

**Clarifications to the  
PFM Performance Measurement Framework of June 2005  
(Updated by the PEFA Secretariat, September 2008)**

Coverage of the indicators Query/Issue	Clarification
<p>When evaluating multidimensional indicators, a situation may arise whereby not all the dimensions can be rated due to the absence of reliable information. What is the most appropriate course of action to take? Would it be to (a) rate only those dimensions for which data is available or (b) assign a default “D” score to those dimensions where information is not available or (c) apply an average rating to the missing dimensions, or (d) simply not score the indicator?</p>	<p>It is generally not possible to score an indicator if one or more of the dimensions cannot be rated, and in those circumstances it should be left as unscored. However, there is an exception to this generalization if the scoring methodology is based on Method 1 (M1), and at least two of the dimensional ratings are known, where one of them is represented by a D score and the other by a score higher than a D. In this situation the performance indicator is scored D+ irrespective of whatever rating is given to any other dimension of that indicator, including those situations where the other indicators could not be rated. This exception to the rule <u>cannot apply</u> if the scoring methodology is based on method M2.</p>
<p>Some of the dimensions under performance indicators have sub-dimensions (e.g. PI-26, dimension 1). Can these sub-dimensions be scored individually and an overall score derived for the dimension (either as an average as per M2 or the lowest score with a plus sign added as per M1)?</p>	<p>No. The score for the dimension must be the lowest score for a subdimension (i.e. if the scores attributed to the two sub-dimensions of a dimension are A and B, the score for the dimension is B).</p>
<p>Does the set of indicators (other than PI-7, PI-9, PI-26 and D-2) apply to “only nominally on-budget” or are off-budget operations to be covered in the assessment of all indicators?</p>	<p>The document states on page 3: “The focus of the indicator set is on revenues and expenditures undertaken through the central government budget. However, activities of central government implemented outside the budget are covered in part by the indicators PI-7, PI-9, PI-26 and D-2”. All indicators, except the four mentioned here (and in some cases in PI-23), relate specifically to the budget and therefore cover operations that are “on budget” unless explicitly excluded in each case (such as donor funded project expenditure and debt service in some indicators). Off-budget operations falling under the central government and operations of other parts of general government or the public sector are assessed only in the five indicators mentioned.</p>
<p>What is meant and covered by MDAs and deconcentrated units in PI-7, PI-11, PI-16, PI-24 and PI-25?</p>	<p>In the PFM Performance Measurement Framework, Ministries, Departments, Agencies (MDAs) and deconcentrated units are the main budget entities i.e. the primary recipients of allocations in the central government budget. Central government may comprise other departments and agencies that receive budgetary funds as transfers or subventions from the main budgetary entities, but those departments and agencies are not included in this definition.</p>
<p>How should PEFA assessment missions treat informally received information?</p>	<p>While informal channels can be useful for obtaining information quickly, such information can be difficult to use for official purposes. The government therefore needs to confirm its agreement with the data or be given the opportunity to present alternative “correct” data. If none of this happens, and necessary data are not available from alternative authoritative sources (e.g. the central bank), then it will not be possible to score the relevant indicators.</p> <p>On occasion, informants who provide informal information may wish to remain anonymous due to the controversial nature of the information. In this case, the information should be corroborated by other, independent sources or to challenge the government to present hard evidence for its position.</p>

PI-1 Query/Issue	Clarification
Does "externally funded project expenditure" refer to donations only?	The definition of the indicator specifies "excluding externally funded project expenditure". That means donor funding received both as grants and loans. This exclusion has been made because the government typically does not (or only partially) control the implementation, contracting and payments for such projects.
Government budget execution reports include complete information on project expenditure, but the donor funded part cannot be separated from the domestically funded expenditure. Therefore, donor funded project expenditure cannot be deducted from total expenditure. How should this case be handled for indicator PI-1?	The data on which the calculation is made for PI-1 (and PI-2) could include all project expenditure, if such expenditure is predominantly domestically funded. Or it could exclude all project expenditure if such expenditure is predominantly externally funded. There could be countries where externally funded project expenditure is fully under government control, i.e. the donor/lender advances all of the funds to the government. In such cases, externally funded projects could also be included in the expenditure data for PI-1. Where any of these options are chosen, it should be explicitly stated in the report, since a later repeat assessment would have to use the same definition of expenditure in order to make the results comparable over time.
Where data are available on build-up of expenditure arrears and payment of old arrears, should these items be included in aggregate expenditure?	The Framework allows the use of either cash-based accounting (the basis of the 1986 IMF-GFS Manual) or accrual-based accounting (the basis of the 2001 revised Manual). Whichever basis is used, it should be stated and used consistently in all indicator assessments.
PI-1 and PI-3 Query/Issue	Clarification
<p>What years should be included in the assessment of these indicators?</p> <p>Example: During one of the last three years the country had a constitutional/political crisis, which meant that government was unable to function for half of the year. Can that year be excluded from the three year data set and be replaced by the year before the last three-year period?</p>	<p>The assessment already takes into account the existence of an abnormal or "outlier" year, out of the three most recent fiscal years in the following way. The indicators require calculation of the deviation for each of those three years. The scoring for A, B and C is then specified in such a way as to allow one of the years to be an "outlier", and as long as the other two years are within the specified limits the score is justified.</p> <p>In the example, if the deviation in the crisis year is bigger than the other two years, then the crisis year becomes the "outlier". The score that is then given will depend on which limits the other two years fall within. It is of no importance for the indicator what the reason for the "outlier" may be (be it international commodity markets, natural disasters, political crisis, poor budget discipline or no data on which to calculate the deviation).</p> <p>A different wording of PI-1 Score A, but with the same meaning, is: "The actual expenditure deviated from budget by 5% or less in at least two of the last three years". (Similarly for PI-3).</p>
Are there any limitations on the deviation from the budgeted amounts for the "outlier" year?	There are no limits on the deviation between budget and actual in an outlier year. E.g. for PI-1, as long as two of the last three years have a deviation below 5%, the indicator scores an A even if third year deviation is above 15%.
Last year the legislature failed to approve the budget within the timeframe fixed by the Constitution. As a consequence the previous year's budget was carried over to cover last year. Midway during the year, the government introduced a revision to the "carried over" budget and that revision was approved by the legislature. Shall that budget revision be considered as the "originally approved" budget to be compared to the actual expenditure and revenue?	It is crucial that the "original approved budget" for calculation of budget outturns is the budget on which budget execution started and on which budget responsible and service delivering entities would have to make their annual plans and commence implementation. The budget approved in mid-year cannot therefore be considered the originally approved budget. When there is such a situation, with no originally approved budget, the deviation cannot be calculated. When the deviation cannot be calculated, the year can be considered an "outlier", ref. above.

<p>Should projects funded by donors be included in the calculation of PI-1 and PI-2, if budget execution reports do not distinguish between domestic and donor-financed projects?</p>	<p>Such projects should be included in the calculation if donors are financing less than 50 percent by value of all development expenditure, and should be excluded if donors are financing more than 50 percent. An explanatory note should be provided in the narrative.</p>
<p>Should “exceptional” expenditures (such as those that may be incurred after a civil war or a natural catastrophe) be included in the calculations of PIs 1 &amp; 2?</p>	<p>They should be included and noted in the supporting tables and text. Repeat assessments may then pick up on any progress that has been made since the incurrence of the exceptional events.</p>
<p>How should unpredictable privatisation proceeds be treated in the scoring of PIs 1 -3?</p>	<p>The answer is the same as with other types of “windfall” income. It has to be included in the calculation of indicators PI-1-3. If the spending of these proceeds results in lower ratings than if the spending had been excluded, then this can be referenced in the narrative, including the summary assessment.</p> <p>The reason is that spending unplanned windfall gains by increasing the budget allocations during the year easily leads to poorly planned investment , but perhaps more significantly to rushed procurement processes or implementation schedules (to spend the money before year-end) with loss of value for money as a consequence. The narrative could comment on mitigating measures taken to ensure proper investment planning (such as a well defined investment pipeline prepared during the budgeting process) and value for money.</p> <p>In principle, the government could simply save the money for the time being and budget for its expenditure in the following years, following the full expenditure planning and implementation cycle. It could also be used to pay off debt, if debt levels are a concern. If the spending of the privatisation proceeds has not been budgeted for in the first place (as the proceeds were an unexpected windfall gain), then there is no legal necessity to spend them before the end of the financial year (though there may be political pressure to do so).</p>
<p>Should central government subsidies and transfers of any kind feed into the calculation of PIs 1-2?</p>	<p>Yes. As PI-1 largely feeds into analysis of the government’s ability to achieve its desired overall fiscal balance, all expenditures under Government’s control should be included in the calculation. In the case of PI-2, a large magnitude of subsidies and transfers - and a large difference between actual and budgeted amounts - will impact the quality of the services being financed by these allocations. In the case of variances between budgeted and actual transfers to sub-national governments, indicator PI-8 dim (ii) would supplement the information in PIs 1 &amp; 2. A sub-national government PEFA assessment would indicate such an impact in more detail.</p> <p>In order to assess the credibility of central government MDA budgets alone, an alternative calculation could score PI-2, excluding subsidies and transfers. But this calculation should be noted as a supplement to the main rating, not an alternative.</p>

<p>Can PIs 1-3 be scored on the basis of annual accounts that have yet to be audited?</p>	<p>It is quite normal for scoring of quantitative indicators to be scored partially on the basis of unaudited accounts, as accounts for the most recent year(s) may still be awaiting audit. The unaudited accounts can be used with reasonable assurance if previous audited accounts indicate insignificant differences from the unaudited accounts. In the absence of such assurance (because accounts have not been audited for several years, or that there are non-systematic and significant differences each year), it is recommended that the existing data be used, but with the proviso that the assessment is preliminary and should be updated after accounts have been audited.</p>
<p>PI-3: Aggregate Revenue Outturn: Revenue outturns significantly higher than the budgeted amount always receive A scores. How should the PFM-PR comment on this situation?</p>	<p>Underestimation of revenues will lead to either: (i) the additional resources being used to pay off public debt and/or reduce the planned deficit; or (ii) increased expenditure. The latter will lead to a lower rating for PI-1. The former will not affect PI-1, so the appropriate story should come out in the Summary Assessment of the PFM-PR.</p>
<p><b>PI-2 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>What would be the score if the variance exceeded the deviations by no more than 5% in one year, and by more than 5% but less than 10% in the other two years (e.g. by 0%, 6% and 9% respectively)?</p>	<p>The score should be a C, because two years were above 5% (so not a B) but not more than one year (in fact none) exceeded 10%.</p>
<p>How do you interpret, “no more than one of the last three years” or “at least two of the last three years”?</p>	<p>Refer to clarifications given to PI-1 and PI-3 above, but note that for a score A of PI-2, data is required for all of the last three fiscal years and the variance should be 5% or less in all of those three years.</p>
<p>How should “contingency” and/or “reserve” items be treated in the scoring of PI-2?</p>	<p>The larger the contingency and/or reserve item in a budget, the higher its unpredictability in principle and the lower its credibility and usefulness as a statement of policy intent. Thus, the contingency/reserve item should be included in the calculation (as a separate line, if its magnitude places it amongst the twenty largest items).</p>
<p><b>PI-4 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>How should dimension (ii) be scored if there are no arrears because: (i) financial regulations explicitly rule out arrears; and (ii) prudent controls ensure that bills are paid before year-end?</p>	<p>An A rating is justified as long as it can reasonably be demonstrated that the control systems are complete and fully functioning, and that reliable and complete information is available to suggest the amount of arrears is nil.</p>
<p>In the situation where a new government has come to power in the wake of a civil war and/or major tragedy and inherits a large stock of payments arrears, should these be included in the definition of arrears?</p>	<p>Such arrears should still be included in the arrears data for the indicator rating. At some point, the new government may choose to convert the arrears into formal debt or seek funds to pay them off. The text in the assessment report should comment on this type of special situation.</p>

<p>The concept of payment arrears as explained in PI-4 does not seem to be adaptable to the way arrears are defined and accounted for in most francophone countries, leading to systematic D scores for both dimensions or no score. How could the indicator be usefully applied in a francophone context?</p>	<p>The Framework emphasizes the notion of “overdue payment” to evaluate the stock and monitoring of expenditure payment arrears. PEFA does not define the period after which a payment is to be considered overdue but states that “<i>local regulations or widely accepted practices may specify when an unpaid claim becomes in arrears</i>”. The period of three months specified by the UEMOA for instance must be considered when applying the Framework in member countries, even if some experts consider this period too long compared with internationally accepted business practices (30 days).</p> <p>The starting point of this period is also left unspecified by the Framework. In most francophone countries, the period runs from the acceptance of the payment order (<i>mandat</i>) by the Treasury (<i>prise en charge</i>) and not from when the good or service is delivered and the invoice sent. The period between the reception of goods and services (<i>liquidation</i>) and the acceptance to pay by the Treasury may be long; it is at the discretion of the Treasury and is not accounted for when measuring the flow of arrears.</p> <p>This creates a difficult situation because if the Treasury fixes the starting point, it means that the government itself decides when a valid claim from the private sector becomes a debt. On the other hand, the notion of “due payment” is to be understood “<i>under specific legal obligation or contractual commitment, which the government has entered</i>” and the legal and contractual context in most francophone countries is one that accepts that a payment claim to the Treasury becomes valid when the Treasury has accepted it.</p> <p>The only criterion here is the practice of commercial courts. When a provider raises a claim against the government, what period does the judge take into account to calculate the payment delay? This period should be considered when applying PI-4.</p>
<p><b>PI-5 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>Should the assessment be based on adherence to the classifications in the GFS 2001 Manual or is classification according to the GFS 1986 Manual equally acceptable?</p>	<p>The issue at hand is if the government’s budget classification system is consistent and sufficiently disaggregated to ensure effective management of the budget. The functional and economic classifications in both the 1986 and 2001 GFS manuals represent such consistent and disaggregated systems and should therefore be treated as equally fulfilling the requirements for scoring of the indicator.</p>
<p>What is meant by “a standard that can produce consistent documentation according to these standards”?</p>	<p>If the classification is not directly based on the GFS standard, but is converted to GFS, there will often be an assessment by the IMF as to the ability of this conversion to produce consistent GFS compatible statistical reports. A consistent conversion is typically based on a standard bridge table between the classification used and the GFS system. A need for reclassification of expenditure, by splitting accounting entries under a particular accounts code into different codes in the GFS system, indicates that there is a high risk of inconsistency (unless such cases concern insignificant amounts).</p>

<p>What is meant by “used for formulation, execution and reporting”?</p>	<p>The important factor in the assessment is the existence of a budget classification and a chart of accounts that are directly aligned, so that government accounts, budget execution reports and other budget execution data can be produced with a break-down that corresponds to the documentation for the proposed and approved budget. PI-24 (i) assesses if the budget execution reports actually presents such compatible information.</p>
<p>How should a “development budget” be scored, when it consists of a mix of administrative, economic, and functional/program classifications (or sub-functional /sub-program)?</p>	<p>The clarifications mentioned above partially address this query. The main issues are the degree of consistency and the sufficiency of disaggregation. Classification by Projects usually represents a narrow type of program classification. It may be the case that the economic and program classifications are not used consistently (e.g. some items classified as projects, others as purchases of assets such as equipment not connected to a project). When making the overall judgment for the indicator it will be necessary to decide whether inconsistent elements in the capital/development budget represent a significant share of the budget (and to state that share for future tracking of change).</p> <p>The score can reflect the separate scorings of recurrent and capital expenditure weighted by the proportions of recurrent and capital/development expenditure to total expenditure. For example, if recurrent expenditure scores A and represents 75% of the budget and capital/development expenditure scores D, then the overall score would be B (rounding down from scores between two grades).</p>
<p><b>PI-6 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>If certain documentation (e.g. details of financial assets and debt stock at the beginning of the year) is not part of the documentation submitted to the legislature, but it is already available to the legislature through e.g. the audited financial statements, would that be considered as fulfilling the benchmark?</p>	<p>The important issue to consider is whether that information is available to the members of the legislature at the time of reviewing the budget proposals. If that is done through another regular and official report (which can be considered as “supporting documentation” to the budget), it will count towards fulfilling the requirement.</p>
<p>Element 3. Whereas, it may be possible to obtain information as to the extent to which the deficit is financed domestically and externally it is not always possible to get further break downs. What is the level of detail required for this element?</p>	<p>It is good practice that the budget document describes the expected composition of deficit financing in terms of domestic borrowing, external borrowing (preferably including identification of concessional loan financing) and sale of assets (if appropriate); at least in net terms only. Other information, such as duration, interest, holder of the debt, and gross figures, while desirable, would be beyond the requirements of this indicator.</p>

<p>Element 6 and 7. When the indicator refers to “the same format as the budget proposal”, does that mean the same level of detail for all line items’ prior and current year’s outturn or only the aggregates?</p>	<p>The requirement for these two dimensions is that prior year and/or current year estimates/outcomes are presented at a detailed level for all budget lines in the budget proposal (e.g. so that expenditure by economic codes can be tracked over time for each department etc.). There could be an exception in that some governments prepare budgets disaggregated to economic sub items, and present them in a separate (voluminous) budget document due to the immense level of detail (e.g. every type of personal allowance itemized for each department, every type of utility expense for each department etc.). It could be accepted that this kind of very detailed information may not be presented for prior year and/or current year. In PI-6 element 8, the criterion is meant to reflect if the reader (parliamentarian) is able to understand changes in expenditure allocations and sources of revenue during the same three years and relate this to government policy. To that effect, comparable figures for prior year, current year and budget year proposed estimates should be presented at an aggregated level for all major lines in the budget classification i.e. in particular by budget head, vote of the administrative classification, by main economic classification codes and by any main functions and/or program records used in the budget proposal, if any. There could be overlap between the elements 6, 7 and 8, but not necessarily. The main difference between the elements is that element 8 asks for aggregates only and these aggregates may be presented separately for administrative codes, economic codes, functional codes and program codes. Elements 6 and 7 would normally show aggregation according to the administrative classification (and these aggregates may not necessarily be pulled together in an overview), but not for any other type of classification.</p>
<p>Element 8. Could you clarify what in practical terms is meant by “revenue by main heads of the classification used (PI-5)”?</p>	<p>Revenue classification: Revenue is usually also presented in the budget in accordance with a classification system, whether this is GFS compatible or not. If the government follows the GFS economic classification, the main heads can be extracted from the GFS 2001 manual page 178.</p>
<p>Element 9. What are the typical requirements for satisfying the compliance of this element?</p>	<p>Typically, fulfillment of this requirement would mean that the revenue impact is estimated and presented for each change in revenue measures (e.g. change in a tax rate, expanded coverage of a duty, introduction of a new tax credit, abolition of primary school fees) and similarly on the expenditure side that the estimated impact of the major policy related changes in expenditure are presented (e.g. a reform of civil service remuneration, the impact of a debt relief initiative, the cost of additional teachers, books etc due to increasing primary school enrolment as a result of abolishing school fees, or a change in agricultural input subsidies).</p>

PI-7 Query/Issue	Clarification
<p>The calibration of this indicator depends on the percentage of total expenditure that is unreported. What counts as reported and unreported?</p>	<p>The guidance states that the annual budget estimates, in year budget execution reports, annual financial statements, and other fiscal reports should cover all expenditure of central government. For the purpose of the calibration, expenditure should be reported both ex-ante (budget estimates) and ex-post (actual expenditure) in the mentioned fiscal reports in order to be counted as “reported”. “Other fiscal reports” should, in fact, not be considered for the assessment of this indicator, since the three specified standard reports should contain the necessary information.</p> <p>Expenditure is “reported” if it is included in the fiscal reports, either by consolidation with other central government expenditure, or is shown in a separate section or annex of the document, or shown in a separate document presented to the legislature and published at the same time as the fiscal reports. Expenditure is therefore unreported when it fails to be captured in the fiscal reports.</p>
<p>What is meant by “government operations”? Do these include special funds, social security funds, parastatals etc?</p>	<p>This indicator applies to central government as defined by IMF-GFS, which excludes regional states or local authorities (i.e. sub-national government entities which are assessed under PI-8) and public business enterprises. In GFS terminology, central government comprises all units at the central level carrying out government policies. This includes not only the MDAs that operate as part of the government as a single reporting entity, but also non-market non-profit institutions that are controlled and mainly financed by government. Most special funds, social security funds and other autonomous agencies are likely to fall within this definition, except public business enterprises.</p> <p>Total expenditure includes the expenditure and net lending of all bodies making up central government as defined for indicators PI-1 and PI-2. Where there are many extra-budgetary agencies, the largest ones (in particular those with the largest revenue other than transfers from the central government) need to be identified and their expenditure in the most recent, completed accounting year ascertained in order to estimate the order of magnitude of their omission. When evaluating dimension (i) it is important to note that it is not possible to simply award a “D” rating for lack of information as this would imply that the extra-budgetary expenditure constitutes more than 10% of total expenditure.</p>
<p>Expenditure from trust funds does not require annual appropriation. Should this be counted as an omission?</p>	<p>In principle, all government expenditure is included in the denominator, irrespective of whether it is appropriated annually by the legislature or whether the trustees have statutory authority to approve and make payments. Thus expenditures from trust funds that are controlled by the government should be counted. Similarly, in some countries certain expenditures such as the salaries of judges are designated as statutory expenditures and a first charge on the consolidated fund without annual appropriation. They are also part of central government expenditure and should be reflected in both annual estimates and financial statements.</p>

<p>How should decentralized operations be taken into account?</p>	<p>A distinction is made between deconcentrated operations and devolved operations. Deconcentrated operations comprise (i) regional or district operations managed by local offices of central government agencies, and (ii) operations (local or national) run by legally separate entities controlled and mainly financed by central government. These are all counted as part of central government. Operations devolved to sub-national levels of government, which are managed by locally elected state parliaments or district/municipal councils, are part of state government or local government (GFS Manual 2001 paragraphs 2.4-2.58 on pages 13 &amp; 14) and therefore should not be considered in an assessment of central government's PFM system.</p>
<p>How should non-tax revenues earned by MDAs be treated?</p>	<p>In many countries, MDAs collect revenues such as user fees and charges, dividends from State-Owned Enterprises, mineral royalties, returns from production-sharing agreements, fines and rent of property and use them for their own expenditure in addition to the budgetary allocations without those cash flows being brought into the government's central accounts. This treatment may be legal or (often) illegal. In either case, comprehensive and transparent fiscal reports require inclusion of such revenues and expenditures. Dimension (i) of this indicator should take account of all such expenditure.</p>
<p>Do "unreported government operations" include quasi-fiscal activities and tax expenditures?</p>	<p>In principle, they do. However, information on these is usually hard to come by during a PEFA mission, particularly in the absence of previous analytical work on this issue.</p>
<p>Dimension (ii): To what extent should donor funding of NGOs appear in fiscal reports?</p>	<p>NGOs can operate both as agencies of the government and as private sector service providers. The difference lies in whether the NGO provides a service under contractual agreement with the government and therefore whether the government has significant control over the nature and scope of the service. If this is the case, then all funds paid to the NGO, to finance the goods and services provided, ought to be counted as government expenditure and be shown in the government budget (e.g. in special schedules as memoranda items). If the NGOs provide services not covered by an agreement with the government, then the NGOs should be considered at par with private sector service providers and not be counted as government-funded services. The government should not include in its budget - and potentially be held accountable for - the expenditure for services over which it has no control.</p> <p>An aid agreement between the government and the aid agency does not in itself mean that the services provided by the NGO and funded by the donor are being provided under a contractual agreement between the government and the NGO. The overriding criterion is the provision of services by an NGO under a contractual agreement with the government.</p>
<p><b>PI-8 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>Dimension (i): Is the allocation of expenditure responsibilities between central and sub-national governments a transparency issue?</p>	<p>Yes, the issue is certainly related to transparency, but is more of a decentralization policy issue than a financial management issue. The subject rated by PI-8 is whether sub-national governments know what financing they will have available for the coming year's budget. The expenditure responsibilities are therefore not a specific subject for the indicator rating. However, the link between the two could be commented on.</p>

Dimension (i): If the allocation formulae are clear but the allocations are not transferred in full, how is the dimension rated?	It depends on whether each sub-national government can calculate its allocation. For instance, if there is a shortfall of revenue and allocations are reduced by a stated percentage across the board, they are still transparent. On the other hand, if they are reduced in an arbitrary or unknown way, they are not determined by a transparent and rules-based system.  The difference between: (i) the transfers from central government to the sub-national government notified to it during its budget preparation process and (ii) the amount of transfers allocated to the SNG in the approved central government budget is covered by dimension (ii).
Dimension (i): If sub-national governments receive shares of centrally collected revenues, or their allocations are reduced for sub-national receipts of aid, should these be included with grants from central government for devolved functions when assessing the degree of transparency in inter-government fiscal relations?	Yes. All fiscal transfers from central government to the highest level of sub-national government should be taken into consideration. The assessment concerns the horizontal allocation of the total amount. If different formulae/criteria are used for different elements of transfer, the overall assessment may be based on a weighted average.
<b>PI-9 Query/Issue</b>	<b>Clarification</b>
Dimension (i): What would be the difference between scoring C and D?	Score “C” requires that most AGAs and PEs submit fiscal reports to central government, but active monitoring of fiscal risks on this basis does not take place. Score D assumes that only a minority (if any) of such entities submit fiscal reports annually, for which reason it is not possible for the central government to monitor fiscal risks comprehensively.
Dimension (ii): Does SN governments’ “fiscal position” include the reporting of expenditure arrears (assuming a cash basis of accounting)?	Yes. Expenditure arrears are liabilities and constitute a fiscal risk to central government. If they are material, or unknown, monitoring is significantly incomplete.
<b>PI-10 Query/Issue</b>	<b>Clarification</b>
In assessing whether information is easily accessible to the general public or at least the relevant interest groups, if the country has a Right to Information Act, does this meet the requirement of accessibility? Does availability on a website (in a country with very low internet access) or submission to parliament meet the requirement?	A Right to Information Act, ipso facto, would not normally constitute access as it requires a special initiative and procedure. Availability on a website would meet the requirements if at least relevant interest groups have internet access. Submission to Parliament does not in itself count as “public access”.
Element (i): The reference to “complete” is unclear, even with the footnote.	“Complete” means that all the budget documents that are provided to the legislature can be obtained by the public. The comprehensiveness of the information produced is assessed separately in PI-6 and does not impact the score for this indicator.
Element (iii): How should this requirement be interpreted if the government publishes its financial statements before they have been audited and not afterwards?	The issue is if the public has access to the details of the financial statements, which ideally should be confirmed by the external auditors. In this indicator we do not judge if external audit takes place, and if it does, element (iv) captures if the public has access to those audit reports. Public access to un-audited financial statements should therefore be considered as fulfilling the requirement for element (iii).
Element (iii): Do the year-end financial statements have to be consolidated?	The element does not require that end-year financial statements have to be consolidated. Public access to a complete set of individual MDA statements would count. The content and standards of the statements are rated in PI-25.

Element (iv): How should this element be assessed if the government does not produce consolidated financial statements?	External audit reports on financial statements by individual budget entities would be equally acceptable as a measure of public accessibility.
Element (v). The threshold of US\$100,000 for contract awards appears low. How has this threshold been derived and what is the experience of its application in middle income countries?	The threshold of US\$100,000 equivalent, for publication is referred to as an approximate level, and therefore leaves some room for flexibility. It is set in order to ensure that contract award is transparent for contract amounts which most local businesses would consider significant and that all of the government's major procurement operations are made public. For assessing the indicator element, it is useful to know if a government has a specific policy on publications of contract awards and used a different threshold. If that is the case, and if the threshold is not out of proportion to the US\$100,000 (say up to US\$200,000 equivalent), and if the policy is actually implemented, then the government threshold could be accepted. Some high income countries publish information on award of contracts with even lower thresholds than US\$ 100,000.
Element (vi). What is the meaning of information is made available on resources available to primary service units?	This is intended to mean that interested parties are able to find out how much funding is being provided by the responsible level of government (whether Federal, Provincial or Local) to their local school or health clinic.
<b>PI-11 Query/Issue</b>	<b>Clarification</b>
Does this indicator cover the process for both the recurrent/operating budget and the capital/development budget?	Yes, all parts of the central government's annual budget are covered, whether they are integrated or using separate processes. In the latter case, this means that the requirements for a score should be fulfilled for each of the separate processes.
Dimension (i): Could more clarification be provided on the distinction between scores C and D.	Score D represents situations either (a) where no attempt has been made to establish a formal budget calendar or (b) where such an attempt has been made but it has little value due the lack of adherence to the calendar or the lack of time available for line ministries seriously limits the value of their budget submissions. Score C represents a situation where a formal budget calendar exists and at least the finance ministry attempts to keep to it, even if there are major delays or many MDAs do not meet the deadlines.
Dimension (ii): Why are budget ceilings not referred to in the requirements for score D, as it is for all other scores?	Score D refers to "the quality of the circular is very poor". One reason for judging the circular as very poor would be the absence of budget ceilings.
Dimension (ii): Is it correct that ceilings should be set for recurrent expenditure, but not for development expenditures where these are determined mainly by external donors?	Ceilings for administrative units or functional areas should cover all expenditure, irrespective of funding source, If comprehensive information on donor project expenditure is not available, or the process of integrating donor projects into the MTEF/budget preparation process is not yet complete, then the ceilings in the budget circular should cover recurrent expenditure, domestically financed capital expenditure and any elements of donor projects that are already budgeted for and executed through government systems.
Dimension (iii): How should this dimension be scored if the legislature at the beginning of the year approved an interim budget covering less than the full year (e.g. due to a political crisis or a stalemate in the budget negotiation between the executive and the legislature)?	Until a budget has been specifically approved for the entire new fiscal year, the approval process will be considered as being delayed.

<p>Dimension (iii): If the law states that, in absence of legislative approval of the budget by the end of the preceding year, the previous year's budget comes into effect, is this budget considered an approved budget for the purposes of the indicator?</p>	<p>Until a budget has been specifically approved for the new fiscal year, the approval process will be considered as being delayed. An automatic extension of last year's budget is not "orderly".</p>
<p>Dimension (iii): If the President (or equivalent very senior political figure, e.g. prescribed in the Constitution or public finance management legislation) is legally permitted to provide special dispensation (e.g. a special warrant) to allow execution of the draft budget to commence at the outset of the new financial year in the event of the legislature not having yet approved the draft budget, does this constitute approval of the draft budget.</p>	<p>No. Formal approval of the draft budget is usually through approval by the legislature of a draft bill (often known as the Appropriations Bill in Anglophone countries). The enactment of the bill allows the new budget to be financed through withdrawals of monies from the government's central fund (commonly known as the Consolidated Fund in Anglophone countries). The public finance management legislation (and perhaps also the Constitution) may contain a provision that only the legislature may approve withdrawals of public monies from the government's central fund. Special dispensation provided by law for the President to approve continued funding of public services pending legislative approval of the draft budget is not the same thing as legislative approval and the dispensation will typically only allow continued funding at last year's levels.</p> <p>In some country systems, the legislature may have the right to propose amendments to the draft budget presented to it by the executive and the executive (or perhaps the President) may have a right to veto the amendment. The legislature may have the right to counter the veto. Whatever the case, vetoes only result in delayed approval.</p>
<p>Dimension (iii): From which date should a delay be counted for score D?</p>	<p>Score D applies if the approval takes place more than two months after the start of the fiscal year (in two of the last three years).</p>
<p>What is meant by "ceilings"?</p>	<p>"Ceilings" refers to the indicative budget allocations issued to budget entities early in the budget preparation process as the basis for preparing detailed budget proposals. The final budget allocations to individual budget entities may subsequently be adjusted on the basis of the quality and justification of their detailed proposals.</p>
<p>Dimension (i): What is meant by a "rudimentary" budget calendar?</p>	<p>A clear budget calendar does not necessarily have to consist of one document. It can be contained in different documents. The crucial point is whether the actors in the budget preparation process know in advance their roles and the timing of the different stages of the process. This may not necessarily be consolidated in one document, but if the information is complete and established by law (and therefore well-known and fixed) it could be considered a clear fixed calendar. If some important elements of the calendar are disseminated informally, decided ad hoc and MDAs instructed "as you go", then it should be considered as a rudimentary calendar.</p>
<p><b>PI-12 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>Dimension (i): What is meant by "on a rolling basis"?</p>	<p>"On a rolling basis" means simply that multi-year forecasts are made annually and therefore the years of their coverage is overlapping. The more sophisticated aspect of linking such annual forecasts is included in the requirements for scores A and B ("Links between multi-year estimates and subsequent setting of annual budget ceilings"), but not for score C. Due to the need for links between a multi-year forecast in one year with the corresponding multi-year forecasting done during the previous year, it is not possible to score higher than a "C" in the first year of introducing a multi-year budgeting system.</p>

Dimension (i): What is meant by “ceilings”?	“Ceilings” refers to the indicative budget allocations issued to budget entities early in the budget preparation process as the basis for preparing detailed budget proposals. The final budget allocations to individual budget entities may subsequently be adjusted on the basis of the quality and justification of their detailed proposals.
Dimension (i): What is the implication of the brackets in terms of the description of requirements for scores A, B and C.	The content of the text within brackets is of the same status as all other description of the requirements.
Dimension (ii): Does a Debt Sustainability Analysis have to be conducted by the government, or can a DSA conducted by an external party (e.g. IMF) within the last 3 years count towards the assessment.	It depends on whether the external agency has conducted the DSA in agreement with the Government, perhaps as part of technical assistance to Government, and whether the Government accepts the findings of the DSA conducted on its behalf. If the answer to this is unambiguously yes on the basis of verbal and documentary evidence, then this should not reduce the performance rating.
Dimension (iii): What is meant by “statements of sector strategies” for score B and C? Scores A and D refer simply to “sector strategies”.	“Statements of ...” refers simply to the strategy documents. There is no difference in the meaning compared to the wording for scores A and D.
<b>PI-13 Query/Issue</b>	<b>Clarification</b>
Should the scope of PI-13 include social security contributions?	No. The definition of revenue and expenditure used in the PEFA framework follows the GFS 2001 manual. The manual (p. 178) defines four groups of revenue (taxes, social contributions, grants and other revenue). In principle, PIs 13-15 cover only the first group: “taxes”. One should be aware, however, that there are countries in which social contributions are collected when in fact they are taxes. Paragraph 4.22, page 39 of the 2001 GFS manual indicates the distinction between taxes and social contributions.  Note also that PI-3 covers all domestic revenue and not just taxes, while PI-7 correspondingly refers to all central government operations irrespective of the source of funding, i.e. including government managed social security schemes.
<b>PI-14 Query/Issue</b>	<b>Clarification</b>
Dimension (ii): Is the rating measured against (a) “penalties for non compliance with registration and tax declaration” (as stated in the first column); or (b) “all areas of non compliance” (as stated in the second column)?	The answer is (a) - the dimension is focused on registration and tax declaration, so “all” in the second column refers to all areas concerning registration and declaration. Non-compliance with payment obligations would be covered in PI-15 as part of the effectiveness in avoiding and collecting arrears.
Dimension (iii): Does an “A” rating apply to the situation where a documented audit plan is in place with clear risk assessment criteria, but the complexity of some of the problem areas is straining the capacity of the tax auditors?	An “A” rating applies as long as the tax audits and investigations are being reported on. The fact that the audit team may have capacity problems is not in itself a reason for awarding a lower rating, as long as reports indicate problems incurred in attempting to implement audit plans. The narrative could include a comment on the problems being experienced.
<b>PI-15 Query/Issue</b>	<b>Clarification</b>
Dimension (i): As regards the calculation of the debt collection ratio at the beginning of the financial year, does the percentage of tax arrears at the beginning of the fiscal year refer to the total stock of arrears in dispute or the amount of tax collection in that year which is subject to dispute?	The stock of tax arrears refers to the accumulated stock of arrears, not just to the arrears from the last fiscal year. Moreover the “gross” tax arrears include both arrears in dispute and non-disputed (but never-the-less unpaid) taxes due.

<p>Dimension (i): When determining the significance or insignificance of tax arrears, a criterion of 2% of total annual collections is applied. Does the 2% apply to (i) the total historical balance at the end of the year, against the percentage of collections during that year, or (ii) the balance of arrears generated during that year as a percentage of collections during that same year?</p>	<p>The threshold for significant tax arrears is based on the cumulative tax arrears as at the end of the last completed year, being less than 2% of tax collections for that year.</p>
<p>Dimension (iii): What is meant by reconciliation of tax assessments and arrears? Is this a reference to reconciliation against accounting records, implying accrual-based accounting?</p>	<p>The indicator dimension seeks to assess if the difference between tax assessed and tax received by the Treasury can be explained. It does not assume or imply an accrual based accounting system. The revenue administration (RA) would normally keep records on aggregate tax collections, and transfers to the Treasury in its accounting system. The RA should also keep records for each taxpayer about tax assessed, tax due and tax paid, but this may be done in other (possibly tax specific) data systems. The RA should be able to aggregate such information, so that it can report how much of assessed taxes is (a) not yet due, (b) in arrears (the difference between what is due and what has been paid in) and out of that how much is (b1) in dispute in appeals or other legal system, (b2) considered bad debt and (b3) in principle collectable, (c) collected by the RA but not yet transferred to the Treasury.</p>
<p><b>PI-16 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>What is meant by “atypical outflows” in the guidance text, 3rd paragraph?</p>	<p>The word “atypical” refers to expenditures that do not take place on a regular monthly or annual basis.</p>
<p>Dimension (i): What is meant by “updated”?</p>	<p>An update of the cash flow forecast requires re-estimation/re-scheduling of future cash flows.</p>
<p>Dimension (ii): How should this dimension be scored in the instance where the predictability of funds denominated in foreign exchange is much lower (e.g. one week) than the predictability of funds denominated in domestic currency (e.g. 3 months)?</p>	<p>The scoring convention is that the requirements for the grade have to be fully met. A “B” rating would be incorrect if the predictability of forex-denominated funds is less than quarterly, even if the proportion of expenditure denominated in foreign currencies is very low compared to the proportion of domestic currency-denominated expenditure. A lower rating should be scored representing aggregate predictability based on the weighted predictability of the two types of expenditure, the weights representing the proportions of domestic and foreign currency-denominated expenditure to total expenditure. For example, a “C” score would appropriately represent aggregate predictability based on a high percentage (e.g. 90%) of expenditure for which commitments can be made 3 months in advance and a low percentage (10%) of expenditure for which commitments can be made only 1 week in advance.</p> <p>The forex-denominated portion of expenditure may represent a small proportion of total expenditure, but nevertheless the unpredictable availability of forex for purchasing inputs could adversely affect the timeliness of total expenditure to a significant degree and ultimately the quality of service delivery. A serious forex availability problem may indicate that something is fundamentally wrong somewhere in the economy, perhaps related to the government’s economic policies and the way it manages its public finances.</p>

Dimension (iii): If there are many virement adjustments made by agencies within their appropriations with Ministry of Finance approval, do these count as in-year budget adjustments above the level of management of MDAs?	No. The dimension refers only to adjustments imposed by the MOF, not virement adjustments proposed by MDAs that do not cause MDA spending ceilings to be exceeded (even if these need MOF approval). Adjustments imposed by the MOF (perhaps requiring legislative approval of a proposed supplementary budget, see PI-27) may be in the form of cutbacks in spending ceilings for all or some MDAs in response to resource shortfalls and/or unanticipated requirements by some MDAs for extra funding, They could also be in the form of increases in spending ceilings as a result of higher than budgeted resource receipts.
Dimension (iii): How does an assessor determine whether significant in-year adjustments above the level of MDA management are done in a transparent and predictable way?	Documented procedures should be in place governing requests for virements, reallocations and changes in MDA spending ceilings, and consistent with the government’s stated budget priorities.
<b>PI-17 Query/Issue</b>	<b>Clarification</b>
Dimension (i): Is non-formalised debt (other than arrears on servicing of formal debt) such as expenditure arrears covered by this indicator?	No. This indicator covers only formally contracted debt and guarantees. Non-formalised debt is covered under PI-4 (Stock and monitoring of expenditure payment arrears). Including non-formalised debt under PI-17 would lead to duplication. The first paragraph under PI-4 in the Framework document indicates the items that would be included in a definition of expenditure arrears.
Dimension (i): Does reconciliation refer to the reconciliation of Ministry of Finance data with data of the Central Bank or data of the creditors.	The indicator refers to reconciliation between the government’s records and the records of the creditor institutions, irrespective of whether the Central Bank or the Ministry of Finance maintains the government’s debt records.
Dimension (ii): Do “government controlled project accounts” include ring-fenced projects executed by government project implementation units?	Yes. But it is only for an “A” score that all accounts have to be calculated and consolidated, whereas the requirements of scores “B” and “C” allow for some accounts not being included in that arrangement.
Dimension (ii): <b>CORRECTION</b> for score C	The words “and consolidation” should be removed as they contradict the last part of the sentence. (If the system does not allow consolidation, the balances cannot be consolidated)
Dimension (ii): Does “most cash balances” refer to value or number?	The capture of cash balances depends on the coverage of a system to capture government accounts. The actual balances in these accounts may vary from time to time. It is the number of cash balances, therefore, that is the basis for this dimension. It may be useful to discuss in the narrative of the report, the amounts and the active relative to dormant number of accounts involved.
Dimension (ii): What is the exact definition of “consolidation” of cash balances in this indicator?	Consolidation of cash balances exists when the government has information on the total of its cash and bank balances and can switch unused balances to meet overdrawn balances and minimize its borrowing costs. This requires that all balances are held centrally e.g. by the central bank (which may treat all government accounts as sub-accounts of one consolidated account and only apply interest charges and overdraft limits to the consolidated account balance), or that balances in outlying banks, such as commercial banks, are subject to electronic clearing and payment arrangements.
Dimension (ii): What is meant by “calculated”?	“Calculated” refers to the process of collating the data on cash balances held by MDAs in bank accounts and then obtaining a total figure by adding these up. The process is more difficult in a system of multiple bank accounts as there may be items in transit; the actual cash balance figure in an account may not fully reflect recent debits and credits.

Dimension (iii) requires that contracting of loans and issuance of guarantees be approved by a “single responsible entity”. In some countries, both the Treasurer and the Minister for Finance are able to approve guarantees for government business enterprises (GBEs) depending on the specifics of the legislation that applies to that particular entity. Is this criterion intended to capture this situation, or is it more targeted at situations where GBEs are able to enter into arrangements without the knowledge or approval of central Finance agencies?	The indicator dimension is targeting situations where different central government entities (e.g. Ministers of Finance, responsible line ministers, or Office of the President) may all be allowed to (or despite legislation to the contrary, actually do) issue guarantees for loans obtained by the central government or GBEs and AGAs. In the case referred to, it is necessary to consider the determinants of a single responsible government entity and determine whether the Treasury together with the Ministry of Finance form such an entity. The circumstances will differ with each country situation. A unified overview mechanism i.e. a mechanism that keeps track of the volume of guarantees being issued and ensures that the volume remains within any ceilings set may be a determinant to consider.
Dimension (iii): “Fiscal targets” which score A could be interpreted as looser than “limits for debt and guarantees” which scores B.	The specific fiscal targets referred to for a score “A” represent limits to total debt and total guarantees and part of a set of fiscal parameters which are determined jointly and possibly updated jointly if required by changes in macro-economic conditions during the year. The ceilings referred to for a score “B” may be more crudely fixed for the year with weaker links to the macro-economic framework.
Dimension (iii): Why are “criteria” referred to for scores A and C, but not for B?	While score A requires that “transparent criteria and fiscal targets” are applied, score C represents a situation where no guidelines, criteria and ceilings are applied. Score B refers to one criterion only, namely the limits set for total debt and total guarantees, and do not require that any other criteria (including guidelines or ceilings) are applied.
<b>PI-18 Query/Issue</b>	<b>Clarification</b>
Dimension (i): What is meant in score D by “the three lists”?	“The three lists” refers to the establishment list, the personnel records (or the nominal roll) and the payroll.
Dimension (i): What is meant by “directly linked”?	Directly linked means that for any change in the personnel database affecting the payroll status of an employee, a corresponding change is automatically made in the payroll.
Dimension (i): How should a situation be rated where there is no automated personnel database for the payroll system to check against, but nevertheless manual systems ensure data consistency and monthly reconciliation?	The indicator does not require an automated system to receive a high score. A well-managed manual database system may be better than an automated electronic system that is deficient in input controls and documentation.
Dimension (i): What is the difference between the terms “personnel database” and “personnel data”?	The terms “personnel database” and “personnel data” are used synonymously.
Dimension (iii): Clarification of the Score B reference to “the authority and basis for changes”.	It is insufficient that the authority and basis for changes are stated in the rules. They must also be applied in practice so that the actual authorization of and basis for the changes made are clear.
Dimension (iv): For A, B or C ratings, is it necessary that action is taken on the results of payroll audits?	An A rating requires that appropriate action is taken, as implied by the word “strong” in the text shown in the Framework document. A B rating indicates that appropriate action has not been taken or only to a limited agree. A C rating indicates that no action has been taken.
<b>PI-19 Query/Issue</b>	<b>Clarification</b>
Dimension (i): In order to score B or C, does the available data have to be sufficient to assess the method used? [This is implied by the wording of score D but not clearly stated.]	Yes, there must be reasonably complete data available to determine whether the benchmarks of 50% or 75% have been reached. If such reasonably complete data is not available, the score would be a “D”.

<p>Dimension (i): What is the scope of the “public procurement system” referred to in the first sentence of the first paragraph under PI-19 in the Framework document?</p>	<p>The public procurement system refers to the system for procuring goods and services of the government being assessed. The scope of the system would include:</p> <ul style="list-style-type: none"> <li>• centralized procurement, such as through a central tender board;</li> <li>• decentralized procurement through procurement entities in the government’s MDAs;</li> <li>• procurement by agencies other than MDAs (e.g. NGOs), where these are contracted to undertake procurement on behalf of the government; and,</li> <li>• procurement financed by donor project funds (perhaps through a PMU) provided that they use the government’s procurement system in its entirety and do not apply the donors’ procurement systems. Donor project payments, however, might be managed through the government’s own financial management system (perhaps through a special account) or the donor’s financial management system (i.e. the donor pays the contracted supplier directly).</li> </ul> <p>The scope excludes procurement fully or partially using donor systems and the procurement systems of autonomous extra-budgetary government agencies and state owned enterprises even if they receive transfers from the government’s budget.</p> <p>It is of no consequence if part or all of the public procurement system is run fully or partly under an externally financed technical assistance project though the text accompanying the rating might comment from a sustainability point of view.</p>
<p>Dimension (i): What modalities of procurement are counted as “open competition”?</p>	<p>Modalities may be defined differently in different countries, but normally only international competitive bidding and national competitive bidding are included as open competition. Limited competitive bidding, (such as selection from a list of approved contractors, “prudent shopping” and sole sourcing) are not considered open competition.</p>
<p>Dimension (ii): Score C does not refer to “regulatory requirements”. Is it assumed that such requirements exist?</p>	<p>To score a “C” it is assumed that regulations exist and do distinguish between competitive and less competitive methods of procurement, but that justifications for use of less competitive methods are not (or inadequately) made in accordance with these regulations.</p>
<p>Dimension (iii): Procurement process complaints can be taken to the law courts. Do these constitute an external body for resolution of complaints?</p>	<p>No, unless a special court, such as a commercial court, is set up to hear such cases. Recourse to the general law courts is not regarded as a procurement complaints mechanism.</p>

PI-20 Query/Issue	Clarification
<p>PI-20 concentrates on recurrent non-salary expenditure i.e. on goods and services and their related procurement arrangements. The indicator is silent about capital expenditure. Should capital expenditures be included?</p>	<p>The indicator should include capital expenditure since it is also part of “non-salary expenditure”. If capital/development expenditure is controlled by donor procedures, then the internal control systems applied through those procedures should not be assessed, as the performance indicators focus on performance of government systems, not donor systems.</p>
<p>Is internal control of expenditure financed from subventions to districts included in the scope for indicator PI-20?</p>	<p>If the districts referred to are deconcentrated units of central government, they should be considered the same way as the rest of central government. If they are separate legal entities, with own accountability systems through a local elected council or similar body, then they are not part of central government and their use of the subventions and the related PFM systems should not be included in an assessment of central government.</p> <p>If in the latter case the magnitude of such subventions is important from a national perspective, it may be decided to expand the scope of the entire assessment to include assessment of PFM systems at district level.</p>
<p>There appears to be a contradiction in the guidance text between item (b) in the first sentence and the second paragraph’s second sentence. What is the correct interpretation?</p>	<p>This sentence has been misinterpreted to mean that PI-20 only relates to controls on expenditure commitments and payment for goods and services. However, PI-20 covers the whole internal control framework (as set out in INTOSAI’s guidance on internal controls), including for procurement, assets management, records management, with the exception of controls over debt management, payroll management and management of advances, which are covered in PIs-17, 18 and 22. A clarification note below under dimension (ii) specifically outlines the scope of internal control systems.</p> <p>The second paragraph’s second sentence should be understood to mean: “This indicator therefore covers only controls relating to goods and services, casual labor, and discretionary staff allowances.”</p>
<p>Dimension (i). If there are problems with the accuracy and /or timelines of recording of commitments, should both indicators PI-20(i) and PI-24(iii) be penalized?</p>	<p>PI-20(i) is concerned only with the effectiveness of commitment controls, whereas PI-24(i) is concerned inter-alia with the availability of both commitment and payment data and PI-24(iii) is concerned with the accuracy of the data. Commitment controls may be very effective, but the data reporting may be weak or non-existent, and vice versa. The two indicators are measuring different things.</p>
<p>Dimension (i): How should this dimension be scored in the instance where commitment controls are in place but linked to a revised budget that has not been approved by parliament.</p>	<p>The answer to this partly depends on the extent to which the budget can be revised without prior parliamentary approval (see PI-27). The usual case is that reallocations within MDAs (through virements) are allowed up to a point without requiring prior parliamentary approval. If the revised budget only reflects changes that did not require prior parliamentary approval then an A or B score would be appropriate. If the revised budget requires prior parliamentary approval and commitment control checks are being conducted against the unapproved revised budget, then a C score may be appropriate.</p>
<p>Dimension (ii): What is the scope of “other internal controls and procedures”?</p>	<p>Other internal controls, excluding those specifically related to payroll controls (PI-18 dimension iii) and those related to revenue reconciliations (PI-15) and bank reconciliations (PI-22), cover: (in line with INTOSAI Control Standards):</p> <ul style="list-style-type: none"> <li>• <i>Authorisation and Approval Procedures:</i> Only valid transactions and events are initiated as intended by</li> </ul>

	<p>management. Procedures are documented and clearly communicated. Procedures include delegations of responsibility (e.g. signing powers) to lower level officials in the interests of efficiency.</p> <ul style="list-style-type: none"> <li>• <i>Segregation of responsibilities.</i> To reduce the risk of error, waste, or wrongful acts, no single individual or team should control all stages of a transaction or event. Segregation of responsibilities provides effective checks and balances. For example: (i) the person who proposes the use of funds for a particular item should not be the same person who approves the proposal; (ii) the staff preparing procurement tenders should not be the same staff that evaluates bids.</li> <li>• <i>Verifications:</i> Transactions and significant events are verified before and after processing. For example: (i) request for payment for a new vehicle should be accompanied by the pro forma invoice, purchase order, delivery receipt, final invoice and the forms indicating that the correct procurement procedures have been followed; (ii) once payment is approved, verification that the intended recipient receives the approved amount of money in a timely fashion.</li> <li>• <i>Controls over use of IT.</i> (i) <i>General controls:</i> entity-wide security program planning and management, access controls, controls on development, maintenance and change of application software, system software controls, segregation of duties, service continuity; (ii) <i>Application Controls:</i> policies and procedure relating to separate, individual application systems, designed to prevent, detect, and correct errors and irregularities as information flows through information systems.</li> <li>• <i>Controls over access to resources and records:</i> e.g. government vehicles, computers, furniture, and stationery. Access to resources is limited to authorized individuals who are accountable for the custody and use of resources. A real asset register may be part of the control system.</li> <li>• <i>Controls over information and communication systems:</i> To ensure full documentation of all transactions (e.g. financial transactions) and significant events.</li> </ul> <p>The various internal control systems noted here should be well-documented and available to all staff.</p>
Dimension (iii): What is the difference between a B and C score?	The difference is in the degree of unjustified use of simplified/emergency procedures. If unjustified use occurs occasionally without becoming a major concern, the score is B. If unjustified use is a major concern, the score is C. [If unjustified use is rampant, the score would be D].
<b>PI-21 Query/Issue</b>	<b>Clarification</b>
Dimension (i): Can “systemic issues” as defined here be drawn from transaction level testing?	The performance of transaction level testing can be a useful tool in study and evaluation of internal control systems, if such testing is planned with that purpose in mind (e.g. risk-based selection of areas for study and design of samples for testing). Transaction level testing may not, however, be sufficient to evaluate systemic control issues (e.g. control systems and procedures should be assessed for completeness and checks to ensure that all operations will result in the appropriate transaction entries).
Dimension (ii). In certain countries it is not the practice for the Ministry of Finance to have an internal control mandate (other than for its own operations).	The Ministry of Finance is expected to be an interested party in monitoring how financial management systems function, since it is responsible for all the financial aspects of government, which in an

<p>The Supreme Audit Institution (SAI) in such a country is the regulator of internal controls and internal audits. In this type of institutional setting and in connection to dimension (ii), can the phrase “the Ministry of Finance and the SAI” be interpreted as “the Ministry of Finance or the SAI”?</p>	<p>international setting would encompass those issues which an internal audit role would be expected to report on, being namely : Reliability and integrity of financial and operational information; Effectiveness and efficiency of operations; Safeguarding of assets; Compliance with laws regulations and contracts. The role of the SAI would not normally be to regulate internal controls and internal audits.</p> <p>The dimension is examining the frequency and distribution of the internal audit reports in relation to compliance with internationally recognized “good practice”. So distribution of the reports to the Ministry of Finance is essential and is required for scoring a “C” or higher.</p>
<p>Dimension (ii): How to score if the reports are submitted only to the finance ministry (or some other control authority) and not to the audited entity?</p>	<p>This may happen if the internal audit function for all ministries is located in the finance ministry. If the finance ministry submits the report without change to the audited entity, then the score would be A or B. If the audited entity never receives the report, then a D score is appropriate.</p>
<p>Dimension (ii): What is meant by “most government entities” in the requirements for a C score?</p>	<p>Refer to the text under the B score: “Most government entities” means “most audited government entities”.</p>
<p>Dimension (iii): How is this dimension scored if there is no internal audit?</p>	<p>In the absence of internal audit and internal audit recommendations, the score is D. As dimensions (i) and (ii) would also be D, the overall score would be D.</p>
<p><b>PI-22 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>Dimension (i): If reconciliations are performed only on active accounts, can an A rating (with respect to all government accounts) or a B rating (with respect to all Treasury accounts) be given?</p>	<p>Yes, reconciliations are required only on active accounts, provided that the inactive accounts were reconciled while they were still active.</p>
<p>What does the reconciliation exercise entail?</p>	<p>Reconciliation includes the identification of all mismatches and their amounts (and their nature) between the government’s records of the accounting data held on its books and the government’s bank account data held by banks. The subsequent clearance could be a long process, which falls outside the scope of the time benchmarks indicated under this dimension in the Framework Document.</p>
<p><b>PI-23 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>Availability of information on resources received by service delivery units assesses the extent to which funding is received by the most common front line service delivery units relative to the amount of total funding that is provided to that sector. Is this intended to capture where failings in the public financial management systems between or within levels of government are resulting in funds not being received for front line service delivery? And does this mean that the indicator applies to all levels of government in a particular country, and not just the central government?</p>	<p>The indicator cuts across different levels of government in cases where central government provides earmarked grants to lower levels of government for the purposes of supporting a specific type of service delivery. Central government should in such cases be able to track (through accounting systems or periodic surveys) how much of its subsidies actually reach the targeted service delivery units. Where central government provides unconditional grants to lower level government, there is nothing to be tracked. In the latter case, general statistics on the budget and actual expenditure at lower level government may be desirable (ref. PI-8 dim (iii)) but would usually specify data by functional classification and not by type of service outlet. This indicator is not applicable to assessment of a central government which does not directly provide primary services and which does not finance such services through earmarked transfers to lower level governments or other service providers.</p>
<p><b>PI-24 Query/Issue</b></p>	<p><b>Clarification</b></p>

Does the indicator assess whether the information goes to Cabinet?	No. The distribution of the reports is not assessed by this indicator. [If the reports are produced and used by the finance ministry, the Cabinet would always be able to demand copies, if it so wishes].
Does the indicator apply to the internal information available to the MOF on each MDA or to the compilation released officially by MOF?	The publication of the information is covered in PI-10 and not in PI-24. PI-24 is focused on the preparation of comprehensive budget execution reports for government's internal use, i.e. providing an overview of execution in order to take management decisions on a well informed basis. Availability of the information in terms of separate reports from the budget entities would meet the requirement only to the extent that such information is complete and consolidated to provide a full overview.
If PI-4 rating reflects concerns about quality of data on payment of arrears, should PI-24 be penalised too for the same reason?	PI-24 calls for information about commitments and payments. It does not demand information on arrears. The latter requires registration of unpaid invoices for which payment is due, and that issue is covered neither by commitment information nor by payment records. So there would not be double penalty.
Dimension (i): What is meant by "deconcentrated units" in the last sentence of the first paragraph of the guidance text, "Accounting for expenditure made from transfers to deconcentrated units within central government (such as provincial administrations) should be included."	The reference to deconcentrated units of central government is made because some governments implement large shares of their services and related expenditure through deconcentrated local administrations or autonomous government agencies (AGAs). If only transfers to entities and not the actual expenditure of such entities are included in budget execution reports, these reports are not going to give a true and useful picture of the progress and status of budget execution. In scoring the dimension, each component of the system should be looked at separately (e.g. expenditures within central government as one component, transfers to deconcentrated units as another) and then weighted according to their relative importance in the budget in order to come up with a rating for the dimension.
Dimension (ii): How should this dimension and the overall indicator be scored if the government only produces one quarterly budget execution report per year?	The rating for the dimension would be D. The overall rating could be D+ if the other dimensions of the indicator score higher.
<b>PI-25 Query/Issue</b>	<b>Clarification</b>
Dimension (i): What is meant by "consolidated government statement"?	This dimension is concerned with the coverage of central government and the coverage of revenue, expenditure, assets and liabilities. The Framework uses the term "consolidated government statement" because in some countries, individual MDAs prepare their accounts, which may or may not be consolidated by the MOF.
Dimension (i): What is meant by "full" information for A and B scores, and in particular should "full" information on revenue include external grants and user charges?	<p>Full information, in terms of this dimension is defined as full information on revenue, expenditure and financial assets/liabilities, including disclosure of arrears of revenue, arrears of expenditure, financial assets and public debt, either in the balance sheet (in an accrual-based system) or by way of notes to the financial statements (in a cash-based system).</p> <p>Off-budget operations, which are neither covered by the budget, nor managed through the Treasury system, therefore, do not have to be included in "full" information (e.g. revolving funds or collection of a dedicated tax which is transferred directly from the collection agency to an autonomous user).</p> <p>User charges and external project funding, which are included as revenue and expenditure in the budget, should be included in the "full" information for financial statements, even if in practice they are</p>

	not channeled through the Treasury budget management system.
Dimension (i): Are AGAs to be included in the consolidated government statement?	AGAs are autonomous and operating their own accounting systems outside the central government budgetary system. Therefore, they prepare their own accounts statements and do not have to be included in consolidated government statements (though some governments do prepare consolidated statements for the general government sector or the entire public sector). The extent to which the central government receives such statements is covered in indicator PI-9 and the coverage of external audits of the statements is covered in PI-26.
Dimension (ii): How should this dimension be interpreted in systems where there is no external audit for which the accounts are submitted?	The government's annual financial statements should be submitted directly to the legislature (which may then choose to seek an external audit, see PI-28). The same time benchmarks apply, as indicated in the Framework document. If the government does not submit its statements to the legislature, then the score for this dimension is D. The score for PI-26 is also D.
Dimension (iii): What is the difference between the requirements for scores A and B?	There is no difference. The indicator score in the A-B range would be determined by the other two dimensions (ref. also clarification to PI-27 dimension (iii)).
The guidance text (first sentence) has a different interpretation in the French version than in the other languages as to what accounts will accompany the "loi de reglement" as supporting documentation.	The "loi de reglement" may be supported by either the CGAF or by "un etat d'execution du budget incluant la balance definitive des comptes". This is reflected in the French version of the Framework. The "comptes de gestion" referred to in the other language versions are unlikely to support the "loi de reglement" due to their disaggregation, level of detail and consequently their delayed completion.
Dimension (iii): Should annual financial statements prepared according to IPSAS for cash-based systems include financial information on externally-funded projects?	The cash basis IPSAS specifically requires inclusion in a separate column of such expenditures made on behalf of the Government. They are to be treated as payments by the Government and simultaneous receipts of grant or loan. They are normally controlled by the Government as such payments cannot be made except on request by the Government. If a government transparently excludes such expenditures from the annual statements, it is not complying with IPSAS (also see text under dimension (i) above).
<b>PI-26 Query/Issue</b>	<b>Clarification</b>
Why is no reference made to independence of the external auditor in the scores for this indicator?	Independence of the external auditor is an audit standard (ref INTOSAI Code of Ethics ad Auditing Standards, section 2.2). Independence is therefore covered where the scores for dimension (i) refer to "adherence to auditing standards".
Dimension (i): If the external auditor has no right of access to taxpayer records and therefore cannot effectively audit tax revenues, does this represent a scope issue that would affect the scoring of this dimension?	Yes. To score an A rating would require that the scope of the external audit is not limited in principle in this way. In practice, the external auditor may not exercise this scope as the tax administration agency has the operational right to access taxpayer records and to manage internal controls and systems in support of taxpayer compliance with tax laws. The internal audit unit within the tax administration agency would also check that internal controls and systems are working effectively in support of taxpayer compliance (see PI-14). Thus the external audit office's decision whether to exercise its scope in this way would be based in part on evidence of shortcomings in the management of the tax administration agency and its internal audit function.
Dimension (ii): How should scoring of this dimension take into account delays in submitting information for audit, for example, information on extra-budgetary	The Framework requires delays in submission of audit reports to be measured from the date of the audit office's receipt of the respective statements. Where audit reports are made separately

funds?	on different agencies/funds of central government, the overall delay may be assessed as a weighted average of the delays on the respective agencies/funds, weighting on their expenditure.
Dimension (ii): Please clarify the meaning of “and in the case of financial statements from their receipt by the audit office”. What time period is being referred to?	For the A score (and, equivalently, in the case of the other scores), the sentence should be interpreted as: “Audit reports are submitted to the legislature within 4 months of the end of the period covered and, in the case of financial statements, <i>within four months</i> from their receipt by the audit office.
Dimension (iii): How should this dimension be scored where a response is made only after parliamentary review?	This dimension is concerned only with response to the audit report (management letter or final report to the auditee), not the response to any parliamentary report as the latter is scored under PI 28 (iii). The response remains valid for scoring the dimension irrespective of whether the response is made before or after parliamentary review.
<b>PI-27 Query/Issue</b>	<b>Clarification</b>
Dimension (i): If the legislature’s review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue, but only at a stage where detailed proposals have been finalized, is the score B or C?	It is of very limited, if any, use to review the fiscal policies and aggregates at a time when the detailed budget proposals have been finalized with little scope for timely revision. The score “B” could be justified if there is so much time allowed from the submission of the budget proposals to the legislature until the deadline for final budget approval that the executive, on the basis of adjusted aggregates, is able to meaningfully revise the detailed proposals and timely re-submit the detailed budget proposals to the legislature. If this is not the case, the score would be a “C”.
Dimension (iii): The requirements for scores B and C are the same. How should that be interpreted?	When the same calibration applies to two scores of a dimension, it means that the overall indicator score is determined by the score of the other dimension(s) of the indicator. If indicator PI-27 dimension (iii) fulfills the requirements for scores B/C, then a “B” applies if the other dimensions scores B or higher, and a “C” applies if the other indicators score C or higher. If any other dimensions score a D, it will not make any difference as the indicator score will become a D+ in any case.
Dimension (iii). Legislative scrutiny of the annual budget law looks at the adequacy of time provided for the legislature to review the budget proposals. This appears to reflect a budget process where the annual budget is negotiated through the legislature, rather than the Westminster system where the budget is presented to Parliament largely as a “fait-accompli”. What sort of legislative process is this indicator intended to capture?	The indicator seeks to capture elements of good practice in many diverse systems across countries (where the two systems mentioned represent some extremes). Whilst the indicator does not try to promote the extensive budget formulation powers of e.g. the US Congress and the lengthy congressional debate period (up to six months), it is based on good practice being a system in which the legislature has a clear role and adequate time (defined as at least two months) to debate the budget proposal and offer its views and counter-proposals to the executive. Whether the executive is obliged to change the budget accordingly is not an issue for the indicator.
How should the term “respect” be interpreted?	“Respect” may be defined as the legislature’s effort to observe its own procedures for reviewing the draft budget and the executive’s effort to observe the legislature’s procedures. In the case of the latter, the executive might disregard the review process and any recommended amendments arising from this and start to implement the draft budget in the form that was submitted to the legislature (possibly without publishing it). In this case, dimension (ii) would warrant a low rating.  Dimension (iv) would also warrant a low rating as the fact that the Ministry of Finance uses its own version of the budget can be considered as an in-year amendment to the budget that could have reflected the legislature’s recommendations but didn’t; rules

	regarding in-year budget adjustments in this case are rudimentary and unclear.
Dimension (iv) What documents would typically contain “clear rules”.	These rules would typically be contained in the public finance legislation and accompanying regulations. The rules should indicate: (i) the scope and procedures for adjustments within MDA budget ceilings without requiring prior MOF approval; (ii) the scope and procedures for adjustments within MDA budget ceilings that require prior MOF approval, but not prior legislature approval; (iii) the scope and procedures for in-year adjustments of MDA budget ceilings that require MOF (and perhaps Cabinet) prior approval but not prior legislature approval; and (iv) the scope and procedures for in-year adjustments of MDA budget ceilings that require prior legislature approval (also ref. PI-16).
<b>PI-28 Query/Issue</b>	<b>Clarification</b>
Can PI-28 be scored if the country’s PFM system does not include an external audit function (i.e. PI-26 scores D)?	Yes. A well-functioning legislature would want to ensure that audits do take place in one form or another. If the legislature does not organize an external audit of the annual financial statements that government submits to it (see PI-25), the legislature is not fulfilling its role of ensuring the accountability of the executive and should receive a D rating.
Dimension (i): Does a PAC review/report constitute scrutiny by the legislature, or does that require legislative debate?	An audit review by the PAC or any other mandated committee should be tabled in the full chamber of the legislature in order to constitute a completed scrutiny.
Dimension (i): What is meant by “usually” in the calibration table?	”Usually” means that scrutiny has been completed of all audit reports, received by the legislature during the last three years, with the exception of only a few audit reports or of audit reports of little significance.
<b>D-1 Query/Issue</b>	<b>Clarification</b>
Dimension (ii): How exactly should the calculation be done?	To assist in processing the data for scoring of the indicator a calculation model (spreadsheet) has been placed on the website.
Dimension (ii): The requirements for A and B are the same. How should this be interpreted?	When the same calibration applies to two scores of a dimension, it means that the overall indicator score is determined by the score of the other dimension(s) of the indicator. If indicator D-1 dimension (ii) fulfills the requirements for scores A/B, then the indicator will score an A if dimension (i) scores A, and it will score B if dimension (ii) scores B.

<p>How should the indicator be assessed if the donors do not provide a forecast for budget support in total and/or for the quarterly disbursements?</p>	<p>Where donors have not made commitments to deliver budget support and have also not provided any forecast of expected budget support, the government has no basis on which to include budget support disbursement in the budget. The indicator therefore should not be scored at all.</p> <p>Where donors have made commitments accompanied by expected disbursement timing, but do not specifically coordinate a forecast for budget support and submit this to the government, the sum of the individual commitments for the fiscal year could be considered the forecast for the year on which the government can base its budget estimates. This would form the basis for assessing dimension (i).</p> <p>If donors have made commitments to provide budget support for the fiscal year, but do not provide a forecast of budget support disbursements quarter by quarter (individually or jointly), dimension (ii) will score a D. However, in cases where there is an agreement that the government can draw on budget support on the basis of reimbursement of expenditure with no other conditions attached prior to disbursement, the government has control over the amounts it will receive. Therefore, quarterly disbursement estimates may not be required and dimension (ii) would score an A.</p>
<p>Dimension (ii): The in-year delay of budget support can exceed 100%. How should that be interpreted?</p>	<p>The calculation is based on the percentage of disbursed budget support that is delayed and the number of quarter of such a delay. This means that if all budget support is delayed by one quarter the total delay will be 100%. Correspondingly if all budget support disbursements are delayed and the delay in all cases is by 3 quarters (from quarter 1 to quarter 4), then the total delay can reach 300% (which is the maximum).</p>
<p><b>D-2 Query/Issue</b></p>	<p><b>Clarification</b></p>
<p>What total do the percentages in the calibration of dimension (ii) refer to?</p>	<p>The percentages refer to the externally funded projects and programs for which budget estimates are presented in the approved annual budget i.e. to the number of projects/programs weighted by the size of budget. It is not a question of whether the actual disbursements reach a certain percentage of the budget estimates. Actual reporting could exceed 100% in cases where donors report on projects/programs that were either known but not incorporated in the budget estimates or agreed and initiated only during the budget year.</p> <p>It is important to note that the indicator only refers to externally-funded projects and programs for which budget estimates are presented in the approved annual budget (including the case where donors finance part of the Public Investment Program and this is effectively the government's development budget, even if it is documented separately). Reporting on disbursements of aid against projects that are not in the government's budget/PIP is not covered by this indicator.</p>
<p>If government receives information on project disbursements not from the donors directly but from PIUs and/or banks and/or the recipient institution, does this count in regard to the scoring of D-2?</p>	<p>The information on disbursements under donor-financed projects (including offshore project spending, such as payment to suppliers, contractors and consultants and aid –in-kind) ultimately comes from the donors. Whether the information comes directly from the donors to the government, or indirectly via PIUs/banks/recipient institutions is not relevant for the purposes of scoring this indicator. Nevertheless, the data received from these sources should eventually be reconciled with donor reports.</p>
<p><b>D-3 Query/Issue</b></p>	<p><b>Clarification</b></p>

Do National Procedures include procedures that are supplemented by donor additions?

No. National procedures may appear to be followed, but donors may impose their own requirements as additional procedures (e.g. no objections at different stages of procurement processes). Such cases cannot be rated as following national procedures.