoF tower	Ministry of Finance	Yes
Cash advance	Ministry of Agriculture and Fisheries	No
Cash advance	Ministry of Public Works	No (MoPW followed-up)
Cash advance	Embassies (sample)	No

The audit activities follow a formal process, but actual follow-up by auditees on recommendations is limited. Overall the internal audit function has a very limited impact on the effectiveness of the performance of internal control systems. When an internal audit exercise is performed in support of a public institution outside MoF, the GAI shares the follow-up matrix with their counterpart but does not conduct a follow-up mission. The responsibility to follow-up on recommendation implementation of joint internal audits is transferred to the internal control body within the audited institution. As of 2019, all audited management provided a formal - even if partial - response to audit recommendations for all audited entities, but the response does not provide comments on the recommendations made and does not provide evidence of the implementation of appropriate action. The GAI report refers to the follow-up to GAI audits in the audited institutions by theme, but as no consolidated records of implementation of recommendations is maintained by GAI, there is insufficient information to assess the effectiveness of responses.

Considering the lack of effective monitoring system to collect information on the effectiveness of responses to the GAI recommendations and findings, the score for this dimension is a D*.

Recent or ongoing reform activities

Recent decisions show that MoF management has started to give the internal audit function priority:

- An Internal Audit Charter has been developed and submitted to the Minister of Finance and is expected to be passed as a ministerial diploma.
- Internal audit training certification, with competency standards, has been developed for internal auditors and will be rolled out by the PFM Capacity Building Center of the Ministry of Finance.
- The regulatory framework should be strengthened by a new Internal Audit Law, which has been drafted and submitted to the Minister for approval.
- An Internal Audit Manual has also been drafted and submitted to the Minister, which will include a Code of Ethics as well as a risk assessment methodology and guidelines.
- Professional certification abroad for internal audit staff.
- Audit with capacity in line ministries and on-the-job training for one focal point at the municipality level.

Pillar Six: Accounting and Reporting

PI-27 Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. The time period for dimensions 27.1, 27.2 and 27.3 is at time of assessment covering the preceding fiscal year, and dimension 27.4 it is at time of assessment. The coverage for dimension 27.1 is Central Government and Budgetary Central Government for the other dimensions.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-27 Financial data integrity	**C+**	
27.1 Bank account reconciliation	D	The implementation of the TSA and the use of GRP allows manual (but daily) bank reconciliation for the Treasury monitored bank accounts. All active Central Government bank accounts are reconciled annually but there is no systematic control over the process and delays can occur.
27.2 Suspense accounts	C	Reconciliation of suspense accounts takes place daily, weekly and monthly within Treasury and at least annually within two months from the end of the year across all budgetary entities. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
27.3 Advance accounts	B	Most of the advance accounts are reconciled at least quarterly within 2 months from end of the period.
27.4 Financial data integrity processes	A	Access and changes to records is restricted and recorded, results in an audit trail, and IFMISU is the operational body in charge of verifying financial data integrity and is fully operational.

27.1 -Bank account reconciliation

Arrangements for bank account reconciliation are in place and implemented for all bank accounts maintained by the Treasury. At present, there are three funds for which separate accounts are maintained in BCTL by the Treasury:

- Consolidated Fund of Timor-Leste (CFTL), considered as the TSA;
- Infrastructure Fund;
- Human Capital Development Fund (HCDF).

In addition to the above three, the Treasury has opened CFTL sub-accounts for various autonomous agencies and municipalities. The opening of bank accounts held by public entities requires Treasury prior approval, but their management is decentralized.

At the Treasury level, bank reconciliations are carried out manually and not always systematically, and the Treasury prepares annual reconciliation reports. The first step of the reconciliation process uses the reconciliation module of the GRP FreeBalance to match the payments and receipts transactions recorded in it and the data extracted from the R-Timor system (the IT system of the Central Bank). However, the actual reconciliation process with the bank data is done manually as the existing GRP module for automatic bank reconciliation is not yet operational. Furthermore, direct access to data from the tax administration system is not yet possible, because the tax system needs to be upgraded or replaced to establish the interface with the GRP and R-Timor (see PI-20).

Responsibility for the reconciliation of the bank sub-accounts is decentralized to the public entity which owns the account. According to the annual budget execution decree and accounts closing instructions from MoF, each entity must prepare bank reconciliations at least at year-end - and ensure there are no outstanding reconciling items that require correction in the General Ledger. The policy is also to transfer back to the CFTL all balances at the end of the fiscal year. However, line ministries, municipalities and other public entities face difficulties complying due to lack of capacity and incentives. The same assessment applies to all entities, autonomous agencies and extra-budgetary units, subject to the same regulations and facing the same challenges. The amount of reconciled accounts sent to the Treasury for consolidation was not available for the assessment.

Daily bank reconciliation for the bank accounts under the CFTL (TSA) directly managed by the Treasury is performed daily, and manually based on GRP transaction data. All other active Central Government bank accounts are reconciled under the responsibility of the entity owner of the account, and it occurs with delays and limited oversight. The score for this dimension is assessed as a D.

27.2 - Suspense accounts

Suspense accounts are used to record revenue or expenditure which purpose is not identified and cannot be matched with the corresponding debit or credit of the transaction. These suspense accounts are reconciled during the successive bank and accounts reconciliation process performed by the Treasury department or the entity responsible for the account. This reconciliation takes place daily, weekly and monthly at the Treasury level. For the other entities, uncleared amounts are cleared in a timely manner and systematically at the end of the fiscal year. If uncleared amounts are kept in the system as a result of exchange rate differences or differences in debit/credit transaction amounts, they are not materially significant and written off during the audit of the annual financial account. Any specific suspense account needs to be justified to Treasury to be maintained.

Reconciliation of suspense accounts takes place at least annually within two months of the end of the year. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified. The score for this dimension is assessed as a C.

27.3 - Advance accounts

Advance accounts in cash are mostly the result of payroll advances, organization of training activities or events, or travel activities. Advances on contract payments are recorded against obligations in the system and reported regularly. Advances to suppliers on goods and services delivery contracts are recorded as expenditure on the cash accounting basis. Final payments are authorized and processed upon issuance of a Goods Receipt Note confirming delivery.

Guidelines on budget expenditures regulate that advance payments should be cleared within 30 days (MoF Decree 206). Advances for business travel and salary advances are managed by their respective ministries or agency, and are either cleared upon submission of receipts or repaid by staff through deductions to their payroll payments, usually on a monthly basis.[70] In Timor-Leste's cash-transaction environment, where options for bank or digital payments is limited and staff have no resources to cover expenditures for ex-post reimbursement, the amount of cash advances made by ministries for activities outside Dili is usually high and risk of misuse or loss is also considered to be high. The advance payment procedure is nevertheless strictly enforced, and advances above the threshold for petty cash must be authorized by Treasury in advance and can be paid only if any previous advance has been cleared satisfactorily. MoF and line ministries apply a strict monitoring of all clearances of cash advances. The clearance delay can, however, take more than a month.

Advance accounts and records are correctly maintained across all budgetary entities, reconciliations take place at least quarterly and most advances are timely cleared. The score is a B.

27.4 - Financial data integrity process

The IFMISU in MoF is in charge of maintaining the FMIS GRP architecture, its integrity, security, accuracy and completeness. IFMISU manages upgrades and interfaces with other government management systems. Good practices are in place, including the principles of limited authorized access to information, read-only access for certain users, and changes to records by creation or modification of data. Access and changes to records is restricted through passcodes and allows for audit trails. Information from the GRP has been assessed as reliable by the external auditors of the financial accounts and has received FreeBalance monitoring and quality assurance support. The GRP infrastructure on FreeBalance has been maintained through a contract with FreeBalance Inc and was part of the audit scope of MoF external auditors Deloitte until 2014. In the assessment period, IFMISU is in charge of verifying the financial data integrity of the GRP systems.

The GRP features allow for individual accountability, intrusion detection and problem analysis. The system maintains the user's log to provide information on who accessed the data, who initiated the transaction, the time of day and date of entry, the type of entry, what fields of information it contained, and what files it updated.

Access and changes to records is restricted and recorded, results in an audit trail, and IFMISU is the operational body in charge of verifying financial data integrity. The score for this dimension is assessed as an A.

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. The time period is last completed fiscal year. The coverage is Budgetary Central Government.

70 The sample test performed by the assessment team on the advance accounts shows that the clearing of advances is taking place according to guidelines

Indicator/Dimension	Score (M1)	Brief Explanation
PI-28 In-year budget reports	**D+**	
28.1 Coverage and comparability of reports	C	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to most de-concentrated units within Central Government are included in the reports, with the exception of RAEOA-ZEESM.
28.2 Timing of in-year budget reports	D	While in compliance with the law, three of the quarterly financial reports are issued in more than 4 weeks but less than 8 weeks, but Q4 is issued in more than 8 weeks after the end of the fiscal year.
28.3 Accuracy of in-year budget reports	B	Detailed information is provided at level 2 of the budget classification. A brief analysis of budget execution is also included. Information on expenditure is covered at both commitment and payment stages. There are some concerns regarding data accuracy, in particular revenue collection for APAs, but amounts are not significant and some of the data issues are highlighted in the report.

28.1 - Coverage and comparability of reports

The State Budget Law, usually published before the beginning of the financial year as a Parliament Law, establishes the level of disaggregation for financial reports. The reports include a brief analysis and narrative on budget execution. Budget allocations are disaggregated at administrative level (2 digits or equivalent), at the national directorate level for the organizational structure, and at appropriation category level for the economic classification. The Ministry of Finance also publishes a revised version of the budget submission to Parliament with data disaggregated at item level (economic classification) and project/activity level (Infrastructure Fund and Human Capital Development Fund).

In-year budget reports are consistent with budget coverage and classification to allow the monitoring of budget performance and to be used for timely policy decisions. As per the PFM Law (Article 44), the Government publishes quarterly financial reports. DG Treasury prepares consolidated financial reports from the transactions centralized in the GRP and all in-year and annual financial reports are designed and prepared to compare the coverage and classification of budget execution data to original budget allocations and rectified budget estimates. The quarterly reporting follows the same structure as the budget books (BB4-A and BB4-B), providing data down to the item level (4 digits) and division level for line ministries. The quarterly financial report provides original and final budget figures, as well as actual expenditures, current obligations and commitments for all government budgetary entities, including municipalities. For autonomous agencies, the reporting covers the level of the budget head and appropriation category level (no reporting at item level). This level of details remains aligned with the structure of the State Budget Law. The quarterly report also provides an update on projects/activities within the IF and the HCDF.

Detailed information about the municipal administrations/authorities and autonomous agencies are provided as they use the GRP for all financial transactions. However, large transfers made to other budgetary Central Government entities, by line ministries in particular, are not disaggregated. For instance, public transfers under the Ministry of Petroleum and Minerals, transfers made to RAEOA-ZEESM or the school transfer program are not detailed.

Quarterly reports provide information against the programmatic structure (programme, sub-programme, activity) for both Central Government institutions, as well as autonomous public agencies. While the annual budget law does not yet provide budget allocations against the programmatic structure, quarterly reports provide an update of budget execution against the economic, administrative and programmatic classifications. The program reporting is generated by the *Dalan Ba Futuru Timor-Leste* software, developed to report performance information based on the status of programmes for all government entities mapped under the programme budgeting structure.

In addition to the regular financial reporting, the MoF maintains a public portal with allocation and execution data disaggregated at directorate level and line item level. The Budget Transparency Portal is updated on a 24-hour basis and provides the public with almost real time data on government spending. However, issues have been recently identified and flagged in the OBI report for Timor-Leste relating to access to the website and delay for downloads of budget data. The quarterly financial reports are also published on the website of the Ministry of Finance and further disseminated by entities outside Government, for instance civil society organizations' websites (e.g. Lao' Hamutuk).

In the first half of 2018, under the duodecimal system, financial reports were also published monthly but on a different format. No information was provided on the level of the allocation or authorization to spend. Budget execution data were disaggregated to the level of the appropriation category and the national directorate level.

In-year reporting includes coverage and classification of data that allows direct comparison to the original budget as budget law. Expenditures made from transfers to deconcentrated units are not systematically provided. The score for this dimension is a C.

28.2 - Timing of in-year budget reports

As per the PFM law (Article 44), the Government is expected to report to Parliament on budget implementation progress in the first three, six and nine months of each fiscal year. The quarterly reports should be transmitted within two months of the end of the period covered. To that end, the Government Decree 1/2017 instructs public institutions to send a performance information report, a public grant implementation report and a procurement progress report to MoF and UPMA, no later than:

- 17 April for the first three months;
- 17 July for the first six months;
- 17 October for the first nine months.

In the past, budget execution reports have been prepared quarterly and issued within 8 weeks from the end of each quarter for the three first quarters but not for the 4th quarter ending in December (Q4). 2017 in-year reporting requirements were met and the quarterly Budget Execution reports of the first three quarters were submitted within the deadlines established in Article 44, paragraph 4 of the Budget and Financial Management Law. In 2017, the time frame for completion of the quarterly reports, circulation, and submission by MoF was as follows:

- Q1 2017 Financial report - 26 May 2017;
- Q2 2017 Financial report - 29 August 2017;
- Q3 2017 Financial report - 11 November 2017.

Q4 has been prepared but issued more than 8 weeks after the end of the fiscal year.

The PFM law does not require a specific financial report for Q4, as performance in budget execution for Q4 is covered in the annual financial report. However, the CdC and the Parliament reported that the Q4 report should be produced in the same timeframe of 2 months after the end of the reported period. At present, it is included as an annex of the annual financial statement, which is published within 7 months of the end of the fiscal year.

While in compliance with the law, 3 of the quarterly financial reports are issued in more than 4 weeks but less than 8 weeks, but Q4 is issued in more than 8 weeks after the end of the fiscal year. Considering this, the score for this indicator is a D.

28.3 - Accuracy of in-year budget reports

All financial reports are exported from the central GRP where transactions and data are updated in real time. Data quality is verified according to procedures stated in the Treasury Manual as well as in the Government Decree on Budget Execution and SOPs produced by the DG Treasury and IFMISU. The in-year reports provide detailed information about the original and final budget, actual expenditure, as well as obligations and commitments, and revenue, except for RAEOA-ZEESM (which represented 12.4% of the overall 2017 state budget allocation, including loans).

Detailed information is provided at level 2 of the budget classification. A brief analysis of budget execution is also included. Information on expenditure is covered at both commitment and payment stages.

There are some concerns regarding data accuracy, particularly revenue collection for autonomous agencies, but the amounts are not materially significant and some of the data issues are highlighted in the report. Expenditure is captured at the payment stage. The score for this dimension is a B.

PI-29 Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely and consistent with generally-accepted accounting principles and standards. The period assessed for dimension 29.1 is the last completed fiscal year, for dimension 29.2 it is the last annual financial report submitted for audit (2017), and for dimension 29.3 the last three years' financial reports. The coverage is Budgetary Central Government.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-29 Annual financial reports	**C+**	
29.1 Completeness of annual financial reports	C	Financial reports for budgetary Central Government are prepared annually and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances as well as on long-term obligations (loans). Information on financial assets, financial liabilities and guarantees is missing.
29.2 Submission of reports for external audit	C	By law, financial reports for budgetary Central Government are submitted for external audit within 7 months of the end of the fiscal year.
29.3 Accounting standards	A	Accounting standards applied to all financial reports are consistent with the IPSAS full cash basis as confirmed by the CdC. Most international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained.

29.1 - Completeness of the annual financial reports

Requirements for the annual financial reports are described in the PFM Law, Article 45 on the final report on the budget. They are further detailed in the organic law of the Camara da Contas (under Article 29 of the Report and Opinion on the State General Account). The annual financial report covers the period from January 1 to December 31. It must be submitted to Parliament within 9 months after the end of the fiscal year. The content of the financial report prepared by DG Treasury contains the following information: presentation and statements of the annual financial report aligned with IPSAS - cash basis of accounting; detailed information on revenue, expenditure and cash balances, including the initial budget allocation, rectification, other alteration (e.g., virements and contingencies), final budget and actual execution for each budget heads; expenditures are shown in the same level of detail as contained in the State Budget Law, which enable direct and detailed comparisons of budget outturns; consolidation of Central Government accounts as well as special funds (HCDF) and autonomous agencies.

In 2016 and 2017, several institutions were not covered by the annual reporting. The National Institute of Social Security (managing the Pension Fund), TIMOR GAP, the National Petroleum and Minerals Authority (ANPM), the Institute of Petroleum and Geology (IPG), RTTL, the Central Bank of Timor-Leste (BCTL), the National Bank of Timor-Leste (BNCTL) and the Administration of Airports and Air Navigation of Timor-Leste (ANATL) are not covered by the reports. In its Report and Opinion on the State General Account, the CdC considered that the IPG and ANPM should be reported as part of the Central Government operations, in line with their legal regime.

Complete information on financial and nonfinancial assets, and on financial liabilities except external debt, are not provided. In addition, the report does not cover proceeds of development partners' support made in cash and deposited in accounts opened in commercial banks and under the control of public institutions, or directly transferred to a Government account at the BCTL (e.g., EU budget support).

Financial reports for budgetary Central Government are prepared annually and are comparable with the approved budget. They contain information on budget, revenue, expenditure, cash balances and are supported by a cash flow statement. They do not provide information on financial assets, financial liabilities, medium term obligations and liabilities and guarantees. The score for this dimension is a C.

29.2 - Submission of reports for external audit

Submission of annual financial statements to the High Administrative, Tax and Audit Court is regulated by Article 42 of the PFM Law and relevant amendments. The original deadline for submitting the financial statement to the CdC has been extended to seven months (Parliament Law 3/2013). Until the Supreme Court is formally established, the Court of Appeals exercises the powers of the CdC and is responsible for exercising the court's powers relating to monitoring and auditing PFM practices, including overseeing the State Budget execution.

During the period under review, the MoF has submitted financial statements for external audit by the CdC in a timely manner, within seven months of the end of the financial year. Consolidated annual financial statements submitted by MoF were audited by the CdC as follows:

Table 29.2 Timeline for Government consolidated annual financial reports

Year of Audited Financial Statement	Date of Annual Financial Statement received by CdC
2015	29-Jul-16
2016	31-Jul-17
2017	01-Aug-18

Source: MoF and CdC

In compliance with the law, financial reports for budgetary Central Government are submitted for external audit within 7 months of the end of the fiscal year (more than 6 months but less than 9 months). The score for this dimension is a C.

29.3 - Accounting standards

The Government adopted the full cash basis of the International Public-Sector Accounting Standards (IPSAS) in 2012. Financial reports are prepared in accordance with the Budget and Financial Management Law. Adherence to IPSAS full cash basis is reiterated in the introduction of the report. The CdC, through its Report and Opinion on the State General Account, confirms overall compliance with the IPSAS Cash Basis Accounting standard.

However, compliance with IPSAS could be further improved. The financial statements submitted by the Government should include information on the State's nonfinancial assets (movable or immovable) and financial assets, should provide consistent and comprehensive revenue collection information (particularly revenue collected by APAs), and provide justifications for when budget execution substantially deviates from budget allocations. Some of these disclosures are already listed in the financial report as foreseen improvements in future submissions of the annual financial report (e.g. nonfinancial assets and contingent liabilities). The financial statements do not currently provide information about the level of achievements of public policies, or the physical execution of projects and activities funded by the state budget. IPSAS also encourages entities to complement financial reporting with performance indicators, but the performance information provided by the programme budgeting reporting is still disconnected from the core financial reporting systems.

Accounting standards applied to all financial reports are consistent with international standards. The IPSAS cash basis standard used in preparing annual financial reports is disclosed in the report.[71] Variations between international and national standards are disclosed. The score for this dimension is an A.

71 CFTL, demonstracoes financeiras anuais agregadas para todo o governo, ano fiscal 2017, accounting policy

Pillar Seven: External Scrutiny and Audit

PI-30 External audit

This indicator examines the characteristics of external audit, focusing on the independence of the external audit function and on the audit of government's annual financial reports. The institutional coverage includes constitutional provisions, other legal provisions and audit reports on the financial reports of all Central Government entities for the last three fiscal years, except for dimension 30.4, which is assessed at the time of assessment.

Indicator/Dimension	Score (M1)	Brief Explanation
PI-30 External audit	**D+**	
30.1 Audit coverage and standards	B	Financial reports of Central Government entities representing most total expenditures and revenues have been audited during the last three completed fiscal years (IPG and ANPM were not included but represent less than 20 percent of total expenditures). No national standards have been adopted to conduct financial audits of the Government consolidated financial statements, but CdC is a member of INTOCDC and applied its standards in its auditing exercises.
30.2 Submission of audit reports to the legislature	B	The Report and Opinion on the State General Account was submitted to the legislature within six months from receipt of the annual financial report by the audit office for the last three completed fiscal years.
30.3 External audit follow-up	C	A formal follow-up was included in the annual Report and Opinion on the State General Account, covering all past recommendations, during the last three completed fiscal years. However, the rate of implementation by the executive is low.
30.4 Supreme Audit Institution independence	D	By law, the CdC operates independently from the executive with respect to procedures for the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of its budget. The CdC has unrestricted and timely access to records, documentation and information. However, appointment and removal of the Head of the CdC by the President – and not by the Parliament – raises an issue of political independence.

30.1 - Audit coverage and standards

The *Câmara de Contas* (CdC) operates as Timor-Leste's Supreme Audit Institution (SAI) and has a mandate to conduct financial audits of all Central Government entities. Article 145/3 of the Constitution mentions that "execution of the Budget shall be monitored by the High Administrative, Tax and Audit Court and by the Parliament." Together with the Parliament, the CdC is responsible for overseeing the State Budget execution.

The CdC is structured in three units based on the audit phase and coverage – "whole of government" general account, pre-audit, and external audit. Under the CdC Law (Law 9/2011 as amended) this institution has the powers to, among other things, audit government agencies to assess PFM practices (including assessing the legality of budget execution), provide preliminary approval for government spending above a specific threshold, and decide on the financial responsibility of public and private agents (Article 12).

Article 40 of Law 9/2011 states that "audits are carried out using the audit methods and techniques decided, in each case, by the Board of Auditors". At the date of the assessment no national standards were defined in the regulations. The CdC is a member of the International Organization of Supreme Audit Institutions (INTOSAI) since 2011 and applies the ISSAI standards in most of its auditing exercises, with the exception of the 'Report and Opinion on the State General Accounts'. In addition, there is no manual or guidelines to support auditors in complying with national or ISSAI standards.

The CdC's Report and Opinion on the State General Account covers the Government's annual financial statement, which represents most total expenditure and revenues. The CdC has the powers to scrutinize the annual financial statements of Government agencies and produces the Report and Opinion on the State General Account (*Relatorio e Parecer Sobre a Conta Geral do Estado*) covering Central Government revenue, expenditure, and to a lesser extent assets and liabilities under Article 29 of the CdC Law and Article 42 of the PFM Law. This report provides a statement on the reliability of the State accounts to both Parliament and the Ministry of Finance, provides a list of recommendations to address identified shortcomings, and follow-up on previous recommendations (Article 29/2 and 3 of the CdC Law).

The several entities not covered by the Government's annual financial statement submit their own report separately. BNCTL, ANP, IPG and RTTL are audited by CdC separately. Other institutions, such as the PF and BCTL, have their financial statements assessed by external auditors under their respective legislation and therefore are not assessed by the CdC. RAEOA-ZEESM, which represents an average of 12 percent of the overall original State Budget over the period, is only covered as a public transfer. Overall, the CdC coverage amounts to less than 80 percent of the revenue, expenditures, assets and liabilities of all Central Government entities.

CdC reports (both on the State General Account and other agencies) are subject to internal quality checks by the court's supervising judge. This quality assurance process takes place before being shared with the audited institution, for a contradictory procedure by exchange of letters (Article 11 of the CdC Law). Once finalized, the report is sent to the Prime Minister, the Parliament, and the National Prosecutor.

Financial reports of Central Government entities representing most total expenditures and revenues have been audited during the last three completed fiscal years. The percentage value for BNCTL, ANP, IPG and RTTL not covered by the Government's annual financial statement is below 20 percent. No national standards have been defined and adopted under audit regulations for the Report and Opinion on the State General Account but CdC is a member of the INTOCDC since 2011 and applies its standards in most of the auditing exercises. The score for this dimension is a B.

30.2 - Submission of audit reports to the legislature

The audits of the government's annual financial reports have been submitted to the Parliament within 5 months from receipt by the audit office. The legal timeframe stipulated in the law is one year after the end of the assessed fiscal year (Article 29/4). Audited annual financial reports are simultaneously submitted to Parliament and published on the court's website. Reports are available at www.tribunais.tl.

The table below provides the dates of receipt of the Annual Financial Statement and submission of the audit reports to Parliament.

Table 30.2 Audit of the Government consolidated annual financial statements

Year of Audited Financial Statement	Date Annual Financial Statement Received by CdC	Date of Audited Annual Financial Statement Approval	Date Audited Annual Financial Statement Submitted to Legislature / NP
2014	24-Jul-15	10-Dec-15	11-Dec-15
2015	29-Jul-16	15-Dec-16	20-Dec-16
2016	31-Jul-17	14-Dec-17	19-Dec-17
2017	01-Aug-18	14-Dec-18	21-Dec-18

Source: CdC and MoF

Audited financial statements are systematically published when transmitted to Parliament (as required by Article 7 of the CdC Law). Recommendations are also transmitted to MoF, as focal point for "whole of government".

The Report and Opinion on the State General Accounts was submitted to the legislature within six months from receipt of the annual financial report for the last three completed fiscal years. The score for this dimension is B.

30.3 - External audit follow-up

A follow-up on CdC's recommendations from previous years is done in the audited annual financial statement along new findings. The GAI, from the Ministry of Finance, is the focal point for the Report and Opinion on the State General Account. The GAI's role is to disseminate audit findings, coordinate implementation of actions in line with the audit recommendations, and monitor progress. There is no in-year reporting to the CdC. However, the Ministry of Finance is requested to provide an update of the previous year's recommendations when submitting the Central Government annual financial statement. GAI follows-up and coordinates the response to the recommendation of the Report and Opinion on the State General Account prepared by CdC. The consolidated report is first reviewed by the Minister of Finance before being transmitted to the Prime Minister. In parallel, the CdC also informs directly the responsible entity.

The Public Prosecutor (Articles 23/2 and 40/5) can decide to register a complaint to the court based on the audit findings (Article 67). Government agencies responsible for supervising other public entities may also do so on the basis of the CdC's findings. Criminal offenses are addressed to the criminal court, while compliance offenses are addressed to the CdC. Most irregularities are compliance related. The relevant jurisdiction then decides if the complaint is substantiated and should be prosecuted. The role of the Public Prosecutor is similar for audited financial statements. For instance, the 2011-2013 audit of the Ministry of Agriculture, published in 2015, has resulted in prosecution of members of the ministry's management.

For external audits, a follow-up review takes place 6 months after the completion of the audit report. The audited institution is instructed by CdC to provide a written report on the action undertaken to address the audit findings and recommendations, with evidence and supporting documents. External audit follow-up actions and results are reported in the CdC annual report, published on the court's website (https://www.tribunais.tl). For instance, the Report and Opinion on the 2017 State General Account reports that out of 47 previous recommendations (on the 2016 State General Accounts), on 17 October , 2018, 8 recommendations were implemented, 11 were partially implemented, 9 were under implementation, and 19 were not implemented. An individualized analysis of the implementation status of each recommendation was also provided.

However, the effective and timely follow up by the executive is not systematic. The rate of implementation of CdC audit recommendations is relatively low, with an average implementation ratio of 12 percent year-on-year. Recommendations without implementation are carried over from one year to another without consequence. Out of 24 recommendations initially issued in 2014, 33% were implemented after 3 years: 2 were implemented after the first year (2015), an additional 3 were implemented after 2 years (2016 audit) and 3 more after 3 years (2017 audit). After the 3 years, 5 were still not implemented, 9 were under implementation and 2 recommendations had been considered no longer relevant, as per table below:

Table 30.3 Camara de Contas recommendation statistics on the State general accounts

	2015 Audit	2016 Audit	2017 Audit
Total previous year and earlier recommendations - follow-up	**24**	**52**	**47**
Not implemented	3	15	19
Partially implemented or under implementation	18	29	20
Implemented	2	5	8
Not relevant	1	3	
Total earlier recommendations still needing follow-up	**21**	**44**	**39**
New recommendations	**31**	**3**	**21**
Total recommendations for next year follow-up	52	47	60

Source: 2015, 2016 and 2017 Report and Opinion on the State General Account

A formal follow-up is included in the annual Report and Opinion on the State General Account covering all past recommendations during the last three completed fiscal years. However, the rate of implementation by the executive is low and the recommendations are not prioritized or agreed with the audited entity with a timeline for action. The score for this dimension is a C.

30.4 - Supreme audit institution independence

The CdC law stipulates its independence (Article 5) in line with the principle of independence of the courts set forth in the Constitution (Article 119). The CdC is composed of at least three judges (Article 14), including its President. The CdC's competences are categorized between those that require a collective decision (Article 60/1) and those that require only the decision of one judge (Article 60/2). These judges are then supported by a team of technical experts, civil servants from a special career regime (Decree-Law 20/2104) different from the general public services. The CdC's own financial independence is established though separate accounts included in the State General Account but managed and audited by an external auditor (Article 25).

The CdC is, in principle, presided by the President of the High Administrative, Tax and Audit Court, but effectively by the President of the Court of Appeals. The CdC law foresees that the nomination of its President should rely on a decision from its peers, although there are no details on the actual procedures for this nomination to take place (Article 15/1). The remaining judges are recruited by a panel composed by the President of the High Administrative, Tax and Audit Court, two judges nominated by this President, a member of the Supreme Judicial Council and a university professor nominated by the Government (Article 16).

The nomination of the President of the CdC is independent from the executive office, but depends on an endorsement from the President of the Republic. As such, the nomination of the President of the CdC follows the nomination of the President of the Court of Appeals who is directly nominated by the President of the Republic (Article 110/4 of Law 8/2002 as amended by Law 11/2004).[72]

The annual CdC workplan is approved by a board of three judges with no interference from the legislature or the executive. The CdC has the capacity to audit all types of flagship programs and entities (e.g., Infrastructure Fund and the MDG housing program) and key government institutions (e.g., Ministry of Education, Ministry of Agriculture). During the planning phase, judges are randomly mapped to the planned external audits. The 'appointed' judge will supervise the external audit process from the beginning and bring it to its conclusion.

The CdC has unrestricted and timely access to records, documentation and information. By law, it operates independently from the executive with respect to the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of its budget.

The procedures for appointment and removal of the Head of the CdC relies on the President's decision, which is not independent from the political executive power. The score for this dimension is a D.

PI-31 Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of Central Government. The time period is the last three completed fiscal years. The coverage is Central Government.

Indicator/Dimension	Score (M2)	Brief Explanation
PI-31 Legislative scrutiny of audit reports	**C**	
31.1 Timing of audit report scrutiny	C	The scrutiny of the audited financial statements (CGE) for 2015 and 2016 has been completed in more than 3 months and 9 months, respectively, while for 2017 the delay is of more than 2 months (at the time of the PEFA assessment).
31.2 Hearings on audit findings	D	Officers from most audited entities are called for meetings with Commission C and the Plenary for hearings, but the hearings on audit findings are not regular (lack of hearings for the 2016 CGE), do not follow a prearranged schedule, and there is no evidence about their depth.

72 The current President of the CdC has been appointed by the President of the Republic in 2017 for a four-year term (Presidential Decree 22/2017). At the time, the Parliament opposed the nomination under the allegation that the President's term was coming to an end and therefore he lacked the necessary authority to nominate the Court's President (Parliament Resolution 8/2017).

Indicator/Dimension	Score (M2)	Brief Explanation
31.3 Recommendations on audit by the legislature	B	Commission C of the Parliament is issuing relevant recommendations on the corrective actions to be implemented by the Government and it is following up on their implementation based on the subsequent CdC report.
31.4 Transparency on legislative scrutiny of audit reports	C	The Commission C reports are discussed by the Plenary, but they are not always easily accessible to the public, while there is no evidence about the number of hearings conducted each year and how many of them have been conducted in public.

31.1 - Timing of audit report scrutiny

The CdC should submit the audited State annual financial statements to Parliament within 10 months after the end of each fiscal year (Section III, Articles 176 to 180 of the Parliament's Bylaws, audited financial statements). After reception, the President of the Parliament distributes them to the Parliamentarians and Commission C on Economy and Finances (equivalent to a Public Accounts Committee) for their review.

Commision C has the responsibility to analyze the audited State annual financial statements and submit a report to the President within 30 days. After the reception of the report by Commission C, the President of the Parliament should organize public hearings in the Plenary for approval. The dates for the approval of the audited State annual financial statements by the Parliament for the past years are as follows:

Table 31.1 Approval of the audited state financial statements by the Parliament

Audit report for year	Date of receipt	Date of approval
2014	11 December 2015	17 April 2017
2015	20 December 2016	17 April 2017
2016	19 December 2017	10 October 2018
2017	December 2018	Not yet approved at the cut off of the assessment (April 2019)

Source: Jornal da Republica of 10 October 2018 & 26 April 2017

The submission and approval of the audited State annual financial statements is usually timely but their approval by Parliament is delayed. The 2017 audited State annual financial statements was submitted to the Parliament in December 2018, but there is no information at the time of the assessment about its expected approval date. During the previous years, approval of the 2014, 2015 and 2016 occurred with significant delays of 4, 3 and 9 months, respectively.

Considering that the scrutiny of the audited financial statements was completed within 12 months from receipt of the reports for the last three years audited, the score for this dimension is assessed as a C.

31.2 - Hearing on audit findings

Commission C examines the audited State annual financial statements and produces a report which includes recommendations for the Executive and the Plenary. For this purpose, it organizes extensive non-public hearings with the participation of members of Government and other public servants (Article 178 of the Parliament's Bylaws). The President of the Parliament also organizes a debate in the Plenary, including public hearings, after reception of the report from Commission C (Art. 180 of the Parliament's Bylaws).

The rules, procedures and protocol for the hearings and debate are described in Article 105(2) of the Parliament's bylaws with a maximum duration of one day. Thus, the discussion comprises the presentation of the initiative by its author (Commission C), the presentation of the conclusions of the report and the rapporteur's opinion, and a period of questions and answers. The discussion may be abbreviated or extended by decision of the President, after hearing from the Plenary. The debate is opened by the largest opposition party and terminated with a government intervention. Before the end of the debate, parliamentary benches may make a final intervention. The rules have been strictly applied except for 2016 when the audited State annual financial statements were received by Parliament in 2017 and examined in 2018. The dissolution of Parliament in January 2018 prevented its normal functioning and the organization of public hearings.

Except in unusual cases, such as for RAEOA-ZEESM, hearings held for the audited State annual financial statements are not as documented as for the budget submission, and it is difficult to ascertain the depth of the debate. Only the 2016 report produced by Commission C was accessible. The hearings included representatives from the CdC, as well as from most audited public entities (from the interventions reported), to explain the observations and recommendations included in their report. The lack of financial skills and limited access to technical assistance is a serious constraint to the quality and effective impact of the scrutiny.

Considering that officers from most audited entities are convoked from Commission C and the Plenary for hearings, but the hearings on audit findings are not regular, do not follow a prearranged schedule, and there is no evidence about their depth, the score for this dimension is assessed as a D.

31.3 - Recommendations on audit by the legislature

Commission C elaborates a detailed report on the audited annual financial statements, presenting a critical examination of all the observations made by the Camara de Contas. In a special section of the report, the former draws its own conclusions, based on CdC's opinion and recommendations, and issues its own recommendations to the Government and the Parliament. It usually reinforces the implementation of the CdC's recommendations for the overall improvement of public financial management and the need to exercise better control over public expenditure.

Commission C maintains a system to track and report on the follow-up of the implementation of previous years' recommendations by CdC. The report of Commission C does not report specifically on the actions undertaken as a follow-up on recommendations, but keeps track on their status. Each report specifies the years of the non-implemented recommendation and if they are partially or not at all implemented. However, the assessment is not based on subsequent hearings of the executive and Parliament but based on the assessment made from the subsequent CdC reports.

Commission C of the Parliament is issuing recommendations on the corrective actions to be implemented by the Government and is tracking the status of their implementation. The score for this dimension is assessed as a B.

31.4 - Transparency of legislative scrutiny of audit reports

The only public hearing held by Parliament is the presentation of the CdC report and subsequent discussion during the plenary session. The debate is broadcast live on TV and largely followed by the public on social media and in the newspapers. Other parliamentary debates and discussions are not open to the public and the public does not contribute to the discussions. Committee reports are debated in the full chamber of the Parliament. Neither minutes nor reports are produced by the Parliament Secretariat and there is no communication or publication on the Parliament's official website – which is mostly outdated and in need of maintenance and revamping. They are not available to the public upon request.

The annual CdC reporting on the State Budget implementation is conducted in public through live TV broadcasts. Committee reports are debated in the full chamber of the Parliament. However, none of the reports are published on its official website and are not available for public access. The score for this dimension is assessed as a C.

04

Conclusions of the Analysis of PFM Systems

4.1 Integrated Assessment of PFM Performance

Pillar I - Budget reliability

Budget reliability performance remains low and did not improve significantly since the 2013 PEFA. The extent to which the government's budget is realistic and implemented as intended, and therefore useful for policy implementation, is formally measured by comparing actual revenues and expenditures with the original budget. The revenue outturn reflects the ability of the government to forecast revenue outturns and match expenditures to revenue, maintaining aggregate fiscal discipline.

The original approved budget is still not a good indicator of actual fiscal performance. Significant adjustments take place during the fiscal year through a rectified budget, and deviations from the originally-approved budget (PI-1 and PI-2 and reference to PI-28) show an average 11 percent deviation in aggregate expenditure over the period. The change of Prime Minister in 2015 and the change of Government after the 2017 parliamentary elections diverted the focus on budget execution capacity and resulted in limited spending decisions. The political decision, during the 2016 fiscal year, to increase the Infrastructure Fund budget allocation aggravated its already low execution rate.[73] The budget ceiling mechanism on budget submissions (*pakote fiscal*) is an effective way to rationalize the size of the overall budget package, but the quality of the budget formulation process is still problematic. Limited capacity to execute infrastructure projects is coupled with weak planning capacity, and results in submission of aspirational and often poorly-costed budget proposals – rather than informed budget requests, particularly for the new APAs and new municipalities established only in 2016 and 2017. The significant variance in expenditure composition, by both administrative and economic classifications, reflects the magnitude of reallocations within the overall approved resource envelope. The programme budgeting reform led to the preparation of activity-based Annual Action Plans since 2017 that have introduced a narrative on the budget, but they are yet to be linked to the budget allocation process.

The aggregate revenue outturn including the Petroleum Fund (87% of the revenue) deviated by less than 3%, but domestic non-oil revenue forecasts are still unreliable and systematically underestimated. The non-oil tax and non-tax revenues, reflecting the actual revenue collection performance of the country systems, have been systematically under-estimated and deviated by an average 11% from the budgeted revenue forecasts. The variance recorded in tax revenue in 2016 resulted from corporate tax arrears.[74] Variation in non-oil revenue composition outturn is mediocre and generated by unpredictable trends in all main income and commodity (excise) taxes, confirming the lack of robust revenue forecasting systems (PI-3).

It should also be noted that substantial government spending still takes place outside the consolidated Central Government budget – notably through a public transfer allocation to RAEOA-ZEESM, and funding by development partners remains off-budget (reference PI-6 below).

73 The IF accounted for 35% of the overall budget deviation in 2015 and 50% in 2016.

74 In 2016, USD 8 million were collected in corporate tax arrears.

Pillar II -Transparency of Public Finances

After 10 years of steady progress in increasing the availability of budget information, transparency deteriorated slightly in 2017.[75] The budget is presented, executed and reported according to a comprehensive classification. It is embedded in a Chart of Accounts that is mostly consistent with GFS, including administrative and economic breakdown, and a tentative program budgeting mapping (PI-4). It is served by the FreeBalance GRP application and produces timely and reliable data, although information on spending by function and program is still incomplete (PI-5).

Budget information systems are in place, solid, and identified weaknesses in transparency mechanisms can be easily addressed. This confirms the Government's willingness to facilitate scrutiny of government policies and programs by citizens. However, with the disruptive impact of government changes, unexpected delays occurred in the production and publication of budget and financial information. The availability of budget information (PI-5) suffered from the lack of publication of a pre-budget statement and in-year budget execution reports online in a timely manner. Despite the real-time data available on the Budget Transparency Portal, the lack of narrative in the information provided and problematic download time have limited its actual usefulness.[76] Repeated changes in the budget structure have also affected the consistency and coherence of budget allocations, particularly under the "whole of government" and "public transfers" allocations, the latter covering the RAEOA-ZEESM budget.

Disclosure of fiscal information needs to be improved (PI-6) to allow for better resource management and foster transparency across all government operations. Despite visible efforts by MoF to consolidate operations from the 35 Autonomous Public Agencies (APAs), the extra-budgetary funds are still managed separately, and the ODA budget is still off-budget. The complete lack of data or consolidated reporting on the public transfer to RAEOA-ZEESM (13% of government budget in the period) represents a major gap in the reporting of Central Government revenue and expenditure.

Inter-governmental fiscal relations are still in the first stage of administrative deconcentration. From the available evidence, inter-governmental transfers from Central Government to the municipalities are not allocated through any sharing formulae and the subnational government structures in place are still considered first-tier budget entities, but RAEOA-ZEESM complies with the GFS definition and benefits from rule-based and relatively transparent transfers from the State Budget (PI-7).

Information on performance plans and achievements in service delivery outputs across government sectors remains limited (PI-8). The introduction of program budgeting has been a key initiative to start improving alignment between policies, plans and budgets but is yet to produce consistent and reliable financial performance information at planning and implementation stages.

Disclosure of budgetary information to the public has deteriorated due to the delays in publishing the last quarterly and annual financial reports in the period (PI-9). The publication of the 6 Budget

75 The Open Budget Survey 2017 (OBS) for Timor-Leste, conducted by the International Budget Partnership (IBP), showed a slight decline in budget transparency scores, from 41 in 2015 to 40 in 2017 (scores are out of a possible 100), moving the country from the "Limited" to the "Low/Minimal" category. Timor-Leste scores below average in the transparency of its national budget, and among the world's lowest in Public Participation. www.openbudgetsurvey.org.

76 http://www.budgettransparency.gov.tl/public/index?&lang=en

Books still provides a very comprehensive source of documentation on the budget proposal submitted to the Parliament, including useful – if still not comprehensive – information on the Infrastructure and Human Capital Development Funds, the RAEOA-ZEESM investment portfolio and the aid budget.

With further efforts to improve the coverage of reporting and consolidation into Central Government statements, fiscal transparency would improve significantly.

Pillar III - Management of Assets and Liabilities

Despite noticeable efforts to expand the coverage of government fiscal reporting, systems and capacity for the effective management of assets and liabilities needs to be strengthened. Management systems and controls over fiscal reporting are mostly in place. The PFM Law 13/2009 stipulates that government contingent liabilities should be displayed in the annual financial statements. The government consolidated fiscal reporting includes only partial information on the explicit contingent liabilities attached to the government fiscal operations: the Tibar PPP operation, including a Viability Gap Funding with a foreign company, and RAEOA-ZEESM (PI-10). Possible legal litigation amounts on tax-related oil operations, and the newly established National Social Security Institute are not disclosed.[77] Although risks may seem limited at present, a consolidated, systematic and comprehensive reporting is critical to identify risks and safeguard government interests – which would improve with greater coverage and more quantified information.

A basic investment management system is in place, but responsibilities over public investment – accounting for 32% of the public spending in the period under review – are fragmented and the coverage is incomplete. Multiple entities share responsibilities across the public investment cycle. The Infrastructure Fund is in charge of all major infrastructure projects, while the various project owners (line ministries) and other separate entities are responsible for appraisal, monitoring (ADN), technical support (MPS), and procurement (NPC). Economic analyses are conducted for major investment projects with external funding (loans). The lack of comprehensive and inclusive processes and data systems to produce project-related information is an issue. Although criteria are published for the formulation, selection and monitoring of capital development projects, information on costings and monitoring of progress is not easily available, resulting in a lack of visibility on financial liabilities attached to the investment portfolio (PI-11).

Control over the decentralized asset management systems is also fragmented. The management of Timor-Leste's main financial asset, the PF (PI-12), is satisfactory but there is no central system for monitoring and reporting on financial assets as a total portfolio. In the absence of a clear regulatory framework, other financial and nonfinancial assets managed through decentralized systems are only partially recorded and reported. There is no central register of government land and buildings. Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal, particularly for vehicles, but no consolidated information is made available.

Debt management systems produce debt records that are accurate and reconciled on a regular basis. However, records on guarantees need to be more systematically consolidated and updated. There is no debt

77 The 2019 budget includes a provision for the reimbursement of USD 64.5 million for Kitan.

management strategy, debt exposure is limited and there is low risk of debt distress. Debt and guarantees are managed by the Ministry of Finance and approved by the Parliament (PI-13).

Pillar IV - Policy-based fiscal strategy and budgeting

The preparation of the budget takes into consideration fiscal policies and institutional capacity. Basic systems are in place to produce sound macroeconomic and fiscal forecasts and apply fiscal rules (*pakote fiscal)* (PI-14). However, a comprehensive and sustainable fiscal strategy is not yet in place. Macroeconomic and fiscal forecasts are produced, but do not include a qualitative assessment of the impact of alternative macroeconomic assumptions.

Fiscal impact estimates of non-oil revenue measures – albeit small in scale due to the existence of the Petroleum Fund – and expenditure policies are basic and lack a long-term perspective. Reporting on progress towards fiscal targets and fiscal policy implementation is limited, particularly on political decisions on the major infrastructure projects (PI-15).

There is no effective medium-term expenditure framework to link the annual budget (and the medium-term budget expenditure estimates) to national and sector strategies and plans (PI-16). The three-year rolling budgets are mostly projected through an incremental increase, except for the capital development budget. The sector plans are mostly aspirational, not based on realistic allocation of resources and not properly costed. Explanations of changes (from previous year's estimates) are missing. Activity-based Annual Action Plans provide some programmatic perspective to the annual budget proposal, but not a medium-term strategic framework to project and prioritize budget allocations. Given the high variance in the composition of annual budget outturns (ref. PI-2) the AAPs are yet to prove valuable for the control over budget execution and service delivery outputs.

The annual budgeting process was well-established, but it has deteriorated significantly in the period under review due to political reasons, impacting significantly the performance of budget systems. The MoF budget circular and annual cycle of budget submission to the Parliament provided (until 2016) a clear timeframe for the budget calendar and was usually adhered to. However, due to the political deadlock, the 2018 Budget was never submitted to the Parliament in 2017. In 2018 and 2019, the line ministries and municipalities had very limited time to prepare detailed budget proposals and the formal submission of the budget documentation to the Parliament occurred after the beginning of the fiscal year in both years (PI-17).

The Parliament's review of budget proposals is formally set out and effective, but it was delayed in the period under consideration. The role of Commission C is critical in the adoption of the budget, by providing advice during the budget review process. The coverage of the Parliament's scrutiny includes detailed expenditure and revenue, programs and sub-programs of the AAPs, but no medium-term fiscal forecasts and expenditure priorities. Clear rules exist for in-year budget reallocations by the executive but provide substantial powers within the original budget appropriations at the category level and across budget heads. Control over budget virements is in place requiring an analysis on the programmatic impact of the reallocation, but it is not monitored and reported by MoF on aspects of budget discipline (PI-18).

Pillar V - Predictability and Control in Budget Execution

Revenue and Customs collection systems are still in a state of transition and not yet aligned to international practices and standards, albeit moving in the right direction (PI-19). Revenue has benefited from the Taxpayer Identification Number system that has been established. Although tax information is improving, risk-based approaches and systems to improve tax compliance and prioritize revenue streams for effective resource mobilization are still nascent. A Large Taxpayer Unit has recently been established, but resources and capacities are insufficient. Monitoring of the stock – and ageing – of arrears is complex due to the lack of integration of data and functionality of management information systems operating in different collecting agencies. Documentation has been produced detailing procedures for tax audits, tax recovery and write-off policy, but implementation and enforcement are problematic. Detailed and reliable data on the stock of arrears and ageing could not be provided. The Fiscal Reform Commission, in place until recently, prepared a package for legal, institutional and regulatory reforms, including the possible introduction of VAT, which is still under consideration. Formal alignment to international standards in the customs administration has started with the implementation of ASYCUDA World.

Accounting and reporting for revenue are supported by a robust integrated treasury cash and expenditure management function. The TSA system centralizes all resources under the CFTL account, including revenue collected by the Central Government agencies. Reconciliation for all Central Government revenue accounts is systematic and performed daily, but APAs and RAEOA-ZEESM and tax suspense accounts are outside the reconciliation scope and not consolidated (PI-20).

Cash management is solid, the Treasury system supports daily consolidation of cash balance positions but does not cover all government operations. Few bank accounts are still maintained outside the TSA and reported by the CdC (external audit). The Treasury manages all payments and commitments in the GRP system against the ceilings defined from the approved state budget. Cash flow forecasts are prepared and updated monthly. Reliable information on funds available for commitment is provided to all budget entities in advance, based on annual or quarterly appropriations in the GRP system. Significant in-year budgetary reallocations are taking place through the annual budget rectification and virements, but in a formal and fairly transparent manner. The cash and commitment management maintain the budget within aggregate ceilings but extensive flexibility for in-year budget reallocations also creates incentives for line ministries to generate expenditure commitments outside the system that can be fixed.

The general reporting on budget execution makes it difficult to establish the extent of the in-year budget reallocations. Mid-year budget revisions have been required to adjust policy shifts or re-prioritization of budget plans, albeit transparently managed (PI-21).

A more formal system for expenditure arrears management is still needed (PI-22). A clear definition of expenditure arrears is missing and arrears are not easily tracked through the cash-basis accounting system. Control over expenditure arrears is mostly done at the time of the closure of the accounts, when unpaid obligations must be authorized for carry-forward and requires much improved commitment control to be effective. The stock of arrears cannot be fully estimated, and no ageing information is available as there is no systematic consolidation of information on the obligations reported to the subsequent period (PI-22). However, ad hoc estimates based on self-reported amounts have been tracked manually and reported by the Treasury department since 2016 and appear not to be significant. This area is not perceived as a major liability at present due to the overall strength of the cash management system. This is also reflected in the 2018 period when the government had to steer the budget execution through the duodecimo regime and monthly budget allocations and managed to impose strict cash controls and rationing on government spending. Overall, spending discipline has improved significantly at the line ministry level.

Payroll and procurement functions, and related internal controls, are fully decentralized to line ministries and municipalities and suffer from a fragmented control function and a clear lack of integration of information systems (PI-23). Personnel management and records at line ministry level includes appointments and promotions against an approved staffing table approved as part of the budget. The Civil Service Commission (CSC) is responsible for enforcing government policy on personnel and career regimes and vet personnel decisions by line ministries. MoF Treasury manages the payroll. Salaries and wages to employees are disbursed based on the personnel records held by each line ministry and controlled through the CSC database. Data reliability is a main issue as reconciliation between the systems is undertaken manually and depends on each line ministry. Payroll audits are the mandate of the CdC, but a systematic and comprehensive payroll audit is yet to take place.

Procurement systems suffer from a lack of central monitoring and reporting, while transparency on procurement processes is weak (PI-24). Responsibilities are decentralized at different levels (according to legal contracting thresholds) and create parallel management systems lacking consolidation and control. All procurement operations are managed directly by implementing departments of each line ministry and municipalities. The independent National Procurement Commission is responsible for the consolidation of reliable and useful information on procurement processes and the integration of data, but it has no effective access to all data below the threshold below USD 1 million. The procurement module managed by MoF under the GRP application is not systematically used and updated by line ministries. There is no reliable way to estimate the enforcement of procurement legal provisions and use of competitive procurement methods. The procurement legal and regulatory framework is broadly aligned to international standards and practices, but it requires a detailed review of all implementation regulations to ensure it is fully compliant. The absence of an independent administrative complaint mechanism or appeals process for the resolution of complaints is an example.

The internal control framework is comprehensively and clearly defined with segregation of duties and authorization levels assigned to senior management and technical staff at various levels. Expenditure commitment control systems and payment processing are managed through the GRP FreeBalance control systems and are reliable. Despite the low-capacity environment and the lack of management capacity, particularly in all municipalities and APAs, most government agencies are integrated within the GRP. Compliance with existing rules and procedures is fairly effective (PI-25).

The internal audit function is partially in place, but not effective. The GAI in MoF has jurisdiction over all public institutions, but it lacks a relevant and formal regulatory framework to operate effectively. Its mandate covers all government expenditures and revenues, but resources and capacity are far too insufficient. Inspection departments under each ministry perform some ex-post compliance-related checks under the authority of the respective minister. The lack of standards and training reduces the effectiveness of the internal audit function. Planning and execution of audit plans is limited by resource constraints and are not followed up in a consistent and effective manner. Response to internal audit recommendations is poor (PI-26).

Pillar VI -Accounting and Reporting

Financial standards for data integrity are effective across the GRP, but lack of systematic bank reconciliation processes undermines the overall performance of the system (PI-27). Overall access and adjustments to records related to the budget, budget execution, accounting and payment information under the Central Government are restricted. Access to the GRP database is fully controlled and traceable. Bank reconciliations do not take place routinely and are manual. Mechanisms are in place for all the accounts managed by the Treasury and commercial banks with public accounts, but a number of government bank accounts – including RAEOA-ZEESM and ODA funds – are still managed and reconciled separately. Reconciliation of suspense accounts are performed at the time of the bank account reconciliations, and advance accounts cleared at the end of the fiscal year.

Quarterly reports are prepared and issued to Parliament, and usually published one month after the end of the period. The exception is the fourth-quarter report, which is circulated more than 8 weeks after the year-end closure as an annex to the annual financial statements (PI-28). Reports allow direct comparisons with original and revised budget allocations, at payment, obligation and commitment stages. They include expenditures from APAs and public transfers, except for RAEOA-ZEESM. Quarterly reports also include information against the program structure and AAPs.

Annual financial reports are prepared annually and include generally detailed information on revenue, expenditure, cash balances, and long-term obligations (loans). However, disclosure of information on the stock of financial and tangible assets is only partial (mostly the Petroleum Fund), while other liabilities and guarantees are not included. National accounting standards are mostly compliant and aligned to the IPSAS full cash basis (adopted in 2012) and gaps are explained (PI-29). Gaps are identified, including those relating to the provision of revenue information, financial and nonfinancial assets and a justification on the main budget deviations. As per national regulation, annual financial statements are normally submitted to the external audit function of the CdC within 7 months of the end of the fiscal year (PI-29).

Pillar VII - External Scrutiny and Audit

External audit performance is mixed regarding alignment with international standards for SAIs, but it is an area of potential significant strength for scrutiny and accountability. As a judiciary body, the Camara de Contas (CdC) enjoys constitutional and operational independence from the executive and its mandate covers all government entities, as well as municipalities, RAEOA-ZEESM and APAs. The follow-up on external audit reports by the audited agencies still lacks comprehensiveness and effectiveness. The absence of formal external audit standards and references in the CdC reports is an issue. However, CdC findings and recommendations (which are published) cover a wide range of issues, including off-budget expenditures, unreported revenues and procurement. CdC reports have highlighted relevant systemic and control risks and play an essential role in the exercise of checks and balances over the executive operations and scrutiny over the use of public resources (PI-30).

Legislative scrutiny of audit reports and procedures in relation to the ex-post review of the annual budget execution are formally established but could be improved. Every year the Commission C performs a formal review and the Parliament issues a resolution on the CdC report for follow-up by the government. The follow-up and response rate by the government to audit recommendations – which takes place with each audited institution – is formally monitored and reported. The CdC annual audit report on the government budget execution is presented in a plenary session and debated. However, the formal protocol for the hearings on the government annual reporting and parliament recommendations is not established and not accessible to the public, undermining the impact of the accountability of the parliamentary scrutiny. The independence of the President of the CdC is an issue as its appointment depends on the decision by the President, and subject potentially to political influence (PI-31).

4.2 Effectiveness of the internal control framework

The internal control framework covers the overall structure of government managing public finances and resources. The legal and regulatory framework for internal control is incomplete. It is framed in a weak institutional setting where functions, roles and responsibilities have been established in a fragmented manner and resources and capacity are limited. In the Timor-Leste's context, internal control functions are distributed among revenue collecting agencies, line ministries and agencies involved in downstream budget execution systems including procurement, accounting and reporting through the GRP FreeBalance management information system. At present, the internal and external audit functions provided by the oversight institutions cannot validate the effective and efficient delivery of budget outcomes.

The PFM law 13/2009 gives the Minister of Finance the overarching responsibility of introducing and enabling systems to enhance effective public financial management and define the relevant control functions. MoF has the overall responsibility of the CFTL and is responsible for the formulation of fiscal and economic policies, define the *pakote fiscal* and budget ceilings, and oversees the finances of the general government. The MoF functions are delegated to the different MoF departments in Budget, Treasury and Accounting departments, IFMISU, GAI, etc.

Based on the analysis in PI-24, monitoring of public procurement operations is limited. Value for money and effectiveness of spending is limited by the lack of capacity and clear guidelines, and non-compliance with systems in place (GRP procurement module), resulting in lack of competitiveness and transparency for bidders and recipients of goods and services.

Institutional responsibility for internal audit is defined at three different levels. It also lacks capacity, resources and reference to (or adoption of) professional standards, resulting in compliance with internal audit plans but weak enforcement capacity (PI-25). The State General Inspectorate was established in 2009 with inspection and auditing functions, reporting directly to the Prime Minister and with jurisdiction over all public institutions. In 2013, MoF established the Office of Inspection and Audit, restructured in 2015 as Office of Internal Audit (GAI) and operating only since 2017. General inspectorate departments in line ministries and institutions perform mostly operational compliance checks focusing on the compliance of transactions and activities with applicable laws, regulations and procedures. The single focus on compliance reduces their possible impact on the enforcement of control mechanisms, and the absence of clear sanctions and penalties in cases of deviations act as a deterrent for strong internal control procedures to ensure public resources are managed in an effective and efficient manner.

External audit is the responsibility of the CdC (PI-30). As for the internal audit function above, effectiveness in the CdC role and mandate is also hampered by insufficient human and technical resources, while coverage of the CdC external audit is limited. The Public Prosecutor is the legal and judiciary component of the exercise of control. The Public Prosecutor can decide to register complains to the Court based on audit findings or from any request received from a government agency with oversight and control responsibilities.

Furthermore, alignment to the COSO framework can only be limited in the absence of a structured and systematic approach to risk management.[78] Risk management is the key driver underpinning the COSO approach and the five components of internal control (control environment, risks assessment, control activities, communication and information, and monitoring). The concept of risk assessment has not yet been integrated into its regulations and procedures. The risk assessment component refers to risk-based approaches and the use of risk management methods to improve the effectiveness of internal control, such as in the definition and implementation of controls in budget spending through Treasury payment systems and public procurement or audits in Tax, Internal and External Audit.

The commitment from the top management to build a strong internal control system in the use of public funds is generally clear and strong. It is present at the political level of the Prime Minister and at MoF, as the national custodian of public funds, and from the oversight institutions CdC and Parliament. The issuance of law 13/2009 and annual budget execution decrees, and other regulations covering all aspects of public management, has helped to frame the PFM systems and ensure effective monitoring and reporting on the use of public resources. The integration of financial systems under the FreeBalance GRP FMIS for integrated budget and treasury management was the backbone for internal control over budget execution at the early stage of the set-up of PFM systems.

However, the effectiveness of the existing internal control framework is challenged by the high degree of decentralization of core PFM systems. Responsibility for the procurement, payroll, public investment and asset management, and revenue collection is fragmented and hampered by the lack of comprehensive and integrated information management systems.

The concept of human resource management policies is at a very early stage of development. It lacks the institutional and legal framework to operate and achieve the transformative change required. The decision and mechanisms to penalize misbehaviour depend highly from a decision "at the top" and the application of "sanctions" is challenging. Detailed findings concerning the main elements of the five internal control components are summarized in Annex 2. The table also highlights any gaps in the coverage of the control components by the assessed internal control system.

PFM systems are at an early stage of development, while alignment to international standards and practices is nascent. This is reflected in almost all performance indicators. The case of the tax administration is an example of a collecting agency that has recently established a Large Taxpayers Unit but has not fully implemented a structured and systematic risk assessment process for assessing, ranking and quantifying

78 The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

taxpayers' compliance risks. The application of risk criteria is conditioned by the access to reliable and comprehensive data from internal and external sources through a proper tax information management system, which has yet to be developed. A major area for internal control improvement is in the area of public investment management where risks involved in the implementation of capital investment projects are not systematically evaluated before they are selected.

Control activities relating to cash management and payments systems under the Treasury department are generally strong, with the exception of manual and irregular bank reconciliation (PI-27). The Treasury department plays the role of custodian of the budget fund in payment decisions. However, expenditure payment controls have been gradually delegated to public entities – since the delegation of authority over Commitment Payment Vouchers (CPV), followed by Expense Vouchers (EVs) granted since 2017. Intermediary control steps have now been transferred to the management of each respective entities. Payments are still issued by Treasury when there is clear assurance of the legality of commitments and payments, and exceptions are properly authorized in advance and justified. It explains the difficulties faced by APAs and municipalities to comply, and concerns on the accuracy of data from these entities in the financial reporting.

Reporting on operations below the central level is problematic. In a context of absence or limited access to integrated, reliable and timely information, ministers (and sometimes director generals) act as custodians of the integrity of the systems, procedures and transactions within their respective entities (and for the signature of CPVs). Information on resources received by service delivery units illustrates that there is no consistent and regular upward flow of comprehensive information on the aggregate and utilization of resources to accountable ministries – even if the Ministry of Education has comprehensive data at the level of public schools' accounts and school grants. The monitoring of public companies is usually comprehensive and timely but reporting on contingent liabilities is only partial and not systematically published. Information on the implementation of major investment projects is not easily accessible and only partially reported in annual budget execution reports. Public asset management is assessed as inadequate as a complete and current register of nonfinancial assets is not available. Expenditure arrears monitoring requires strong control and monitoring procedures on the reporting on stocks, ageing, etc.

4.3 PFM strengths and weaknesses

The extent to which PFM systems performance as described above enables the achievement of the three main fiscal and budgetary outcomes is as follows:

"Aggregate fiscal discipline" requires that fiscal aggregates be delivered as planned, and approved in the original budget, including the extra-budgetary operations.

For Timor-Leste, aggregate fiscal discipline is not necessarily about financing the budget, but to make the best use of the available resources. The country still struggles to diversify its economy and move away from oil dependency. The strategy for PFM systems lies in: i) creating an enabling environment to deliver significant investments in other productive sectors, particularly agriculture and tourism, ii) reorienting the focus of public financial resources, particularly those allocated to the health and education sector, to address identified gaps so that most people can attain quality services; iii) building basic infrastructure to increase private-sector participation in economic activities; iv) and developing strong public finance management systems to ensure accountability and proper use of public money. In addition, the government must establish the right mechanisms to rationalize the size of the annual budget through prioritization of key programs and optimization of subsidy programs. The results are mixed.

Achievements are remarkable for a country recently emerging from conflict and facing severe human development constraints. The Government has a solid macrofiscal framework and a fiscal rule (the ESI) even though in practice the annual budget has often breached the sustainable Petroleum Fund withdrawal threshold over the last 10 years, including in the period under review (excess withdrawals). Hard annual budget ceilings have been set as part of its fiscal policy and respected in the original budget formulation. Tight control over budget execution through strong treasury and cash management processes has helped manage expenditures within the available resources. Commitment controls are solid and expenditure arrears are limited, although not fully reported. The external audit oversight enhances the fiscal discipline for public entities. Fiscal policy has also been focusing on widening the non-oil revenue base, through the tax and customs reforms, although key reform actions have yet to be delivered.

Aggregate budget outturns clearly indicate that the approved budget is not the best indicator of actual performance of the non-oil revenue and expenditures. Original budget envelopes have been systematically circumvented using revised budgets – in 2016 the budget was increased by 25% – and virements. High-level political decisions regarding public investment management have led to significant budget adjustments, followed by systematic under-execution of the budget allocations, undermining the credibility of the budget. Limited economic appraisal of investment projects proposed in the budget is not exposed to any scrutiny outside the legislature. Procurement processes are weak and lack transparency and competitiveness, and technical capacity for contract management is limited.

Operations outside the government's financial reporting reveal persistent deficiencies in expenditure management. Expenditures derived from the annual public transfer to RAEOA-ZEESM are neither consolidated not disclosed; and fiscal risks related to the establishment of APAs without a clear regulatory and monitoring framework. The revenues and expenditures of the extra-budgetary funds have their own financial reporting, and benefit from spending flexibility. ODA funding is still managed and reported separately.

The revenue administration has not yet defined plans to improve tax compliance and collect tax arrears. The absence of a well-formulated risk-based administration of revenue is a constraint, as there is no structured and systematic process for assessing, ranking and quantifying taxpayers' compliance risks. The application of risk criteria and monitoring of the ageing and collectability of arrears is conditioned by the access to reliable and comprehensive data from internal and external sources through a proper tax information management system, which has still to be developed and depends upon the enforcement capacity from the tax administration. The tax legislation offers many options for tax exemptions, and a significant amount of tax debts are being negotiated between tax collectors and investors.

Contingent liabilities are not systemically identified and disclosed. A comprehensive overview of the exposure to significant risks from explicit contingent liabilities within the infrastructure sector has not been quantified and disclosed. Provisions for implicit contingent liabilities on potential retention payments in PPP operations and RAEOA-ZEESM tax administration or unpaid tax refunds are not available, and no information on guarantees is consolidated. Additionally, the lack of information pertaining to explicit contingencies relating to social security schemes, with no data available on these, is also a concern.

The oversight from the external audit (CdC) and the formal scrutiny by the Parliament are robust and provide a formal accountability of government operations. However, there is limited capacity to assess the result of fiscal management and debate government's fiscal policy choices, which undermines the impact of the exercise.

"Strategic allocation of resources" will be effective when available resources are allocated and used in line with government priorities aimed at achieving policy objectives.

The comprehensiveness of budget documentation provided to Parliament and the broad public access to fiscal information allow strong accountability mechanisms. Quarterly budget execution reports, reporting on APAs and extra-budgetary units and public corporations provide for transparency in strategic allocation. Parliamentary scrutiny over budget formulation and execution is based on comprehensive information. The annual and in-year budget execution reporting allows a direct comparison with the original budget. However, the delay in circulating the last quarterly report limits its effectiveness in the period.

The budget formulation process is based on a formal budget calendar and circular, but they have not been adhered to in the period. The consultation process between the executive and the Parliament on investment priorities and expenditure allocation is based on detailed allocation by projects. Budget ceilings are defined and the *pakote fiscal* provides line ministries with the necessary information to set their priorities through their own budgeting processes. The programmatic mapping structure of the Annual Action Plans proposes a tentative framework for line ministries to advocate for funding outputs and outcomes for service delivery. The reporting of the CdC – albeit with no audit opinion - on the government execution fosters accountability on the effectiveness of PFM systems to deliver strategic policy results.

On the other hand, the lack of a comprehensive medium-term budget planning framework and updated and operational strategic sector plans prevent the strategic prioritisation of sector spending. The budget allocation mechanism is annual and largely incremental, with the exception of the IF budget. Systematic high levels of compositional variance in expenditure outturns indicate that the formulation of budget proposals is not based on actual needs. The capital development allocation shows consistent under-performance from year to year, which suggests that the budget is unrealistic. The situation is aggravated by the impact of budget adjustments often motivated by political decisions and not based on absorption capacity. Reporting published on the execution of the Infrastructure Fund is not comprehensive and consolidated, and it does not allow for a clear account on spending and progress achieved by project.

There is no predictability over the resources for sector from one year to another as there is no consistency between the forward budget estimates from one year and the budget ceilings issued for the following one. Furthermore, the activity mapping under the AAPs is not lined with resource availability. As a result, they are not used as a basis to focus on priorities in the allocation of funds among institutions and sectors, and strategic sector planning remains weak. The budget classification does not provide sufficient information on budget allocations by function (COFOG) although there is a dedicated functional segment in the CoA, which could facilitate monitoring and inform policy decisions.

The poor follow up on the external control recommendations weaken the overall budgeting process. Externally-funded projects are monitored separately and there are no systems to track allocations received by service delivery units. Evaluation of line ministries' performance for service delivery sectors is not a priority. The lack of reporting on operations in RAEOA-ZEESM is an issue. Improvements are required to facilitate accountability on the outputs of financial execution through the delivery of public services.

"Efficient service delivery" requires use of available resources to achieve value for money and optimal levels of public services.

The current performance measurement framework needs to be improved with consistent and reliable information on relevant targets and outcomes and a linkage with the CoA functional classification. The *Dalan Ba Futuru* platform could provide a departing point.

Weaknesses identified in the monitoring and reporting of procurement and the lack of use of competitive bidding in particular, have a clear impact on the lack of value for money in service delivery. The use of competitive procurement methods could not be fully estimated. Data on single-source procurement operations, the resolution of complaints and procurement statistics are not compiled.

Monitoring over the decentralized management of public investments to line ministries, with limited investment planning capacity, is too fragmented. Guidelines on pre-feasibility and selection criteria are not systematically applied by all project owners. As a result, the PIM framework shows inadequacies in the entire cycle – project preparation, appraisal, execution, monitoring and evaluation.

Weaknesses in payroll management and capacity constraints limit the overall effectiveness of the public sector. Timor-Leste has a large public sector, but poor level of access, quality, and efficiency of government services suggest that human resource management has room for improvement. Scrutiny and reviews of public investment expenditures should contribute to better service delivery, but insufficient qualifications and skills available hamper the actual management capacity of government institutions. The low capacity and lack of effective internal control and internal audit function – in line ministries and across all government institutions – allows for fragmented, sub-optimal use of resources.

Oversight and accountability mechanisms are robust, but performance trends signal the need for them to be maintained consistently to ensure effective checks and balances on the use of public resources. Public availability of reports and overall transparency in public finances remains solid, but delays occur in access to reporting data. The role of CdC in the oversight of government spending is essential and all central agencies and line ministries' budget execution are audited, but there is no audit opinion and follow-up on CdC reports is not effective. The oversight of the Parliament is strong on the upstream side of the cycle and focuses on the budget submission and endorsement process, but it becomes less effective on the reporting and follow-up on external audit recommendations.

4.4 Performance changes since the previous assessment

This PEFA assessment has been carried out using the 2016 methodology to establish a new baseline from which to assess progress going forward. The information collected for the exercise was also used to track performance changes since the PEFA carried out in 2013 – covering the period 2010-2012. This allowed an assessment of performance change over time for the 28 indicators based on the 2011 PEFA framework. More detailed explanations can be found in Annex 1-b.

In summary, performance changes between 2013 and 2018 on the 28 indicators reflect a mix of improvements and deterioration of performance. The overall results are as follows:

- Improvement was recorded on seven indicators (PI-1, PI-7, PI-9, PI-14, PI-17, PI-20, PI-21) and a deterioration was assessed on nine indicators (PI-3, PI-5, PI-11, PI-12, PI-18, PI-22, PI-25, PI-27, PI-28).
- There was no change on nine indicators (PI-2, PI-6, PI-10, PI-13, PI-16, PI-19, PI-23, PI-24, PI-26).
- New scores have been assigned on three indicators (PI-4, PI-8 and PI-15) which have not been rated in the 2013 assessment.

This overall trend supports the perception across this report that PFM reform has stalled in many areas in recent years. While the attention was diverted towards new PFM areas with political exposure (such as the execution of the public investment portfolio or the municipal decentralization agenda) or new focus (such as the budgetary governance reform or the creation of APAs), the enforcement of the core PFM systems (e.g., payment, procurement, and reporting) did not improve significantly or even deteriorated against PEFA standards. Improvements can be noted in the specific areas where regulatory provision has been introduced since the last PEFA, where clear technical decisions have been made to address identified performance gaps (arrears, account reconciliation, budget reporting, internal control and internal audit).

Progress was noted in the following areas:

- Aggregate expenditure outturn.
- Reducing the extent of unreported government operations through increased TSA coverage
- Oversight of aggregate fiscal risks (mainly in terms of CG monitoring of autonomous government agencies and public enterprises)
- Effectiveness of measures for taxpayer registration and assessment
- Recording and management of cash balances, debt and guarantees (with dimensions on debt records and systems for contracting loans assessed for the first time)
- Effectiveness of internal controls for non-salary expenditures.
- Effectiveness of internal audit.

Score deterioration was noted in the following areas:

- Aggregate revenue outturn (where the score is calculated based on non-oil revenue as per last PEFA 2013 for comparability purposes).
- Classification of the budget, as there is no direct alignment and presentation of the budget following the COFOG functional classification.*

- Orderliness of the budget process due to the political deadlock and the serious delays in the budget approval process.
- Multi-year perspective in fiscal planning, where the team does not concord with the previous assessment on the existence of multi-year fiscal forecast and functional allocations, and the linkage between investment budgets and forward expenditure estimates.*
- Effectiveness of payroll controls.*
- Timeliness and regularity of accounts reconciliation.
- Quality and timeliness of annual financial statements, as reporting of financial liabilities is assessed as low.
- Legislative Scrutiny of the Annual Budget Law.
- Legislative scrutiny of the external audit reports, attributed mainly to the election cycle.

** Deterioration in score is not necessarily due to deterioration in underlying performance but to different interpretation of evidence available in 2013 and 2018 against 2011 Framework requirements.*

Considering the difficult political context affecting recent PFM performance, these trends illustrate that more progress has to be achieved and confirms MoF management's conclusion that it is time to launch a more ambitious PFM reform action plan to address the basic and key priorities in the next period.

Since the performance changes have had a more downward trend in the period of the assessment, the impact of the measured performance on the budgetary outcomes is mixed and can be summarized as follows:

Aggregate fiscal discipline

Aggregate fiscal discipline deteriorated due to adjustments to the original budget and reduced control over spending during budget execution. The lack of credibility of the budget process and reliability of initial allocations result in significant adjustments made throughout execution. This also puts pressure on line ministries and other public entities to spend the additional resources without the necessary safeguards on the quality of spending decisions. The lack of timeliness of the budget preparation, with the late release of budget circulars and decision on ceilings, affected the orderliness and transparency of the budget process. Nevertheless, the absorption capacity improved as budget deviations were reduced despite an increase in budget levels. However, forecasts for non-oil revenues were still not realistic. Even if non-oil revenue has only a minor impact on overall government income, it signals the need for a more cost-effective and efficient revenue mobilization strategy in the future. The lack of an effective tax systems undermines the credibility of revenue collection. On the positive side, the comprehensiveness of the budget is improving, despite the increase of fiscal risks due to the growing number of APAs and a lack of systematic monitoring of the timeliness reporting of public corporations. Control of contractual commitments is still effective, although the information reporting and monitoring on arrears by MoF only started formally in 2016. Internal controls are being strengthened in the FreeBalance Government Resource Planning (GRP) system, and efforts are underway to systematically enforce them across decentralized and fragmented execution mechanisms.

Strategic Allocation of Resources

The multi-year perspective in the planning and budgeting processes did not improve due to the negative impact of investment budgets and the lack of direct linkage with MoF reporting and accounting systems. The budget documentation and public access to budget information remains high. The introduction of performance information in the budget promotes the transparency of expenditure policy, but the lack of adequately costed sector strategies reduces the relevance of the budget formulation process, while reporting on performance remains weak. More predictable and effective investment management would ensure that recurrent costs implications are factored in the budget in the longer term. The consolidation of treasury systems and reporting procedures at the level of line ministries and agencies has improved, but information on transfers to RAEOA remains inadequate. The fiscal impact of new policies beyond the upcoming budget year and the reporting on fiscal outcomes remain weak. As a result, the scrutiny of the external audit and Parliament over the budget allocation and execution remains limited.

Efficient Service Delivery

The weaknesses identified in the procurement system and the lack of independence of the external audit function are significant constraints on the accountability mechanisms in place, and do not support efficient service delivery. Commitment and cash management systems are solid and effective. The strength of the process for consolidated annual financial statements enables effective oversight by the *Camara de Contas* (CdC) and Parliament, and it allows formal checks and balances mechanisms on the actual use of resources albeit with delay in case of elections. However, loopholes in the reporting systems (e.g. RAEOA) and delay in the last quarterly in-year budget execution reporting need to be addressed to maintain oversight of the budget execution. The lack of consistent and adequate performance information produced by the performance budgeting process fails to provide clear incentives to service delivery units. The reporting of information on development partners' support to service delivery sectors has improved, but it is not yet on-budget and fully integrated into the government systems.

05

The Government's PFM Reform Process

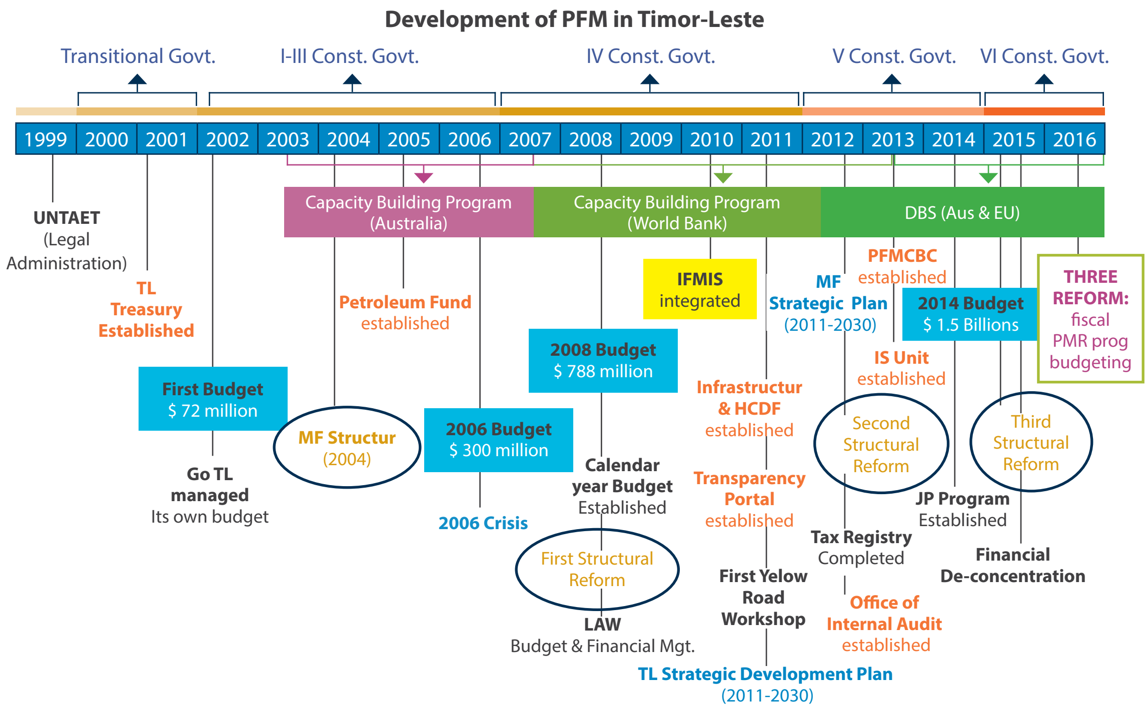
5.1 Approach to PFM Reforms

Timor-Leste has undergone a continual process of PFM reform since independence and its approach mirrors the commitment and good progress achieved in nation-building. Despite several weaknesses and challenges, the governance and structure of PFM systems reflect the sustained government commitment to a modern state-building vision and institutional development aligned to international standards. Following the end of the Indonesian occupation, the UN Transitional Administration (UNTAET) governed the country from 1999 to 2002, during which a robust and highly centralized system of public financial management (PFM) was established within the Ministry of Finance. From 2002 to 2006, the nation struggled to accelerate development progress, lacking much of the state apparatus, capacity and resources needed to establish the foundations of an effective public administration. As a result, the initial introduction of PFM systems relied heavily on the presence of international technical assistance.[79] Reforms have been consistently supported by the various development partners ever since.

Despite the post-conflict transition and numerous development challenges, PFM reform has progressed incrementally, supported by a sustained effort from both the Government and the donor community. The path of progress varied over the past 15 years as the donor approach to supporting PFM reform shifted from individual donor projects (i.e. the Ministry of Planning and Finance Capacity Building Project – MPFCBP), to a more coordinated and integrated multi-donor programme (i.e. the Planning and Financial Management Capacity Building Programme – PFMCBP), as well as more country-led and targeted assistance through EU budget support since 2013. PEFA assessments, among other diagnostics such as World Bank Public Expenditure Reviews and OECD analysis, have served over the years to advise on the pace and calibrate prioritization of PFM reform.

79 Technical assistance was originally provided directly by UN officers under UNTAET. Under UNMISET, 100 technical assistance positions were financed by the Security Council, with TA responsibilities later transitioning to UNDP.

Figure **Timeline of PFM reform**



Source: Ministry of Finance

PFM reform was first introduced through the Ministry of Planning and Finance Capacity Building Project (MPFCBP). MPFCBP was an AusAid-funded project mobilized in mid-2003 to transfer the operation of PFM systems to national staff of the Timor-Leste Budget Office and Revenue Service (TLRS) within the new Ministry of Planning and Finance. It supported the adoption of operational budget and revenue systems and was largely managed by international advisers. MPFCBP was designed essentially as a capacity building project, which took place gradually with the implementation of the following World Bank-managed project (PFMCBP). Operational support was to maintain budgeting standards during the transfer and provide a platform for on-the-job mentoring. The project covered budget preparation, budget execution, revenue management and capacity building. The project also included a component for assisting MoF to improve its internal management.

- **Under Phase 1,** the project supported government efforts to implement its strategic framework by linking the National Development Plan to Sector Investment Plans, and in turn to Annual Action Plans. It also helped develop the Combined Sources Budget, in which both domestic and external sources of financing were reported on budget. Both the 2004 World Bank Public Expenditure Review and the 2007 EU-funded PFM Performance Report highlighted several positive features of budget preparation. However, it also highlighted lack of results in systems and processes such as the macroeconomic framework, timetable, classification, chart of accounts, call circulars, and bringing extra-budget spending on-budget.

- **Under Phase 2**, the major milestone in PFM reform was to achieve greater operational efficiency through Budget Office procedures and the develop all business procedures to support an adequate and user-friendly management of the FreeBalance software.

The use of FreeBalance as the government FMIS platform was at the time one of the most successful achievements of PFM reform. It has led the Timorese institutions to adopt, own and command the FreeBalance FMIS to operate the budget process in almost its entirety. The development of new financial management applications, as well as maintenance and upgrading of existing software together with training, has supported the strong leadership of the MoF and helped building more ownership across Government.

The second stage of reforms commenced with the World Bank-led Planning and Financial Management Capacity Building Programme (PFMCBP) from 2006 to 2014. The programme aimed at providing technical assistance to strengthen planning, budgeting, public expenditure management and revenue administration, with an emphasis on efficiency, effectiveness, accountability, integrity, service culture, and transparency. The PFMCBP was originally a five-year technical assistance programme, approved in May 2006 at a time when Timor-Leste was experiencing renewed conflict and civil unrest. It was designed to help the government use the country's petroleum revenue to build social stability, deliver services to the people, and help restart economic growth and development. Donors agreed to extend the PFMCBP to December 2013. The PFMCBP initially included support for financial management staff in line ministries and districts. After the mid-term review, development partners agreed to focus support on the MoF. The programme comprised four major components: (a) public expenditure management; (b) revenue administration and macroeconomic management; (c) support for executive management and other cross-cutting activities; and (d) support for programme implementation.

PFMCBP supported the Government in its solid PFM reform trajectory and several achievements can be highlighted. They include: reorganization of the MOF; strengthening public expenditure management through the simplification and strengthening of treasury systems and processes, and increased delegation of authority to line ministries; complete overhaul of budgeting systems, documentation, and financial management legislation with the enactment of the PFM Law in 2009; improved revenue management, including increased transparency in tax administration and reinforcing petroleum tax administration; and a gradual improvement in macroeconomic planning. Through the PFMCBP, the Government sought to transition from international to local expertise, and to an integrated approach towards institution-building relying on three pillars: skills and knowledge; systems and processes; and attitudes and behaviours. Based on the three-pillar framework, the objectives for the PFM function were defined as: (i) improved service delivery to the population; and (ii) to create a sustainable PFM system that would be increasingly managed and run by national staff with the number of advisers decreasing over time as national staff take on increasing responsibility.

In support of reform efforts towards fiscal transparency and accountability, the Government launched the web-based Budget Transparency Portal in 2011. At the time, it was part of the government's renewed commitment to further develop the FreeBalance software. The Budget Transparency Portal is a public website where citizens, donors, and NGOs can analyse budget execution information from the FMIS in an interactive manner and in real-time. It presents budget information in terms of: amount appropriated by Parliament, virements, funds that are committed, obligated and actuals. At the same time, the e-Procurement Portal was officially launched as part of the Extractive Industries Transparency Initiative (EITI).

Other key reforms in 2011 and 2012 included improvements to accounting processes, in treasury operations and budget execution and financial reporting. Financial statements for 2011 and 2012 were prepared in accordance with the International Public Sector Accounting Standard (IPSAS) Financial Reporting under the IPSAS Cash Basis of Accounting by DG Treasury, audited by the external auditors and accepted by Parliament. Timor-Leste joined the group of countries who prepare financial statements in accordance with IPSAS Cash Basis. This compliance was further enhanced when cash-based transactions were completed and closed on 31 December 2012. The Treasury Single Account (TSA) has been adopted since 2012 with an initial review of all bank accounts and closing of 108 non-essential bank accounts and transfer of USD 0.7 million to CFTL. Improvements in Treasury processes and reporting include, among others: month-end and end-of-year account closure processes, new MIS reports and monthly accounts for improved managerial oversight, and Letters of Credit Management. An important part of the reform included an initial delegation of authority to line ministries and agencies also followed, to enter commitments directly and log into CPVs and purchase requisitions and generate Purchase Orders accordingly. PFMCBP also supported the institutional strengthening of MoF through the work of the Consultative Council for Financial Management (CCFM) to improve internal communication and internal policy consistency within the Ministry of Finance.

A third stage in PFM reform started in 2012 with major structural reforms and change management taking place within MoF and other key PFM institutions. PFM development was strongly embedded in the Strategic Development Plan (2011-2030), defining the long-term development objectives of the country. The plan was later mapped to the SDGs. The V Constitutional Government was formed, and its five-year programme was prepared and approved by the Parliament. This resulted in the organizational restructuring of MoF enacted by Decree-Law No. 41/2012. Directors General and National Directors were appointed in the new structure. The Ministry of Finance also adopted a Strategic Plan, which defined priorities in the short-term and objectives to achieve in the long-term, with a five-year operational plan that sets key performance indicators on an annual rolling basis (Annual Action Plans).

5.2 Recent and on-going reform actions

Between 2014 and 2017, the Ministry of Finance focused on three reform initiatives: fiscal reform, performance management reform and program-based budgeting.[80]

The fiscal reform was approved in 2015 with the objective of diversifying revenue sources and supporting fiscal sustainability. It was coordinated by the Fiscal Reform Commission (FRC), a technical body established between 2015 and 2019[81] and supported by the ADB and EU, to work with the relevant Government agencies and coordinate the reform process. The FRC, together with the Revenue and Customs General Directorates[82], focused on the reform of revenue administration and legal frameworks. Both Directorates became Authorities in 2018 (Tax Authority and Customs Authority). While they still operate

80 See MoF 2016 Annual Report, pp. 52/53

81 Resolution no 26/2015 Resolution no 26/2015 - https://www.MoF.gov.tl/wp-content/uploads/2017/06/Resolution-to-Establish-the-Fiscal-Reform-Commission.pdf but the FRC was ended in March 2019, as the government reexamines the priorities of the PFM reform.

82 Which became Tax Authority and Customs Authority in 2018
https://www.MoF.gov.tl/frc_menu/custom-reform/?lang=en
https://www.MoF.gov.tl/frc_menu/tax-reform/?lang=en

under the Ministry of Finance, they could become fully independent by 2020. The Government is aware of the need to strengthen human resources in both institutions in the longer-term, and a special regime for Customs and Tax staff is waiting to be implemented, including merit-based recruitments and targeted competency trainings.

The modernization of the customs administration encompassed multiple steps. It included the adoption of the Revised Arusha Declaration, the adoption of the Revised Customs Codes in 2018, and the upgrade from ASYCUDA++ to ASYCUDA World (completed in the Dili port and airport). Efforts were also undertaken in capacity building, for instance with the implementation of a broker certification.

The modernization of the tax administration made slower progress. It included the drafting of an updated legislative framework, including the VAT policy and the Fees and Charges Policy and Law. All drafted legislation is still awaiting approval from the Council of Ministers.

Another major reform initiated in 2015 was the performance management reform. In PFM, its aim was to tackle the capacity gap among PFM professionals. In order to manage the human resources in the PFM setting, a team comprising several units (e.g. PBPEO, HRU, PFMCBC, TACU and Legal unit) was established – the Performance Management Reform (PMR) team – to regulate the reform.

In 2013, under the VI Constitutional Government, the PFM Capacity Building Center (PFMCBC) was established post-PFMCBP. Its goal was to execute the reform process, manage, organize and develop specialized, differentiated and targeted PFM training for all PFM professionals working in institutions and organs of the state. The mandate of PFMCBC was then formally listed in the Ministry of Finance Organic Law 38/2015. In 2014, the government passed Resolution no. 12/2014 to assess finance officers in six identified skills: analytical, mathematics, information system, procurement, planning, budgeting, finance, and assets management. MoF further developed rigorous methods to assess PFM professionals' competencies in core skills and technical skills. In order to do this assessment, the MoF through PFMCBC developed a set of competency standards for PFM areas based on the four pillars of PFM – regulated under the promulgated Decree Law no. 7/2015.

The development of a PFM competency framework was prompted by the initial competency and skills' testing by MoF of 2,750 PFM professionals registered from all the institutions and organs of the state. 1,923 were tested (1,390 from Central Government & 533 from municipalities); 1,254 (892 central and 362 municipalities) were selected and received trainings in the areas of numeracy, budgeting, procurement, payment, accounting & financial reporting and internal audit. Training in procurement, budgeting and payment is still ongoing for municipalities' finance officers. All have completed trainings in accounting & financial reporting and internal audit as of July 2019.

The next stage foresees the development of competency standards for all PFM areas. The development and introduction of a certification mechanism has not yet been implemented (as it requires a change of the organic law to allow PFMCBC to certify staff outside the Ministry of Finance, as for now it only has power to certify staff within the ministry. At the time of the assessment, the draft Decree Law on the Special Career Regime for PFM Professionals, developed under the VI Government and put on hold under VII Government, was under discussion to become again a priority under the VIII Government.

The performance-based budgeting reform started in 2015 as an initiative from the Prime Minister's Office to focus the government's strategic priorities on service delivery. Its objectives were to introduce a programmatic and activity-based dimension to the budget process, to measure outputs and report on performance. The reform was to delegate more managerial capacity to line ministries, as well as identify and align their budget priorities to their mandate (organic law) and to the government strategic framework (national and sector strategic plans).

In March 2017, a budgetary governance roadmap drawn up by the Organisation for Economic Cooperation and Development (OECD) was approved through Government Resolution 17/2017. It covers different aspects of PFM, focusing on the transition to programme budgeting, but also including elements related to the development of medium-term planning and budgeting, M&E systems, transition to accrual accounting, budget transparency, and improvement of audit and procurement systems. A PFM strategy was drafted in 2016 by the Ministry of Finance, aiming to complement the roadmap and provide a more technical guidance to the implementation of the recommendations provided by the OECD. It was approved by the Minister of Finance of the VI Government but never used as a guiding document.

This reform was driven by UPMA, established through Decree Law 22/2015. UPMA has been operating with DFAT support through the Government for Development (GfD) project. The project was sequenced in three phases under the OECD roadmap. The first phase (2015-2017) saw the development of programme structures for several Government entities and the update of the FMIS CoA[83] to include a program classification. The second phase (2017-2018) saw the roll out to more Government entities, including APAs. A quarterly performance monitoring report was established, and the performance-reporting application Dalan Ba Futuru system was launched in 2019. The third phase is under discussion, as the 2019 OECD review of the roadmap identified some implementation delays.

In 2018 and 2019, line ministries reported on their AAPs on a quarterly basis using the program-based structure. However, the link between budget and planning remains weak as the CoA and core financial reporting system is still operating on the economic classification. Moreover, the programmatic framework of the line ministries, structured around the program-based mapping exercise, does not rely on an adequately costed – and owned – comprehensive medium-term expenditure framework (MTEF). As it is, the program-based reporting could provide useful elements for the budget process and strategic decision-making, but effectively it represents more an exercise of ex-post mapping between the plan and the line-item budgeting.

The administrative decentralization and financial deconcentration process initiated in 2013 is still ongoing. The development of municipalities has been a Government priority since 2014 (DL 4/2014 on Pre-Deconcentration Structure provides the legal framework for administrative decentralization), but effectively financial deconcentration was initiated in 2015. The successive governments completed the deconcentration of most PFM functions to line ministries, APAs and municipalities between 2016 and 2018. Trainings were delivered to municipalities in different PFM areas, FMIS was implemented in all agencies and municipalities, along with a focus on payment, full devolution of procurement and internal controls. Financial reporting by the municipalities is still being monitored by Treasury on the practices in accounting and reporting functions, accompanied by preliminary and on-the-job trainings (still on-going) coordinated between PFMCBC, Budget, IFMISU and the Treasury.

83 The PFM Law introduced in 2009 includes a programme structure, but de facto was never implemented.

Since 2018, municipalities produce their own budget. This was previously done by Treasury, which now only monitors the preparation. Fiscal envelopes for the preparation of the 2019 budget were circulated, and the Treasury only monitors and checks the final draft budget before sending to DN Budget. Important efforts were made to improve connectivity in the municipalities to facilitate the decentralization process. Since 2017, all municipalities have internet connection and access to FreeBalance. The EU is currently developing a decentralization budget support partnership with the Ministry of State Administration to support the decentralization process.

Efforts have been made to strengthen government information systems and integrate them under one FMIS architecture. At present, multiple systems operate and are not yet interfaced, but plans foresee the following:

- **SIGAP/GRP integration:** in September 2018, the Ministry of Finance and the Civil Service Commission (CSC) initiated the process to connect, in a shared interface, the FreeBalance Government Resource Planning (GRP) and the Integrated System for Public Administration Management (SIGAP), which will allow the automatization of the alignment between the CSC database and the payroll system. According to a new Ministerial Diploma (65/2016), the CSC will be responsible for data entry and keeping the database up-to-date for all LMs and APAs. This aims to limit the risks of duplication, ghost employees, facilitate the actualization of the information and reduce the amount of labor/manual entry for payroll staff. Casual employees and special regimes will initially remain out of the system.
- **R-Timor/GRP connection.**[84] In February 2018, the MoF and BCTL jointly launched the GRP-R-Timor interface, which enables fully automated payments by connecting the MoF FreeBalance system to the Central Bank's payment system (R-Timor) for national and international vendors. Phase 2 will include payroll and bank reconciliation, and Phase 3 will focus on revenue processing.
- **Upgrade from ASYCUDA++ to ASYCUDA World.** This was completed for Customs in Dili's port (in 2018[85]), airports (fully implemented in Dili and Suai in 2019[86]), and border offices (launched in *Batugade* in 2018[87]). The development of a single-window will take place during 2019-2021, with the integration of all information entry in the port, airports, and quarantine, and ultimately the linking to the BCTL R-Timor's system.
- **Tax System upgrade.** The MoF is currently upgrading the Tax Integrated Administration System, from SIGTAS v.1 to v.3, which will limit manual labor and improve the taxpayer registration information (currently greatly insufficient). The MoF is expecting to upgrade the system and complete the data migration by 2020.

84 Press release

85 https://www.mof.gov.tl/new-port-stakeholders-committee-and-asycuda-world-launch-at-aportil-will-ensure-efficiency-and-trade-facilitation-at-the-dili-port/?lang=en

86 https://www.mof.gov.tl/ministeriu-finansas-lansa-sistema-asycuda-iha-aero-portu-kayrala-xanana-gusmao-suai-covalima/?lang=tl

87 https://www.mof.gov.tl/sistema-asycuda-asegura-transparensia-akuntabilidade/?lang=en

5.3 Institutional considerations

Government commitment to PFM reform is strong and has been critical in gathering momentum from all stakeholders. However, it has also been subject to political uncertainty and changes of government structures. In late 2017, a dispatch from the Prime Minister's Office established two PFM working groups – one at the political level chaired by the Prime Minister, and on at the technical level chaired by the Minister of Finance. There was only one technical PFM working group meeting since then.

At present, government leadership and ownership in PFM is driven mostly by the MoF in coordination with UPMA. Until recently, the organigrams for MoF and UPMA were still linked to the structures under the VI Government (MoF defined by DL 38/2015, UPMA defined by DL 22/2015). Decree Law 35/2017 brought back planning under MoF (which became Ministry of Planning and Finance) but was never enforced. Under the VIII Government, the MoF new Organic Law has been approved and recently signed by the President. The new Organic Law includes the creation of a PFM Reform unit.

Coordination across government still needs to be formally established. Two instances are under consideration. The PFM working group, which met only once and for which terms of reference were drafted but never approved; and a proposal for an Inter-Ministerial Committee for PFM Reform, which was brought to Council of Minister in March 2019. The Ministry of Finance in the VIII Constitutional Government is preparing a draft Master Plan to guide the implementation of the three big reforms, which will be soon presented to the Council of Ministers for approval.

Development partners' support to the PFM reform agenda has been instrumental to the progress realized since the country reached independence. The shift from standalone technical assistance projects to the integrated multi-donor approach served as a catalyst to the government's broad ambitions and provided the necessary support and knowledge to build MoF institutional capacity and systems.

Since 2013, Australia's assistance on PFM reform has been delivered through the Governance for Development (GfD) program. The initial phase of this support (2013-2016) included a sector budget support program focusing on PFM and fiscal reform within the Ministry of Finance. More recently, technical support has been provided to the Planning, Monitoring and Evaluation Unit (UPMA) within the Office of the Prime Minister, the Fiscal Reform Commission (FRC), and other relevant agencies.

The World Bank managed the multi-donor trust fund (MDTF) that financed PFMCBP activities directly supporting the Ministry of Finance and other line ministries.[88] The World Bank produces PFM analytical work at the sector level, for instance through Public Expenditure Reviews and Public Investment Management Assessments. The World Bank is managing this PEFA assessment and has been tasked by MoF to support the development of a prioritised and sequenced post-PEFA action plan integrating all elements of the ongoing and future reform. The PFM action plan will be a platform for coordinating other development partners' support.

88 For further information please see Implementation Status & Results Report (P092484)

The European Union (EU) signed a first agreement for budget support in 2013 for a total of EUR 4 million.[89] The operation aims to improve PFM systems with a focus on domestic revenue mobilization through customs and tax administrations strengthening. The current Public Financial Management Oversight (PMFO) programme delivers support through two modalities: a direct budget support component delivered to the Ministry of Finance and a technical assistance component provided to various institutions (Câmara de Contas, Parliament, Inspector Geral do Estado) through the Instituto Camoes. The decentralization budget support component covers a wide range of areas, including revenue mobilization, integration of planning and budgeting, PFM capacity building, internal audit, financial monitoring and reporting, and deconcentration.

The Asian Development Bank (ADB) supports various aspects of the fiscal reform. For example, the ADB provided TA for the development of a VAT policy and initial analysis of revenue potential, a review of autonomous agencies' governance, and an assessment of non-tax revenues with a review of policy and legislative framework for fees and charges. It has supported MoF on economic modelling and forecasting, and it has been working with the Ministry of Public Works with a view to piloting an MTEF. In the area of public investment management, its work with the Major Project Secretariat covered the strengthening of guidelines for infrastructure project appraisal and piloting of new feasibility study guidelines.

Other development partners have been supporting specific aspects of the PFM reform. Development partners have assisted in capacity-building efforts. For instance, New Zealand has funded training in the understanding of accrual accounting.

Despite a strong commitment to PFM reform, development partners' support has generally been fragmented with a low level of coordination within and outside Government. Fragmentation undermined progress in capacity building, with advisor support relied on for even transactional core business. More recently, strong government ownership and technical assistance programs delivered through budget support have supported greater alignment and coordination.[90] There appears to be broad support among the main development partners for a more coordinated approach to PFM reform, and to support a unified reform program under the Ministry of Finance's leadership. A refreshed and fully coordinated donor engagement on PFM reform would be timely and support the ambitions of the Government.

This PEFA exercise, conducted with the support and participation of a wide range of stakeholders, is a step taken by Government towards better coordination and alignment of existing and future PFM support initiatives. The PEFA assessment itself is not meant to include recommendations on the ongoing reforms, but it will contribute to a unified PFM reform action plan led by government institutions.

Important gaps and challenges subsist for the successful implementation of the upcoming PFM agenda. Important challenges lie ahead as the MoF designs and implements a prioritized reform programme in a capacity-constrained environment. Institutional building is still high on the PFM reform agenda, including supporting the goal of fiscal consolidation and centralization of fiscal monitoring. Setting the right expectations for the upcoming reform programme will require closer coordination and collaboration not only amongst MoF stakeholders, line ministries, and other key PFM oversight and audit institutions, but also with civil society.

89 Financing Agreement FED/2013/023-655

90 Referred to as 'budget support' by both development partner and government interlocutors, the modality of support involves providing tagged funds for technical assistance which is managed by the Ministry of Finance.

Annexes

Annex 1-a: Performance indicator summary – Timor-Leste PEFA 2018

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		Score	Description of Requirements Met
Pillar One: Budget Reliability			
PI-1	**Aggregate expenditure outturn**	**C**	**The aggregate expenditure outturn exceeded 85% for the three years under review but remained below 90% for two of the three years.**
PI-2	**Expenditure composition outturn**	**D+**	**(M1)**
	2.1. Expenditure composition outturn by function	D	Variance in expenditure composition by administrative classification exceeded 15% for two of the last three years (2015 and 2016). The Infrastructure Fund and the "whole of government" appropriation contributed largely to the overall deviation (more than 60% in 2016 and 2017).
	2.2. Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification exceeded 15% in two of the last three years (2015 and 2016), with main variances registered under capital development (48.5% on average) and public transfers (27.8% on average).
	2.3. Expenditure from contingency reserves	A	A 'contingency fund' has been established in 2011 for unforeseeable and unpostponable expenses. Actual expenditure charged to the contingency expenditure was on average 0.8% of the original budget in the 2015-2017 period.
PI-3	**Revenue outturn**	**B+**	**(M2)**
	3.1. Aggregate revenue outturn	B	Actual revenue deviation was between 94% to 112% of budgeted revenue in two of the last three years (2015 and 2016).
	3.2. Revenue composition outturn	A	The variance in revenue composition was less than 5% in two of the last three years (2015 and 2017).
Pillar Two: Transparency of Public Finance			
PI-4	**Budget classification**	**C**	**Budget formulation, execution, and reporting are based on administrative and economic classification (at least level 2 of the GFS standard—2 digits), but not based on a functional/sub-functional classification fully compliant with COFOG.**
PI-5	**Budget documentation**	**B**	**The budget documentation fulfils 7 elements, including the 4 basic elements.**
PI-6	**Central government operations outside financial reports**	**A**	**(M2)**
	6.1. Expenditure outside financial reports	A	Extra-budgetary expenditure is fully monitored by MoF. Information provided by donors on externally financed projects is reported and available. Expenditure outside government financial reports largely do not exceed 1% of total Government expenditure.

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	6.2. Revenue outside financial reports	A	Revenue outside government financial reports largely do not exceed 1% of total government expenditure.
	6.3. Financial reports of extra-budgetary units	B	Detailed and complete annual financial reports are submitted to the Government covering the largest extra-budgetary units ANPM and IPG.
PI-7	**Transfers to subnational governments**	**C+**	**(M2)**
	7.1. System for allocating transfers	A	Transfers to RAEOA-ZEESM are based on high-level political agreements, but it is approved by the Parliament, and rely on a due budget review process and considered transparent. The amounts actually transferred are equal to the annual budget allowed, transferred at the beginning of the fiscal year, and the calendar seems to be respected.
	7.2. Timelines of information on transfers	D	The information provided by the Central Government to the RAEOA-ZEESM about its annual transfers is included in the Budget Books submitted to the Parliament. The budget is confirmed usually on time for the RAEOA-ZEESM administration to plan for the next fiscal year.
PI-8	**Performance information for service delivery**	**D**	**(M2)**
	8.1. Performance plans for service delivery	C	Information is published annually on the activities to be performed under the policies or programs for the majority of ministries, while very few institutions present key performance indicators.
	8.2. Performance achieved for service delivery	D	The Government reports internally on progress against the annual action plans, but the information is not published.
	8.3. Resources received by service delivery units	D	No recent survey in one of the last three years providing estimates of the resources received by service delivery units for at least one large ministry.
	8.4. Performance evaluation for service delivery	D	Despite initiatives in the past three years looking at elements of sector efficiency and effectiveness, there has been only one evaluation of the efficiency or effectiveness of service delivery (for the education sector, which represents less than 25% of the service delivery allocation in 2018).
PI-9	**Public access to fiscal information**	**D**	**The Government makes available to the public only three of the five basic elements, and three additional elements in accordance with the specified time frames.**
Pillar Three: Management of Assets and Liabilities			
PI-10	**Fiscal risk reporting**	**D+**	**(M2)**
	10.1. Monitoring of public corporations	C	Government received financial reports from most public corporations (BCTL, TIMOR GAP, BNCTL) within nine months of the end of the fiscal year. However, some smaller SOEs do not publish their financial reports (ANATL, RTTL).
	10.2. Monitoring of subnational governments	D	Reports from RAEOA-ZEESM are sent manually to the Parliament and MoF, but it is not clear whether they are submitted on time and no monitoring system is in place to review and assess reported information.

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
	10.3. Contingent liabilities and other fiscal risks	D	Central Government entities and agencies do not quantify any contingent liabilities in their financial reports.
PI-11	**Public investment management**	**D+**	**(M2)**
	11.1. Economic analysis of investment proposals	C	The project selection criteria include the need for economic analysis. The MPS has published "feasibility study guidelines" to support project owners. Economic analyses are conducted to assess some major investment projects but are not published.
	11.2. Investment project selection	C	Prior to their inclusion in the budget, all major investment projects are prioritized by a central entity, CAFI. The team could not confirm that the selection was based on the published criteria.
	11.3. Investment project costing	D	While the capital costs for the forthcoming budget years was included in the budget documents, no information was provided about the total capital cost of major investment projects, or future recurrent costs.
	11.4. Investment project monitoring	D*	The team could not verify that the total cost and physical progress of major investment projects were monitored by MPS and ADN.
PI-12	**Public asset management**	**C**	**(M2)**
	12.1. Financial asset management	B	The main financial asset, the PF, is directly managed by the Central Bank, and its annual audited reports are published in line with international accounting standards. Cash and foreign currency reserves are reported. Other minor financial asset holdings in private companies (Timor Telecom) are recorded and monitored by the Treasury department but information on performance of these assets is not published.
	12.2. Nonfinancial asset monitoring	D	The government maintains fragmented registers of some of its fixed assets in various line ministries, without including information on their usage and age. Public land has not been mapped. However, information is published on the extractive industry (mainly marble) representing the country's main subsoil public asset.
	12.3. Transparency of asset disposal	C	Information on the main financial asset (PF) is clearly disclosed. There are clear government regulations in place for mobile assets' disposal, and a list of assets (mainly cars) to be disposed is produced and sent to MoF, which is responsible to organize auctions to sell them. No consolidated information on asset disposal is submitted to Parliament.

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		Score	Description of Requirements Met
PI-13	**Debt management**	**B**	**(M2)**
	13.1. Recording and reporting of debt and guarantees	B	Timor-Leste is no domestic debt. Foreign debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually.
	13.2. Approval of debt and guarantees	A	The PFM Law and the Public Debt Regime grant only to the Ministry of Finance the authorization to borrow, issue new debt, and issue loan guarantees on behalf of the Central Government. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, and monitor debt management transactions by the Ministry of Finance. Annual borrowing must be approved by the Council of Ministers and the Parliament.
	13.3. Debt management strategy	D	Due to the lack of financing needs outside the PF and infrastructure loans, the government has not yet produced a medium-term debt management strategy covering existing and projected government debt.
Pillar Four: Policy-based Fiscal Strategy and Budgeting			
PI-14	**Macroeconomic and fiscal forecasting**	**C**	**(M2)**
	14.1. Macroeconomic forecasts	B	The government prepares forecasts of key macroeconomic indicators, which are included in the budget documentation submitted to the legislature, with information on the underlying assumptions. These forecasts cover the budget year and the two following fiscal years.
	14.2. Fiscal forecasts	C	The government forecasts include revenue, expenditure and the budget balance for the budget year and the two following fiscal years. They form part of the budget documentation submitted to the legislature and underlying assumptions are presented and discussed during the budget submission.
	14.3. Macrofiscal sensitivity analysis	D	The macrofiscal forecasts prepared by the government do not include a qualitative assessment of the impact of alternative macroeconomic assumptions.
PI-15	**Fiscal strategy**	**D**	**(M2)**
	15.1. Fiscal impact of policy proposals	D	The estimates of the fiscal impact of revenue and expenditure policy adjustments cover the budget year and not all policy adjustments. Medium-term expenditure forecasts are only calculated for the IF and the HCDF.
	15.2. Fiscal strategy adoption	D	The government has not yet adopted a consolidated and consistent fiscal strategy.
	15.3. Reporting on fiscal outcomes	NA	The government has submitted to the legislature, along with the annual budget, a report that describes progress made against some of its fiscal objectives and provides an explanation of the reasons for some of the deviation from the objectives and targets set.

Timor-Leste PEFA 2016		Assessment based on PEFA Framework 2016	
Pillar/Indicator/Dimension		Score	Description of Requirements Met
PI-16	**Medium-term perspective in expenditure budgeting**	**D**	**(M2)**
	16.1. Medium-term expenditure estimates	D	The annual budget presents expenditure estimates by administrative and economic classification for the budget year and following two fiscal years, but mostly calculated through an incremental increase.
	16.2. Medium-term expenditure ceilings	D	Aggregate expenditure ceilings are only approved by the government for the budget year, but not for the two following fiscal years.
	16.3. Alignment of strategic plans and medium-term budgets	D	Medium-term strategic plans have been prepared for some ministries, but are mostly aspirational.
	16.4. Consistency of budgets with previous year estimates	D	The budget documents do not provide a systematic and clear explanation of some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.
PI-17	**Budget preparation process**	**D**	**(M2)**
	17.1 Budget calendar	D	An annual budget calendar exists and is updated every year in the annual budget circular, but it was not adhered to during the last two years (2017 and 2018).
	17.2. Guidance on budget preparation	D	The 2018 and 2019 budget circulars were issued late to budgetary units and the ceilings were not (or only partially) included.
	17.3. Budget submission to parliament	D	The annual budget proposal was submitted to the Parliament at least one month before the start of the fiscal year only once (2017) in the last three years.
PI-18	**Parliament scrutiny of budgets**	**C+**	**(M1)**
	18.1. Scope of budget scrutiny	B	The parliamentary review covers projections of revenue, programs/sub-programs/activities, the Infrastructure Fund, municipalities, and the special economic zone, as well as details of committed funds from development partners and the Human Capital Development Fund, but not medium-term fiscal forecasts and medium-term priorities.
	18.2. Parliamentary procedures for budget scrutiny	A	According to the Constitution, the PFM Law 13/2009, and Parliament's regiment 2016, it competes to the Commission C the scrutiny of the annual budgets and regulate the detailed parliamentary procedures to review budget proposals, technical support, and negotiation procedures in advance of budget hearings and approval of the annual budget law by the Plenary. The established procedures are respected by the Parliament.
	18.3. Timing of budget approval	C	The Parliament has approved the annual budget before the start of the year in two of the last three fiscal years, but with a delay of 8 months in the third year.
	18.4. Rules for budget adjustments by the executive	B	The PFM Law sets the rules for in-year budget adjustments (virements) by the executive. The rules set strict limits on the extent and nature of amendments up to 20% of the total budget, and they are adhered to. Furthermore, MoF regulates the different types of in-year budget adjustments and approval authority within the government, while UMPA undertakes an impact evaluation on the Government's programs.

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		Score	Description of Requirements Met
Pillar Five: Predictability and control in budget execution			
PI-19	**Revenue administration**	**D+**	**(M2)**
	19.1. Rights and obligations for revenue measures	A	Entities collecting most revenues provide payers with access to information on the main revenue obligation areas and on rights, including (as a minimum) redress processes and procedures.
	19.2. Revenue risk management	B	ANPM, the entity collecting petroleum revenues, uses approaches that are comprehensive, structured and systematic for assessing and prioritizing compliance risks on revenue collection. Royalty rates and profit share are agreed to up front and audited annually.
	19.3. Revenue audit and investigation	A	ANPM ensures operator's compliance through evaluation of industry reports, audits and inspection of facilities, vessel rigs and through audits required by the applicable of the JPDA and Timor-Leste Exclusive Area (TLEA). Other revenue collecting entities do not have a compliance improvement plan and do not complete the majority of planned audits and investigations.
	19.4. Revenue arrears monitoring	D*	The stock of revenue arrears at the end of 2017 could be assessed with certainty only for the PF, and there is no system to categorize the revenue arrears based on their ageing. Additionally, important refund and repayments of the PF are still pending, questioning the effectiveness of the PF reconciliation procedures.
PI-20	**Accounting for revenue**	**A**	**(M1)**
	20.1. Information on revenue collections	A	The Treasury centralizes data on the collection of information on most revenue, with revenue collection data broken down by revenue type for most of the Central Government revenue and consolidated daily in a report submitted to the Minister of Finance.
	20.2. Transfer of revenue collections	A	The State Finance Law No. 03/2009 and Treasury instructions require all public revenue collected by all Central Government entities to be transferred daily into the TSA from all authorized public accounts in commercial banks and this procedure is followed by the entities collecting most of the Central Government revenue.
	20.3. Revenue accounts reconciliation	A	Revenue accounts reconciliation is automated, covering most Central Government revenue accounts and performed daily, but it is incomplete and excludes the tax suspense accounts. Reconciliation of APAs' revenue and reporting are not systematic.
PI-21	**Predictability of in-year resource allocation**	**B+**	**(M2)**
	21.1. Consolidation of cash balances	A	Most cash balances within the CFTL are consolidated daily. Some accounts are reconciled monthly (commercial bank) but represent less than 10% of the total.
	21.2. Cash forecasting and monitoring	A	A cash flow forecast is prepared for the fiscal year and is updated monthly based on actual cash inflows and outflows.
	21.3. Information on commitment ceilings	B	Budgetary units are provided with reliable information on commitment ceilings on a quarterly basis.
	21.4. Significance of in-year budget adjustments	B	Budget rectifications never took place more than once in a year, follow similar requirement as the regular budget, and in-year budget virements are done in a fairly transparent way (see PI-18).

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		Score	Description of Requirements Met
PI-22	**Expenditure arrears**	**D**	**(M1)**
	22.1. Stock of expenditure arrears	D*	In 2016 and 2017 the stock of arrears represented less than 6% of the budgetary Central Government annual expenditures, but data on 2015 arrears is not available.
	22.2. Expenditure arrears monitoring	D	The expenditure arrears monitoring relies on a manual tracking by line ministries and is not fully reliable, and data on the stock has been reported since 2016 but not on the composition and ageing of expenditure arrears.
PI-23	**Payroll controls**	**D+**	**(M1)**
	23.1. Integration of payroll and personnel records	C	Systematic reconciliation of the payroll with existing personnel records takes place at least every six months and control over the decisions on staff movement is in place.
	23.2. Management of payroll changes	B	Required changes to personnel records and payroll are updated at least monthly, generally in time for the following month's payments. However, retroactive adjustments are not rare. The Treasury report shows corrections over 3% of salary payments.
	23.3. Internal control of payroll	C	Authority and basis for changes to personnel records and the payroll are clear and adequate, but the integrity of data remains an issue.
	23.4. Payroll audit	D	No payroll audits have been undertaken within the last three completed fiscal years.
PI-24	**Procurement management**	**D**	**(M2)**
	24.1. Procurement monitoring	D	The centralized data base managed by MoF is intended to record all contracts awarded under all procurement methods for goods, services and works, but the database is not systematically used and updated in a timely manner, and therefore currently unable to provide a consolidated and complete record in real time of the contracts awarded by the various procuring agencies.
	24.2. Procurement methods	D*	Due to the lack of complete data on awarded contracts, it is not possible to determine how many were procured through competitive or non-competitive methods.
	24.3. Public access to procurement information	D	Out of the six criteria, only two are determined to be met as being complete and reliable: (i) legal and regulatory framework for procurement, and (ii) bidding opportunities are published. However, government procurement plans, data on resolution of complaints and annual procurement statistics are not published, and there is insufficient information to determine the extent to which contract award information is published.
	24.4. Procurement complaints management	D	Decree Law 10/2005 of the Procurement Legal Regime provides procedures for bidders affected during the procurement process to file claims and appeals. However, the complaints are to be acknowledged and solved by the entity that was authorized to initiate the procurement process, in other words the procuring entity. Therefore, complaints, are not reviewed by a body that is not involved in any capacity in procurement transactions or in the process leading to contract decisions.

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
PI-25	**Internal controls on non-salary expenditure**	**B+**	**(M2)**
	25.1. Segregation of duties	B	Segregation of duties is clearly prescribed throughout the expenditure process, but weakly enforced within public institutions due to insufficient resources and capacity.
	25.2. Effectiveness of expenditure commitment controls	B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for most types of expenditure.
	25.3. Compliance with payment rules and procedures	A	Payment rules and procedures are strictly enforced through the GRP system. Payment statistics are closely monitored by DG Treasury.
PI-26	**Internal audit**	**D**	**(M1)**
	26.1. Coverage of internal audit	D	Internal audit is in principle operational for all Central Government entities, but the direct coverage under the MoF represents less than 50 percent of all budget outturns.
	26.2. Nature of audits and standards applied	D	Internal audit activities are primarily focused on financial compliance with no evidence of a strict adherence to defined standards.
	26.3. Implementation of internal audits and reporting	A	Annual audit programs exist. All programmed audits are completed, but as plans are adjusted to limited capacity and resources constraints, the program is very limited in scope.
	26.4. Response to internal audits	D*	Management provides a formal response to audit recommendations for most of entities audited, but there is little evidence of any follow-up to the GAI audits in the audited institutions and there are no consolidated records of implementation of recommendations.
Pillar Six: Accounting and reporting			
PI-27	**Financial data integrity**	**C+**	**(M2)**
	27.1. Bank-account reconciliation	D	The implementation of the TSA and the use of GRP allows manual (but daily) bank reconciliation for the Treasury monitored bank accounts. All active Central Government bank accounts are reconciled annually but there is no systematic control over the process and delays can occur.
	27.2. Suspense accounts	C	Reconciliation of suspense accounts takes place daily, weekly and monthly within Treasury and at least annually within two months from the end of the year across all budgetary entities. Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified.
	27.3. Advance accounts	B	Most of the advance accounts are reconciled at least quarterly within 2 months from end of the period.
	27.4. Financial data integrity processes	A	Access and changes to records is restricted and recorded, results in an audit trail, and IFMISU is the operational body in charge of verifying financial data integrity and is fully operational.

Timor-Leste PEFA 2016			Assessment based on PEFA Framework 2016
Pillar/Indicator/Dimension		**Score**	**Description of Requirements Met**
PI-28	**In-year budget reports**	**D+**	**(M1)**
	28.1. Coverage and comparability of reports	C	Coverage and classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditures made from transfers to most de-concentrated units within Central Government are included in the reports, with the exception of RAEOA-ZEESM.
	28.2. Timing of in-year budget reports	D	While in compliance with the law, three of the quarterly financial reports are issued in more than 4 weeks but less than 8 weeks, but Q4 is issued in more than 8 weeks after the end of the fiscal year.
	28.3. Accuracy of in-year budget reports	B	Detailed information is provided at level 2 of the budget classification. A brief analysis of budget execution is also included. Information on expenditure is covered at both commitment and payment stages. There are some concerns regarding data accuracy, in particular revenue collection for APAs, but amounts are not significant and some of the data issues are highlighted in the report.
PI-29	**Annual financial reports**	**C+**	**(M1)**
	29.1. Completeness of annual financial reports	C	Financial reports for budgetary Central Government are prepared annually and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances as well as on long-term obligations (loans). Information on financial assets, financial liabilities and guarantees is missing.
	29.2. Submission of reports for external audit	C	By law, financial reports for budgetary Central Government are submitted for external audit within 7 months of the end of the fiscal year.
	29.3. Accounting standards	A	Accounting standards applied to all financial reports are consistent with the IPSAS full cash basis as confirmed by the CdC. Most international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained.
Pillar One: External Scrutiny and Audit			
PI-30	**External audit**	**D+**	**(M1)**
	30.1. Audit coverage and standards	B	Financial reports of Central Government entities representing most total expenditures and revenues have been audited during the last three completed fiscal years (IPG and ANPM were not included but represent less than 20 percent of total expenditures). No national standards have been adopted to conduct financial audits of the Government consolidated financial statements, but CdC is a member of INTOCDC and applied its standards in its auditing exercises.
	30.2. Submission of audit reports to parliament	B	The Report and Opinion on the State General Account was submitted to the legislature within six months from receipt of the annual financial report by the audit office for the last three completed fiscal years.
	30.3. External audit follow-up	C	A formal follow-up was included in the annual Report and Opinion on the State General Account, covering all past recommendations, during the last three completed fiscal years. However, the rate of implementation by the executive is low.

Timor-Leste PEFA 2016		Assessment based on PEFA Framework 2016	
Pillar/Indicator/Dimension		Score	Description of Requirements Met
	30.4. Supreme Audit Institution (SAI) independence	D	By law, the CdC operates independently from the executive with respect to procedures for the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of its budget. The CdC has unrestricted and timely access to records, documentation and information. However, appointment and removal of the Head of the CdC by the President – and not by the Parliament – raises an issue of political independence.
PI-31	**Legislative scrutiny of audit reports**	**C**	**(M2)**
	31.1. Timing of audit report scrutiny	C	The scrutiny of the audited financial statements (CGE) for 2015 and 2016 has been completed in more than 3 months and 9 months, respectively, while for 2017 the delay is of more than 2 months (at the time of the PEFA assessment).
	31.2. Hearings on audit findings	D	Officers from most audited entities are called for meetings with Commission C and the Plenary for hearings, but the hearings on audit findings are not regular (lack of hearings for the 2016 CGE), do not follow a prearranged schedule, and there is no evidence about their depth.
	31.3. Recommendations on audit by parliament	B	Commission C of the Parliament is issuing relevant recommendations on the corrective actions to be implemented by the Government and it is following up on their implementation based on the subsequent CdC report.
	31.4. Transparency of parliamentary scrutiny of audit reports	C	The Commission C reports are discussed by the Plenary, but they are not always easily accessible to the public, while there is no evidence about the number of hearings conducted each year and how many of them have been conducted in public.
TOTAL SCORE:		**31**	

Annex 1-b: Performance indicator comparison – 2013 and 2018 PEFA

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
A. PFM OUT-TURNS: Credibility of the budget					
PI-1 Aggregate expenditure out-turn compared to original approved budget	**D**	**C**	**Actual expenditure (excluding loans) deviated from the original budget appropriation by 12% in 2015, by 10.1% in 2016 and 9.4% in 2017. It is an improvement compared to the previous period which showed deviations of 15.3% in 2010, 14.7% in 2011 and 24.1% in 2012.**	**Improvement**	**The overall allocation experienced more limited fluctuation year-to-year. In addition, Government has improved the credibility of its recurrent allocation.**
PI-2 Composition of expenditure outturn compared to original approved budget	**D+**	**D+**	**Variance in expenditure composition, excluding contingency items, exceeded 15% in two of the three fiscal years reviewed. Actual expenditure charged to the contingency purposes averaged less than 3% of total budget.**	**No change**	**The credibility of Capital Development planning and spending remains a core issue of the Government's budget. The unforeseen budget revision for the frontloading policy and change of political leadership have had a negative impact on the overall budget process.**
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	Variances in expenditure composition (excluding loans) were 16.1% in 2015, 25.7% in 2016 and 5.0% in 2017. This is comparable to the previous period under review with variances in expenditure composition of 17.7% in 2010, 7.7% in 2011 and 31.1% in 2012.	**No change**	Under-performance can largely be attributed to low execution of the Infrastructure Fund and Whole of Government allocations.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	A	A	Actual expenditure charged as contingency expenditure was well below 3%, with an average 0.8% of the original budget.	No change	Government has substantially reduced the contingency appropriation. In the meantime, the State Budget has roughly double between 2011-2013 and 2015-2017.
PI-3 Aggregate revenue out-turn compared to original approved budget	**B**	**D**	**The aggregate revenue outturn was respectively 107.5%, 116.0% and 90.9% in the period, a deterioration from the period 2011 to 2013. Progress in forecasting of the non-tax and domestic tax revenue is still needed.**	**Deterioration**	**For comparability purposes, the score is calculated based on non-oil revenue (as per last PEFA 2013). No specific factor explains the deterioration. MoF revenue forecasting models still need to be strengthened.**
PI-4 Stock and monitoring of expenditure payment arrears	**NR**	**D**	**The definition of the stock of expenditure arrears is not clear, but it represents less than 6% of the total expenditure, with data only available for 2 out of the last 3 completed years. Expenditure arrears monitoring is still not systematic, and does not disaggregate by age, but data on the stock and composition of arrears is generated annually.**	New score	**The stock of expenditure payment arrears is still problematic and monitoring not systematic. However, since 2016 the monitoring process has started improving, with self-declaratory reports by budget entities since 2016.**
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding financial year) and any recent change in the stock	NR	NR	The arrears' monitoring and the definition of arrears is not satisfactory, but the amount of the expenditure arrears – and relative weight to the total expenditures, is insignificant over the last two fiscal years and not indicated in 2015. So, over the last 3 completed fiscal years, the stock of arrears represents less than 6% of the BCG annual expenditures	No change	There is no dramatic improvement in the definition and the monitoring of the expenditure payment arrears, but since they can be identified in the Annual State Accounts 2016 and 2017, the present PEFA rated this dimension.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	Data on the stock and composition of expenditure arrears is consolidated annually since 2016 through the declaration of the line ministries based on their records. Data is triangulated with the obligations carried over in the subsequent period.	No change	The definition of expenditure arrears and their monitoring process remain unsatisfactory, but during the last two years most of the expenditure payment arrears are identified and reported in the Annual State Accounts.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5 Classification of the budget	**B**	**C**	**Budget formulation, execution, and reporting are based on administrative and economic classification (at least level 2 of the GFS standard—2 digits), but not based on a functional/sub-functional classification fully compliant with COFOG.**	**Deterioration**	**There is no functional classification despite efforts to map the existing budget classification to the COFOG. No actual change in performance, meaning that the earlier score may have been optimistic.**
PI-6 Comprehensiveness of information included in budget documentation	**A**	**A**	**Budget documentation includes seven of the eight criteria relevant to Timor-Leste required by the PEFA assessment.**	**No Change**	**Timor-Leste has now (external) public debt and provides details about the debt stock its compositions and its fiscal implications.**
PI-7 Extent of unreported Government operations	**D+**	**C+**	**The first dimension of this indicator remains unchanged, while the financial information of donor-funded projects has improved in the second dimension.**	**Improvement**	**The Treasury system and reporting system in place captures most of the government operations despite the increase in autonomous agencies.**
(i) Level of unreported extra-budgetary expenditure	A	A	Extra-budgetary units' expenditure is fully monitored by MoF, while the expenditure out of grants provided by external donors can be estimated in a self-reporting system.	No change	At the time of the 2013 PEFA assessment, the PF was broadly considered as the only extra-budgetary fund formally established. In 2018, the two extra-budgetary entities are legally designated as ANPM and IPG.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(ii) Income/expenditure information on donor-funded projects	D	C	Income and expenditure information on donor-funded projects is reported for the loans, while the income from grants is mostly reported in the Aid Transparency Portal, but without any degree of confidence, while there is not any reporting on expenditure funded by grants.	Improvement	During the 2013 PEFA the Article 23 (4b) of the PFM Law was requiring the financial reporting of donor-funded projects, but the process to comply with this provision was not implemented, at that time.
PI-8 Transparency of inter-Governmental fiscal relations	**NA**	**C**	**Municipalities are not qualifying as GFS-compliant local governments and the scoring criteria of this indicator are not applicable to them. Available information suggests that transparent and rules-based system for allocating SNG transfers to RAEOA-ZEESM is in place.**	New score	
(i) Transparent and objectivity in the horizontal allocation among SN Government	NA	A	The only subnational government is RAEOA, for which State budget transfers are described in the Annual Budget Books and approved by parliament. Transfers are based on the budget submitted and can be revised during the year following the same process as for the original budget.	New score	
(ii) Timeliness of reliable information to SN Government on their allocations	NA	D	State Budget allocations to RAEOA are confirmed before the beginning of the fiscal year, but these are subject to delays and are not considered reliable.	New score	
(iii) Extent of consolidation of fiscal data for Government, according to sectoral categories	NA	D	Reporting by RAEOA to the Central Government is unclear. Quarterly reports are prepared and sent to MoF and PM office.	New score	

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
PI-9 Oversight of Aggregate Fiscal Risk	**D**	**C+**	**There is still no consolidated reporting and monitoring on the finance situation of PEs, while most AGAs remained under the consolidated perimeter of central Government accounts.**	**Improvement**	
(i) Extent of Central Government monitoring of AGAs/APEs	D	C	The number of AGAs/PEs has increased substantially and most remains under the remit of central Government operations. There is still no functioning system for monitoring AGAs/PEs.	Improvement	Despite the lack of Government's consolidated regulatory framework for AGAs as well as a system to monitor PEs, performance has improved in terms of reports submitted.
(ii) Extent of Central Government monitoring of SN Governments' fiscal position	NA	D	Monitoring of SN fiscal position is significantly incomplete (see PI-8(iii) above).	New score	Implementation of the decentralization has made significant progress and more resources are transferred to municipal authorities and administrations but they do not yet qualify to be assessed as SNG. The RAEOA is considered an SNG but the monitoring of its fiscal situation is weak. Exact distribution of roles and responsibilities between central Government and Municipalities is still unclear for most stakeholders.
PI-10 Public Access to key fiscal information	**B**	**B**	**The government makes available to the public 4 of the 6 elements of information required by the PEFA framework, namely, the annual budget documentation, the in-year budget execution, the year-end financial statements and the report of the supreme audit organisation.**	No change	**Actual performance has improved, with more documents made accessible to the public. Contract awards are only published for competitive procurement processes.**

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
C. BUDGET CYCLE					
C (i) Policy-Based Budgeting					
PI-11 Orderliness and participation in the annual budget process	**B**	**D+**	**A clear and comprehensive annual budget calendar exists, but because of the 2017 and 2018 elections, the normal budgeting process has been jeopardized, the guidance on budget preparation was limited and, in one out of the last 3 completed years, the budget proposal was approved by the Parliament in 8 months after the start of the new fiscal year.**	**Deterioration**	**Deterioration of the annual budget process in MoF, due to repeated elections in 2017 and 2018.**
(i) Existence of and adherence to a fixed budget calendar	B	D	A theoretical annual budget calendar exists and it is updated every year by the annual budget circulars, but during the last two years (2017 and 2018), the public administration has not adhered to it, the calendar was not included in the circular, and the timeframe allowed to the budgetary units to elaborate and submit their budget proposal was less than 3 weeks.	Deterioration	Performance deteriorated due to lack of adherence to the yearly updated budget calendar over the last year, due to the elections process, in 2017 and 2018.
(ii) Clarity/ comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	A	D	For the FY 2019, a budget circular has been issued to budgetary units and the ceilings were not included in it, but communicated to the line ministries and other budgetary units, during a working session, setting the ceilings only for the year 2019 and not for the relevant subsequent years for medium-term budgets.	Deterioration	Performance deteriorated as the good budget preparation practices existing in 2013 have been suspended due to the elections process, in 2017 and 2018.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	C	C	The legislature approved the budget before the start of the fiscal year, but a delay of more than two months has happened in one of the last three years.	No change	While the 2013 PEFA score was impacted by the Presidential elections, the present PEFA scoring was impacted by important delays in budget's approval due to the legislative elections.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**C+**	D+	**Medium term planning has not improved. Essential elements of capital investment management are still lacking, particularly those relating to costing of medium-term sector strategies and linkages between investment budgets and forward expenditure estimates (recurrent).**	Deterioration	The performance change is largely a question of appreciation (interpretation) and not due to a systemic change.
(i) Preparation of multi -year fiscal forecasts and functional allocations	B	D	Forecasts of fiscal aggregates are prepared only for the next budget year. Some elements of domestic revenues and Capital Development spending are also forecasted for three years.	Deterioration	There is no change in the situation, the previous assessment considered that an annual fixed growth rate increment, set at the level of the SDP inflation target, qualified for forecast.
(ii) Scope and frequency of debt sustainability analysis	B	A	Debt sustainability analysis has been performed annually as part of the IMF Article IV consultation process. MoF is in process of developing DSA capacity.	Improvement	A DSA has been performed every year with the support of the IMF. The Ministry of Finance is also working on an in-house DSA model.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C	D	Medium-term strategy plans exist for Education, Health, Agriculture and Transports, but only some of them are costed, but are inconsistent with aggregate fiscal forecasts.	Deterioration	In terms of performance, few changes, as some sub-sector strategies have been developed and costed, but without aligning with aggregate fiscal forecasts they remain largely aspirational.
(iv) Linkages between investment budgets and forward expenditure estimates	D	D	Most Capital Development investments are selected on the basis of sector strategies or the SDP, but without estimates of their associated recurrent costs.	No change	There is no change in the situation.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
C (ii) Predictability and Control in Budget Execution					
PI-13 Transparency of taxpayer obligations and liabilities	**C**	**C**	There have been efforts to improve the information accessible to the taxpayers and importers and relevant administrative information through MoF website, etc. However, the work of the Fiscal Reform Commission that was ended in 2019 did not get enough traction to change performance substantially.	No change	For comparability purposes, the score is calculated based on non-oil revenue (as per last PEFA 2013). The Fiscal reform Commission, in place until recently, prepared a package for legal, institutional and regulatory reforms, including the possible introduction of VAT, that is still under consideration in MoF. Formal alignment to international standards in the customs administration has started with the implementation of ASYCUDA World.
(i) Clarity and comprehensiveness of tax liabilities	C	C	See above	No change	
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	C	See above	No change	
(iii) Existence and functioning of a tax appeals mechanism	C	C	See above	No change	An Appeals and Legal Support Office (ALSO) is available to lodge complains and appeals and the redress mechanisms is in theory accessible.
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**C**	**B**	The modernization of the Tax administration has improved the effectiveness of the measures supporting taxpayer registration and tax assessment. Taxpayers can access legal documents and get information on their obligations.	Improvement	For comparability purposes, the score is calculated based on non-oil revenue (as per last PEFA 2013). Together with the introduction of the Taxpayer Identification Number in 2013, the multiple platforms have been established for tax registration and assistance for Tax assessment: SERVE, one stop shop, etc.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(i) Controls in taxpayer registration system	C	C	A review of the functionality of SIGTAS V1 revealed that it lacks the functionality to support a comprehensive risk management model, predominately because it does not allow for electronic processing (registration, filing, payment, assessment) and it does not interface with data from other agencies (e.g. Customs, Banks, Free Balance, Taxpayers).	No change	Data extraction from SIGTAS V1 to provide the number of companies, revenue, profitability and tax paid per sector was not possible at the time of our assessment.
(ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	C	D	The penalty system has not been adjusted but its enforcement has been strengthened. No information was available to show whether it effectively act as a deterrent. The situation is similar to 2013.	Deterioration	Deterioration score is due to different interpretation of existing mechanisms. In terms of performance, there is no clear evidence of effectiveness of penalties for non-compliance with tax obligations.
(iii) Planning and monitoring of tax audit and fraud investigation programmes	C	C	Since 2015, the Tax Authority and FRC have been implementing new procedures, IT systems and investing in developing tax auditing, taxpayer services, risk management and tax return processing but significant gaps remain. The NDTI approach for assessing and prioritizing compliance risks is still basic.	No change	GoTL operates under a self-assessment regime. Currently taxpayers are classified as either small (Revenue < USD 1million) and large (Revenue > USD 1million. A complete register identifying compliance risks for each taxpayer segment is currently not yet available.
PI-15. Effectiveness in collection of tax payments	**NR**	**D+**	The effectiveness of the tax collection transfers to the TSA is satisfactory, but bank accounts' reconciliation is not complete because it excludes the tax arrears reconciliation and, also, the tax revenue collection and arrears in Oecusse.	New score	**For comparability purposes, the score is calculated based on non-oil revenue (as per last PEFA 2013).**

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	NR	NR	Under the current SIGTAS system, reconciliation of tax payments is performed manually against the tax payments received by the Bank and Treasury and a daily summary is produced that identifies the taxes still outstanding. The data provided present a stock of tax arrears outstanding as of 31 December 2017 representing 3.73% of total tax revenue collected.	No change	The amount of Management of tax arrears falls under the responsibility of the National Directorate of Tax Justice, but information could only be provided at the aggregated level due to SIGTAS's inability to retrieve information by tax type and age.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	The State Finance Law No. 03/2009 and Treasury's instructions require that all public revenue collected by all Central Government entities to be transferred daily into the TSA from all authorized public accounts in commercial banks and this procedure is followed by the entities collecting most of the Central Government revenue.	No change	Similar performance in the effectiveness of tax collection transfers to the Treasury.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	B	D	Revenue accounts reconciliation is automated, covering most Central Government revenue accounts and performed daily, but it is not complete, because it is excluding the tax arrears, while Oecusse tax revenue accounts reconciliation is not reported to and consolidated by the Treasury.	Deterioration	No change in performance and deterioration in score is due to different appreciation between the two assessments: in 2013, it was assumed that "a complete reconciliation can happen at best on a quarterly basis".

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
PI-16 Predictability in the availability of funds for commitment of expenditures	**B+**	**B+**	**The process of cash flow forecasting is sound and in-year information to MDAs on commitment ceilings are reliable. In-year budget adjustments were still authorized by Parliament but only once in the past three years with a change in the overall appropriation.**	No change	**In terms of performance, the coverage of the TSA has increased since the 2013 PEFA assessment.**
(i) Extent to which cash flows are forecast and monitored	A	A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.	No change	
(ii) Reliability and horizon of periodic inyear information to Line Ministries on ceilings for expenditure commitment.	B	B	Backed up by the PF, public funding is reliable and public institutions can implement their annual action plan as approved. Fund released are based on the public institutions approved budget and the level of execution. Budgetary units are provided reliable information on commitment ceilings on a quarterly basis for Salary and Wages. MDAs are authorized to commit fully all other appropriation category from the first day of the fiscal year.	No change	MDAs are authorized to commit fully their annual allocation for the first days of the fiscal year. Salary and Wages is the only appropriation category with a 25% (of the annual appropriation for the category) commitment ceiling per quarter.
(iii) Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	B	B	There are no significant in-year adjustments of budgetary units' initial appropriation outside budget rectifications which never took place more than once in a year. Submission to the legislature for review and approval, including budget documentation, follow similar requirement as the regular budget. Rules for virements are transparent and adhered to.	No change	During the period under review, rules for budget adjustments have been strictly adhered to without any retroactive or unplanned budget reallocations or cuts above the line ministries by MoF. Significant adjustments have been made, but duly authorized.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
PI-17 Recording and management of cash balances, debt and guarantees	**B**	**A**	**Government records and reports on its debt. Central government's contracting of loans is made within limits for total debt.**	**Improvement**	**Consolidation of cash balance has improved, but some institutions remains outside the control of Central Government (ZEESM). Scores on debt-related dimensions are new (were NA previously).**
(i) Quality of debt recording and reporting	NA	B	Government records and reports on its debt stock. There are still issues to guarantee that the records are comprehensive and accurate with quarterly updates and reconciliation.	New score	Repayment of Principal only started in 2017 and Government is working on improving the debt management system
(ii) Extent of consolidation of the Government's cash balances	B	A	All cash balances within the CFET are consolidated on a daily basis. Central government cash in a limited number of bank accounts in commercial banks is consolidated only on a monthly basis, while some are never consolidated (ZEESM) but not significant in relation to the consolidated cash balance.	Improvement	Consolidation of cash balance has improved as most public institutions are now included in the TSA. Compared to 2013 assessments, the remaining accounts not consolidated – those of Oecusse ZEESM and those held in commercial banks for development partner funding and operational advances – are not considered material.
(iii) Systems for contracting loans and issuance of guarantees	NA	A	Central government's contracting of loans is made within limits for total debt, and always approved by a single responsible government entity	New score	Under the previous period, the systems were being designed as very few loans had been contracted. The systems are now in place, but the project selection process and the creditor selection process lack transparency.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
PI-18 Effectiveness of Payroll Controls	**C+**	**D+**	**Control over the payroll process by Treasury is significantly improved and effective but the decentralized responsibility of the personnel records and HR management to line ministries leads to manual and delayed reconciliation procedures in standalone systems, with no payroll audit to ensure controls are in place and integrity of personnel data.**	**Deterioration**	**Overall deterioration in score is not necessarily due to deteriorating performance but to different interpretation of impact of lack of interfaces between separate systems and weak controls, with no payroll audit.**
(i) Degree of integration and reconciliation between personnel records and payroll data	C	C	Integrity of the payroll is undermined by delayed reconciliation between personnel records and personnel databases (6-month intervals).	No change	In terms of performance, improvements are expected as the MoF and the CSC are in the process of interfacing Payroll (FreeBalance) and the PMIS but no evidence is available yet to determine effectiveness of these measures.
(ii) Timeliness of changes to personnel records and the payroll	A	C	Notifications of personnel changes are received no later than 12 of every month and then verified and processed through the payroll payment system every month, generally in time for the following month's payment. However, adjustments to personnel records is delegated to line ministries' reporting to the Civil Service Commission and significant delays can occur.	Deterioration	No effective change in underlying performance as systems to interface between the HR systems in the ministries, SIGAP from the CSC and the MoF FB module are not yet in place. Updates are taking place manually, upon proposals submitted in paper form and often delayed by multiple approval processes, while retroactive adjustments are frequent considering the number of cases and amounts involved.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(iii) Internal controls of changes to personnel records and the payroll	B	C	There are persisting concerns over access and changes to personnel records.	Deterioration	Regarding performance, the situation has improved from the MoF payroll perspective but the lack of reliability of the control processes around the personnel records remain weak. The performance gaps were identified in the previous PEFA 2013 but not highlighted accordingly.
(iv) Existence of payroll audits to identify control weaknesses and /or ghost workers.	C	D	There have been no external audits of the whole payroll system, complete or partial within the last three completed fiscal years.	Deterioration	In terms of performance, previous PEFA reported that interim controls over absenteeism was strict but payroll audits were generally non-existent across ministries. The situation has not evolved at that level and the score should be a D.
PI-19 Competition, value for money and controls in procurement	**D+**	**D+**	**Due to the lack of data on the deviation from competitive procurement the indicator cannot be rated under the 2011 methodology.**	**No change**	
(i) Transparency, Comprehensiveness and Competition in the Legal and Regulatory Framework	B	B	The provisions of the procurement legal and regulatory framework is defined through a list of 10 decree laws that satisfy most of the requirements for transparency, comprehensiveness and competition, except for the competitive bidding as a default method and access to bidding opportunities and contracts <1M.	No change	No change in underlying performance. As there have been no changes in the legal and regulatory framework since the 2013 PEFA, the same score is assigned. The score is not directly comparable with PI-24 using the 2016 Framework

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(ii) Use of Competitive Procurement Method (formerly (ii) Use of open competition for award of contracts that exceed the nationally established threshold for small purchases, and (ii)) Justification for use of less competitive procurement methods	D	D	Due to lack of complete data on the awarded contracts, it is not possible to determine how many were procured through competitive or non-competitive methods.	No change	Note that no reliable data was available to assess this dimension which corresponds to score D on this dimension using the 2011 Framework.
(iii) Public Access to Complete, Reliable and Timely procurement Information	C	D	Only two of the six criteria for public access to procurement information in 2018, two are met: (i) legal and regulatory framework for procurement and (ii) bidding opportunities Government procurement plans, data on resolution of complaints and annual procurement statistics are not published, and there is insufficient information to determine the extent to which contract award information is published.	Deterioration	The PEFA 2013 report states that bidding opportunity and contracts awarded are made public for all government procurement. In 2018, bidding opportunities are accessible to the public but awarded contracts are not automatically published. The government has yet not established a policy of access to complete procurement information.
(iv) Existence and operation of a procurement complaints mechanism (revised sub-dimension with 7 criteria specified)	D	D	There is no functional independent administrative procurement complaint mechanism operating, despite the legislation providing for complaints procedures.	No change	Decree Law 10/2005 of the Procurement Legal Regime provides procedures for bidders affected during the procurement process to file claims and appeals. However, the complaints are to be acknowledged and solved by the entity that was authorized to initiate the procurement process, in other words the procuring entity.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
PI-20 Effectiveness of internal controls for non-salary expenditure	**C+**	**B+**	**Internal controls for expenditure payments other than salary are generally effective, and well understood.**	**Improvement**	**Better information and training of MDA's staff.**
(i) Effectiveness of expenditure commitment controls	A	A	Commitment control remains effective and prevent expenditure from exceeding the available cash resources through the automated GRP.	No change	Commitment controls in the FB-GRP are strong and expenditures cannot be processed outside the system as cash management is also effective. Information on commitment is available on a quarterly basis.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	B	Other internal control rules and procedures incorporate a comprehensive set of controls which are coded into FMIS. Detailed documentation is available through the treasury manual. Some control may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.	Improvement	Efforts have been made to ensure that internal control rules are widely understood, through the publication of technical guidelines, SoPs and a comprehensive Treasury Manual.
(iii) Degree of compliance with rules for processing and recording transactions	B	A	The compliance to the basic rules in the processing and recording of financial transactions remains generally high.	Improvement	In terms of performance, overall governance and control framework is now supported with relevant manuals and SOPs and compliance is actively checked and enforced, resulting in low percentage of rejected transactions.
PI-21. Effectiveness of Internal Audit	**D**	**C+**	**The Ministry of Finance has an operational internal audit office, but very other institutions have started to develop this function.**	**Improvement**	**The GAI under MoF is operational, but very few other MDAs have started to develop their internal audit function, still focusing largely on inspection and investigations.**

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(i) Coverage and quality of the internal audit function	D	C	The function is operational for the Ministry of Finance and undertakes some systems review, applying methodology in line with internationally recognized professional standards.	Improvement	A GAI has been established at MoF and is functional since 2015, conducting internal audits within MoF and within other public institutions
(ii) Frequency and distribution of reports	D	C	GAI's reports are issued regularly for all audited entities and distributed to the audited entity, the ministry of finance and, since 2018, to the SAI.	Improvement	The score only applies to MoF's GAI. The previous year annual report, the current year annual action plan and relevant audit reports were shared for the first time with the SAI in November 2018.
(iii) Extent of management response to internal audit findings	D	C	A fair degree of action is taken by many (but not all) managers. The GAI proceed to a follow-up mission within a year of the audit (during Q4).	Improvement	There is improvement in performance in terms of the GAI's follow on recommendation of audits performed within MoF and delegated follow-up to audited institutions for joint-audits but information on effectiveness of management follow-up is limited to establish whether implementation is timely.
C (iii) Accounting, Recording and Reporting					
PI-22 Timeliness and regularity of accounts reconciliation	**B+**	**C+**	**All the bank accounts directly controlled by the Treasury are reconciled on a regular way, while other Central Government accounts' reconciliation remain irregular, with most of the advance accounts reconciled and cleared annually.**	**Deterioration**	**The overall indicator's score has slightly deteriorated, mainly due to the partial monthly reconciliation of the advance accounts.**
(i) Regularity of Bank reconciliations	B	B	Reconciliation of those bank accounts under direct control of the Treasury is performed by the Cash Management Unit on a daily basis and a reconciliation statement is issued. APAs' reconciliation and reporting are irregular.	No change	In terms of performance, there is improvement in the frequency of the Treasury managed bank accounts with reconciliation done daily (scored on this dimension). All other Central Government accounts are reconciled annually with delay.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	A	C	Suspense accounts are cleared in a timely way, no later than the end of the fiscal year unless duly justified. Advance accounts and records are correctly maintained across all budgetary entities, reconciliations take place at least quarterly and most advances are timely cleared.	Deterioration	No apparent change in actual performance. In the 2013 PEFA it has been mentioned that "the reconciliation and clearance of the suspense accounts and advances was evaluated to be monthly", while in this PEFA was confirmed by the Treasury to be only partially reconciled monthly, with minimal balances remained uncleared at end of year.
PI-23 Availability of information on resources received by service delivery units	**D**	**D**	**There is still no monitoring system and reporting on budget resources received by front-line service delivery units.**	**No change**	
PI-24 Quality and timeliness of in-year budget reports	**C+**	**C+**	**Budget execution reports continue to meet high quality standards, with timely issuance and no substantial concerns on the quality of information provided, as confirmed by the SAI.**	**No change**	**In terms of performance, the Ministry of Finance is improving the quality and timeliness of its in-year reporting.**
(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	A	Expenditure is still reported at commitment, obligation and payment stages throughout the year. It provides direct comparison to the original and revised budgets and includes the balance at all items of budget estimates. Live information on budget outturns are made available through the Budget transparency website with a 24 hours delay.	No change	Ministry of Finance is improving the quality of the in-year and annual report, considering also SAI's recommendations as well as changes in international standard's revision in reporting guidance (e.g. IPSAS).
(ii) Timeliness of the issue of reports	C	C	While in compliance with the law, three of the quarterly financial reports are issued in more than 4 weeks but less than 8 weeks, but Q4 is issued in more than 8 weeks after the end of the fiscal year.	No change in score	While the score remained the same, findings suggest that MoF has improved timeliness of in-year reports as the 2013 assessment reported delays of "about two months" each. Timeliness of Q4 report, however, remains a source of concern.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(iii) Quality of information	B	B	There are some concerns about accuracy, in particular revenue collection for APAs, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.	No change	While the increasing number of APAs makes quality of information more difficult to control, the SAI and the MoF-GAI are looking more thoroughly on the quality of the internal controls and the information reported.
PI-25 Quality and timeliness of annual financial statements	**A**	**C+**	**The overall deterioration is explained by the requirement for the disclosure of financial and contingent liabilities in the report that is not met and the 7 months legal delay in submission of the FS to the CdC, one month later than the PEFA requirement for a B (6 months)**	**Deterioration**	
(i) Completeness of the financial statements	A	C	A consolidated government statement is prepared annually and includes full information on revenue and expenditure but not information on financial liabilities.	Deterioration	There is no change in underlying performance. The change in score is explained by a difference in appreciation of the assessment team around reporting of Financial liabilities. The format and content of the annual report has improved despite an increasing number of autonomous agencies.
(ii) Timeliness of submission of the Financial statements	A	B	The consolidated government statements were submitted for external audit within 7 months of the end of the fiscal year in compliance with the PFM law.	Deterioration in performance and score	The delay in 2018 explains the deterioration compared to 2013.
(iii) Accounting standards used	A	A	GOTL complies with the IPSAS Cash Basis Part 1 standard for accounting.	No change in performance or score	

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
C (iv) External Scrutiny and Audit					
PI-26. Scope, nature and follow-up of external audit	**C+**	**C+**	**The scope of annual audit covers all entities of General Government to the extent that financial operations are reported in the consolidated GoTL reports. Audit of the annual financial statement and external audits are performed by the SAI, the Camara de Contas. Most institutions outside the consolidated report are audited separately by commercial audit firms with few exceptions (ZEESM, IPG, ANPM).**	**No change**	**The SAI audits now must include public or public funded institutions.**
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	B	B	Most public institutions are included in the Central Government report and covered by the Report and Opinion on the General State Accounts, with some exceptions namely ZEESM, the IPG and ANPM. A range of financial audits are performed and adheres to auditing standards, focusing on significant and systemic issues.	No change	In terms of performance, audits of the Government annual financial statements as well as external audit of public institutions are now performed by the SAI, the Court of Appeals which has been temporarily assigned the responsibilities and authority of the Câmara de Contas.
(ii) Timeliness of submission of audit reports to the legislature	C	C	Audit opinions are submitted to the legislature within 12 months from the end of the fiscal year concerned.	No change	
(iii) Evidence of follow-up on audit recommendations	B	C	A formal follow-up is included in the annual Report and Opinion on the State General Account covering all past recommendations during the last three completed fiscal years. However, the rate of implementation by the executive is low and the recommendations are not prioritized or agreed with the audited entity with a timeline for action.	Deterioration	Available evidence suggests ineffective government follow-up. The rate of implementation of CdC audit recommendations is relatively low, with an average implementation ratio of 12 percent year-on-year. Recommendations without implementation are carried over from one year to another without consequence.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
PI-27 Legislative Scrutiny of the Annual Budget Law	**B+**	**D+**	**The scrutiny of the budget submission by parliament includes detailed estimates of revenues and expenditures. It is usually approved before the start of the fiscal year and strict rules for in-year budget adjustments by the executive are established by the state finance law and applied. Significant budget adjustments take place, but within the limits of the law.**	**Deterioration**	**The Article 30 of the PFM law and the Article 162 or the Parliament's bylaws 2009, about the legislative scrutiny of the annual budget, have been respected overtime and during the 3-year period covered by this PEFA.**
(i) Scope of the legislature's scrutiny	B	B	The parliamentary review covers projections of revenue, programs/ sub-programs/activities, the Infrastructure fund, municipalities, and the special economic zone, as well as details of committed funds from Development partners and the Human Capital Development Fund, but not medium-term fiscal forecasts and medium-term priorities	No change	As in the 2013 PEFA, the scope of the legislature's budget scrutiny includes a fair amount of discussion of the fiscal framework and the detailed revenue and expenditure estimates for the upcoming fiscal year.
(ii) Extent to which the legislature's procedures are well-established and respected	A	A	According to the Constitution, the State Finance Law No. 03/2009 and Parliament's regiment 2016, the scrutiny of the annual budgets is the competence of the Commission C and regulate the detailed parliamentary procedures for the review of budget proposals and these procedures are respected.	No change	As in the 2013 PEFA, the legislature's procedures stipulated in the State Finance Law 03/2009 are well-established and respected.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macrofiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	A	D	Available evidence suggests one month for legislative scrutiny for 2016 and 2017 budget. The 2018 budget was adopted mid-year.	Deterioration	As in the 2013 PEFA, according to the Article 30 of the PFM law and the Article 162 or the Parliament's bylaws 2009, the State budget proposals should be submitted to the Parliament by October 15 of each year. For the present assessment, two out of the last three years the budget was submitted with in some cases significant delays, but the 2018 budget was adopted mid-year.
(iv) Rules for in-year Amendments to the budget without ex-ante approval by the legislature.	B	B	There are clear rules for the in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations of up to 20% of the total initial budget.	No change	The same rules for the in-year budget reallocation of up to 20% of appropriated budget heads (administrative and aggregate economic items), without the need to request Parliament' approval.
PI-28. Legislative scrutiny of external audit reports	**C+**	**D+**	**Decreased responsiveness of the legislature, with limited hearings on key auditors' findings and still limited Executive's responsiveness to Parliament's recommendations.**	**Deterioration**	**The legislative scrutiny has deteriorated, mainly due to the elections process.**
(i) Timeliness of examination of audit reports by legislature (for reports received within the last three years)	A	C	The scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports with 2017 an outlier year (elections) which took more than 9 months to complete the scrutiny.	Deterioration	In terms of performance, delays have been observed in the examination of audit reports by legislature over the last three years, mainly due to the legislative election process.

Pillar/Indicator/ Dimension (PEFA 2011)	2013 assessment result using 2011 framework	New 2018 result using 2011 framework	Description of performance	Change in score	Comparability of scores and explanation of change since previous assessment
	Score				
(ii) Extent of hearings on key findings undertaken by legislature	C	D	Officers from most audited entities are convoked from *Comissão* C and the Plenary for hearings, but the hearings on audit findings are not regular (lack of hearings for the 2016 CGE), do not follow a prearranged schedule, and there is no evidence about their depth.	Deterioration	Regarding performance, as in the 2013 PEFA, the hearings held for audit reporting are not well documented and it is very difficult to ascertain the depth of the debate (score C requirement). In addition, the worst-case scenario with no hearings at all for the 2016 CGE materialized in the period covered by the assessment.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	B	B	*Comissão C* of the Parliament is issuing relevant recommendations on the corrective actions to be implemented by the Government and it is following up on their implementation in a systematic way. However, these recommendations are not always implemented by the executive.	No change	In terms of performance, *Comissão* C of the Parliament is issuing relevant recommendations on the corrective actions to be implemented by the Government, but not all recommendations are acted upon by the MoF and targeted ministries, as in the 2013 PEFA.

Note on D-1, D-2 and D-3: the 3 indicators related to donors' practices have not been rated as the systems have been integrated in the country budget systems and the Aid Information Management Systems and the Aid Transparency Portal that are fully functional and provide information self-reported by the development partners. The only Budget Support operation by the EU is reported separately from the State Budget and the proportion of aid that is managed by use of national procedures remain very limited.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	The regulatory framework is comprehensive and solid and segregation of duties is clearly prescribed throughout the expenditure process (PI-25). However, enforcement across public institutions is weakened by lack of human resources and capacity. There is no specific law on internal control systems but the regulatory framework relies on guidelines and systems establishing clear principles and mechanisms for the segregation of duties across the PFM systems. The Treasury manual clearly defines the principles for segregation of duties at the stages of payment initiation, payment authorization, record keeping and its custody. Detailed guidelines, to mitigates risks for individuals to "be in a position to commit and conceal errors (intentional or unintentional),or perpetrate fraud in the normal course of his /her duties". Appropriate segregation of duties is prescribed through the expenditure process, and related levels of responsibilities for commitments, authorization, and recordings. The annual Government decree on budget execution further details specific roles and responsibilities (for instance authorization to carry out expenditure/commitment of expenditure for municipalities). Standard Operating Procedures and work instruction, prepared by MoF and Internal Audit Guidelines prepared by the GAI detail roles and responsibilities for a range of PFM processes (e.g. Commitment, Payment verification, recording process). The GAI (Office of Internal Audit) is responsible for facilitating the development and implementation of internal control in all government agencies. Ministers/ heads of government institutions are responsible to create and maintain an environment that promotes positive and conducive behavior in implementing internal controls in their working environment. At this stage, however, government agencies, such as line ministries, municipalities and even Tax and Customs authorities have not developed their own detailed and comprehensive internal control systems.
1.2 Commitment to competence	See above. The HR function is still at an early stage of development and there formal staff professional development plans in PFM have been developed based on the PFM Capacity assessment (see Section 5) but still need to come into effect and implemented through the Competency Standards for PFM based on the 4 PFM pillars regulated under the decree Law no. 7/2015, 22 April. No additional information from PEFA assessment. At this stage of development of the accounting skills, there are no certification for public sector accountants and internal auditors and training programs still need to be developed, structured along international standards.

Internal control components and elements	Summary of observations
1.3 The tone at the top (management's philosophy and operating style)	In general, internal control is a very new concept for Timor-Leste and top management and civil servants have still a limited understanding and ownership of Internal Control principles and the leadership style still reflects weaknesses in the delegation of the authority. As a result, enforcement of clear and consistent rules and compliance in the public administration is missing or tends to follow the vertical approach to authority and hierarchy. However, there is a positive approach to implementing segregation of authority as required by the FreeBalance FMIS system and there is a favorable response to recommendations made by MoF IA or external auditors. No additional information from the PEFA assessment.
1.4 Organizational structure	The roles of the various parties involved in the financial management control system are established in the Budget execution Decree as there is currently no comprehensive regulatory framework for Internal control and relative management function in GoTL. For example, the establishment of an internal audit function remains at the discretion of public sector agencies. As a result, most line ministries, APAs and municipalities lack an internal control framework audit function. The MoF is taking practical steps towards the development of the management accountability and delegation of tasks in accordance with the PFM Law 13/2009 and annual Budget execution Decree and the FreeBalance FMIS system reflects and aligns core internal control principles. Full implementation of the requirements of this Decree and alignment with international good practices will take time. All public sector units have yet to must establish an organizational structure that enables the achievement of the objectives and compliance with the functions assigned to the activity. Furthermore, internal organization of departments, their scope, approved staffing lists, and job descriptions are still being developed as the HR function is strengthened.
1.5 Human resource policies and practices	The Civil Service Commission is in charge to enforce the government policy on personnel and career regimes and vet personnel decisions by the line ministries. Establishment of an accurate and reliable central data base of all civil servants at is still pending. There is still a lack of strategic approach to performance management and competency development policies and practices. The cadre of professional comptrollers and auditors following standard public sector standards and practices has yet to be established (PI-26)
2. Risk assessment	
2.1 Risk identification	Several dimensions assessed under section 3 are related to risk identification, notably: Economic Analysis of Investment Proposals in 11.1 is rated C. Debt Management Strategy in 13.3 is rated D. Macrofiscal sensitivity analysis in 14.3 is rated D. Revenue Risk Management in 19.2 is rated B. Cash Flow Forecasting and Monitoring in 21.2 is rated A. Payroll management is overall rated D+. Risk identification, assessment, and monitoring are not yet supported by a generic risk management methodology, adopted broadly by institutions responsible for internal control across the government (MoF, CdC, etc.). This area still needs further harmonization and improvement.

Internal control components and elements	Summary of observations
2.2 Risk assessment (significance and likelihood)	There is no comprehensive risk assessment methodology. See also risk identification (2.1 above).
2.3 Risk evaluation	Dimension 26.2 Nature of audits and standards applied is rated D as Internal audit activities are primarily focused on financial compliance with no evidence of a strict adherence to defined standards. Dimension 26.3 is rated A. Implementation of internal audits and reporting: Annual audit programs exist. All programmed audits are completed, but as plans are adjusted to limited capacity and resources constraints, the program is very limited in scope. GAI has jurisdiction over all public institutions but too limited resources to effectively fulfil its responsibilities. In principle, GAI mandate and coverage extend through MoF's overall mandate to all spending units. Under MoF direct control, the GAI portfolio directly covers 22.8% of the state budget represented by the "whole of government" heading.
2.4 Risk appetite assessment	No risks are quantified (or even quantifiable) to allow for somewhat more objective setting of risk appetite. No information available from the PEFA assessment.
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	No information available from the PEFA assessment. As standard HR policies are not yet in place throughout the area of control, the level of responses is subjected to individual senior management decisions.
3. Control activities	
3.1 Authorization and approval procedure	All entities have to apply the provisions of the PFM Law 13/2009 and annual Budget execution Decree and the FreeBalance FMIS system for the authorization and approval process. Compliance with rules and procedures is overall satisfactory: 13.1 Recording and reporting of debt and guarantees is rated B: Timor-Leste has no domestic debt. Foreign debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced at least annually. 13.2 Approval of debt and guarantees is rated A: The PFM law and the Public Debt Regime grant only to the Ministry of Finance the authorization to borrow, issue new debt, and issue loan guarantees on behalf of the Central Government. Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, and monitor debt management transactions by the Ministry of Finance. Annual borrowing must be approved by the Council of Ministers and the Parliament. 25.2 Effectiveness of expenditure commitment control is rated B: Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for all types of expenditure. And 25.3 Compliance with payment rules and procedures is also rated A: Payment rules and procedures are strictly enforced through the GRP system. Payment statistics are closely monitored by Treasury.

Internal control components and elements	Summary of observations
	23.1 Integration of payroll and personnel records is rated C: Systematic reconciliation of the payroll with existing personnel records takes place at least every six months and control over the decisions on staff movement is in place. And 23.2 Management of payroll changes is rated B: Required changes to the personnel records and payroll are updated at least monthly, generally in time for the following month's payments. However, retroactive adjustments are not rare. 23.3 Internal control of payroll is rated C: Authority and basis for changes to personnel records and the payroll are clear and adequate but the integrity of data remains an issue.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Among processes that assess segregation of duties, in Dimension 25.1 segregation of duties is rated B. Segregation of duties is clearly prescribed throughout the expenditure process even if weakly enforced within public institutions due to insufficient resources and capacity. Segregation of duties in payroll management in Dimension 23.3 scored C Authority and basis for changes to personnel records and the payroll are clear and adequate but the integrity of data remains an issue. In the FreeBalance FMIS, authorization, processing, recording, and reviewing are segregated, supported by soft and hard (application) controls. Anecdotal evidence suggests that line ministries and decentralized entities (for instance, municipalities, APAs, rural schools or health centers) encounter issues due to insufficient staff and absence of systematic control.
3.3 Controls over access to resources and records	Compliance with payment rules and procedures is rated A in Dimension 25.3. Financial data integrity processes are rated A in Dimension 27.4. Access and changes to records is restricted and recorded and results in an audit trail, and IFMISU is the operational body in charge of verifying financial data integrity and is fully operational. Controls over access to tangible assets is limited as Assets management systems are fragmented. However, all staff is responsible to use assets purposefully and conscientiously in performance of their duties.
3.4 Verifications	Accuracy of in-year budget reports is rated B in Dimension 28.3. There are some concerns regarding data accuracy, in particular revenue collection for APAs; but data is useful for the analysis of budget execution and expenditure is captured at commitment and payment stage. Effectiveness of controls over data used to verify payroll calculation is supported by documented procedures.
3.5 Reconciliations	Among MoF-operated processes, Revenue accounts reconciliation is automated, covering most Central Government revenue accounts and performed daily, but it is incomplete and excludes the tax suspense accounts. Reconciliation of APAs' revenue and reporting is not systematic, and even if ZEESM Oecusse revenue account is not consolidated by the Treasury, the materiality is not significant, leading to a A score in Dimension 20.3. Bank account reconciliations in Dimension 27.1 are rated D: The implementation of the TSA and the use of GRP allows manual, but daily, bank reconciliation for the Treasury monitored bank accounts, while all active Central Government bank accounts are reconciled annually with delays

Internal control components and elements	Summary of observations
3.6 Reviews of operating performance	Ministries have started to review their operating performance within the context of the initial steps in the programme budgeting approach and assessments and recommendations have been made by the entity responsible for strengthening the public administration (SEFI). SEFI coordinated two phases of a National Diagnostic covering 7 key ministries. While the diagnostics were never published, it resulted in a new Implementation Strategy 2017-2020 for institutional strengthening. Revenue audits and investigations is rated A under 19.3 based on the PF audit management: There are no Compliance Improvement Plans for the non-oil revenue, but various elements are available for each collecting administration to carry out its own auditing strategy and policy.
3.7 Reviews of operations, processes and activities	Procurement monitoring is rated D in 24.1: The various procuring agencies have their own procurement monitoring function and systems. There is a centralized data base, managed by MoF, which is intended to record all contracts awarded in the country under all procurement methods for goods, services and works, but the data base is not systematically used and updated in a timely manner and therefore currently unable to provide a consolidated and complete record in real time of the contracts awarded by the various procuring agencies.
3.8 Supervision (assigning, reviewing and approving, guidance and training)	There are no procedures in place and specific information available from the PEFA assessment that specify the supervision and reporting requirements. This presents an opportunity to systemically strengthen inter-institutional coordination.
4. Information and communication	
	Integrity of financial data scored A in Dimension 27.4. Access and changes to records is restricted and recorded and results in an audit trail, and IFMISU is the operational body in charge of verifying financial data integrity and is fully operational Availability of performance information assessed in Dimension 8.2 scored D. The Government report internally on progresses against annual plans, but information is not published. In general, line ministries senior management indicates that they can receive appropriate and timely information for decision making purposes based on self-reported information.
5. Monitoring	

Internal control components and elements	Summary of observations
5.1 Ongoing monitoring	Performance of internal control framework is generally weak reflecting the need to strongly develop further management systems and processes. In the ongoing monitoring activities by the MoF and top management in institutions has been assessed and scored under the following dimensions in Section 3: • Resources received by service delivery units in Dimension 8.3 is rated D. • Monitoring of public corporations in Dimension 10.1 is rated C. • Monitoring of SNGs in Dimension 10.2 is rated D. • Contingent liabilities and other fiscal risks in Dimension 10.3 is rated D. • Investment project monitoring in Dimension 11.4 is rated D*. • Quality of Central Government financial asset monitoring in Dimension 12.1 is rated B. • Quality of Central Government nonfinancial asset monitoring in Dimension 12.2 is rated D. • Revenue arrears monitoring in Dimension 19.4 is rated D*. • Expenditure arrears monitoring in Dimension 22.2 is rated D. • Procurement monitoring in Dimension 24.1 is rated D. As per COSO principles, IA is an integral part of the monitoring component of the internal control framework. However, 26.3. Implementation of internal audits and reporting is rated A based on the effective implementation of the IA annual plans.
5.2 Evaluations	With respect to specific PFM processes assessed under the Framework Performance evaluation for service delivery in Dimension 8.4 is rated D. Evaluation practices by implementing agencies for Investment project selection in Dimension 11.2 are rated C. With respect to the overall functioning of the internal control system, managements in budget beneficiaries carry out annual self-assessments of management and internal control and report the results to the MoF CHD. In 2018, 93 percent of beneficiaries complied with this requirement. Autonomous parliamentary institutions, regulatory agencies, and public corporations are under the same requirement, with reporting lines to their parent institution. Since 2013, CHD annually has carried out quality reviews of the established financial management and control on a sample of institutions.
5.3 Management responses	Response to IA recommendations in Dimension 26.4 is rated D* in the absence of evidence of any follow up to the GAI audits in the audited institutions and no consolidated records of implementation of recommendations against registers of agreed recommendations held at the level of each institution. External audit follow-up in Dimension 30.3 is rated C. Top management has been held to account in consultative and control hearings by the parliament's working bodies. A formal follow-up was included in the annual report and opinion on the State General Accounts, covering all past recommendations, during the last three completed fiscal years. However, the rate of implementation by the executive is low.

Annex 3A: List of persons interviewed or consulted

No	Name	Title / Unit
Directorate General of Treasury – Ministry of Finance		
1.	Eduk da Maia	Directorate of Payment
2.	Cirilo Gama	Directorate of Payment
3.	Nenik Ximenes	Directorate of Payment
4.	Zacarias B. Araujo	Directorate of Payment
5.	Kyaw Aung	Directorate of Payment
6.	Lidia Sousa	National Director, Directorate National of Financial De-concentration
7.	Alex George	National Directorate of Financial De-concentration
8.	Aguido da Silva	National Directorate of Accounting and Financial Regulation
9.	Antonieta Leta	National Directorate of Accounting and Financial Regulation
10.	Luiza Soares	National Directorate of Accounting and Financial Regulation
11.	Ciriaco Jesus P. do Rego	National Directorate of Accounting and Financial Regulation
12.	Ernesto da C. Silva	National Director, Directorate National of Accounting and Financial Regulation
13.	Euliterio P. Guterres	National Directorate of Accounting and Financial Regulation
Directorate General of State Finance-Ministry of Finance		
14.	Januario Gama	General Director, Directorate General of State Finance
15.	Salomão Yaquim	National Director of Budget
16.	Franscisco da Silva	National Directorate of Budget
17.	Harry Fisher	National Directorate of Economic Policy
18.	Ilce Magno	National Directorate of Economic Policy
19.	Regina Rodrigues	National Directorate of Whole of Government
20.	Timotea P. Marques	National Director, National Directorate of Supply and Asset Management
21.	Guilerme Araujo	National Directorate of Supply and Asset Management
22.	Salvador T. C. Guterres	National Directorate of Supply and Asset Management
23.	Alarico Sarmento da Cruz	National Directorate of Supply and Asset Management
24.	Hipolito Do Carvalho	National Directorate of Supply and Asset Management
Directorate General of Revenue –Ministry of Finance		
25.	Monica Rangel	Director, Directorate General of Revenue
26.	Uldarico Rodrigues	National Directorate of
27.	Jo Monteiro	Tax office
28.	Nicodemus da R. Perreira	National Director, Tax Appeal Office
29.	Armindo De Almeida	Director, Directorate National for Tax Inspection
30	Nuno Nogueira	Tax Office

No	Name	Title / Unit
31.	Dulce Dos Santos	National Director, Tax collection office
32.	Cirilo Mendonca	National Director, Tax Justice office
33.	Ostalina Belo	Tax Office, SIGTAS
Directorate General of Custom- Ministry of Finance		
34.	Jose Abilio	Director General, Directorate of Custom
35.	Julião J. Ximenes	National Director, Operational Unit
36.	Dionisio Perreira	National Director, Inteligence and Anti fraud
37.	Saeid Yarandi	ASYCUDA staff
38.	Mario Pinheiro	ASYCUDA Staff
39.	Ivo Gomes	National Director, Compliance Unit
Fiscal Reform Commission		
40.	Fernanda Borges	Fiscal Reform Commission
Public-Private Partnership Loan Unit-Ministry of Finance		
41.	Liborio Alves	Adviser
42.	Jose Abel	Adviser
Bank Reconciliation-Ministry of Finance		
43.	Januario Avelar Borges	Bank reconciliation officer
44.	Diniz Barreto	Bank reconciliation officer
45.	Martino Soares	Bank reconciliation officer
46.	Manuel Lopez	Bank reconciliation officer
Contract Management Unit- Ministry of Finance		
47.	Joana Cardoso	Staff
Development Partner Management Unit- Ministry of Finance		
48.	Elson M. Da Costa	External Assistance Coordination Officer
Inspection and Internal Audit Ministry of Finance		
49.	Jose Alexandre de Carvalho	Chief of Inspection and Internal Audit
50.	Abrao Soares	Auditor
Procurement Ministry of Finance		
51.	Carlos Freitas	Procurement officer
National Procurement Commission		
52.	Herminardo Soares	Deputy NPC
53.	Herdade dos Santos	Procurement officer
54.	Maria Jose P. da Silva	Procurement officer
Minister of Finance Adviser-Ministry of Finance		
55.	Carlos de Burgo	Adviser for the Ministry of Finance
Petroleum Fund Administration Unit		
56.	Celestina Barros	Junior Professional
National Authorization Office		

No	Name	Title / Unit
57.	Silva Francisco	Good Governance and Regional Program
58.	Gregorio Silva	National Authorization Officer
National Development Agency		
59.	Samuel Marçal	Director of National Development Agency
60.	Rui Lorenço	Deputy of National Development Agency
Ministry of State Administration		
61.	Amandio Paulino	Director General for Ministry of State administration
62.	Mila Lay	Chief of Department for Finance
63.	Elisio Dos Santos	Finance Officer
Ministry of Education		
64.	Manuel Monteiro	Director, Finance
65.	Abrão Dos Santos	Director General of Administration Finance
66.	Manuel Belo	Planning Ministry of Education
Ministry of Agriculture		
67.	Octavio de Almeida	Director of Planning
68.	Maria Costa	Director of Procurement
69.	Ervina S. Pinto	Director of finance
70.	Felix da Costa	Chief of asset management
Ministry of Health		
71.	Marcelo Amaral	Director of Planning and Finance
72.	Odete Freitas	SAMES
73.	Ismael Barreto	Director of National laboratories
74.	Telma D.G	Global Fund
75.	Aniceto Barreto	Director, National Hospital (HNGV)
National Authority of Petroleum and Mineral		
76.	Gualdino da Silva	President of National Authority of Petroleum and Minerals
77.	Oscar Faria	Auditor
78.	Dionisio Martins	Director, Cooperative Services
79.	Diana Lay	Manager, Finance Unit
Ministry of Public Works		
80.	Ana Duka	Director for Procurement
81.	Mariano Amaral	National Directorate of Finance
82.	Eugebio de Lima	National Directorate of Finance
83.	Armando Martins	National Directorate of Finance
Secretary of State Culture		
84.	Dalia Mesquita	Adviser
85.	Cecilia Assis	Director General for Secretary of State for Culture
Court of Account		

No	Name	Title / Unit
86.	Aidil Oliveira	Auditor
87.	Eduardo Leitão	Auditor
88.	Edigia Martins	Auditor
89.	Agapito Soares Santos	Auditor
90.	Hermenegildo G. Amaral	Auditor
Parliament Commission C		
91.	Maria Fernandes Lay	President
92.	Antonio Tilman	Secretary
93.	Rosalina Ximenes	Vice President
94.	Antonio da Conceição	Member
95.	Antonio de Sa Benevides	Member
96.	Maria A. Lopez Sarmento	Member
97.	Duarte Nunes	Member
98.	Noemia Sequeira	Member
99.	Isabel Maria Ximenes	Member
Civil Service Commission		
100.	Maria da Costa Oliveira	Civil Service Commission officer
101.	Agapito Da Conceicao	National Director for Civil Service Commission
102.	Maria de J. Sarmento	Executive Secretary
Central Bank		
103.	Venancio Maria	Central Bank
104.	Tobias Ferreira	Central Bank
Dili Municipality office (Authority)		
105.	Domingos Godinho	Procurement officer
106.	Gaspar Soares	Dili Municipality President
107.	Franscisco Silva	Finance staff
10.8	Ana Fernanda da G.J	Director of Finance
Aileu Municipality office (Administratio)		
109.	Joao Tilman do Rego	Administrator for Aileu Municipality
Instituto Geral do Equipamento-General Institute for Equipment		
110.	Luis Ximenes do Carmo	Chief of Workshop
111.	Ermenegilda Laurentina	Chief of Equipment
112.	Jose Diamantino	Chief of Warehouse
Major Project Secretariat		
113.	Crispin Fernandes	Chief of MPS
Ministry of Justice Land and Property		
114.	Horacio Da Silva	National Director for Land and Property
Planning and Monitoring Evaluation Unit (UPMA)		

No	Name	Title / Unit
115.	Epi Orleans	UPMA Adviser
116.	Dionysius dos Santos	UPMA adviser IT
117.	Lourenco Pinto	UPMA adviser
118.	Cate Keane	UPMA adviser
119.	Brigida Brites Soares	UPMA Coordinator
Private Sector		
120.	Angelina Batista Branco	Country Representative ENI
121.	Sam Aluwihare	Chief Executive Officer East Timor Trading Group
122.	Zeca Gutteres	President of Broker Association

List of participants Validation Meeting April 11, 2019

No.	Title	Name	Institution
1.	Mr.	Cirilo Gama	Directorate of Payment Ministry of Finance
2.	Mr.	Zacarias B. Araujo	Directorate of Payment Ministry of Finance
3.	Ms.	Lidia Sousa	ND of Financial De-concentration Ministry of Finance
4.	Mr.	Alex George	ND of Financial De-concentration Ministry of Finance
5.	Mr.	Lourenco Pinto	UPMA adviser
6.	Ms.	Cate Keane	UPMA adviser
7.	Ms.	Brigida Brites Soares	UPMA Coordinator
8.	Mr.	Januario Gama	DG of State Finance Ministry of Finance
9.	Mr.	Salomão Yaquim	ND of Budget Ministry of Finance
10.	Mr.	Franscisco da Silva	ND of Budget Ministry of Finance
11.	Mr.	Elson M. Da Costa	DPMU External Assistance Coordination Officer Ministry of Finance
12.	Ms.	Timotea P. Marques	ND of Supply and Asset Management Ministry of Finance
13.	Mr.	Jose Alexandre de Carvalho	Inspection and Internal Audit Ministry of Finance
14.	Mr.	Abrao Soares	Inspection and Internal Audit Ministry of Finance
15.	Mr.	Silva Francisco	National Authorization Office
16.	Mr.	Gregorio Silva	National Authorization Office
17.	Mr.	Amandio Paulino	Ministry of State Administration
18.	Ms.	Mila Lay	Ministry of State Administration
19.	Mr.	Elisio Dos Santos	Ministry of State Administration
20.	Mr.	Manuel Monteiro	Ministry of Education
21.	Mr.	Abrão Dos Santos	Ministry of Education
22.	Mr.	Octavio de Almeida	Ministry of Agriculture
23.	Ms.	Maria Costa	Ministry of Agriculture
24.	Ms.	Ervina S. Pinto	Ministry of Agriculture
25.	Mr.	Felix da Costa	Ministry of Agriculture

No.	Title	Name	Institution
26.	Mr.	Marcelo Amaral	Ministry of Health
27.	Ms.	Odete Freitas	SAMES Ministry of Health
28.	Mr.	Ismael Barreto	Director of National laboratories Ministry of Health
29.	Ms.	Telma D.G	Global Fund Ministry of Health
30	Mr.	Aniceto Barreto	National Hospital (HNGV) Ministry of Health
31.	Mr.	Gualdino da Silva	National Authority of Petroleum and Minerals
32.	Mr.	Oscar Faria	National Authority of Petroleum and Minerals
33.	Mr.	Dionisio Martins	National Authority of Petroleum and Minerals
34.	Ms.	Diana Lay	National Authority of Petroleum and Minerals
35.	Ms.	Ana Duka	Ministry of Public Works
36.	Mr.	Mariano Amaral	Ministry of Public Works
37.	Mr.	Eugebio de Lima	Ministry of Public Works
38.	Mr.	Armando Martins	Ministry of Public Works
39.	Ms.	Aidil Oliveira	Auditor Court of Account
40.	Mr.	Eduardo Leitão	Auditor Court of Account
41.	Ms.	Edigia Martins	Auditor Court of Account
42.	Mr.	Agapito Soares Santos	Auditor Court of Account
43.	Mr.	Hermenegildo G. Amaral	Auditor Court of Account
44.	Ms.	Maria Fernandes Lay	Parliament Commission C
45.	Mr.	Antonio Tilman	Parliament Commission C
46.	Ms.	Rosalina Ximenes	Parliament Commission C
47.	Mr.	Domingos Godinho	Dili Municipality (Authority)
48.	Mr.	Gaspar Soares	Dili Municipality (Authority)
49.	Mr.	Franscisco Silva	Dili Municipality (Authority)
50.	Mr.	Joao Tilman do Rego	Aileu Municipality (Administration)
51.	Mr.	Horacio Da Silva	ND for Land and Property Ministry of Justice
52.	Mr.	Lourenco Pinto	Planning Monitoring Evaluation Office (UPMA)
53.	Ms.	Cate Keane	Planning Monitoring Evaluation Office (UPMA)
54.	Ms.	Brigida Brites Soares	Planning Monitoring Evaluation Office (UPMA)

Annex 3B: Sources of information by indicators

Pillar One: Budget Reliability

PI-1: Aggregate Expenditure Outturn

a. VI Constitutional Government Program
b. VII Constitutional Government Program
c. VIII Constitutional Government Program
d. State Budget 2015 – Overview - Budget Book 1
e. State Budget 2015 rectified – Overview - Budget Book 1
f. State Budget 2016 – Overview - Budget Book 1
g. State Budget 2016 rectified – Overview - Budget Book 1
h. State Budget 2017 – Overview - Budget Book 1
i. Dotasoens Orsamentais Temporaria (DOT) – Janeiro 2018
j. 2015 General State Budget Law – Parliament Law Nº.6/2014
k. 2016 General State Budget Law – Parliament Law Nº.1/2016
l. 2016 First Alteration to Law 1/2016 – Parliament Law Nº.11/2016
m. 2017 General State Budget Law – Parliament Law Nº.13/2016
n. 2015-2017 budget and expenditure dataset – export from GRP (source: IFMISU)

PI-2: Expenditure Composition Outturn

a. Same source as PI-1
b. 2017 Report and Opinion on the State General Accounts (source: Camara de Contas)
c. State Budget 2015 – Development Partners - Budget Book 5
d. State Budget 2016 – Development Partners - Budget Book 5
e. State Budget 2017 – Development Partners - Budget Book 5
f. Timor-Leste Strategic Development Plan 2011-2030
g. Budget and Financial Management Law – Nº.13/2019

PI-3: Revenue Outturn

a. Same source as PI-1 and PI-2
b. First Alteration to Law Nº.9/2005 on the Petroleum Fund, Parliament Law Nº.12/2011
c. 2015-2017 Petroleum Fund Annual Report (source: BCTL)
d. 2017 Article IV Consultation – Press Release and Staff Report
e. Establishment of the Fiscal Reform Commission – Government Resolution Nº.26/2015

Pillar Two: Transparency of Public Finances

PI-4: Budget Classification

a. Budget and Financial Management Law – Nº.13/ 2019
b. 2015-2017 Chart of Account
c. Quarterly Fiscal Bulletin – Q4-2015 and Q2-2016
d. COA-GFS bridging table

f. 2017 and 2018 IMF-Technical Assistance, mission report
g. Treasury Manual (edition 2017)

PI-5: Budget Documentation

a. Budget and Financial Management Law – Nº.13/ 2019
b. Government Finance Statistics Manual – 2014 (source: IMF)
c. 2015-2017 Chart of Account
d. Government Resolution Nº.17/2017 Roadmap for Program Budgeting and establishment of a Working Group on Public Finance Management

PI-6: Central Government Operations outside Financial Reports

a. Budget and Financial Management Law – Nº.13/2009
b. Organic Law of the Ministry of Finance, Decree Law Nº.38 /2015
c. The Global Fund website
d. The Petroleum Fund website
e. Aid Transparency Portal TL
f. Sirkular ba APA - BCTL
g. APA Monitoring Report 2016 - TETUM
h. Sirkular ba APA - BCTL

PI-7: Transfers to Subnational Governments

a. Ministerial decree Nº.08/2009/MAEOT
b. Ministerial decree 638/VI/GMF/2015-11 on the decentralization of the PFM functions
c. Letter to BCTL for Transfer of Q1 Budget, 2017
d. "On the job training" report
e. Parliament's Law Nº.3/2014 ZEESM Oecusse
f. SAI 2018 audit report on ZEESM Oecusse

PI-8: Performance Information for Service Delivery

a. 2017 Quarterly Performance Report – Q1, Q2 and Q3
b. 2017 Annual Performance Report
c. 2nd Fragility Assessment Report in Timor-Leste, 2015
d. VI Constitutional Government Program
e. VII Constitutional Government Program
f. VIII Constitutional Government Program
g. Timor-Leste Strategic Development Plan 2011-2030
h. Budgeting for a sustainable future: Towards a Roadmap of Budgetary Governance Reform in Timor-Leste, OECD report, March 2017
i. Government Resolution No. 17/2017 Roadmap for Program Budgeting and establishment of a Working Group on Public Finance Management
j. Implementation of the SDP – 1st Phase, Evaluation Report, European Union Delegation in Timor-Leste, March 2017
k. Transport Sector Master Plan, March 2018
l. National Education Strategic Plan, 2011-2030

m. Ministry of Education 5-year plan, 2013-2017
n. Analysis of the Education Sector in Timor-Leste, World Bank report 2018 (to be published)
o. Ministry of Agriculture and Fisheries Strategic Plan 2014-2020
p. Agriculture Sector Development, Medium Term Operation Plan 2014 – 2018
q. Agriculture Sector Development, Medium Term Investment Plan 2014 – 2018
r. State Budget 2015 – Budget Books 1 to 6
s. State Budget 2016 – Budget Books 1 to 6
t. State Budget 2017 – Budget Books 1 to 6
u. VIII Constitutional Government Program
v. Government Resolution Nº.17/2017 Roadmap for Program Budgeting and establishment of a Working Group on Public Finance Management
w. First 100 days report – "Working with Rigor and Responsibility", June 2015
x. Snapshot of the Sixth Constitutional Government Mandate 2015-2017

PI-9: Public Access to Fiscal Information

a. State Budget 2017 – Overview - Budget Book 1
b. 2017 Quarterly Budget Execution Report – Q1, Q2 and Q3
c. Consolidated Fund Timor-Leste and Aggregate Financial Consolidation for all Government – Fiscal Year 2017
d. Report and Opinion on the 2017 State General Accounts
e. Citizen's guide – Matadalan ba Orsamentu Geral Estadu 2017 (Ministry of Finance)
f. Open Budget Survey 2017 – Timor-Leste

Pillar Three: Management of Assets and Liabilities

PI-10: Fiscal Risk Reporting

a. Public companies – Decree Law N° 14/2003
b. Timor Gás & Petróleo, Empresa Publica (TIMOR GAP, E.P.), Decree-Law Nº.31/2011
c. TIMOR GAP - 2017 Annual Report and Account
d. TIMOR GAP – 2017 Consolidated Financial Statements
e. Banco Central de Timor-Leste (BCTL), Parliament Law Nº.5/2011
f. BCTL – 2017 Annual Report
g. Banco Nacional De Comercio De Timor-Leste (BNCTL), Government Decree Law Nº.3/2011
h. BNCTL – 2017 annual financial statements and independent auditor's report
i. BNCTL- 2017 Consolidated Statements
j. BNCTL – 2017 Management Letter
k. Administração de Aeroportos e Navegação Aérea de Timor-Leste (ANATL E.P.), Decree law Nº.8/2005
l. Rádio e Televisão de Timor-Leste (RTTL), Decree Law Nº.42/2008
m. Constitution of the Republic Democratic of Timor-Leste
n. Establishment of the Special Administrative Region of Oe-cusse Ambeno, Parliament Law Nº.3/2014
o. Statute of the Special Administrative Region of Oe-cusse Ambeno, Decree Law Nº.5/2015
p. Organic Law of the Câmara de Contas of the Superior Administrative, Tax and Audit Court, Parliament Law Nº.9/2011
q. Special Administrative Region of Oe-cusse Ambeno and Special Zone of social-economic market of Oe-cusse, Ambeno and Atauro, 2014-2015. Audit Report Nº.1-2018, Vol. I and Vol. II

r. Budget and Financial Management Law – Nº.13/2019
s. Treasury Manual, edition 2017 (Ministry of Finance)

PI-11: Public Investment Management

0. State Budget 2016 rectified – Budget Books
a. State Budget 2018 – Infrastructure Fund - Budget Book 3-A
b. Regulation of the Infrastructure Fund, Decree Law Nº. 8/2011 and Decree Law Nº. 13/2016
c. 2016 First Alteration to Law 1/2016 – Parliament Law 11/2016
d. Agência de Desenvolvimento Nacional (ADN) Decree Law Nº. 11/2011
e. National Procurement Commission (NPC), Decree-Law Nº.14/2011
f. Business Plan MPS & IF 2018-2022, "Development for Future"
g. Budget and Financial Management Law – Nº.13/2019
h. ADN, inspection process flowcharts and checklists

PI-12: Public Asset Management

a. Organic Law of the Ministry of Finance, Decree Law Nº.38 /2015
b. Organic Law 2016 - MOPWTC Nº.20/2016
c. Mobile asset manual -Ministerial decree Nº.15/2012
d. Car import Decree Law Nº.30/2011
e. Law Nº.1/2003 and Decree Law Nº.19/2004 about land and properties
f. Decree law 32/2011 and ministerial decree 15/2012 about Assets' management

PI-13: Debt Management

a. Public Debt Regime – Parliament Law Nº.13/2011
b. A Staff Report For The 2016 Article IV Consultation – Debt Sustainability Analysis
c. A Staff Report For The 2017 Article IV Consultation – Debt Sustainability Analysis
d. Loan process flowcharts 2015
e. Policy Note on the new guidelines for the mobilization of external lending (source: PPPLU)
f. 2016 Report and Opinion on the State General Accounts (source: Camara de Contas)
g. 2017 Report and Opinion on the State General Accounts (source: Camara de Contas)
h. 2017 General State Budget Law – Parliament Law 13/2016
i. Treasury Manual, edition 2017 (Ministry of Finance)

Pillar Four: Policy-based Fiscal Strategy and Budgeting

PI-14: Macroeconomic and Fiscal Forecasting

a. Fiscal Sustainability Model Handbook (version Apr. 2018)
b. GDP Forecasting Model Handbook
c. "2016 Budget Conference" presentations ("Jornadas Orçamentais")
d. "2017 Budget Conference" presentations ("Jornadas Orçamentais")
e. State Budget 2015 – Overview - Budget Book 1
f. State Budget 2015 rectified – Overview - Budget Book 1
g. State Budget 2016 – Overview - Budget Book 1
h. State Budget 2016 rectified – Overview - Budget Book 1

i. State Budget 2017 – Overview - Budget Book 1

PI-15: Fiscal Strategy

a. VIII Constitutional Government Program
b. State Budget 2015 – Overview - Budget Book 1
c. State Budget 2015 rectified – Overview - Budget Book 1
d. State Budget 2016 – Overview - Budget Book 1
e. State Budget 2016 rectified – Overview - Budget Book 1
f. State Budget 2017 – Overview - Budget Book 1
g. Dotasoens Orsamentais Temporaria (DOT) – Janeiro 2018
h. 2015 General State Budget Law – Parliament Law Nº.6/2014
i. 2016 General State Budget Law – Parliament Law Nº.1/2016
j. 2016 First Alteration to Law Nº.1/2016 – Parliament Law Nº.11/2016
k. 2017 General State Budget Law – Parliament Law Nº.13/2016
l. Consolidated Fund Timor-Leste and Aggregate Financial Consolidation for all Government – Fiscal Year 2017
m. Timor-Leste Strategic Development Plan 2011-2030
n. Petroleum Fund, Parliament Law Nº.9/2005
o. First Alteration to Law Nº.9/2005 on the Petroleum Fund, Parliament Law Nº.12/2011

PI-16: Medium-term Perspective in Expenditure Budgeting

a. State Budget 2015 – Overview - Budget Book 1
b. State Budget 2015 rectified – Overview - Budget Book 1
c. State Budget 2016 – Overview - Budget Book 1
d. State Budget 2016 rectified – Overview - Budget Book 1
e. State Budget 2017 – Overview - Budget Book 1
f. Dotasoens Orsamentais Temporaria (DOT) – Janeiro 2018
g. 2015 General State Budget Law – Parliament Law Nº.6/2014
h. 2016 General State Budget Law – Parliament Law Nº.1/2016
i. 2016 First Alteration to Law Nº.1/2016 – Parliament Law Nº.11/2016
j. 2017 General State Budget Law – Parliament Law Nº.13/2016

PI-17: Budget Preparation Process

a. Budget and Financial Management Law – Nº.13/2009
b. Organic Law of the Ministry of Finance, Decree Law Nº.38 /2015
c. Budget Manual Vol 1 and 2, December 2013
d. Decree-Law no. 41/2012, on the Organic Structure of the Fifth Constitutional Government establishing the Ministry of Finance as the Government's central body or the elaboration of the annual budget and finance planning and monitoring
e. Budget circular 2017 and 2019

PI-18: Legislative Scrutiny of Budgets

a. Budget and Financial Management Law – Nº.13/2009
b. Parliament's bylaws 2009 (*regimento interno*)

Pillar Five: Predictability and Control in Budget Execution

PI-19: Revenue Administration

a. https://www.mof.gov.tl/frc_menu/about-fiscal-reform-comission/?lang=eng
b. http://timor-leste.gov.tl/wp-content/uploads/2011/07/Timor-Leste-Strategic-Plan-2011-20301.pdf
c. Petroleum Fund Law No.9/2005
d. www.mss.gov.tl
e. https://www.mof.gov.tl/taxation/services-tax/?lang=en
f. Petroleum Act (Law No.13/2005) which provides that the petroleum operation in the territorial sea, together with its exclusive economic zone and continental shelf where, by international law, TL has sovereign rights for the purposes of exploring for and exploiting its Petroleum.
g. Australia and Timor-Leste Maritime Boundary Treaty signed 6 March 2018 means the JPDA now falls under the control of RDTL http://timor-leste.gov.tl/?p=19577&lang=en
h. http://www.anpm.tl
i. http://www.anpm.tl/category/public-consultation/ includes engagement with international organizations, universities and research centres
j. http://www.anpm.tl/category/procurement/announcement/
k. Model PSC https://www.laohamutuk.org/Oil/PetRegime/PSC%20model%20270805.pdf
l. https://www.mof.gov.tl/about-the-ministry/organisation-structure-roles-and-people/executive-office/petroleum-fund-administration-unit/?lang=eng
m. VI Constitutional Government Report MoF Governance Process 2015-2017
n. https://www.laohamutuk.org/Oil/PetFund/PFIABOperRegsDec2012.pdf
o. https://www.mof.gov.tl/wp-content/uploads/2011/11/IAB_Statement_of_Investment_Beliefs_and_Principles_Updated.pdf
p. Petroleum Fund Annual Report Financial Year 2017

PI-20: Accounting for Revenue

a. Budget and Financial Management Law – Nº.13/2009, altered by Law no 9/2011, of 17 August, and Law no. 3/2013
b. Organic Law of Ministry of Finance No.38/2015
c. Treasury Manual, edition 2017 (Ministry of Finance)

PI-21: Predictability of In-year Resource Allocation

a. Budget and Financial Management Law – Nº.13/2009, altered by Law no 9/2011, of 17 August, and Law no. 3/2013
b. Treasury Manual, edition 2017 (Ministry of Finance)
c. 2016 Report and Opinion on the State General Accounts (source: Câmara de Contas)
d. 2017 Report and Opinion on the State General Accounts (source: Câmara de Contas)
e. List of APAs TSA sub-accounts (source: Treasury)
f. Treasury Cash Flow Forecasts January 2017
g. Treasury Cash Flow Forecasts December 2017
h. Budget and Financial Management Law – Nº.13/2019
i. Works Instruction Prior Year Adjustment - Tetum for APAs
j. Transfer and Virements Justification template
k. Virements and Transfer request table

l. State Budget 2015 rectified – Overview - Budget Book 1
m. State Budget 2016 rectified – Overview - Budget Book 1

PI-22: Expenditure Arrears

a. Budget and Financial Management Law – Nº.13/2019
b. Treasury Manual, edition 2017 (Ministry of Finance)

PI-23: Payroll Controls

a. Treasury Manual, edition 2017 (Ministry of Finance)
b. Budget and Financial Management Law – Nº.13/2019
c. Civil Service Commission Act, Parliament Law Nº.7/2009
d. 2017 Budget Execution, Government Decree Nº.1/2007
e. Promotion and regular execution of the functioning of the Public Service, Orientação Nº.16/2018
f. Treasury Payment Monitoring Report - Jan to Dec 2016
g. Treasury Payment Monitoring Report - Jan to Dec 2017
h. Ministry of Finance - 2016 Annual Report
i. SOP for Casual Employees - rev3 final
j. SOP for Ex-titulares - V3 Final
k. SOP for Permanent Employees - rev3
l. 2016 Report and Opinion on the State General Accounts (source: Câmara de Contas)
m. 2017 Report and Opinion on the State General Accounts (source: Câmara de Contas)

PI-24: Procurement

a. Public Procurement Regime, Decree Law Nº. 10/2005
b. 1st amendment to the Public Procurement Regime, Procurement threshold, Decree Law Nº.14/2006
c. 2nd amendment to the Public Procurement Regime, Procurement methods and procedures, Decree Law Nº.24/2008
d. 3rd amendment to the Public Procurement Regime, Procurement regime's scope and single sourcing, Decree Law Nº.1/2010
e. 4th amendment to the Public Procurement Regime, Authorizing agencies and thresholds, Decree Law Nº.15/2011
f. 5th amendment to the Public Procurement Regime, Authorizing agencies and thresholds, Decree Law Nº.38/2011
g. National Procurement Commission, Decree Law Nº.14/2011
h. Public contracts regime, Decree Law Nº.11/2005
i. Infractions to the procurement regime and public contract regime, Decree Law Nº.12/2005
j. Special procedures applicable for construction activities in the sub districts (threshold of $250k) , Decree Law Nº.2/2010
k. Procurement Monitoring Commission and the Procurement Technical Secretariat, Decree Law Nº.3/2010
l. Temporary procurement measures, Decree Law Nº.14/2010
m. Legal Regime for the procurement under the PDID, Decree Law Nº.11/2013
n. 1st amendment to Decree Law Nº.11 /2013, Legal Regime for procurement under the PDID, Decree Law Nº.15/2016
o. 1st amendment to Decree Law Nº.2 /2009, Special Legal Regime for procurement under SAMES, Decree Law N.º 12/2016

p. Special Procurement Regime for the Special Administrative Region of Oe-Cusse Ambeno, Decree Law Nº.28/2014
q. Special procurement for Priority Projects, Decree Law Nº.29/2009
r. Regulation of Decree Law Nº.29/2009, Decree of Government Nº.8/2009
s. Draft Procurement Omnibus Law, version 07-06-2017
t. Ministry of Finance – explanation note on budget execution under the duodecimal system – January, February and March 2018
u. 2015 external Audit report of the National Procurement Commission by the Câmara de Contas
v. MCIA-Procurement plan 2017
w. MoF 2017 Quarterly Procurement Report - Q1, Q2, Q3 and Q4
x. Flowchart – Procurement process under the Infrastructure Fund (Source: CNA)
y. Procurement performance of the Ministry of Health, World Bank report– 2015
z. Procurement Process Calendar – Ministry of Finance, Circular Nº.02/GMF/2017-2
aa. NPC checklist templates
bb. Procurement Workflow System and Manual , National Directorate of Procurement, General Directorate of Corporate Services, Ministry of Finance
cc. Best Practice Guides to Government Procurement – Ministry of Finance [procurement planning, specification writing, tender process, bid evaluation, tender negotiation, contracts, manage contracts, annual procurement, supplies registry
dd. Internal audit report - MoF procurement process 2017
ee. TL Procurement threshold and flowcharts, information note (GIZ)

PI-25: Internal Controls on Non-salary Expenditure

a. Treasury Manual, edition 2017 (Ministry of Finance)
b. Budget and Financial Management Law – Nº.13/2019
c. 2017 Budget Execution, Government Decree Nº.1/2007
d. 2016 Report and Opinion on the State General Accounts (source: Câmara de Contas)
e. 2017 Report and Opinion on the State General Accounts (source: Câmara de Contas)
f. 1st Municipality Monitoring Report – DNCRF, Ministry of Finance, 2017
g. APAs Monitoring Report – Treasury, Ministry of Finance, 2016
h. Line Ministry Payment Monitoring Report – Treasury, Ministry of Finance, 2017
i. Treasury Payment Monitoring Report - Jan to Dec 2017
j. Guidelines on Internal Control for Managers
k. SOP Accounting for Bank Reconciliation
l. SOP Cash Management Unit Operations in Treasury
m. SOP DMU Middle Office and Back Office Operations in Treasury
n. SOP for Accounting for Bank Reconciliation
o. SOP for Advance payment
p. SOP for Casual Employees
q. SOP for changing banking arrangements draft
r. SOP for Ex-titulares
s. SOP for Managing Official Bank Account - Tetum 2017
t. SOP for Monitoring Cash Positions for Escrow Accounts
u. SOP for payment - APAs
v. SOP for payment

w. SOP for Permanent Employees
x. SOP Vendor Registration
y. SOP for Managing Official Bank Account
z. SOP Vendor Registration
aa. SOP - Managing Escrow Account
bb. SOP for Advance payment
cc. Competency Standards for payment, Advance Payment and Payroll
dd. Payment Process flow charts (source: Treasury, Ministry of Finance)
ee. Payment Diagnostic by institutions
ff. Integrated Payment Flow chart

PI-26: Internal Audit

a. Organic Law of the Ministry of Finance, Decree Law Nº.38 /2015
b. Inspectorate-General of the State (IEG) , Decree Law Nº.02/2009
c. Chamber of Auditors of the Superior court Administrative, tax and audit, Parliament Law Nº.9/2011
d. State Budget 2017 – Annual Action Plan - Budget Book 2
e. SOP - Internal Audits
f. SOP - Investigation
g. SOP - Consulting
h. SOP - IA focal point
i. Gabinete de Auditoria Interna (GAI), Annual Plan 2016
j. Gabinete de Auditoria Interna (GAI), Annual Plan 2017
k. GAI Revised 2017 Annual Action Plan, 1st amendment
l. GAI Revised 2017 Annual Action Plan, 2nd amendment
m. Approved GAI 2018 Annual Action Plan
n. 2016 GAI Annual activity report
o. GAI quarterly performance report, Q1, Q2, Q3 and Q4 2017
p. Internal audit Report - TL embassy
q. Internal audit Report - TL Consulat in Bali
r. Pilot audit - TL permanent mission in New-York - 2017
s. Internal audit report - MoF procurement process 2017
t. MoPTC Pilot audit 2017
u. MAP - Pilot audit 2017
v. IA report - Asset Management 2017
w. IA report - Contract Management 2017
x. Compliance audit of MoF Tower - 2017
y. Internal Audit Strategic Planning Practical Guidelines
z. GAI template - audit checklist, audit program, Reporting template, Risks and Controls Matrix, substantive testing program, investigation planning and investigation report
aa. GAI checklists
bb. Internal Guidelines -Dropbox, Interviewing, Reporting, Focal Point, working papers, No conflict of interest, File Versions
cc. No conflict of interest declaration
dd. Self-Assessment Engagement Checklist
ee. Self-Assessment Internal Audit Activity Checklist

ff. Follow up report on the CdC recommendations - financial statements 2015
gg. Follow up report on the CdC recommendations - financial statements 2016
hh. IA self-assessment 2016
ii. GAI competency standards
jj. GAI Code of Ethics
kk. Internal Control Guidelines for Managers
ll. Guidelines - report writing
mm. Draft - Internal Audit law
nn. Audit Universe of the Ministry of Finance - 2015

Pillar Six: Accounting and Reporting

PI-27: Financial Data Integrity

a. Treasury Manual, edition 2017 (Ministry of Finance)
b. ISO/IEC, International Standards, 2014

PI-28: In-year Budget Reports

a. Budget and Financial Management Law – Nº.13/2019
b. Treasury Manual, edition 2017 (Ministry of Finance)
c. 2017 Budget Execution, Government Decree Nº.1/2007
d. 2017 Quarterly Budget Execution Report – Q1, Q2 and Q3
e. 2015 Report and Opinion on the State General Accounts (source: Câmara de Contas)
f. 2016 Report and Opinion on the State General Accounts (source: Câmara de Contas)
g. 2017 Report and Opinion on the State General Accounts (source: Câmara de Contas)
h. State Budget 2017 – Budget Lines - Budget Book 4A and 4B
i. Duodecimal execution report - January 2018
j. Duodecimal execution report - February 2018

PI-29: Annual Financial Reports

a. Budget and Financial Management Law – Nº.13/2019
b. Treasury Manual, edition 2017 (Ministry of Finance)
c. 2017 Budget Execution, Government Decree Nº.1/2007
d. 2017 Report and Opinion on the State General Accounts (source: Câmara de Contas)
e. State Budget 2017 – Budget Lines - Budget Book 4A and 4B

Pillar Seven: External Scrutiny and Audit

PI-30: External Audit

a. Constitution of the Republic Democratic of Timor-Leste
b. Budget and Financial Management Law – Nº.13/2019
c. Organic Law of the Câmara de Contas of the Superior Administrative, Tax and Audit Court, Parliament Law Nº.9/2011
d. Treasury Manual, edition 2017 (Ministry of Finance)
e. 2015 Report and Opinion on the State General Accounts (source: Câmara de Contas)

f. 2016 Report and Opinion on the State General Accounts (source: Câmara de Contas)
g. 2017 Report and Opinion on the State General Accounts (source: Câmara de Contas)
h. 2014 Audit Report of the Ministry of Agriculture and Fisheries
i. Nomination of Sr. Dr. Deolindo dos Santos as President of the Court of Appeal, Presidential Decree Nº.22/2017
j. Rejection of the ratification of the Nomination of DR. Deolindo dos Santos to the position of President of the Court of Appeal, Parliament Resolution Nº.8/2017
k. Statute of Judicial Magistrates, Parliament Law Nº.8/2002
l. 1st amendment to the Statute of Judicial Magistrates, Parliament Law Nº.11/2004
m. Statute of the Special Regime Career of the Auditors of the Chamber of Accounts of the Superior Administrative, Tax and Audit Court, Decree-Law Nº.20/2104

PI-31: Legislative Scrutiny of Audit Reports

a. 2018-10 Report on the State General Account 2016
b. Parliament's bylaws 2009 (*regimento interno*)

Sources of Information for the Annexes on Municipalities

DESPACHO No 001/2018/I/MS	Considerando que por Decreto-Lei no 3/2016, de 16 de Março, sobre o Estatuto das Administrações Municipais, das Autoridades Municipais e do Grupo Técnico Interministerial para a Descentralização Administrativa	5/01/2018	http://www.mj.gov.tl/jornal/public/docs/2018/serie_2/SERIE_II_NO_1.pdf
DESPACHO No 37/ M - MAE / III / 2017	(Abertura do procedimento especial de selecção do Administrador Municipal de Covalima)	31/03/2017	http://www.mj.gov.tl/jornal/public/docs/2017/serie_2/SERIE_II_NO_13A.pdf
Nº 137/ VM - MAE / III / 2016	Cria o Grupo de Trabalho Para A desconcentração Administrativa	08/04/2016	http://www.mj.gov.tl/jornal/public/docs/2016/serie_2/SERIE_II_NO_14.pdf
DESPACHO Nº 03/ M - MAE / IX / 2016	Delegação de Competências nos Presidentes das Autoridades Municipais e nos Administradores Municipais…		http://www.mj.gov.tl/jornal/public/docs/2016/serie_2/SERIE_II_NO_40.pdf
Diploma Ministerial no 24/2014 de 24 de Julho	Orgânica dos Postos Administrativos		https://web.archive.org/web/20160304084342/http://www.jornal.gov.tl/?q=node%2F6605
DECRETO-LEI N.º 4/2014	Estatuto Orgânico das Estruturas de Pré-desconcentração Administrativa		http://www.mj.gov.tl/jornal/public/docs/2014/serie_1/serie1_no3.pdf
	Despacho State administration Ministry		http://www.mj.gov.tl/jornal/?q=node/44
	UNDP partnership to strengthen the decentralization of public administration in Timor-Leste		http://www.tl.undp.org/content/timor_leste/en/home/newscentre/pressreleases/2018/undp-and-msa-establish-a-new-partnership-to-strengthen-the-decen.html

Annex 3C: Source of information from Analytical Studies and Reports

No	Institution	Document title	Date	link
1	ADB	Growing the Non-Oil Economy: A Private Sector Assessment for Timor-Leste	2015	https://www.adb.org/sites/default/files/institutional-document/161516/tim-growing-non-oil-economy.pdf
2	ADB	A VAT for Timor-Leste-Some Policy and Design Considerations	December 2015	unpublished
3	IFC	Doing Business 2015 : going beyond efficiency - Timor-Leste	October 2014	http://documents.worldbank.org/curated/en/817431468309557701/Doing-Business-2015-going-beyond-efficiency-Timor-Leste
4	IFC	Doing business 2016 : measuring regulatory quality and efficiency - Timor-Leste	October 2015	http://documents.worldbank.org/curated/en/569271467986371963/Doing-business-2016-measuring-regulatory-quality-and-efficiency-Timor-Leste
5	IFC	Doing business 2017 : equal opportunity for all - Timor-Leste	October 2016	http://documents.worldbank.org/curated/en/679141478682693475/Doing-business-2017-equal-opportunity-for-all-Timor-Leste
6	IFC	Doing Business 2018 : reforming to create jobs - Timor-Leste	October 2017	http://documents.worldbank.org/curated/en/970981510212709706/Doing-Business-2018-reforming-to-create-jobs-Timor-Leste
7	IMF	IMF Article IV - 2014	August 2014	unpublished
8	IMF	IMF Article IV - 2016	December 2016	https://www.elibrary.imf.org/doc/IMF002/23473-9781498319492/23473-9781498319492/Other_formats/Source_PDF/23473-9781475533088.pdf
9	IMF	IMF Article IV - 2017	December 2017	https://www.imf.org/en/Publications/CR/Issues/2017/12/07/Democratic-Republic-of-Timor-Leste-2017-Article-IV-Consultation-Press-Release-and-Staff-45447
10	IMF	Democratic Republic of Timor-Leste - Public Investment Management Assessment (PIMA)	August 2016	unpublished
11	International Budget Partnership (IBP)	Open Budget Survey: Timor-Leste 2017	2017	https://www.internationalbudget.org/wp-content/uploads/timor-leste-open-budget-survey-2017-summary-english.pdf
12	International Budget Partnership (IBP)	Open Budget Survey: Timor-Leste 2015	2015	https://www.internationalbudget.org/wp-content/uploads/OBS2015-CS-Timor-Leste-English.pdf
13	Lao'Hamutuk	LH Submission to Parliament on proposed 2018 State Budget	August 2018	http://www.laohamutuk.org/econ/OGE18/LHSubPNOJE2018en.pdf

No	Institution	Document title	Date	link
14	Lao'Hamutuk	La'o Hamutuk Submission to Parliament on proposed 2017 budget,	November 2016	http://www.laohamutuk.org/econ/OGE17/LHSubPNOJE2017-7Nov16en.pdf
15	Lao'Hamutuk	La'o Hamutuk submission to Parliament about the proposed 2016 GSB	November 2015	http://www.laohamutuk.org/econ/OGE16/LHSubPNOGE16-18Nov2015en.pdf
16	Lao'Hamutuk	LH letter to members of Parliament on proposed GSB 2015	November 2014	http://www.laohamutuk.org/econ/OGE15/LHKartaOJE15PN28Nov2014en.pdf
17	Lao'Hamutuk	Spinning straw into gold: Facts remain true, regardless of public relations	November 2016	http://laohamutuk.blogspot.com/2016/11/spinning-straw-into-gold.html
18	Lao'Hamutuk	LH Submission to Parliament on budget rectification	March 2015	http://www.laohamutuk.org/econ/OGE15/OR/LHSubOR15-31Mar2015en.pdf
19	Lao'Hamutuk	La'o Hamutuk Submission to Parliament on proposed revision	July 2016	http://www.laohamutuk.org/econ/OGE16/Ret/LHSubmissionPNOR12Jul2016En.pdf
20	MoF/ADB	Fiscal Incidence in Timor-Leste - CEQ	May 2018	unpublished
21	OECD	Budgeting for a sustainable future: Towards a Roadmap of Budgetary Governance Reform in Timor-Leste	March 2017	https://www.oecd-ilibrary.org/governance/budgeting-for-a-sustainable-future-towards-a-roadmap-of-budgetary-governance-reform-in-timor-leste_budget-17-5j8mnzvd2rmn
22	TAF	Democracy, Representation, and Accountability in Timor-Leste	November 2015	https://asiafoundation.org/wp-content/uploads/2016/05/Democracy-Representation-and-Accountability-in-Timor-Leste-final.pdf
23	TAF	Land Tenure Legislation in Timor-Leste	March 2016	https://asiafoundation.org/wp-content/uploads/2016/04/Land-Tenure_TL_EN.pdf
24	TAF	Survey on Access to Land, Tenure Security and Land Conflicts in Timor-Leste	December 2016	https://asiafoundation.org/wp-content/uploads/2017/01/Survey-on-Access-to-Land-Tenure-Security-and-Land-Conflicts-in-Timor-Leste-1.pdf
25	The Asia Foundation	Local Governance in Timor-Leste	January 2017	https://asiafoundation.org/wp-content/uploads/2017/01/Timor-Leste_Local-Governance_Jan17.pdf
26	UNDP	Timor-Leste's roadmap for the implementation of the 2030 Agenda and the SDGs	July 2017	http://timor-leste.gov.tl/wp-content/uploads/2017/08/UNDP-Timor-Leste_SDP-Roadmap_doc_v2_English_220717.pdf
27	UNDP	Special Administrative Region of Oe-cusse Ambeno, An Alternative Development Model for Timor-Leste	July 2017	https://www.zeesm.tl/wp-content/uploads/2017/07/UNDP-Report_-ZEESM_TL_Timor_Leste.pdf

No	Institution	Document title	Date	link
28	UNWOMEN	Policy Brief: Income and Consumption Tax Reform for Timor-Leste: Gender and Poverty Impact, Policy Options and Recommendations	September 2016	https://www.laohamutuk.org/econ/tax/UN%20Women%20Tax%20Policy%20Brief16Sep2016en.pdf
29	UNWOMEN	Timor-Leste Proposed Tax Reforms, Gender and Poverty Impact, Income Tax and VAT options, and recommendations	January 2017	https://www.laohamutuk.org/econ/tax/UNWomenVATMar2016En.pdf
30	UNWOMEN	UN Women gender analysis of proposed GSB 2016	November 2015	http://www.laohamutuk.org/econ/OGE16/UNWomenOGE16en.pdf
31	WB	Turning Challenges into Opportunities: the Mid-Term Health Expenditure Pressure Study in Timor-Leste	2016	http://documents.worldbank.org/curated/en/593891480572877831/Turning-challenges-into-opportunities-the-medium-term-health-expenditure-pressure-study-in-Timor-Leste
32	WB	Timor-Leste Health Resource Tracking Study	September 2014	http://documents.worldbank.org/curated/en/159111468113686631/Timor-Leste-Health-resource-tracking-study
33	WB	Analysis of the Education Sector in Timor Leste	2018	to be published
34	WB	Timor Leste Public Expenditure Analysis, 2008-2016	2017	unpublished
35	WB	Timor Leste - Agriculture Public Expenditure Review	2017	unpublished
36	WB	Malnutrition in Timor-Leste: a review of the burden, drivers, and potential response	2017	http://documents.worldbank.org/curated/en/666231491492248496/pdf/114087-WP-PUBLIC-EAPEC-176-p-MalnutritioninTimorLeste.pdf
37	WB	Health Equity and Financial Protection Report	February 2016	http://documents.worldbank.org/curated/en/959881467992506455/Timor-Leste-Health-equity-and-financial-protection-report
38	WB	A Joint MoF and World Bank Report on Timor-Leste Public Expenditure Review-Infrastructure	March 2015	https://www.MoF.gov.tl/wp-content/uploads/2015/03/A_Joint_Ministry_of_Finance_and_World_Bank_Report_on_Timor-Leste_Public_Expenditure_Review_Infrastructure.pdf
39	WB	Timor Leste - Systematic Country Diagnostic: Pathways for a New Economy and Sustainable Livelihoods	March 2018	https://www.worldbank.org/en/country/timor-leste/publication/pathways-for-a-new-economy-and-sustainable-livelihoods
40	GoTL	Timor-Leste's Roadmap for the Implementation of the 2030 Agenda and the SDGs	Jul-17	http://timor-leste.gov.tl/wp-content/uploads/2017/08/UNDP-Timor-Leste_SDP-Roadmap_doc_v2_English_220717.pdf

No	Institution	Document title	Date	link
41	MoF	Second Fragility Assessment Report	2015	unpublished
42	MoF	MoPF 2016 Annual Performance Report (external evaluation)	Mar-17	unpublished
43	UPMA / DFAT	Gender-Responsive Budgeting Policy Note	2017	https://dfat.gov.au/about-us/publications/Pages/timor-leste-gender-responsive-budgeting-policy-note.aspx
44	ISE	State Building in Conflict Affected & Fragile States: A comparative Study of Timor-Leste and Afghanistan Public Finance and National Accountability	Oct-16	https://effectivestates.org/state-building-conflict-affected-fragile-states-comparative-study/

Annex 4: Calculation Sheets for PI-1, PI-2 and PI-3

Results Matrix	PI-1	PI-2.1	PI-2.3*
2015	85.6%	16.3%	
2016	104.5%	17.2%	0.8%
2017	85.8%	10.6%	

**arithmetic average of three years*

2015						
Administrative or functional head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Commission for Administration of the Infrastructure Fund (FI)	367,301,436	239,812,946	315,730,599	-75,917,654	75,917,654	24.0%
Ministry of Social Solidarity	197,003,741	181,080,444	169,343,496	11,736,948	11,736,948	6.9%
Ministry of Public Works, Transport and Communication	163,677,200	140,239,764	140,696,157	-456,393	456,393	0.3%
Ministry of Education	103,841,500	98,553,999	89,261,669	9,292,331	9,292,331	10.4%
Ministry of Planning and Strategic Investment	88,547,420	55,282,249	76,114,949	-20,832,700	20,832,700	27.4%
Minister of State for the Presidency of the Council of Ministers	85,792,000	136,689,649	73,746,403	62,943,247	62,943,247	85.4%
Appropriations for all of Government	69,111,107	61,453,863	59,407,585	2,046,278	2,046,278	3.4%
Ministry of Health	65,457,000	58,758,381	56,266,532	2,491,849	2,491,849	4.4%
Commission for Administration of the Human Capital Fund (FDCH)	38,984,000	31,845,363	33,510,464	-1,665,101	1,665,101	5.0%
Ministry of Interior	38,831,275	37,989,359	33,379,183	4,610,177	4,610,177	13.8%
Ministry of Foreign Affairs and Cooperation	28,789,000	26,210,851	24,746,890	1,463,961	1,463,961	5.9%
Ministry of Defense	28,210,500	28,928,708	24,249,614	4,679,094	4,679,094	19.3%
Ministry Agriculture & Fisheries	27,289,000	18,998,100	23,457,497	-4,459,397	4,459,397	19.0%
Ministry of Justice	26,186,500	24,005,671	22,509,793	1,495,877	1,495,877	6.6%

2015						
Administrative or functional head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Ministry of State Administration	23,669,980	21,589,343	20,346,604	1,242,738	1,242,738	6.1%
Prime-Minister	22,145,500	21,912,508	19,036,168	2,876,339	2,876,339	15.1%
Ministry of Commerce, Industry and the Environment	21,949,500	19,246,633	18,867,688	378,945	378,945	2.0%
Ministry of Finance	17,609,116	18,065,979	15,136,714	2,929,266	2,929,266	19.4%
Secretariat of State for Vocational Training Policy and Employment	15,770,200	14,117,176	13,555,990	561,186	561,186	4.1%
National Parliament	15,350,000	13,129,953	13,194,788	-64,835	64,835	0.5%
Others	103,450,782	83,573,655	88,925,809	-5,352,154	5,352,154	6.0%
allocated expenditure	**1,548,966,757**	**1,331,484,592**	**1,331,484,591.8**	**0.0**	**217,496,469.0**	
interest						
contingency	18,935,000	10,943,971				
total expenditure	**1,567,901,757**	**1,342,428,563**				
aggregate outturn (PI-1)						**85.6%**
composition (PI-2) variance						**16.3%**
contingency share of budget						**0.7%**

2016						
Administrative or functional head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Commission for Administration of the Infrastructure Fund (FI)	393,767,844	549,639,968	410,844,498	138,795,470	138,795,470	33.8%
Appropriations for all of Government	311,804,384	293,868,607	325,326,503	(31,457,896)	31,457,896	9.7%
Ministry of Social Solidarity	157,959,293	150,846,226	164,809,563	(13,963,338)	13,963,338	8.5%
Ministry of Public Works, Transport and Communication	110,840,000	95,172,802	115,646,833	(20,474,031)	20,474,031	17.7%
Ministry of Education	100,613,356	96,506,446	104,976,687	(8,470,241)	8,470,241	8.1%
Ministry of Health	42,387,000	38,927,734	44,225,210	(5,297,477)	5,297,477	12.0%
Ministry of Interior	39,832,927	39,192,167	41,560,374	(2,368,208)	2,368,208	5.7%

2016						
Administrative or functional head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Ministry of Planning and Strategic Investment	36,217,000	26,467,818	37,787,634	(11,319,816)	11,319,816	30.0%
Ministry of State Adminstration	35,094,000	34,189,032	36,615,933	(2,426,901)	2,426,901	6.6%
Commission for Administration of the Human Capital Fund (FDCH)	34,000,002	28,698,995	35,474,491	(6,775,496)	6,775,496	19.1%
Ministry of Foreign Affairs and Cooperation	26,375,000	22,987,601	27,518,813	(4,531,211)	4,531,211	16.5%
Ministry of Defense	26,217,240	25,269,640	27,354,211	(2,084,571)	2,084,571	7.6%
Ministry Agriculture & Fisheries	22,343,000	18,640,911	23,311,956	(4,671,044)	4,671,044	20.0%
Ministry of Justice	20,232,900	19,372,775	21,110,347	(1,737,571)	1,737,571	8.2%
Ministry of Finance	18,915,332	15,621,674	19,735,639	(4,113,965)	4,113,965	20.8%
National Parliament	15,167,000	12,850,665	15,824,752	(2,974,087)	2,974,087	18.8%
Secretariat of State for Vocational Training Policy and Employment	13,818,000	13,453,481	14,417,250	(963,768)	963,768	6.7%
Prime-Minister	13,073,324	12,814,875	13,640,279	(825,404)	825,404	6.1%
Ministry of Commerce, Industry and the Environment	12,696,000	11,763,482	13,246,591	(1,483,109)	1,483,109	11.2%
Ministry of Mineral Resources and petrolio	12,506,000	12,131,439	13,048,352	(916,913)	916,913	7.0%
Others	106,241,518	98,908,504	110,848,927	(11,940,423)	11,940,423	10.8%
allocated expenditure	**1,550,101,120**	**1,617,324,843**	**1,617,324,843**	**0**	**277,590,941**	
interest						
contingency	12,130,926	14,865,499				
total expenditure	**1,562,232,046**	**1,632,190,342**				
aggregate outturn (PI-1)						**104.5%**
composition (PI-2) variance						**17.2%**
contingency share of budget						**1.0%**

2017						
Administrative or functional head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Commission for Administration of the Infrastructure Fund (FI)	325,622,155	228,158,014	278,956,318	(50,798,304)	50,798,304	18.2%
Appropriations for all of Government	252,855,551	241,601,857	216,618,103	24,983,753	24,983,753	11.5%
Ministry of Social Solidarity	162,346,001	149,735,442	139,079,734	10,655,707	10,655,707	7.7%
Ministry of Public Works, Transport and Communication	90,012,104	72,413,652	77,112,214	(4,698,561)	4,698,561	6.1%
Ministry of Education	86,074,435	82,705,714	73,738,863	8,966,851	8,966,851	12.2%
Ministry of Health	43,714,660	40,556,127	37,449,788	3,106,339	3,106,339	8.3%
Ministry of Interior	40,214,788	38,936,974	34,451,492	4,485,482	4,485,482	13.0%
Commission for Administration of the Human Capital Fund (FDCH)	27,199,984	23,857,102	23,301,877	555,225	555,225	2.4%
Ministry of Defense	25,442,000	22,557,742	21,795,835	761,908	761,908	3.5%
Ministry of Foreign Affairs and Cooperation	22,186,000	21,752,495	19,006,461	2,746,033	2,746,033	14.4%
Ministry of Planning and Strategic Investment	21,271,731	18,277,685	18,223,219	54,467	54,467	0.3%
Ministry of Justice	20,997,718	18,847,582	17,988,475	859,106	859,106	4.8%
Ministry of Finance	18,029,116	15,082,585	15,445,312	(362,727)	362,727	2.3%
National Parliament	17,696,000	11,509,685	15,159,936	(3,650,250)	3,650,250	24.1%
Ministry of Mineral Resources and petrolio	17,448,000	16,742,889	14,947,478	1,795,411	1,795,411	12.0%
Ministry Agriculture & Fisheries	16,192,405	13,750,407	13,871,825	(121,418)	121,418	0.9%
National University of Timor-Leste	12,050,000	11,418,362	10,323,080	1,095,282	1,095,282	10.6%
Ministry of State Adminstration	11,777,000	10,370,998	10,089,205	281,794	281,794	2.8%
National Electoral Commission	10,146,000	9,942,919	8,691,948	1,250,971	1,250,971	14.4%
National Hospital Guido Valadares (Self Financed Autonomous with Own Revenues)	9,226,587	8,958,542	7,904,299	1,054,244	1,054,244	13.3%
Others	147,759,444	123,562,306	126,583,618	(3,021,312)	3,021,312	2.4%
allocated expenditure	**1,378,261,679**	**1,180,739,080**	**1,180,739,080**	**0**	**125,305,147**	

2017						
Administrative or functional head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
interest						
contingency	8,564,056	9,461,291				
total expenditure	**1,386,825,735**	**1,190,200,371**				
aggregate outturn (PI-1)						**85.8%**
composition (PI-2) variance						**10.6%**
contingency share of budget						**0.7%**

Results Matrix	PI-2.2
2015	16.0%
2016	15.7%
2017	10.0%

2015						
Economic head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Capital & Development	441,526,436	273,108,207	379,534,063	(106,425,856)	106,425,856	28.0%
Goods & Services	495,224,485	426,165,266	425,692,655	472,611	472,611	0.1%
Minor Capital	26,414,800	33,799,430	22,706,039	11,093,391	11,093,391	48.9%
Salary & Wages	179,000,916	170,516,435	153,868,352	16,648,083	16,648,083	10.8%
Transfers	406,800,120	427,895,255	349,683,484	78,211,771	78,211,771	22.4%
Total expenditure	1,548,966,757	1,331,484,592	1,331,484,592	-	212,851,712	
composition variance						**16.0%**

2016						
Economic head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Capital & Development	436,469,940	581,384,587	455,398,469	125,986,118	125,986,118	27.7%
Goods & Services	436,883,074	376,563,060	455,829,520	(79,266,459)	79,266,459	17.4%
Minor Capital	18,844,542	20,907,781	19,661,779	1,246,001	1,246,001	6.3%
Salary & Wages	181,874,072	173,620,633	189,761,462	(16,140,829)	16,140,829	8.5%
Transfers	476,029,492	464,848,782	496,673,613	(31,824,830)	31,824,830	6.4%
Total expenditure	1,550,101,120	1,617,324,843	1,617,324,843	0	254,464,239	
composition variance						**15.7%**

2017						
Economic head	**budget (USD)**	**actual (USD)**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Capital & Development	349,038,802	244,814,283	299,017,059	(54,202,776)	54,202,776	18.1%
Goods & Services	386,483,001	326,242,128	331,095,024	(4,852,895)	4,852,895	1.5%
Minor Capital	12,075,316	13,129,480	10,344,768	2,784,712	2,784,712	26.9%
Salary & Wages	209,700,911	195,692,656	179,648,077	16,044,579	16,044,579	8.9%
Transfers	420,963,649	400,860,532	360,634,152	40,226,380	40,226,380	11.2%
Total expenditure	1,378,261,679	1,180,739,080	1,180,739,080	0	118,111,342	
composition variance						**10.0%**

Results Matrix (PI-3.1)	total revenue deviation	composition variance
2015	94.6%	3.3%
2016	94.4%	5.4%
2017	93.3%	1.6%

2015						
Economic head	**Budget (USD)**	**Actual (USD)**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
Tax revenues						
Other tax revenues	205,029	239,647	193,993	45,654	45,654	23.5%
Service tax	3,597,826	3,095,285	3,404,170	(308,885)	308,885	9.1%
Taxes on commodities	76,089,396	69,772,088	71,993,826	(2,221,738)	2,221,738	3.1%
Taxes on income	45,650,175	56,134,735	43,193,019	12,941,716	12,941,716	30.0%
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenue						
Fees & Service charges	30,220,201	36,917,376	28,593,576	8,323,801	8,323,801	29.1%
Other non-tax revenue	7,001,644	9,622,461	6,624,775	2,997,685	2,997,685	45.2%

2015						
Economic head	**Budget (USD)**	**Actual (USD)**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
Revenue Retention Agencies	7,603,673	7,381,624	7,194,399	187,225	187,225	2.6%
Sum of rest (ESI + excess withdrawal)	1,399,600,000	1,302,300,000	1,324,265,458.0	-21,965,458.0	21,965,458.0	1.7%
Total revenue	1,569,967,944	1,485,463,217	1,485,463,217	0	48,992,162	
overall variance						**94.6%**
composition variance						**3.3%**

2016						
Economic head	**Budget (USD)**	**Actual (USD)**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
Tax revenues						
Other tax revenues	230,013	706,319	217,075	489,244	489,244	225.4%
Service tax	2,782,271	2,680,238	2,625,768	54,471	54,471	2.1%
Taxes on commodities	61,151,284	76,167,796	57,711,509	18,456,287	18,456,287	32.0%
Taxes on income	52,238,303	64,178,886	49,299,885	14,879,000	14,879,000	30.2%
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenue						
Fees & Service charges	36,460,221	39,947,143	34,409,324	5,537,819	5,537,819	16.1%
Other non-tax revenue	9,678,986	6,187,969	9,134,541	(2,946,571)	2,946,571	32.3%
Revenue Retention Agencies	8,875,314	9,030,810	8,376,075	654,734	654,734	7.8%
Sum of rest (ESI + excess withdrawal)	1,390,803,000	1,275,445,000	1,312,569,983.6	-37,124,983.6	37,124,983.6	2.8%
Total revenue	1,562,219,392	1,474,344,161	1,474,344,161	-	80,143,110	
overall variance						**94.4%**
composition variance						**5.4%**

2017						
Economic head	**Budget (USD)**	**Actual (USD)**	**Adjusted budget**	**Deviation**	**Absolute deviation**	**Percent**
Tax revenues						
Other tax revenues	521,508	1,260,308	486,520	773,788	773,788	159.0%
Service tax	3,200,830	2,515,235	2,986,084	(470,849)	470,849	15.8%
Taxes on commodities	77,890,000	74,211,948	72,664,306	1,547,641	1,547,641	2.1%
Taxes on income	67,733,895	54,741,282	63,189,581	(8,448,299)	8,448,299	13.4%
Social contributions						
Social security contributions			0.0	0.0	0.0	
Other social contributions			0.0	0.0	0.0	
Grants						
Grants from foreign governments			0.0	0.0	0.0	
Grants from international organizations			0.0	0.0	0.0	
Grants from other government units			0.0	0.0	0.0	
Other revenue						
Fees & Service charges	44,409,472	43,608,176	41,430,010	2,178,167	2,178,167	5.3%
Other non-tax revenue	7,464,708	5,248,726	6,963,896	(1,715,170)	1,715,170	24.6%
Revenue Retention Agencies	5,021,068	5,846,865	4,684,201	1,162,664	1,162,664	24.8%
Sum of rest (ESI + excess withdrawal)	1,180,526,000	1,106,295,753	1,101,323,696.3	4,972,057.1	4,972,057.1	0.5%
Total revenue	1,386,767,481	1,293,728,294	1,293,728,294	(0)	21,268,635	
overall variance						**93.3%**
composition variance						**1.6%**

Annex 5: PFM systems in Municipalities - Overview

Timor-Leste is divided into 13 municipalities (previously called districts), including a Special Administrative Region (Oecusse). The municipalities' subdivisions are the Administrative Posts (previously, subdistricts) that are further subdivided into *Sucos*. They are responsible for their own budgets and are considered as first tier government level, at this stage of the decentralization, and as they do not own assets or raise revenues (with the exception of Oecusse) and therefore do not comply with the subnational government definition (PEFA field guide).

Institutional Arrangements. The institutional arrangements for the municipalities are based on the provisions of the Constitution of Timor-Leste, stipulating in Article 5 the principles of the decentralization and in Article 72 the principles of the local power (while the organization, competencies, composition and functioning would be defined by specific laws), and proposing in its Article 137 (2) the implementation of the administrative decentralization, so that the Public Administration will be structured in such a way as to avoid bureaucratization, to approximate the services of the populations and to ensure the participation of those interested in its effective management.

In Timor-Leste there are 12 Municipalities, of which 4 Municipal Authorities (headed by a President) and 8 Municipal Administrations (headed by an Administrator and a Secretary -deputy administrator). Under them were created the *Conseilho de Coordenacao Municipal* and the *Conseilho Consultivo Local*. They have attributed the responsibility for handling the deconcentration of the line ministries services, including financial management, HR and Assets' management.

A new momentum has been initiated for the administrative deconcentration with the decree-law 4/2014, about the organic statute of the structures of the administrative pre-deconcentration), for the establishment of the municipalities, and the valuation of the role of the peripheral services of the State. So far, 9 services were deconcentrated, including the finance department of the Municipalities.

So, the decree-laws 2/2016 and 3/2016 created the Municipal Authorities and Administrations, amended by the decree-law 9/2018, on the Status of the Municipal Authorities and Administrations and the Inter-ministerial Technical Group for the Administrative Decentralization, while the Governmental decree 1/2017 fixed the rules for budget planning, execution and reporting.

The Ministry of State Administration (MAE) that was established by the decree-law 12/2015 has already elaborated a new organic law, not been promulgated, yet, as many other organic laws in the country, considers the legal framework insufficient for advancing with the decentralization, because it needs to be updated for regulating the municipal organic laws.

Currently, MAE is elaborating the new legal framework for the Municipal elections, the Municipal financial management, their procurement procedures, HR departments, and legal advisory services. However, the Ministry lacks the required technical skills to proceed with the update of the legal framework and strongly needs TA for going forward with it.

Planning and budgeting. Budgeting is following rule-based systems that are applied to the budgeting procedures and the actual allocation of conditional and unconditional transfers, from Central Government to support local authorities' expenditure, whereas their final use is determined by their own budgets through conditional (earmarked) grants, to implement selected service delivery and expenditure responsibilities. The budget circulars usually provide them one month for the elaboration and submission of their budget proposals to the Ministry of State Administration, but the ceiling for the 2018 budget was suspended, while for the 2019 budget a timeframe of less than two weeks was provided for the local authorities for the preparation of their budget planning.

As at the National level, at the Municipality level, there is a lack of reliability over the programmatic structure of the budget, making it difficult to ensure that expenditure policy proposals in the annual budget estimates align with the strategic plans. Since 2015, UPMA has started strengthening the alignment between policies, plans and budgets. Even though, the revised planning and budgeting arrangements require programmatic planning and budgeting, the Municipalities have a very weak capacity and they are not able to respond adequately.

Each year, MoF is distributing a Budget Circular with individual ceilings to the municipalities, during a Working Session (Sessão de Trabalho) for the distribution of the fiscal envelope and the dissemination of the rules and procedures needed for the elaboration of the budget proposal.

Municipalities are expected to elaborate the planning and budgeting for the upcoming fiscal year and to submit them to MAE for consolidation and transmittal to MoF that, then, will proceed with the elaboration of the national annual budget proposal to the Parliament. While the 2017 and 2018 municipal budgets were elaborated by the finance department of MAE, the 2019 budget proposals were mostly prepared by the Municipalities and submitted to the MAE for further submission to MoF. Municipalities have no own revenues proposed and approved in their budgets and execute only the quarterly budget transfers from MoF.

Budget execution. At the beginning of each fiscal year, after budget approval by the Parliament, the Government emits annually a decree setting the rules for budget's execution, monitoring and reporting, as well as the quarterly transfers to Municipalities and other public authorities. At the beginning of each quarter, MoF makes transfers to the Municipalities, equal to the 1/4th or their annual budget. Municipalities can make engagements and payments, within the limits of the quarterly transfers. The municipal directors submit their budget requests to the Administrator, that send them to the Financial Directors for entering the advance request in the National Financial IT system (GRP). Once authorized by the DN Payments (DNP) the funds flow from the Central Bank to the Municipal bank accounts.

The Consolidated Fund of Timor-Leste (CFTL) is the Country's Treasury Single Account or Central Bank, for all Central Government payments. Sub-accounts of the CFTL are opened and used by Municipalities for their budget execution.

Thus, the municipalities can start executing their own budget, initiating their own procedures for the procurement of goods, works and services, following the National procedures. According to the annual budget execution decrees, it is obligatory for the Municipalities to use the GRP for budget execution, including procurement, accounting and reporting.

Financial IT system (GRP). Since 2017, MoF extended the GRP at the Municipal level for ensuring the quality of financial execution and provided training for operating the system. According to the Government's budget execution decrees, the use of the GRP is compulsory. The system has been deconcentrated and used for accounting and reporting by the Municipalities, while the procurement process is realized out of the GRP. However, the local technical capacity is still very low for the use of the system, while the accounting and reporting functions at the municipal level are not satisfactory.

Accounting. Municipalities have their own accounting teams and follow the National accounting procedures. However, the dedicated accounting staff are having weak capacity and limited knowledge for the use of the GRP. This makes the accounting process cumbersome and the financial reporting to DN Payments unsatisfactory, although they have received various training sessions from DN Payments.

Financial reporting. The Municipalities should send (usually submitted physically) their quarterly budget execution reports to DN Payments (MoF), within 15 days after the end of each quarter, for them to be allowed to submit their new advance request for the next quarterly transfer. However, these financial reports are overall unsatisfactory, and they do not include bank accounts' reconciliations.

As per the Treasury Manual, the reconciliation of the bank subaccounts is the responsibility of the public entity for whom the sub account has been opened. In this case they need to prepare bank reconciliations and ensure there are no outstanding reconciling items that require correction in the General Ledger. However, Municipalities (as many other public entities) are reluctant to proceed with the reconciliation process; in most of the cases they lack technical knowledge to do so and they do not send their reconciliation to the Treasury.

Payroll. Payroll is handled by the DN Payments at MoF and the Municipalities are only responsible to update the information about staff rotation or/and status.

Internal Controls. As for the whole public administration, at the municipal level there should be and internal controls mechanism in place, with the responsibilities and procedures clearly defined. These are described in the decree-law 3/2016, about the delegation of competencies to the Presidents of the municipal authorities and the municipal administrators. However, the specific procedures and responsibilities have not been established, yet, in any procedures manual.

Internal Audit. The organic law-*Diploma Ministerial* 12/2015 has established the internal audit function. Its units and attributions are linked and sometimes confused with those of the Inspection General. This 15 trained internal auditors unit at MAE is in charge for monitoring, controlling and inspecting the Municipalities, but her means are very limited, including only one car dedicated to inspections and limited number of old generation/obsolete computers.

Additionally, the Municipalities are monitored by MoF. DNDF (Direção Nacional de Decentralização Financeira), within MoF, is the entity monitoring the budget proposal preparation and execution for the 12 municipalities, while DN Payments (National Directorate of Payments) coordinates and supervises the payment of public expenditure and the movement of Treasury operations, analyses the Municipal quarterly reports and pays the support grants and public subsidies to them.

Assets' Control. Assets' control is very weak and not systematic at the Municipal level, too. GRP is not having any assets' management module and, in most of the cases, the list is in Excel format or inexistent and/or include obsolete assets, like unusable cars from year 2000. Since 2017, MoF, UPMA and MAE have been visiting Municipalities for data collection on HR, assets, equipment and procurement, but they faced difficulties to do so and identified a strong lack of capacity.

This can be a serious bottleneck after the Municipal elections' process had been established, because in many cases there is no provision for physical space/infrastructure of equipment for the Municipal Assembly and other technical departments, as well as for the receiving the public.

External oversight. External oversight is very weak at the deconcentrated level. There is no any SAI visit realized to the Municipalities for examining their financial statements. Therefore, the Parliament is not receiving any relevant information about the expenditures, procurement, and financial management and use of the public funds by municipalities.

Reforms. DNDF supports the deconcentration of the Ministry of Finance services, responsible for accounting and payments to Municipalities and has been preparing two pilot District Treasuries, as a first phase of deconcentration of certain aspects of the government's financial management.

Also, there is a working group within the Ministry of State Administration for the decentralization purposes, but it is missing competent staff, proper accounting arrangements and lack of capacity for capacity building in the municipalities.

Staffing can be another bottleneck for the implementation of the decentralization, since there is lack of technical capacity at the Municipal level to deliver quality public services and to continue improving the efficiency, accountability and transparency of the public administration.

DNDF is responsible for capacity building but its staffing, with only 3 public servants, is limited and it is needing more trained staff to be able to train and create capacity at the municipal level. After an initial 2017 monitoring report for Municipalities, a new assessment was realized in February 2019 by DNDF to the municipalities for the evaluation of their budgeting, procurement, accounting and treasuring processes. Unfortunately, the 2017 and 2019 reports were not available during the PEFA mission.

A recent UNDP project, has planned various activities towards full decentralization, including "the establishment of a multilevel and multi-sectorial Working Group that will involve all the multiple actors in the territory. The establishment of a such Working Group will not only build the capacity of civil servants to improve the efficiency in the provision of public services, but, also, improve the coordination and cooperation among all present actors, avoiding duplication of investments as well as guaranteeing long-term sustainability of the projects that are being implemented."