

# Report of the Court of Appeals on the 2023 General State Accounts (CGE)

*Unofficial translation by La'o Hamutuk*

---

## 8. CONCLUSIONS

Overall, it can be concluded that the CGE 2023<sup>1</sup> shows that there was a containment of public expenditure (\$1.5 billion), compared to the previous year (\$1.7 billion) and that the corrected budget had also decreased compared to the initial one.

However, the CGE 2023 contains discrepancies, inconsistencies and shortcomings that demonstrate a lack of rigor in its preparation/revision, which undermines the document's reliability.

Furthermore, some of the shortcomings found in this Opinion have already been detected in previous years and have been the subject of recommendations by the Chamber of Auditors, some repeatedly, but they still persist in 2023.

Specifically, the main conclusions of the RPCGE 2023 are summarized below:

### Financial Reform

1. The Minister of Finance approved, by 2023, several diplomas aimed at implementing financial reform, but some diplomas necessary for the implementation of this reform have yet to be approved (point 2).

### Budget Process and Accountability

2. The budget process occurred in accordance with legal regulations (item 3.1).
3. The CGE 2023, which is still provided on a cash basis, was provided and published within the legal deadline and there is an evolution in the number of public entities reporting to the Chamber of Auditors (item 3.2.2).
4. The perimeter of the consolidation of the CGE 2023 is incomplete, it does not include the Social Security accounts, nor the ANPM revenues. Nine public entities are excluded from the perimeter, all dependent on public financing (item 3.2.3).

### Consolidated Budget and Budgetary Execution

5. The value of the amending budget of the OGE 2023 Law does not coincide with the value contained in the CGE 2023 (item 4.1.1).
6. In 2023, the budget deficit was financed by \$1.1 billion transferred from the Petroleum Fund, an amount that was \$855 million greater than the ESI. Of these, almost \$600 million went to pay current public service expenses (e.g. salaries, goods and services, minor capital) (item 4.1.1).
7. There is inconsistency in the preparation of consolidated financial statements in successive years, which constituted insufficient transparency and understanding of the accounts (item 4.1.2).
8. CGE 2023 does not report sufficiently detailed information on cash advances that would allow identifying entities with outstanding amounts and the respective reasons (item 4.1.2.1).
9. The cash balance includes an accounting error of \$251,000 (missing) and continues to not include all values/entities worth \$56.4 million (item 4.1.2.2).

### Budgetary Execution of Central Administration Revenues

10. CGE 2023 applied the economic classifier of revenue from Government Decree 19/2022, and not the most recently approved one, on 25/10/2023 (item 4.2.1).

---

<sup>1</sup> Cf. Declaration 2 of the CGE 2023.

## Report of the Court of Appeals on the 2023 General State Accounts (CGE)

*Unofficial translation by La'o Hamutuk*

---

11. CGE 2023 does not yet present Central Administration revenue individually from RAEOA revenue (item 4.2.1).
12. In 2023, only 27 Autonomous Services and Funds collected revenue, and this number still registered an increase when compared to 2022 (18 SFA) (item 4.2.1).

### **Budgetary Execution of Central Administration Expenses**

13. The Government spent \$661.5 million less on Direct Administration (- 25.5%) than in the previous year and increased the number of entities with financial autonomy, which requires reinforcement of control mechanisms to ensure the use efficiency, effective and economical use of public money (item 4.2.2.1.1)
14. Autonomous Public Agencies spent \$366 million (\$64.7 million more than in 2022). The CGE presented, for the first time, the consolidation of the expenditure of the National Petroleum and Minerals Authority, but with an error in the budget execution of \$700,000, which indicates the possibility of that Authority having executed expenditure without budgetary appropriateness (item 4.2.2.1.2)
15. All Municipalities increased spending compared to 2022, but none spent the entire available budget. Total expenditure was \$70.6 million (item 4.2.3.1.3.).
16. CGE 2023 presents incomplete information on expenses by economic classification, does not present the table of expenses by central administration subsector and it is not possible to compare the budgeted values with those executed (item 4.2.2.2).
17. In 2023, the expense on Salaries and Wages paid to State employees was \$447 million (+74.5% compared to the previous year). The CGE 2023 indicates that the State had 64,831 employees at its service, but this information is not reliable, given the inconsistencies detected (item 4.2.2.2).
18. As part of the acquisition of goods and services, a contract was signed for the supply of medicines. However, there was a breach of contract and not all medicines were delivered within 40 days (item 4.2.2.2).
19. Expenditure in 2023 on Public Transfers totaled \$567.4 million (35% less than the previous year's expenditure). In this context, \$21 million was spent on hospitals abroad, an increase of 115% compared to the previous year (item 4.2.2.2).
20. The 2023 State Budget transferred \$33 million to the National Suco Development Program, which has been accumulating Treasury balances that it has not returned to the Treasury, in accordance with the law, but the Director-General of Treasury (DGT) has begun steps to correct this procedure. Furthermore, the balance of \$30.4 million recorded in the CGE on 31/12/2023 does not coincide with the \$57.8 million in the bank statements (point 4.2.2.2).
21. The CGE 2023 does not present information on budget changes due to the use of the "contingency reserve" allocation, in disregard of Law 2/2022, and \$736,600 were unduly paid for this item, as they did not respect expenses not predictable and unpostponable (item 4.2.2.2).
22. Budget execution by programs, whose expenditure totaled \$1,493 million, is yet to be implemented (item 4.2.2.3)

### **Expenses by Funds**

23. CGE 2023 indicates that the Infrastructure Fund spent \$160 million, 35.9% of this amount financed the construction of roads and bridges. However, the values recorded in the CGE are not reliable given the discrepancies found between the various CGE tables and the OGE. Furthermore, legislation was approved in 2024 with a view to providing legal coverage for payments to be made in

## Report of the Court of Appeals on the 2023 General State Accounts (CGE)

*Unofficial translation by La'o Hamutuk*

---

at least 44 public works projects that began without complying with all the requirements of the Legal Procurement Regime (item 4.2.3.1).

24. The Human Capital Development Fund account was not accompanied by appropriate justification for the change in the structure of presentation of accounts and for the difference in the value of the net asset situation, in relation to the previous year. A transfer of the OGE (\$22.5 million) in excess of the allocated amount (\$18.3 million) was also authorized, although this excess was not used (point 4.2.3.2).
25. The Covid-19 Fund spent \$7.7 million, expenses financed by the cash balance carried forward. With regard to ineligible expenses from previous years, \$4,900 still need to be returned to this Fund (point 4.2.3.3).
26. Expenditure from the Ataúro Special Development Fund totaled \$682,000, consuming only 20% of the available budget (point 4.2.3.4.).

### **Debt and Other Direct Liabilities of the State**

27. In 2023, no new bank loans were taken out and 7 loan contracts signed in previous years to finance investment projects were not executed. Failure to use the loans, according to the disbursement schedule provided for in the contracts, results in the payment of fines/penalties that are not quantified in the CGE 2023 (item 4.2.4.1).
28. In 2023, no new loan contracts were signed, so the legal limit for annual indebtedness was observed (item 4.2.4.1.1).
29. CGE 2023 does not specify the annual amounts paid in interest and charges capitalized for delays in the execution of investment projects (item 4.2.4.1.2).
30. Also with regard to the payment of interest on public debt, the documents that make up the CGE 2023 contain inconsistent information, making it impossible to accurately state what expense was actually paid with interest (item 4.2.4.1.3) .
31. In 2023, amortizations totaled \$14.7 million (+17% than in 2022), bringing the total accumulated amortizations to \$42 million (item 4.2.4.1.4).
32. On 12/31/2023, the value of public debt totaled \$316.1 million, having been subject to a foreign exchange gain of around \$6 million (item 4.2.4.1.5).
33. In 2023, 3.5% of the amounts available in bank loans were consumed (\$24.4 million), and \$677.7 million was available for the following year (item 4.2.4.1.6).
34. By the end of 2023, non-financial debt totaled \$16.8 million, but this value does not offer reliability, as it does not contain the debt of all entities (item 4.2.4.2.).

### **External Assistance**

35. The Government receives direct support for the OGE from the European Union and Australia. However, the 2.2 million EUR received from the EU are not included in the CGE 2023. Regarding the US\$12.2 million received from Australia, a divergence was found between the information presented in the CGE 2023 and that proven by the MSSSI, it was also found that the CGE does not inform about the destination of the remaining support granted that was not used (item 4.2.5).
36. Until 12/31/2023, the State benefited from \$101 million in indirect support (item 4.2.5).

# Report of the Court of Appeals on the 2023 General State Accounts (CGE)

*Unofficial translation by La'o Hamutuk*

---

## State Assets

37. Regarding financial assets, CGE 2023 did not present complete and appropriate information for the transparency of public finances (item 4.2.6.1).
38. The CGE 2023 highlights insufficiencies regarding movable and immovable assets, in terms of complete identification, regularization and inventory of the patrimonial universe (item 2.6.1).

## Special Administrative Region of Oe-cusse Ambeno (4.3)

39. The Board of Directors of the RAEOA Special Development Fund did not appoint the respective Supervisory Board (item 4.3.2).
40. CGE 2023 disaggregates, for the first time, the expense of the RAEOA and the Special Development Fund (item 4.3.3).
41. The majority of expenses in the Goods and Services category (\$22.6 million) were carried out by the Fund, with \$2.2 million aimed at paying for the management and operation of the RAEOA airplane. This management and operation contract came to an end in 2024 and the plane is stopped, not contributing, on the one hand, to the development of the Region, but generating, on the other, maintenance costs (point 4.3.3).
42. The Special Development Fund transferred \$2.2 million to a private company owned exclusively by the RAEOA, without a contract, thus allowing this expense to be used outside of budgetary principles and discipline (item 4.3.3) .
43. RAEOA has accumulated, since its creation, high treasury balances, resulting from excessive transfers from the OGE. For this reason, the annual deficits are being financed by these balances (item 4.3.4).

## Social Security

44. CGE 2023 presents consolidated SS revenues of \$276.4 million. The expense was \$76.4 million. A balance of \$200 million is carried forward to 2024 (point 4.4.1).
45. The CGE 2023 does not yet fully consolidate the Social Security account and its Annual Report does not present consolidated accounts with the Social Security Reserve Fund. In fact, no individual financial information about the Fund was presented. (point 4.4.2).

## Social Security Reserve Fund

46. The Social Security Reserve Fund does not have a single auditor appointed (item 4.4.3.1).
47. The Fund's CA began direct administration of the money, in 2023, without the support of a specialized company. The balance of the Social Security Reserve Fund (\$141.6 million) was deposited in 3 commercial banks (item 4.3.3.2).

## Petroleum Fund

48. The evolution of total revenues from the Petroleum Fund (PF) is fluctuating with a downward trend. Since 2015, FP transfers to finance the OGE have always been greater than petroleum revenues. In fact, in 2018 and 2022, total FP revenues were negative. Thus, considering the decreasing trajectory of the FP and its expected longevity around 2035 (Major Planning Options) and that in the last 9 years transfers to finance State expenses have exceeded oil revenues, it is fundamental and critical to sustainability of public finances that, until alternative and complementary sources of financing are obtained, the use of FP must be especially judicious. The reduction in spending in 2023 may already be a result of this concern (point 5).

# Report of the Court of Appeals on the 2023 General State Accounts (CGE)

*Unofficial translation by La'o Hamutuk*

---

## Public Companies

49. All public companies are dependent on transfers from the OGE for their operation, with the OGE covering different percentages of the expenses of public companies, which ranged from 41% for EDTL, EP, to 97% for BTL, EP, the company most dependent on the State. We do not know the technical rationale behind the financing of public companies and to what extent it is stimulating the productivity and efficiency of public money (item 6).

## Public Investment

50. The port of Tibar is the first example of a public-private partnership celebrated in 2016 for 30 years. This PPP cost, by 2023, \$129.5 million to the State coffers (item 7.1.2). In 2023, three PPP projects were cancelled, but the "Timor-Leste Affordable Housing" project was approved for continuation (item 7.1.3).

51. In 2023, no investment expenses were incurred in companies and banking entities and the State signed, on 12 May 2023, a contract for the purchase and sale of shares and assignment of credits of Timor Telecom, SA, in the amount of \$21 million (\$5.4 million for the acquisition of shares and \$15.7 million for the assignment of company credit) (item 7.2).

## 9. RECOMMENDATIONS

Bearing in mind the text of the RPCGE 2023 and its conclusions, the Audit Chamber of the Court of Appeal recommends the following to the Government:

1. *Avoid changing the structure of CGE's consolidated Financial Statements and, in exceptional situations where this has to happen, explain these changes in detail in the Notes.*
2. *Prepare the CGE with all the legally required information, notably with the General State Account Table by sectors, provided for in Law no.º 2/2022, of 10/02.*
3. *Improve procedures relating to the recording of outstanding cash advances in favor of the accuracy of CGE's accounting records.*
4. *Implement control mechanisms to ensure the accuracy of accounting for CGE's cash balances, especially so that this balance integrates all amounts owed.*
5. *Control the creation of entities with administrative and financial autonomy without sufficient own revenue to cover expenses or without prior studies demonstrating their respective viability and financial sustainability.*
6. *Ensure that the CGE presents accurate information on the number of state public servants.*
7. *The transfer to the National Suco Development Program is based on proven need, in favor of the efficient use of resources from the General State Budget. And unused balances from the National Suco Development Program are returned to the National Treasury Secretariat, in compliance with the Law.*
8. *Expenses that fall within the normal and recurring activities of Ministries and other public services are included in the General State Budget and are not subject to payment using the contingency allocation. And requests for use of the Contingency Reserve must be analyzed by the Ministry of Finance in light of the requirements set out in law for its use.*
9. *Regarding the FDCH, the accounts must be drawn up with rigor and detail and that annual transfers must respect the budget allocations.*

# Report of the Court of Appeals on the 2023 General State Accounts (CGE)

*Unofficial translation by La'o Hamutuk*

---

10. Continue to ensure that the \$4,888.63 related to non-eligible expenses are transferred to the Covid-19 Fund.
11. Disclose in the CGE all information about debt service, particularly about fines/penalties related to non-execution of loan contracts.
12. Include in the CGE information about interest and other charges capitalized in the year, breaking down disbursements into capitalized values and payments for project execution.
13. Account for all non-financial debt of all appropriate entities in the CGE.
14. Account and disclose in the CGE all direct support received by the State and carry out appropriate control of its respective execution.
15. Account and disclose all information about the State's Financial Assets in the CGE.
16. Include in the CGE information on the complete and detailed analysis of the State's non-financial assets, in order to provide a complete and transparent view of the State's asset situation.
17. Consolidate accounts and detail Social Security financial information, including Social Security Reserve Fund accounts.
18. Disclose in the CGE the technical criteria underlying the annual transfers made to each public company.

## 10. OPINION ON THE ACCOUNT

In view of the results of the analysis carried out at CGE, which includes budget execution, cash flows for the year ended December 31, 2023 and the Notes to the Statements, in our opinion, except regarding the effects of the "reserves" formulated below, the set of the State's financial statements represents in a true and appropriate manner, in all materially relevant aspects, generally observing the applicable legal standards and principles, therefore, the Accounts Chamber of the Court of Appeals, under the terms and for the purposes of article 29 of the LOCC, issues an overall favorable judgment on the General State Accounts for the 2023 financial year.

### **Basis for opinion with Reservations:**

- Budget execution without consolidating Social Security expenses.
- Lack of complete and integrated information on financial assets and cash balance.
- Transfers from the European Union without accounting in the CGE.
- Difference between the balance of bank statements from the National Suco Development Program and the balance recorded in CGE 2023.

### **Emphasis:**

#### *Accounting Regime*

- The CGE was not prepared in accordance with all the requirements of Law 2/2022, of 10/02.

#### *Budget Execution*

- Payment using a contingency allocation for expenses that do not fall within the normal and recurring activities of Ministries and other public services, whose charges should be provided for in the respective OGE allocations.

## Report of the Court of Appeals on the 2023 General State Accounts (CGE)

*Unofficial translation by La'o Hamutuk*

---

- The Social Security Account does not integrate the consolidation of FRSS accounts, nor does it include FRSS accounts.
- The transfer made to the FDCH was above budget.
- Change in the structure of the Statement of Income and Cash Payments with transition of different balances without providing justification.
- Divergence of information on PPPs in the CGE and Infrastructure Fund reports and information provided by the Ministry of Finance.

### *Petroleum Fund*

- Failure to comply with the provisions of paragraph d) of article 9 of Law No. 9/2005 (Petroleum Fund Law, amended by Law 12/2011, of 28/09), with regard to the use of transfers above the ESI.

### **11. DECISION**

In plenary session, the Judges of the Court of Appeal decided, under the terms of Article 60(1)(a) of the LOCC, to approve the Report and Opinion on the General State Account for 2023.

Notify.

Court of Appeal, November 5, 2024

The Plenary of Judges of the Court of Appeal

Deolindo dos Santos, President

Maria Natércia Gusmão

Jacinta Correia da Costa