



Timor-Leste Public Financial Management Performance Report

February 2007



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Table of Acronyms and Abbreviations

AAP	Annual Action Plan
ADB	Asian Development Bank
AGA	Autonomous Government Agencies
ASYCUDA	Automated System for Customs Data
BPA	Banking and Payments Authority
COFOG	Classification of Functions of Government
CAVR	Commission for Reception, Truth and Reconciliation
CDCU	Capacity Development and Coordination Unit
CFET	Consolidated Fund for East Timor
CoM	Council of Ministers
CPV	Cash Payment Voucher
CSA	Civil Service Act
CSB	Combined Sources Budget
EC	European Commission
FEs	Forward Estimates
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GoTL	Government of Timor-Leste
GRIMS	Government Reporting and Information Management System
HRMIS	Human Resource Management Information System
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INAP	National Institute for Public Administration
INTOSAI	International Organisation of Supreme Audit Institutions
MDAs	Ministries, Departments and Agencies
MSA	Ministry of State Administration
MDGs	Millennium Development Goals
MoPF	Ministry of Planning and Finance
MSA	Ministry of State Administration
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NDPEAC	National Directorate for Planning and External Assistance Coordination
NDPS	National Directorate for Public Service
PEFA	Public Expenditure and Financial Accountability
PMF	Performance Management Framework
PFM PR	Public Financial Management Performance Report
PI	Performance Indicator
PFM	Public Finance Management
PMIS	Personnel Management Information System
PSC	Public Sector Committee
PSM	Public Sector Management
OTJ	On-the-job training
OPM	Office of the Prime Minister
QRM	Quarterly Reporting Matrix
REA	Registry of External Assistance
REM	Reporting and Evaluation Monitoring



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SIP	Sector Investment Program
TFET	Trust Fund for East Timor
TIN	Tax Identification Number
TLRS	Timor Leste Revenue Service
TSP	Transition Support Program
UNAMET	United Nations Mission in East Timor
UNDP	United Nations Development Program
UNMISSET	United Nations Mission of Support to East Timor
UNTAET	United Nations Transitional Administration for East Timor



Summary Assessment

This section provides a brief strategic picture of PFM performance, including the extent to which the PFM system enables achievement of fiscal discipline, strategic allocation of resources and efficient service delivery. It is firstly concerned with PFM performance, then impact of PFM weaknesses and finally the PFM reform outlook.

Integrated Assessment of PFM performance

1. **Credibility of the budget** - The Timor-Leste PFM system includes a budgeting system which is very ambitious on aggregate projections when compared to actual cash expenditure outcomes. This has been most attributable to the lack of strength of capacity in budget execution. Security problems did have a negative impact in 2006 as staff and advisors were not at work at the Ministry of Planning and Finance (MoPF) and most line ministries for some weeks. Once spending figures are corrected for overstatement attributed to commitments, budget execution, i.e. cash outlays compared to budgeted appropriation, is very low. The brunt of this under spending is capital development appropriations. The capacity constraint combines with poor communication from MoPF, centralised expenditure and procurement controls and the time taken by Treasury staff in processing documentation to ensure that the progression of capital development works in all forms of infrastructure occurs at a much slower rate than that envisaged in the Government budget papers.
2. **Comprehensiveness and transparency** - The Government Budget was robust in terms of getting practically all Government Revenues and Expenditure into the Budget Papers and documenting the total fiscal risk posed. The fiscal risk oversight is quite complete. Its economic reporting is good as demonstrated in the quality of the material tabled in the budget papers. Financial statements on expenditures or budget out turn data are generally the subject of timely reports but tend to be based on misleading data which overstates expenditure and budget execution progress. The comprehensiveness of the annual accounts was compromised in 2005-06 by the removal of Petroleum Fund receipts and the balance held in investments by the Petroleum Fund from the financial statements. Government receipts and financial assets are now very materially understated.
3. **Policy-based budgeting** - While the budget process requires estimates to be based on Ministry Annual Action Plans(AAPs) prepared with due regard to government policy as expressed in the National Development Plan(NDP) and Sector Investment Plans(SIPs), the quality of linkage with SIPs and ministry AAPs tends to be weak. The budget process does involve line agencies and the political leadership in an appropriate and timely manner. The budget papers do contain forward estimates of recurrent revenues and expenditures. However capacity constraints and a lack of planning and focus on how to manage capital development works compromises effective implementation of the policy based budgets.
4. **Predictability and control in budget execution** - While the budget is implemented in an orderly and predictable manner and there are significant controls placed on the release of public funds, these are not of optimal effectiveness. While the format of



regular reports and information disseminated on revenues and expenditure should be adequate to enable good decision-making, enforcement of transaction controls for management and reporting purposes, they do not achieve these objectives. The shortcomings in the internal control framework include the lack of availability of financial reports suitable for management analysis and the fact that efficiency, effectiveness and value for money audits are not done. The variation in classification between those used for budget and the chart of accounts in the Free Balance system is a real problem. Budget execution is partially constrained by procedures and controls and even more by capacity constraints. Efficient budget execution is also constrained by line item controls which increases the paperwork required for officials trying to manage programs or activities. These controls have included centralisation of all procurement to the MoPF until late 2006 when some delegation to line ministries commenced. Capacity for effective domestic revenue collection requires further development but this does not impact budget execution due to the level of collections from petroleum revenue.

5. Accounting, recording and reporting - The accounting and reporting system's integrity and robustness is compromised by accepting proposed estimated transactions as expenditure. While the cash flow statement is corrected for this problem, its integrity is compromised by recording payments made in respect of these types of transactions from prior years as "other expenditure". All other financial statements significantly overstate expenditure. The problem is becoming material as USD36.8 m of the total expenditure of USD 119.8m in the 2005/06 year represented these so called "commitments", which they were generally not. Recording can also be a problem as Treasury has responsibility for processing all payment vouchers and the time taken to do this is variable. Bank reconciliation tends to be done as a once a year exercise only which will facilitate the accrual of incorrect data. Meaningful reconciliation of revenue data against bank collection and revenue information system data is not done which seriously compromises data integrity. Financial statements are unfortunately prepared in Excel spreadsheets rather than from the Financial Management Information System. Payroll is computed in a separate system which is not linked to the FMIS or a personnel database as yet; all of which creates a material risk of error in financial statements.
6. External scrutiny and audit - While the annual accounts are subject to scrutiny through a financial audit conducted by external auditors, other key important external audit activities like performance audits are not conducted. Current external scrutiny of the performance of government is insufficient. A management letter is prepared by the external auditors which conduct the financial audit and is made available to the Prime Minister and the Council of Ministers. Evidence of follow up on any recommendations was not available.

Assessment of Impact of PFM weaknesses

GoTL overall budget preparation and economic reporting tend to be handled quite well. Aggregate fiscal discipline is strong. Budget preparation and annual planning at agency level requires improved linking of these activities to improve service delivery and capital investment.

It is on the strategic allocation of resources and efficient service delivery that the public finance system fails to deliver. Lack of capacity combined with an overly centralised and controlled financial procedural framework has constrained capital development spending



activity. The recent relaxation of controls in pilot ministries will only partially address the problem in the short run as capacity building in pilot ministries is required to make the process effective.

While transaction based controls may be excessive, the overall control framework is compromised by the current programming of the FMIS. The system's recognition of amounts as expenditures before they could be recognised as an expense or expenditure on any accounting definition from generally accepted accounting principles or even IMF GFS is a major flaw.

The fact that management reports other than total spending including commitments against appropriation are not produced from the FMIS is a primary missing link in the internal control environment.

The control framework is also materially weakened by the non segregation or separation of responsibilities for the personnel database, payroll administration, expenditure release, information system programming, the accounting recording and reporting system and the management of external audit. All of these responsibilities are currently managed by the Treasury directorate of the MoPF.

Prospects for Reform planning and implementation

While positive PFM reform or continual improvement has continued on budgeting and procurement, constraints to effective budget execution require difficult wholesale reform and changes to controls, systems, amalgamation of the budget classification and treasury chart of accounts and major changes to information systems.

The commitment to improved budget execution though improved capacity building has been the subject of key messages from the GoTL.

The World Bank designed Planning and Financial Management Capacity Building Programme (PFMCBP) has been the result of a comprehensive assessment of PFM objectives and needs carried out jointly with the Government and development partners. It does build on pre-existing projects and interventions in the area and has taken account of lessons learned from activities facilitated by the EC, World Bank, AusAID, ADB and UNDP since independence.

The PFMCBP should facilitate necessary reforms and capacity building.

Many of the relevant weaknesses and issues are currently being addressed by senior officials and advisors. This includes the better management of capital works spending; and the estimated transaction amounts now wrongly recorded as commitments and then the commitments which are wrongly recognised as obligations. Senior Treasury officials do also have plans to reconfigure the FMIS and ensure payroll is directly computed into the FMIS.

Detailed plans to address the major weaknesses in the control environment which should be firstly concerned with the programming and use of the FMIS do not exist as yet. This should initially involve combining budget classification and budget execution codes into one chart of accounts, factoring in program and activity codes and then mapping all of these codes into GFS economic and functional classification codes.



The prospects for effective reform and improved budget execution may be good in the long run. The Budget execution problem has been the subject of concern and reform for some years without significant improvements being made. The resource input required for facilitating improved capacity, particularly in the management and execution of capital works appears to very large and long run.



1 Introduction

The European Commission (EC) appointed Mr. Richard Walsh from the Linpico Company to carry out a performance review of the Timor-Leste Public Financial Management (PFM) system in accord with the Public Expenditure and Financial Accountability (PEFA) PFM Performance Measurement Framework (PMF) during January and February 2007.

The EC has committed funds to Institutional capacity-building to better execute the budget and deliver services in the Government of Timor-Leste (GoTL) in its EC Timor Leste Country Strategy Paper.

The terms of reference which form Attachment 2 to the report indicate that Mr. Walsh was required to produce three outputs in the form of an EC draft Project Identification Fiche, a draft Financing Proposal for the EC contribution to PFM in the GoTL and a report covering assessment of current GoTL performance with its

- Legal framework
- Revenues
- Debt management
- Scope of the budget
- Budget preparation and formulation
- Budget execution
- Accounting and reporting
- External scrutiny and audit, and
- Organisation and capacity for reform

The EC draft Project Identification Fiche was tabled in January 2007.

In a telephone conference between EC officials and Mr Walsh in December 2006, it was agreed that the third output would be best done in the form of a PEFA PFM Performance Report (PR).

The PEFA PFM was seen as useful in facilitating decision making on whether to allocate funds to a specific project or to contribute to the World Bank (WB) and GoTL designed Planning and Financial Management Capacity Building Programme (PFMCBP).

Based on an early draft of the PFM assessment, the consultant provided the EC with a draft Financing Proposal for an EC contribution to PFM through the WB GoTL PFMCBP IN February 2007.

The PFM PMF is made up of a set of indicators for a country's PFM system for measuring and monitoring results over time designed by the PEFA Program based in World Bank. PEFA is a multi-donor partnership including the EC, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the Royal Norwegian Ministry of Foreign Affairs, the French Ministry of Foreign Affairs and the IMF.

The dimensions of PFM that the Performance Indicators assess are

1. Credibility of the budget,



2. Comprehensiveness and transparency,
3. Degree to which budget is prepared with due regard to government policy,
4. Predictability and control in budget execution,
5. Accounting, recording and reporting,
6. External scrutiny and audit operations, and that
7. Donor practices in country are appropriate.

1.1 Objective of the PFM-PR

The overall objective of the report is to provide all stakeholders with an assessment of the PFM using PEFA methodology and to facilitate agreement between the GoTL and the external stakeholders on the current stage of development and performance of the GoTL PFM system.

The objectives of the PMF are to:

1. Enable an integrated and comprehensive assessment of PFM performance.
2. Demonstrate progress in PFM performance over time, based on a regular, rigorous, evidence-based monitoring by domestic and international stakeholders
3. Provide a common information pool on PFM performance and contribute to streamline donor information requirements, so as to allow increased focus on reform implementation, capacity-building and results on the ground.

1.2 Process of preparing the PFM-PR

1.2.1 Methodology

The assessment has been made for the 3 year period ended 30th June 2006 based on a review of documentation and interviews with stakeholders. Programme assessments and technical assistance reports which looked at GoTL budget execution and capacity building formed the initial information base for the assessment. The World Bank Project Appraisal Document on the Planning and Financial Management Capacity Building Program(PFMCB) formed a key reference source.

Other relevant key documents examined included the Timor-Leste National Development Plan, General Budget of the State, Annual Financial Report and Accounts and the IMF Country Report Timor-Leste 2005 Article IV Consultations. The World Bank Country Assistance Strategy, Governance Framework and reports on Budget execution were also valuable. A schedule of reference documents is provided at Attachment 4.

Availability of officials and the provision of information from the Ministry of Planning and Finance (MoPF) Budget Division, Customs, Timor Leste Revenue Service (TLRS), Procurement Service, Administration and Information Technology, External Assistance and Coordination and Internal Audit were excellent. Follow up meetings were held with these officials as required to check on observations and findings.

Obtaining information on some aspects of Treasury and the timely release of annual accounts information proved slightly difficult and Treasury did not enable access to the external auditors who were in Dili for some of the duration of the mission. The external auditors' management letter was not sighted by the consultant.



People involved in the Planning and Financial Management Capacity Building Program were aware of the importance of the PEFA PFM PR as they form a significant part of the baseline performance indicators for that 5 year project.

Consultations were not held with the Minister due to ill health or the Vice Minister due to other commitments.

There was interest in the MoPF in setting up a workshop to explain the PEFA process and discussion of the draft performance indicator scores but as officials and the consultant were not able to secure an interview with the Minister or Vice Minister to approve such a workshop it was not held.

The draft report was tabled with the development partners and valuable observations and critique were collected from MoPF advisors and officials from the EC, WB and IMF. The WB was also very helpful in providing many reports on GoTL budget execution issues and other background material which was of great assistance.

Mr. Walsh interviewed MoPF staff in all of the relevant areas to the PEFA PMF, senior staff in other Ministries involved in governance as well as Finance Directors in the Ministries of Health, Education and Agriculture. Very positive consultations were conducted with the Provedor of Human Rights and Justice whose role includes addressing corruption and promotion of good governance and the office of the Inspector General which has responsibilities for various investigations commissioned by the Prime Minister.

Mr Walsh received an excellent brief from the Vice Minister of State Administration on the GoTL plans for improved personnel management, decentralisation and capacity building.

He also met with the development officials from the EC, World Bank, IMF, ADB, the Portuguese Delegation, UNDP, NZAID and AusAID. A schedule of persons consulted is provided at Attachment 3

1.2.2 Scope of the assessment

The assessment covers all government expenditure. Depending on the questions and indicators involved they have generally referred to the amounts appropriated from the consolidated fund of East Timor and in some case excluding and other cases including the grants to the autonomous agencies. The autonomous agencies are -

- Civil Aviation
- Ports Authority of Timor-Leste
- Electridade de Timor-Leste, and
- The Institute of Equipment Management

Performance Indicator PI-8 has not been assessed as Timor-Leste does not have effective sub national levels of government. Intergovernmental fiscal relationships are not yet in existence and do not require assessment at this time. District administrators are appointed by the central Government and district administrations are solely funded by the GoTL. The 2006-7 budget makes allowance for a small allocation from the Ministry of State Administration to the Chief of Suco in each district. The allocation totals USD 0.74m in 2006/07 and then falls to 0.5m in future years.

The GoTL through the Ministry of State Administration does have plans to establish municipalities in a number of districts over coming years. Ten are expected in 2008.



2 Country background information

2.1 Description of country economic situation

Timor-Leste has a population of around 950,000 and is based on the Eastern side of the island of Timor in the Indonesian archipelago of islands north of Australia.

Timor-Leste's economic situation was enhanced in recent years by the petroleum royalties and tax windfall to the Government from the Bayu Undan field in the Timor Sea which commenced production in the second half of 2003-04 and has been in full production since. It has yielded much larger and earlier collections than had been expected. Revenues increased from USD 67m in 2003-04 to USD 418m in 2005-06. The Government's sound fiscal position is now entrenched. A Petroleum fund has been established to yield a sustainable income in perpetuity. Calculations explaining the calculation of resources available to the GoTL within this framework are tabled in Budget Paper No. 1 for the 2006/07 year.

During the 2005-06 year when the Petroleum Fund was created, it was also decided that receipts from Petroleum taxes would no longer be reported as revenues derived by the Consolidated Fund.

The Petroleum Fund is to separately report on the financial situation to Parliament. The revenue was expected to total over USD 700m in the current financial year and in excess of USD 1 billion in the subsequent years. In each year, the GoTL is expected to withdraw some USD 240 million for capital and recurrent expenditure requirements.

The growth in the Oil sector is likely to have very little effect on the citizens of Timor Leste. Timor-Leste National Account estimates show that real Non-oil GDP grew during 2001, contracted in 2002 and 2003, grew 0.4% in 2004 and by 2.3% in 2005. Population grows at 5.4% annually, so per-capita GDP has declined steadily indicating that poverty has increased.

Timor-Leste remains one of the least developed economies in the region and is essentially agriculture-based, with over two-thirds of the population living in rural areas, and at least one-third engaged in subsistence agriculture. Agriculture is heavily affected by climate and growth is difficult to accelerate since the main contributors in improved weather conditions and rapid growth of local credit are unreliable. Coffee exports are expected to rise over the medium term in response to higher international prices; and improved marketing of other exports is enabling growth from a very low base. The key exports are green coffee beans, vanilla, hard wood and some handicrafts. TL's imports are mainly fuel and technology. TL's main trading partners are Indonesia, US, Australia, Singapore, Vietnam and the EU (Portugal, Germany). The EU's share in TL's imports amounts to 5% for imports and 15% for exports.

The violent transition from Indonesian rule in September 1999 left more than 75 percent of the population displaced and 70 percent of the physical infrastructure destroyed. The Indonesian public service had 26,000 employees in the territory, while the Government of Timor-Leste now has around 21,200 on the public service payroll.



Inflation has stayed at under 2% since 2002 because of low international inflation and limited pressure on domestic demand.

Unemployment is estimated to be 9% nation wide, and 20% in the capital.

Fixed Investment has generally been in decline, except for a slight turnaround in public investment in 2005.

The short and medium-term private sector prospects are not good.

Timor-Leste is uncompetitive due to its small markets, high costs, low skills base, poor physical infrastructure and incomplete legal institutions. Attracting sufficient foreign direct investment to underpin broad-based, sustainable economic development will be challenging. Timor-Leste's electricity supply is among the most costly in the world at 20cts/kwh for commercial users. Telecommunications are expensive and wages for unskilled labour are several times higher than in the rest of the region even though labour productivity is low.

Poverty and deprivation affects more than 40% of households, notably in rural areas. Inequality is on the rise. 64% of households are food insecure. Mortality rates are high (for children under 5 it is 80.4 per 1,000), malnutrition affects almost 46% of children under 5 and immunisation coverage is insufficient. The security situation has led to a significant increase of the number of Internally Displaced People, now estimated at about 146,000 (i.e. 15% of the total population, of which approx. 78,000 are in districts).

2.2 Description of budgetary outcomes

2.2.1 Fiscal performance

The GoTL's performance in fiscal management has been positive in not facilitating deficits, resource wastage or leakage but very poor in terms of spending resources on capital development to facilitate achievement of development objectives.

The government's fiscal policy objectives as expressed in the National Development Program Timor-Leste 2005-2007 were -

1. to pursue growth of budget revenues to improve financial independence,
2. to effectively manage oil and gas revenues and savings,
3. to responsibly and productively manage budget expenditures, and
4. to effectively manage the budget deficit and its financing especially effective aid management, including negotiation of a medium term aid agreement.

The boost in petroleum revenues in recent years has meant that the fourth objective, at least, has become less meaningful as surpluses have been the budgetary outcome and objectives have been restated in Government budgets. The 2005-6 budget paper outlined the following position

"The Petroleum Fund will act to accumulate large levels of savings from petroleum revenues. It will also act as a buffer to fund expenditure should there



be any temporary shortfall in petroleum revenues. In this way, withdrawals from the Petroleum Fund can fund stable and sustainable levels of expenditure even though petroleum revenues may fluctuate.”

It should be noted that the GoTL commenced not disclosing petroleum revenue in the Annual financial report and public accounts during 2005-06 when the petroleum fund was created. The data in Table 1 below is based on budget document data for the 05/06 and 06/07 year and does include all the petroleum revenue. Data as presented in the accounts has been used in table VII below in connection with Performance indicator 3 and recognises only the withdrawals from the petroleum fund.

The scale of changes in flows of receipts indicated in Table 1 below give an indication of the unique situation Timor Leste has been in.

The capital expenditure figures for the first three years were drawn from the cash flow statement in the public accounts which excludes non cash transactions, but includes “other” expenditure which means that the percentages represent an overstatement as some of this “other” expenditure is in respect of recurrent expenditure on goods and services for prior years.

Table I Budget aggregates in percent of GDP

	2003/4	2004/5	2005/6	2006/7
Total revenue	29.7%	85.1%	133.4%	203.3%
- Own revenue	19.6%	74.9%	133.1%	200.4%
- Grants	10.1%	10.3%	0.3%	2.9%
Total expenditure	16.9%	20.2%	26.6%	85.9%
- Wages and salaries	7.0%	7.5%	7.5%	10.4%
- Capital expenditure	3.8%	3.3%	4.5%	36.1%
Aggregate Surplus	12.7%	64.9%	106.8%	117.4%

Source: GoTL - Annual Financial Report & Accounts 2005-06 and General Budget of the State 2006-07

The major problem exhibited in GoTL fiscal performance is the inability to execute capital development spending in accord with budget. Budget execution has been the subject of a number of World Bank briefs to the GoTL and more recently the subject of some GoTL de concentration of procurement controls.

This inability is explained by (a) lack of capacity in budgeting, planning and implementation of capital and development programmes, (b) slow and overly centralized procurement arrangements, (c) excessive overly centralized transaction level controls prior to the commitment of monies, and (4) lack of adequate capacity at treasury and line departments.

2.2.2 Allocation of resources

Budget allocations and actual spending expressed as a percentage of total current expenditure over the last three years are shown in Table 2.

Table II Original budget allocation and actual expenditure as a percentage of totals

	Budget			Actual		
	2003/4	2004/5	2005/6	2003/4	2004/5	2005/6
Office of the President of the Republic	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
National Parliament	1.5%	1.2%	1.1%	1.7%	1.2%	1.6%
Office of the Prime Minister	11.2%	1.3%	4.8%	10.9%	1.1%	4.4%
Ministry of Defence		8.0%	8.1%		8.6%	7.5%
Secretariat of State Council of Ministers	0.7%	0.5%	0.6%	0.4%	0.4%	0.3%
Ministry of State Administration	3.4%	3.6%	3.4%	3.5%	3.9%	3.3%
Ministry of the Interior	13.3%	12.4%	8.5%	13.8%	11.5%	8.2%
Ministry for Development		0.6%	0.4%		0.4%	0.4%
Ministry of Justice	3.2%	2.4%	4.7%	2.9%	2.2%	4.1%
Min of Agriculture, Forestry & Fisheries	2.3%	2.1%	3.7%	2.1%	2.1%	3.8%
Min of Education, Culture, Youth Sports	21.0%	22.0%	15.1%	21.5%	20.9%	14.5%
Ministry of Health	11.5%	12.9%	11.9%	12.2%	12.8%	13.2%
Secretariat of State Labour & Solidarity	0.7%	0.7%	0.7%	0.7%	0.6%	1.1%
Ministry Foreign Affairs & Cooperation	1.5%	3.2%	2.2%	1.3%	3.1%	2.1%
Ministry of Planning and Finance	5.4%	4.9%	7.0%	5.5%	7.9%	7.5%
Ministry of Transport & Communications	23.0%	21.6%	2.2%	22.5%	21.1%	1.9%
Ministry of Natural Resources, Minerals and Energy Policy			7.0%			8.3%
Ministry of Public Works			7.6%			7.2%
Secretariat of State for Youth and Sport			0.4%			0.2%
Judiciary		0.5%	0.4%		0.3%	0.2%
Banking and Payments Authority		0.8%	8.9%		0.8%	9.0%
Providor of Human Rights and Justice			0.1%			0.1%
Timor-Leste Broadcasting	0.5%	0.5%	0.7%	0.2%	0.4%	0.6%
Total	100%	100%	100%	100%	100%	100%

Source: Government of Timor-Leste - General Budget of the State and Annual Financial Report and Accounts

This data is not accurate as it includes commitments which did not represent expenditure.

The data could be corrected for this problem and a request for classification of the "committed" expenditures was lodged with the Treasury at the MoPF but a response was not obtained prior to the consultant leaving the country.

This problem is further explained in the following section where data on for the General Government sector has been corrected for the problem. Budget allocation by economic classification is shown in Tables 3 and 4.

Table III Actual and budget allocations by economic classification (as percentage of total expenditures)

	Budget			Actual		
	2003/4	2004/5	2005/6	2003/4	2004/5	2005/6
Recurrent expenditures	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Goods and services	50.3%	49.0%	42.0%	49.0%	49.6%	47.1%
Salary and wages	34.0%	37.5%	24.2%	33.4%	34.4%	24.0%
Acquisition of fixed capital assets	15.7%	13.4%	33.8%	17.7%	16.0%	28.9%

Source: Government of Timor-Leste - General Budget of the State and Annual Financial Report and Accounts

The actual spending structure in each year has in fact been lower than this.

Much of the overstatement is in acquisition of fixed capital assets due to the recognition of planned obligations in the accounts as expenditure as if they were contractual commitments or purchase orders when no such documentation had been prepared.

Once the documentation normally required for recognition of commitments has been prepared, the Treasury then recognise what have finally become commitments as "obligations".

Correcting the actual data to take account of these transactions which should not be reported as expenditure would change the shares approximately as follows.

Table IV Actual and budget allocations corrected for non cash transactions

	Budget			Actual		
	2003/4	2004/5	2005/6	2003/4	2004/5	2005/6
Recurrent expenditures	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Goods and services	50.3%	49.0%	42.0%	45.7%	42.3%	52.2%
Salary and wages	34.0%	37.5%	24.2%	34.7%	37.1%	29.7%
Acquisition of fixed capital assets	15.7%	13.4%	33.8%	3.0%	3.8%	5.5%
Other	0.0%	0.0%	0.0%	16.5%	16.8%	12.6%

Source: Government of Timor-Leste - General Budget of the State and Annual Financial Report and Accounts

Once transactions have been carried forward into subsequent years the FMIS and Treasury accounting system treats the expenditure as "other" and the annual accounts do not classify these expenditures by Ministry or by whether they represent capital or recurrent expenditure.

2.3 Description of legal and institutional framework for PFM

2.3.1 The legal framework for PFM



The legal framework for PFM in Timor-Leste begins with the Constitution which does provide for essential checks and balances, safeguards for citizens rights, and separation of powers. The system of checks and balances is beginning to be effective.

Regulation 2001/13 on Budget and Financial Management issued during the time of the UN Transitional administration remains the authority on PFM matters despite a number of amended versions having been referred to the Council of Ministers by the MoPF.

The legal framework for procurement includes -

- Decree Law 11/2005 Public Contracts Legal Regime,
- Decree Law 10/2005 The Procurement Legal Regime, and
- Decree Law 12/2005 Administrative infractions of the Procurement Judicial Regime and of the Judicial Regime of the Public Contracts.

The Organic Law for the Office of the Provedor for Human Rights and Justice was promulgated in May 2004. The Provedor is mandated to collect information on human rights abuses and administrative malpractices, including corruption, receive and respond to complaints from the public, and increase public awareness of citizens' rights and means of redress.

While legislative efforts continue, the Government has also set up a five-person Commission to review and harmonize all the relevant laws to ensure consistencies among them.

Much work has been done in strengthening the legal and regulatory framework for the civil service. The Civil Service Act was promulgated in June 2004 and included an ethics code and a section on disciplinary procedures.

MoPF have issued a Treasury manual and Revenue and Expenditure management procedural manuals to guide finance officers in their work. These have been supplemented by the issue of MoPF circulars, some of which have had the effect of slowing payment voucher approval through requiring multiple signatures.

2.3.2 The institutional framework for PFM

Some elements of the governance framework remain to be created, such as the Superior Council for the Public Prosecution, the Supreme Court and the High Court for Tax, Administration and Audit.

Legislative

The legislature is the National Parliament which currently has 88 members based on Constituent Assembly elections. Once legislation is approved by the Parliament, it is promulgated by the President

Executive

Government is composed of the Prime Minister, two Deputy Prime Ministers fifteen Ministers, 13 Vice Ministers and 10 Secretaries of State. Permanent Secretaries of Ministries are appointed by the Minister.



Judiciary

The Courts and Judiciary, Superior Council for the Judiciary, Court of Appeals and district courts in Dili, Baucau, Suai, and Oecussi have been established. International judges are maintaining the justice system while 40 nationals after receiving full-time training were moving into work as prosecutors, defenders or judges working under the mentoring of an international professional.

Audit

The constitution of Timor-Leste allots the function of external audit to the High Administrative, Tax and Audit Court. As this institution remains to be created, the function of external audit is currently contracted out to an accounting firm from Australia

The Office of the Provedor of Human Rights and Justice was opened in March 2006 when he and his deputies were appointed. The Provedor is expected to manage investigation of human rights abuses, corruption and promote good governance. The Provedor reports directly to the Prime Minister and is pursuing measures to strengthen internal audit and controls. The Inspector General also reports to the Prime Minister and has responsibilities for various investigations commissioned by the Prime Minister and for auditing the financial affairs of the Commission for Reception, Truth and Reconciliation and Timor-Leste Broadcasting. His office does perform some spot checks of Certified Payment Vouchers against budget and procurement rules and has sent details of cases involving bribery and falsification to the Prosecutor General.

Ministry of Finance and Planning

The MoPF Directorates include Budget, Statistics, External Assistance and Coordination, Administration and Information Technology, Treasury, Petroleum Revenue, Customs and the office for Procurement Services.

Line ministries and district finance officers

Line ministries and district finance officers do have a role in public financial management but their responsibilities are constrained by centralisation as outlined in the next section.

2.3.3 Key features of the PFM system

The financial year for Government in Timor-Leste ends on the 30th June each year. Timor-Leste has a highly centralised payments and payroll system located in the MoPF. MoPF have installed a financial management information system (FMIS) known as Free Balance. All transactions are processed by MoPF Treasury staff.

Access to the Free Balance system by line ministries is provided by a network but enables them to read only the data in respect of transactions that the MoPF Treasury Directorate has actually input.

Payroll is managed in a separate system known as CHRIS which also currently represents the personnel management information system for the GoTL

All procurement was managed by Procurement Services of MoPF until late 2006, when authority for managing transactions involving less than USD 100,000 was delegated to six line Ministries. Transactions will still be checked by Procurement Services and processed by Treasury at MoPF.



3 Assessment of the PFM systems, processes and institutions

3.1 Introduction

The following paragraphs provide the detailed assessment of the PFM indicators contained in the PFM PMF framework. A summary of scores has been provided in Attachment One.

The scoring methodology outlined below does not take account of planned reforms or activities that have not been implemented. This assessment measures what is in place now or was, as at the 30th June 2006.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given, where any of the other dimensions are scoring higher

Method 2 (M2) is based on averaging the scores for individual dimensions of an indicator. It is prescribed for selected multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. Though the dimensions all fall within the same area of the PFM system, progress on individual dimensions can be made independent of the others and without logically having to follow any particular sequence. A conversion table is then provided for 2, 3 and 4 dimensional indicators to arrive at the overall score. In both scoring methodologies, the 'D' score is considered the residual score, to be applied if the requirements for any higher score are not met.

3.2 Budget credibility

3.2.1 PI-1 Aggregate expenditure out-turn compared to original approved budget

This indicator assesses the difference between actual primary expenditure and the originally budgeted primary expenditure and reflects the government's ability to implement the budgeted expenditure. The expenditure figures should exclude donor funded project expenditures.

The information provided in the GoTL budget documentation exceeds that normally included in Government budgets. In one set of estimates, it estimates a best possible scenario assuming all SIPs had funding sources from development partners.

In this set of estimates, known as the known as the combined sources budget estimates, the following components are included, using the 2005-6 estimates as an example -

- appropriated expenditure (USD120.4m in 2005/6),
- expenditure expected to be funded by the development community (USD59.2m in 2005/6), and
- SIP activity which is not yet the subject of a development agency commitment which amounted to USD100.2m in 2005/6

So the baseline for the PEFA PFM PR for originally budgeted primary expenditure is the first figure total of appropriated expenditure. This is generally financed by the Government of Timor-Leste's own revenue sources and committed funds from development agencies to recurrent activities through the Consolidated Support Program (CSP). In accord with PEFA guidelines, supplementary estimates are ignored in the data analysis for this indicator as it is assessing the validity of the original budget

Table 5 below compares annual expenditure data with original budget and then makes a correction to exclude non cash expenditures as the "actual" data at the top of the table includes amounts that do not represent expenditure. The source of the corrected figures is the GoTL Annual financial report and the data which has been included in Table 8 below. The amount being excluded, in the third line of the table, is the total commitments figure less the amount actually paid out in respect of prior year commitments.

Table V Aggregate expenditure out-turn and approved budget USD'millions

	2003/4		2004/5		2005/6	
	Original budget	Actual	Original budget	Actual	Original budget	Actual
Total expenditure	79.1	69.2	75.1	74	120.4	119.8
Deviation (%)	-12.5%		-1.5%		-0.5%	
Expenditures not incurred	0	1.6	0	3.0	0	26.8
Total primary expenditure	79.1	67.6	75.1	71	120.4	92
Deviation (%)	-14.5%		-5.5%		-23.5%	

Source: Government of Timor-Leste - General Budget of the State and Annual Financial Report and Accounts

Use of the cash expenditure data rather than that which includes expenditure which had not been incurred by the GoTL as at year end does change the PEFA performance indicator score significantly.

Indicator	Score	Meaning of PEFA score	Evidence
PI-1. Aggregate expenditure out-turn compared to original approved budget	D	In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.	Data in table 5. above

3.2.2 PI-2 Composition of expenditure out-turn compared to original budget

Changes in overall level of expenditure (assessed in PI-1) are reflected by changes in expenditure for administrative budget lines. This indicator measures the extent to which



reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes on the overall level of expenditures. The analysis of expenditure has been done on an administrative basis comparing recurrent expenditure appropriated to line ministries with actual expenditure.

Changes in overall level of expenditure (assessed in PI-1) will translate into changes in spending for administrative budget lines. Indicator (PI-2) measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure.

Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted expenditure on the basis of administrative or functional classification, using the absolute value of deviation

Indicator	Score	Meaning of PEFA score	Evidence
PI-2. Composition of expenditure out-turn compared to original approved budget. (Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years)	Not assessed		Expenditure data was not available from Treasury by line Ministry for either cash disbursed or expenditure incurred (i.e. cash disbursed plus purchase orders and contractual commitments minus disbursements in respect of prior year commitments)

The starting point data which should underlie the steps in performing the calculations for this indicator is provided at Attachment 5.

However, of the total expenditure of 119.8m in the 2005/6 year, 26.8m represents so called obligations, nearly all of which has not been incurred and does not represent expenditure. Information was not available from Treasury to correct these figures and quantify amounts that have not been incurred or disbursed in accord with any accounting definition or the GFS definition by individual Ministry.

So while the data has been corrected to perform the assessment on the basis of cash actually disbursed by the general government sector for Performance Indicator one(PI-1), this cannot be done for this indicator, as disbursement data was not available by Ministry so the performance indicator has not been assessed.

3.2.3 PI-3 Aggregate revenue out-turn compared to original approved budget

This indicator assesses the quality of revenue forecasting by comparing domestic revenue estimates in the original approved budget to actual domestic revenue collection based on tax and non tax recurrent revenues.

The dimension to be assessed for this indicator is comparison of actual revenue collection compared to revenue estimates in the original approved budget. The actual revenue data utilised in the table is drawn from the final government accounts.

Table VI Revenue performance over the period 2003 - 2006 USD millions

	2003/4		2004/5		2005/6	
	Revenue forecast	Actual revenue	Revenue forecast	Actual revenue	Revenue forecast	Actual revenue
Total recurrent revenue	46.9	67.2	41.3	246.3	36.4	55.1
Deviation recurrent (%)	43.2%		496.4%		51.3%	
Tax revenue	44.2	62.7	37.3	239.1	26.9	46.0
Taxes on income	4.7	6.6	5.4	10.7	9.9	8.8
Service Tax	1.5	2.6	2.1	2.4	0.0	2.5
Timor Sea Revenue	29.3	38.0	18.3	209.4	0.0	21.2
International trade Taxes	8.7	15.5	11.5	16.6	17.0	13.5
Non-tax recurrent revenue	2.7	4.5	4.0	7.2	9.5	9.1
Administrative fees and charges	2.6	4.1	3.8	4.3	4.5	4.0
Other non-tax revenue	0.1	0.4	0.2	2.9	5.0	5.1
Non-recurrent revenue	33.8	34.8	30.9	34.1	10.4	1.0
Deviation non recurrent	2.9%		10.3%		-90.7%	
Grants from abroad	33.8	34.8	30.9	34.1	10.4	1.0
Total Revenue and Grants	80.7	102.0	72.2	280.4	46.8	56.1

Source: Government of Timor-Leste - General Budget of the State and Annual Financial Report and Accounts

As the PEFA performance indicator scoring guidelines do not "penalise" conservatism or underestimation in the case of revenue collections, the GoTL PFM system scores an A for this performance indicator. The performance indicator score does not change if the Timor Sea revenues are excluded; which could be the correct approach as the PEFA guidelines do refer to "domestic revenue".

The data in the table above is also impacted by the change associated with the creation of the petroleum fund during 2005/06. Petroleum revenues are no longer recognised as Government revenue and the amounts to be included in budget and annual accounts represent the level of withdrawals from the fund only. A separate report on petroleum fund finances is to be provided to the parliament.

Indicator	Score	Meaning of PEFA score	Evidence
PI-3 Aggregate revenue out-turn compared to original approved budget	A	Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.	Data in table 6 obtained from Budget Estimates and final accounts

3.2.4 PI-4 Stock and monitoring of expenditure payment arrears

This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which the systemic problem is being brought under control and addressed.

Indicator	Score	Meaning of PEFA score	Evidence
PI-4 Stock and monitoring of expenditure payment arrears			
Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.			Annual Accounts data not reliable
Availability of data for monitoring the stock of expenditure payment arrears.	D	There is no reliable data on the stock of arrears from the last two years.	Accounts payable data from annual accounts as summarised in table VIII below

The Financial Statement described as the Statement of Affairs in the annual accounts suggests that the GoTL has a major problem managing accounts payable.

Table VII Accounts payable movements over the period 2003 – 2006

	2003/4	2004/5	2005/6
Opening balance	14.9m	16.5m	19.5m
Prior year commitments paid out	13.0m	12.2m	11.8m
Current year commitments	14.6m	15.3m	38.6m
Total Accounts carried forward	USD 16.5m	USD 19.5m	USD 46.3m
Accounts carried forward 2 years or more	1.9m	4.2m	7.7m

Source: Government of Timor-Leste - Annual Financial Report and Accounts

Because the accounts payable are an overstatement in the GoTL's own Annual Financial Report and Accounts this data is not reliable and in accord with the PEFA secretariat additional clarifications of October 2006 the first sub dimension will not be scored. The degree of over statement is not known. Corrective action to the information in the FMIS and the annual accounts to reflect expenditures actually incurred and accounts due and payable will enable this dimension to be scored in future.

In the 2005-06 accounts, some USD 46.3 m is recognised in the accounts as "Other Liabilities (Net accounts payable)" which when compared with an annual expenditure of USD 119.8M, meant that accounts payable represented 38% of annual expenditure and a big increase from the 27.5% of expenditure treated as accounts payable as at June 2005.

There is no monitoring of accounts payable in the GoTL and it is not known to what degree there is a problem with them. Some Treasury officials have said that once goods are received or services performed requests for payment are generally processed inside three days. Information from line agencies and the external community suggests that this is not so and some portion of the accounts payable are genuinely due and payable and outstanding for periods well in excess of one month.

Processing of these transactions in this manner appears to represent a breach of the Budget and Financial Management Regulation. Section 37.2 refers to Treasury's responsibility for maintaining records of "actual expenditures made" and "outstanding liabilities". Section 39.1(b) refers to the submission of financial statements which are consistent with international accounting standards.

The financial statements are claimed to be prepared on a modified cash basis of accounting. Utilising the modified basic of accounting would mean that only the transactions that were actually paid within a certain specified period after the end of the financial year would be recognised. In the modified cash basis of accounting, the recognition of expenditures hinges on the timing of related cash flow. The Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) has issued guidance to that effect in its "Study No 10 Definition and Recognition of Expenses/Expenditures".

In Study 11 Government Financial Reporting Accounting Issues and Practices, the IFAC PSC says on modified cash accounting that

"Best practice would suggest that:

- the specified period be consistently applied from year to year;
- the specified period be the same for both receipts and payments;
- to the extent possible, the same criteria for recognition of receipts and payments during the specified period be applied to all receipts and payments;
- around one month is an appropriate specified period because accounts for goods purchased on credit are commonly settled within this period.
- A specified period which is any longer may make it difficult to produce timely financial statements; and
- the accounting policies used be fully disclosed. "

None of these elements is applied in the GoTL accounting system and annual accounts.

3.3 Comprehensiveness and transparency

3.3.1 PI-5 Classification of the budget

A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional and program. Where standard international classification practices are applied, governments can report expenditure in GFS format and track poverty-reducing and other selected groups of expenditure. The budget will be presented in a format that reflects the most important classifications (usually

administrative combined with economic, functional and/or programmatic) and the classification will be embedded in the chart of accounts to ensure that all transactions can be reported in accordance with any of the classifications used.

This indicator describes the classification system used for formulation, execution and reporting of the central government's budget by reference to international standards.

Indicator	Score	Meaning of PEFA score	Evidence
PI-5. Classification of the budget	D		
The classification system used for formulation, execution and reporting of the central government's budget.	D	The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).	Annual Accounts

As indicated in the discussion of Performance Indicator 2, meaningful comparison of budget appropriation with expenditure data is not possible because of the inclusion of commitments, which do not represent expenditure on any accounting definition or GFS definition, as expenditure. This is made even more difficult by the use of a different set of budget classification codes for budgeting and a set of Treasury chart of accounts codes for budget execution.

Section 37.1 of Regulation no. 2001/13 on budget and financial management requires that the classification systems for accounting facilitate the control of spending by the Transitional Administration and permit analysis of expenditure by organization, function and economic classification according to the GFS cash basis.

The system does classify expenditure transactions by economic classification. The system does allow the tracking of spending by administrative units, economic classification, functional classification, but has not been reconfigured for those Ministries adopting program and activity classification.

GFS functional and economic reporting in accord with GFS 1986 is relatively straight forwardly derived from the system. An A score is not possible for this indicator as the Free balance system does not currently enable sub functional classification.

3.3.2 PI-6 Comprehensiveness of information included in budget documentation

This indicator assesses the completeness of Annual budget documentation in terms of whether they allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. To be considered complete, the annual budget documentation should include all of the information listed in the left hand side of Table 10 overleaf.

Indicator	Score	Meaning of PEFA score	Evidence
PI-6. Comprehensiveness of information included in budget documentation	B		
Share of the above listed information in the budget documentation most recently issued by the central government	B	Recent budget documentation fulfils 5-6 of the 9 information benchmarks	Table IX below

Table VIII Summary of budget information provided against set of information included in PMF

Elements of budget documentation	Availability	Source
1. Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	Budget Paper No 1 Part 3 in the three years under review meets requirements by providing projections of nominal and real GDP for the oil and non oil sectors.
2. Fiscal deficit, defined according to GFS or other internationally recognised standard	No	An operating result is provided but does not meet any international standard because of its inclusion of commitments which may be paid months or years after the close of the fiscal year
3. Deficit financing, describing Anticipated composition	Yes	No deficit to be financed
4. Debt stock, incl. details at least for the beginning of the current year	Yes	No debt
5. Financial assets, incl. details at least for the beginning of the current year	Yes	Financial assets and liabilities are provided in a "Statement of Affairs" toward the end of the Annual Financial Report and Public Accounts
6. Prior year's budget out-turn, presented in the same format as the budget proposal	No	Not included in Budget Papers
7. Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	Budget Paper No 1 Part 1 General Budget of the State Table of Revenues and Expenditures contains current year, budget year and three forward estimate years, albeit with expenditure overstated due to the local definition of "commitments"
8. Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	No	Budget Paper No 1 excludes previous year in its General Budget of the State Table of Revenues and Expenditures and other summary tables.
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	Budget Paper No 1 Part 6 contains an explanation of budget implications of new policy initiatives largely focused on change to expenditure programs. This is summarised at Table 6.4 in the 2005/06 budget paper. The 2004/05 budget contains a disclosure that no new funding initiatives were adopted.

In the three years under review Budget Paper No 1 Part 3 discusses inflation and external exchange rate movements. As the USD is used in country, no projection of exchange movements is necessary. On aggregate growth, the budget papers do meet the PI requirements through their provision of projections of nominal levels of GDP for the oil and non oil sectors and then projected percentage movements in real GDP. Analysis of that data enables one to conclude that Government has assumed little or no inflation in the current and ensuing financial years.

While an estimated operating result in the form of a surplus rather than a fiscal deficit figure is provided in the budget documents; it does not meet with any international standard because of its inclusion of obligations which will not be paid many months or

even years after the close of the financial year. In the IMF Government Finance Statistics Manual of 2001 the point of timing for recognition of a commitment ... "generally is when a purchase order is issued by the general government unit"

In the GoTL Treasury an equivalent definition is used for the recognition of an obligation. Commitments are recognised at a very much earlier stage which contravenes GFS and all bases of accounting; and leads to a material over statement of expenditure.

The Budget Paper No 1 Part 1 General Budget of the State Table of Revenues and Expenditures contains current year, budget year and three forward estimate years but excludes the prior year which this PI requires.

Budget Paper No 1 Part 6 contains an explanation of budget implications of new policy initiatives largely focused on change to expenditure programs. This is summarised at Table 6.4 in the 2005/06 budget paper.

3.3.3 PI-7 Extent of unreported government operations

One element of government operations which affects the efficient allocation of resources is reflected by unreported government operations. The extent of unreported government operations is assessed against unreported extra-budgetary expenditure, and income /expenditure information on donor-funded projects which is included in fiscal reports.

Indicator	Score	Meaning of PEFA score	Evidence
PI-7 Extent of unreported government operations	A		
(i)The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	A	The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	Advice from the Banking and Payments Authority
(ii)Income/expenditure information on donor-funded projects which is included in fiscal reports	A	Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind	A complete statement of off budget and on budget support is provided in Budget Paper No.1 Part 2 for the 2005/06 year

The GoTL Annual budget estimates and other fiscal reports for the public do cover all activities of central government and enable a complete picture of central government revenue and expenditures across all categories and financing.

There are no extra budgetary funds and all moneys collected by ministries and their agencies are treated as public monies paid into the consolidated fund and may only be expended in accordance with an appropriation.

Exceptions can arise in the times of political turmoil and the 2005-06 annual public accounts have been qualified by the auditors because of uncertainty associated with the banking of Government collections late in that financial year.



The PEFA guidelines on dimension (i) limit themselves to expenditures and do not allow for any negative scoring for the situation that emerged in Timor Leste during 2005-06 when the Petroleum Fund was created and receipts from Petroleum taxes are no longer reported as revenues derived by the Consolidated Fund. The exclusion of these stocks and flows from the annual accounts is increasing their misleading nature.

Excellent quality data on (the best possible) projected income and expenditure on donor-funded projects is included in the budget papers in the combined sources budget schedules. This data assumes the development community will increase commitments to SIPs to mobilize resources to meet NDP goals and MDG priorities during the financial year.

The outcomes or actual results do not form part of the public accounts which limits its mention of donor support to the amounts that flow through to the consolidated fund. These are usually only the amounts coming from the WB managed Consolidated Support Program. Outcomes or actual spending are also not communicated on the use of the contingency reserve and transfers between programs. As these matters concern a very low proportion of the budget they have not impacted on the performance indicator scores.

Other receipts and payments should be recognised providing that bilateral and multi lateral agencies have provided all the necessary information is given to the MoPF as outlined at 1.3.24 of the International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting".

A complete statement of off budget and on budget support is provided in Budget Paper No.1 Part 2 for the 2005/06 year.

3.3.4 PI-9 Oversight of aggregate fiscal risk from other public sector entities

This indicator reflects the extent to which central government monitors fiscal position of autonomous government agencies and public enterprises.

Indicator	Score	Meaning of PEFA score	Evidence
PI-9. Oversight of aggregate fiscal risk from other public sector entities	A		
Extent of central government monitoring of AGAs and PEs.	A	All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually.	These accounts are included in the Treasury Quarterly Budget Execution reports and Annual Financial Report and Accounts

The Timor-Leste Government has placed prominence on this sector in the Budget Papers by clearly outlining intended subsidies. The other public sector entities are Civil Aviation, Ports Authority of Timor-Leste, Electricidade de Timor-Leste and the Institute of Equipment Management. The Treasury Quarterly Budget Execution reports also report on incomes and expenditures of these entities. The funds flow from Government to these entities is not made so clear in the public accounts documentation. Operating statements for each entity are included in the accounts.

Complete statements of risk are tabled in the budget papers and as the Government is not exposed to guarantees and contingent liabilities these do not need placement in the public accounts. However, these papers do not disclose the Government interest in Timor Telecom.

3.3.5 PI-10 Public access to key fiscal information

Transparency will depend on whether information on fiscal plans, position and performance of the government is easily accessible to the general public or at least interested groups. The indicator is determined by whether public access is given to information mentioned in the left hand side of the following table.

Table IX Budgetary information availability and accessibility

Elements of information for public access	Availability and means
Annual budget documentation when submitted to the legislature	Not available when submitted to legislature. Printed copies are available after adoption, subject to copies being available. The papers are also available after adoption from the MoPF internet site
In-year budget execution reports within one month of their completion	Quarterly budget execution reports are not available to the public within one month. December report was made available on the internet in February or March. Hard copies may be available from Treasury.
Year-end financial statements within 6 months of completed audit	After tabling with the Prime Minister and Council of Ministers, these are available from the Treasury. The 2005-6 accounts were expected to be available in late January 2007
External audit reports within 6 months of completed audit	As above - the audit report forms an integral part of the public accounts
Contract awards (app. USD 100,000 equiv.) published at least quarterly	Decisions are posted on the front walls of Government Offices.
Resources available to primary service units: Information is publicized through appropriate means, at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Not done

Indicator	Score	Meaning of PEFA score	Evidence
PI-10. Public Access to key fiscal information	C		
(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).	C	The government makes available to the public 1-2 of the 6 listed types of information	Advice from MoPF

3.4 Policy-based budgeting

The indicators in this group assess to what extent the budget is prepared with due regard to government policy.

3.4.1 PI-11 Orderliness and participation in the annual budget process

This indicator reflects the organisation, clarity and comprehensiveness of the annual budget process as well as participation of ministries, departments and agencies (MDA)¹. It is assessed against existence of and adherence to a fixed budget calendar, political involvement in the guidance on the preparation of budget submissions and timely budget approval by the legislature.

While the MoPF is the driver of the annual budget formulation process, effective participation in the budget formulation process by other MDAs as well as the political leadership, impacts the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar.

Indicator	Score	Meaning of PEFA score	Evidence
PI-11. Orderliness and participation in the annual budget process	B		
(i) Existence of and adherence to a fixed budget calendar	B	A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time	2005 Budget Circular allowed MDAs almost 2 months
(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);	A	A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.	Budget Circular
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);	C	The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.	The GoTL budget appropriation has usually been approved in July

Part III of Regulation 2001/13 on Budget and Financial Management requires the issue of a Budget Circular to explain procedure for submission of agency budgets and request for appropriations

The Timor-Leste Budget Circular clearly outlines the requirements and a timetable for preparation of budget estimates. Cabinet determines priorities like Health, Education and

¹ The scope of PEFA assessment covers only those MDAs which are directly responsible for implementing the budget and receive funds or authorisation to spend from the Ministry of Finance, rather than through a parent ministry.



Infrastructure and a resource envelope is determined globally and for line ministries after reviewing the NDP and the Consolidated Support Program. Almost 2 months are allowed for the preparation of line Ministry estimates.

The Budget Directorate at MoPF then takes one week to prepare and table a first draft budget with the Budget Review Committee (BRC). The BRC works with the budget for some three weeks before its referral to the Council of Ministers (CoM). The CoM analyses and comments on the budget on two to four occasions before approving documentation for referral to the national parliament.

The Parliament has a two stage process for adoption of the budget involving three to four days with the Economic and Financial Commission and then 3 weeks with the Plenary structure. Internal regulations allow the Parliament to make recommendations for change or to reject the budget.

In the event that a budget is not adopted, the Budget and Financial Management Regulation allows for the adoption of an appropriation of one twelfth of the prior year appropriation for each month.

The GoTL budget appropriations have usually been approved in July and the current budget was approved in August 2006.

3.4.2 PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

This indicator looks at the link between budgeting and policy priorities from the medium-term perspective and the extent to which costing of the implications of policy initiatives are integrated into the budget formulation process. In particular, it assesses multi-year fiscal forecast and functional allocations, scope and frequency of debt sustainability analysis, existence of costed sector strategies and linkages between investment budgets and forward expenditure estimates.

Indicator	Score	Meaning of PEFA score	Evidence
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+		
(i) Preparation of multi -year fiscal forecasts and functional allocations;	A	Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained	Budget Paper No 1 provides 3 years FEs by GoTL economic classification and at Annex 3 by GoTL functional classification
(ii) Scope and frequency of debt sustainability analysis	A	DSA for external and domestic debt is undertaken annually	Not necessary as no debt
(iii) Existence of sector strategies with	A	Strategies for sectors representing at least 75% of primary expenditure exist with full	SIPS which have effectively been rolled out from the

Indicator	Score	Meaning of PEFA score	Evidence
multi-year costing of recurrent and investment expenditure;		costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.	NDP cover all of the GoTL are mentioned in Budget Paper No 1 and should form the basis for the budget estimates
(iv) Linkages between investment budgets and forward expenditure estimates	C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.	SIPs and budget estimates were not sufficiently brought together as at the time of preparation of 2006/7 estimates.

The Forward Estimates(FEs) process is embedded in the GoTL budget preparation process as demonstrated in Budget Paper No 1 which provides 3 years FEs by GoTL economic classification and at Annex 3 by GoTL functional classification. The PEFA guidelines do not insist on GFS classifications for this sub dimension and actively allow for program and activity classification which is the direction being moved into by the GoTL.

Debt sustainability analysis is not required as no borrowings have been undertaken.

SIPs which have been rolled out from the NDP cover all of the GoTL primary expenditures. They are mentioned in Budget Paper No 1 and should form a base for the budget estimates process, but as indicated in the next dimension, the linkage is not yet complete.

The fourth dimension is a major weakness in the quality of the budget estimates process as capacity building to this point has not enabled staff to grasp concepts in project design and planning then budgeting and planning implementation in accord with required procedures. The procedure for preparation of budget estimates for 2007/08 is directed at changing this.

3.5 Predictability and control in budget execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner.

3.5.1 PI-13 Transparency of taxpayer obligations and liabilities

The assessment of tax liabilities is subject to the overall control environment that exists in revenue administration but is also dependent on the involvement and co-operation of taxpayers. This indicator assesses the transparency of tax administration by reviewing clarity and comprehensiveness, taxpayer access to information and functioning of a tax appeals mechanism.

Indicator	Score	Meaning of PEFA score	Evidence
PI-13. Transparency of Taxpayer Obligations and Liabilities	D+		
(i) Clarity and comprehensiveness of	C	Legislation and procedures for some major taxes are	Discretion is available to Customs in valuation of imports as information



Indicator	Score	Meaning of PEFA score	Evidence
tax liabilities		comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.	exchange is not occurring with Indonesia and invoice documentation tends to of doubtful integrity. TLRS does not have access to much banking information and good accounting is not commonplace so determination of taxable income necessarily involves some discretion.
(ii) Taxpayer access to information on tax liabilities and administrative procedures.	D	Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient	Only one copy of Customs code available. Procedural documentation is not yet finished Access to tax documentation is better
(iii) Existence and functioning of a tax appeals mechanism.	C	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.	Taxpayers can appeal to the courts after an objection is disallowed.

Customs has only one set of legislation so public access would be difficult but not impossible. They do issue pamphlets explaining rights and obligations. Nevertheless there is extensive argument with clients over customs valuation largely because there is no cooperation from the Indonesian customs authorities. Discretion is available to Customs in valuation of imports as information exchange is not occurring with Indonesia and invoice documentation tends to be of doubtful integrity. In accord with the Customs code, dissatisfied clients can appeal to the MoPF and then the courts.

The office of the Taxation Commissioner also issues pamphlets explaining rights and obligations. TLRS provides significant information on the internet, but the internet is not widely used in Timor-Leste. Included on the internet site are current laws, designation notices, public rulings, tax guides, Tax Information Brochures, Monthly Consolidated Tax Forms, Annual Income Tax Forms, and Tax Identification Number (TIN) Application Forms. The hard copy pamphlets are provided in 4 languages and the Commissioner manages significant efforts on taxpayer education but says compliance is poor because accounting is not considered a normal business activity as yet.

Tax disputes lodged within 60 days of an assessment are referred to the Appeals division in the TLRS and are to be determined within 42 days. Cases may then be referred to the Courts if they involve outstanding taxation and the result is often favourable to the taxpayer. This outcome is understood to be explained by a lack of an appreciation across the whole Timor Leste community about the importance of taxation and its place in funding Government in a democratic society.

An effective complaints/appeals mechanism that guarantees the taxpayer a fair treatment may be in place in the form of the opportunity to take cases to the Minister, Provedor of Human Rights and or the courts. There is no independent appeals tribunal for assessment of tax appeals as yet once the Ministry has disallowed an objection to an assessment or amended assessment. The Provedor has advised that he does have jurisdiction in cases involving tax and customs.

3.5.2 PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Effectiveness is determined by reviewing controls in the taxpayer registration system, penalties and conduct of tax audits. Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers.

Taxpayer registration is facilitated by control mechanisms introduced by the Revenue Administration (RA). Maintenance of a taxpayer database based on a unique taxpayer identification number is an important element of such a control system, but is most effective if combined with other government registration systems that involve elements of taxable turnover and assets (such as issue of business licenses, opening of bank accounts and pension fund accounts). In addition, RAs should ensure compliance with registration requirements through occasional surveys of potential taxpayers e.g. by selective, physical inspection of business premises and residences.

Indicator	Score	Meaning of PEFA score	Evidence
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	C+		
(i) Controls in the taxpayer registration system.	C	Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.	The TIN registration process includes liaison with the Companies Registration Office and Customs but not with Banks and other sources of third party information
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.	Customs penalties are set at a flat 100% for individuals and 400% for companies. The quantum of tax penalties is not specified in pamphlets
(iii) Planning and monitoring of tax audit and fraud investigation programs.	C	There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.	Advice from the Tax Commissioner indicated that TLRS has access to import data but not bank account data which is crucial to risk assessment and effective audit and investigation.

Taxation administration is very difficult in Timor Leste. Most business houses do not prepare accounts and tax assessment is difficult. The self assessment regime that has been developed is not considered effective in these circumstances. The office of the Taxation Commissioner issues Tax Identification Numbers (TINs) which are also utilised by Customs and the Companies Registration Office. These can be issued in one hour if clients do bring in all of the appropriate documentation but in any event is always done within one week.



A TIN certificate is then issued to the applicant. Compliance is enhanced by the Companies Office insisting on sighting TIN certificate on corporate renewals. Effectiveness is compromised by ongoing changes in the addresses and names of public officers for companies and other entities.

A publicity campaign was initiated by Taxpayer Services area to restore taxpayer compliance and confidence in the TLRS after the civil unrest in 2006 and seminars were conducted for taxpayers in the lead-up to the lodgment due date for returns.

The concepts of profit and taxable income are not widely understood and business houses tend to view personal outgoings as business expenditure.

3.5.3 PI-15 Effectiveness in collection of tax payments

Collection efficiency is determined by reviewing collection ratio for gross tax arrears, transfer mechanism of funds to the Treasury and frequency of complete accounts reconciliation. Accumulation of tax arrears can be a critical factor undermining budgetary outturns, while the ability to collect tax debt lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily and need close follow up.

Indicator	Score	Meaning of PEFA score	Evidence
PI-15. Effectiveness in collection of tax payments	D		
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	D	The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections).	Arrears were not reduced in 2006. Total arrears amount to 19% of collections
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	A	All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	BPA on behalf of Treasury controls all receipts
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	D	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay.	No complete reconciliation is achieved per information received from Treasury and TLRS

The TLRS does monitor aged accounts receivable in the SIGTAS. Analysis of the data, as at the end of December of the last two years, indicated that the TLRS had not made progress in collecting arrears. A substantial amount of the prior year receivables is not currently collectible as the relevant taxpayers no longer reside in Timor Leste and there are no local assets available for the TLRS to recover amounts due.

Transfer of tax collections to the Banking and Payments Authority as Agent for the Treasury is done whenever the amount that has accrued at the commercial bank in respect of tax payments is considered sufficient for the BPA to warrant sweeping of the funds into its own accounts.

BPA provides statements of account to the Treasury at 8.30am every working day. Reconciliations of tax collections with bank statements are not done and reconciliation between the SIGTAS and the FMIS are not completed.

3.5.4 PI-16 Predictability in the availability of funds for commitment of expenditures

Budget execution is more effective when there is a reasonable degree of predictability in the availability of funds so this indicator assesses cash flow forecasts, in year information to MDAs on funds available and frequency and transparency of adjustments to budget allocations above the level of MDAs.

Indicator	Score	Meaning of PEFA score	Evidence
PI-16. Predictability in the availability of funds for commitment of expenditures	D +		
(i) Extent to which cash flows are forecast and monitored.	D	Cash flow planning and monitoring are not undertaken or of very poor quality.	Advice from Banking and Payments Authority and Treasury
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	MDAs are provided reliable information for one or two months in advance.	Expenditure authorisation notice for First Quarter Issued August 06
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	B	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.	Supplementary Budgets

Section 32 of the Budget and Financial Management Regulation requires that an expenditure authorisation notice be issued before any funds can be released from the consolidated fund.

In the Free balance accounting system an appropriation at the time of its approval is recorded as an "Allotment 1" and funds are not available to Ministries. Once the expenditure authorisation notice is issued, the relevant portion of the appropriation becomes an "Allotment 2" and funds are available for spending.

Delays are at least partly a consequence of the late adoption of budgets.

Delays in the processing of payment vouchers which also precludes line Ministries from timely budget execution and access to timely financial management information. This becomes more significant in the situations requiring recognition of "commitments" and later "obligations" which are both preliminary separate procedures to the release of funds to suppliers.

In summary, accessing of funds requires

- Appropriation by Parliament
- Issue of Expenditure Authorisation Notice
- Processing of commitment



- Processing of obligation, and
- Release of funds

The last three steps may be done on the same sets of documentation but are likely to require submission on at least three occasions to Treasury.

Some flexibility is also available to Ministers in transferring appropriation from one Ministry to another, although this does not appear to have been allowed for in the legislation which only allows for such transfer in the event of transfer of responsibilities, but otherwise only within agencies. Flexibility is also available to Ministers in accessing contingency funds subject to the approval of the Minister of Finance.

3.5.5 PI-17 Recording and management of cash balances, debt and guarantees

This indicator assesses overall fiscal management by reviewing the recording and management of cash, debt and guarantees. In particular it assesses the quality of debt recording and reporting, the extent of consolidation of cash balances and systems for contracting loans and issuing guarantees.

Indicator	Score	Meaning of PEFA score	Evidence
PI-17. Recording and management of cash balances, debt and guarantees	A		
(i) Quality of debt data recording and reporting		Not Applicable	
(ii) Extent of consolidation of the government's cash balances	A	All cash balances are calculated daily and consolidated.	Public accounts data and advice from Treasury and BPA
(iii) Systems for contracting loans and issuance of guarantees.		Not applicable	

This indicator is largely not relevant as the GoTL has no loans or guarantees and does not have cash balances in more than one account that require consolidation, management, recording and reporting.

GoTL operates one bank account only with the Banking and Payments Authority (BPA). Tax collections are deposited to a commercial bank account and the BPA is aware of exactly what is held and sweeps collections whenever it believes it is prudent to do so. The BPA performs the normal role of a Central Bank except that it does not have to manage a currency for Timor Leste as the US dollar is used as local currency.

The GoTL does not issue guarantees, has incurred no debt and the only instrument that could be considered remotely relevant to this indicator is the letters of credit that are issued for the import of various equipment, but they are clearly outside the scope of what the PEFA guidelines look to assess.

3.5.6 PI-18 Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management. The assessment looks in particular at the degree of integration/reconciliation between personnel and payroll databases, timeliness of changes, adequacy of internal controls and the existence of payroll audits which identify control weaknesses and/or ghost workers.

Indicator	Score	Meaning of PEFA score	Evidence
PI-18. Effectiveness of payroll controls	D+		
(i) Degree of integration and reconciliation between personnel records and payroll data.	C	A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months.	MoPF issue complete payroll listing quarterly
(ii) Timeliness of changes to personnel records and the payroll	A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).	Starting point for payroll processing in Treasury is MSA information entered into CHRIS and time sheets received from MDAs
(iii) Internal controls of changes to personnel records and the payroll.	C	Controls exist, but are not adequate to ensure full integrity of data.	Advice from MSA and the Inspector General
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	D	No payroll audits have been undertaken within the last three years.	Advice from Internal Audit and Inspector General

The GoTL personnel database is currently effectively managed by Treasury on the strength of memorandums issued to them by MSA advising of appointments, separations, transfers and promotions. The data is input into the payroll application utilised by the Treasury Directorate which is known as C Human Resource Information System (CHRIS) and currently forms the Personnel Management Information System (PMIS) for the civil service. The processing of payroll payment calculations in Treasury in the CHRIS is commenced each pay period upon the receipt of time sheets from MDAs.

The Ministry of State Administration(MSA) does expect to have its own PMIS in place before the end of 2008 which will be developed in association with the GoA funded Capacity Building Project.

The posting of salaries into the general ledger of Free balance is done through manual journal entries for every administrative unit in Government.

Treasury input of payroll changes in the payroll database does not represent an appropriate internal control framework. The fact that at this time the payroll system represents the PMIS also weakens the control environment.

The Internal Audit Unit in MoPF has not done any payroll audits. Payroll audits are not common place. The last one done by the Inspector General's office was in 2001/2 in the districts and some losses were identified. Advice from the MSA indicated that there had been at least one case of a contractor continuing to be paid after a contract had been completed.

The process for preparation of budget estimates by MDAs could represent a payroll control by its inclusion of staffing structures in the budget estimates and the final budget paper, but as a once a year check, this is clearly insufficient.

The lack of integration or interface of the payroll application (CHRIS) with the Free balance FMIS means there are duplications in data input which create potential for inaccuracies in the proper accounting for salaries in the general ledger of Free balance.

3.5.7 PI-19 Competition, value for money and controls in procurement

This indicator focuses on the quality and transparency of the procurement regulatory framework in terms of establishing the use of open and fair competition as the preferred procurement method and defines the alternatives to open competition that may be appropriate when justified in specific, defined situations.

This indicator assesses the use of open competition, justification for use of less competitive methods and operation of a procurement complaints mechanism.

Indicator	Score	Meaning of PEFA score	Evidence
PI-19. Competition, value for money and controls in procurement	B		
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold);	D	Insufficient data exists to assess the method used to award public contracts	Although estimates were made by the Director Procurement Services in MoPF, no data on the methods used in decision making is available for analysis
(ii) Extent of justification for use of less competitive procurement methods.	A	Other less competitive methods when used are justified in accordance with clear regulatory requirements.	Articles 92-94 of Government Decree-Law No. 10 / 2005 make clear conditions for exceptions
(iii) Existence and operation of a procurement complaints mechanism	B	A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority.	Government Decree-Law No. 10 / 2005

The FMIS, quarterly treasury accounts and the public accounts data do enable some analysis of procurement spending. The data requires correction where commitments or obligations have been recognised but the transaction amounts have not become liabilities of Government as mentioned in discussion of performance indicators one, two and four.

Data is not available on the decision making process underlying procurement transactions as this information has not been recorded in the FMIS or by the Procurement Service staff.



The legal framework for procurement includes Government Decree Law 12/2005 Public Contracts Legal Regime, Decree-Law 11/2005 The Procurement Legal Regime and Government Decree Law N°12 /2005 Administrative Infractions of the Procurement Judicial Regime and of The Judicial Regime Of The Public Contracts.

Until late 2006, all procurement was managed by the Procurement Service in MoPF. Since that time responsibility has been assigned to 7 line Ministries for contracts costing up to USD 100,000 through the adoption of Government Decree Law N°14 /2006. An 8th Ministry is expected to be included shortly.

Tenders Boards or Juries were generally made up of 3 evaluation staff from the Procurement Services in MoPF, representatives from line Ministry and Public Works and sometimes chaired by the Vice Minister Works or Director Procurement Services in MoPF.

All purchases for less than USD 50,000 must go to a request for quotations. The Contracts Committee determines how Contracts will be let if they have a potential value in excess of USD 100,000 and less than USD 500,000. For amounts in excess of that, a Cabinet decision will be required. Many of these contracts go to open competition. Many contracts, such as those for IT Equipment, go to limited invitation bids to suppliers in a diverse range of countries

Exceptions are allowed in cases of repeat purchase and highly specialised goods and services in accord with the requirements of article 92 of Government Decree-Law No. 10 / 2005 whenever there is a single supplier without alternative or substitute, when an existing contract requires the purchase of vital items from a specific supplier as a condition of execution guarantee and in cases of emergency. The requirements are quite clear. Articles 93 and 94 of the decree place additional conditions on the use of the Article 92 exceptions.

Article 61 of the same decree requires compulsory publication of announcements in National Public Tenders, International Public Tenders and Pre-qualification procedures.

Complaints are to be initially referred to the relevant Director in the Ministry, or the Director Procurement Services in MoPF if MoPF are managing the procurement process; within five days of the decision. Decisions on appeals are to be made within twelve days.

In the event of being dissatisfied with the explanation given, bidders may refer a hierarchical appeal to the competent authority, within five days, after the date of notification of the decision on their claim. The competent authority shall decide if it accepts or rejects the appeal presented within a period of five days. The Competent authority may be a Minister, Secretary of State or the Prime Minister.

3.5.8 PI-20 Effectiveness of internal controls for non-salary expenditure

This indicator assesses the internal control mechanisms in place by reviewing the effectiveness of expenditure commitment controls, comprehensiveness, relevance and understanding of procedures and degree of compliance.

An effective internal control system is one that is based on an assessment of risks and the controls required to manage the risks, incorporates a comprehensive and cost effective

set of controls (which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), is widely understood and complied with, and is circumvented only for genuine emergency reasons.

Indicator	Score	Meaning of PEFA score	Evidence
PI-20. Effectiveness of internal controls for non-salary expenditure	D +		
(i) Effectiveness of expenditure commitment controls.	C	Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	Scope exists for arbitrary reallocation of appropriation at Ministerial level.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	D	Clear, comprehensive control rules/procedures are lacking in other important areas.	Reporting framework for Ministries is incomplete and does not facilitate management monitoring and identification of irregularities or inefficiencies.
(iii) Degree of compliance with rules for processing and recording transactions.	B	Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.	Incidents detected by the Inspector General. Incidents reported to the Provedor

In the Timor-Leste PFM system great reliance is placed on traditional transaction level manual controls and procedures. Risk assessment is not part of the control system.

While comprehensive expenditure commitment controls are in place which limits commitments of budget appropriation, there is scope for arbitrary reallocation of appropriation at Ministerial level.

One major failure in the internal control system is the failure to separate responsibility for the information technology system and the accounting, recording and reporting framework. These are all managed in Treasury Directorate. The Administration and Information Technology Directorate manages only the hardware and the network and not the information service or softwares.

One important set of controls that are not available to line Ministries, at least, are outputs from the free balance system in accord with management requirements. The only report available is current year spending and "commitments" compared to current year appropriation. Reports are not available against programs, activities, prior year spending and in the great variety of formats and classifications that would facilitate management identification of ineffectiveness, inefficiencies or irregularities.

Commitments are recognised at a stage when they are much less than a commitment and may be as little as an idea for progression of a project in the mind of a senior official. This control is completely redundant.

Commitments should only be recognised against appropriation at the time of agreement of a contract or when a purchase order is issued at the time when they are currently recorded as an "obligation" in the GoTL Free balance system.

3.5.9 PI-21 Effectiveness of internal audit

Internal control mechanisms can be improved through the effective use by management of internal audit. Internal audit capability is assessed by reviewing its coverage and quality, frequency and distribution of reports and extent of management response.

Indicator	Score	Meaning of PEFA score	Evidence
PI-21. Effectiveness of internal audit	D		
(i) Coverage and quality of the internal audit function.	D	There is little or no internal audit focused on systems monitoring.	Audits largely focused on transactions
(ii) Frequency and distribution of reports.	D	Reports are either non-existent or very irregular.	Only 15 audits are conducted per annum
(iii) Extent of management response to internal audit findings.	D	Internal audit recommendations are usually ignored (with few exceptions).	No responses have been received to reports

In the General Government Sector, the MoPF Internal Audit Team of 3 staff is considered insufficient and that Internal Auditor positions should be created across all Ministries.

The team does have an annual plan and does conduct some 15 audits per year. They do have a very basic audit manual, standard working papers and copies of the Treasury, Revenue and Expenditure management procedural manuals to guide them in their work

Internal Audit Reports are addressed to the Minister for referral to the Prime Minister and the Council of Ministers and copied to the Inspector General. None have been the subject of any further communication with the Internal Audit Office.

3.6 Accounting, recording and reporting

3.6.1 PI-22 Timeliness and regularity of accounts reconciliation

This is assessed on the basis of regularity of bank account reconciliations and regularity and clearance of suspense and imprest accounts.

Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants - this is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability.

Indicator	Score	Meaning of PEFA score	Evidence
PI-22. Timeliness and	D		

Indicator	Score	Meaning of PEFA score	Evidence
regularity of accounts reconciliation			
(i) Regularity of bank reconciliations	D	Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.	Bank reconciliation is only done annually in conjunction with preparation of annual accounts
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	D	Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.	Reconciliation and clearance of accounts is very slow

Treasury do receive complete bank account statements from the BPA each day. Reconciliation of cash flow statements with bank accounts is only performed annually. Treasury intends to conduct this quarterly.

Reconciliation of suspense accounts and advances tends to be slow because of capacity constraints and the volume of paper work moving through the Treasury Directorate.

3.6.2 PI-23 Availability of information on resources received by service delivery units

Problems frequently arise in front-line service delivery units providing services at the community level (such as schools and health clinics) in obtaining resources that were intended for their use, when overall resources fall short of budget estimates or when higher level organizational units decide to re-direct resources to other purposes.

Indicator	Score	Meaning of PEFA score	Evidence
PI-23. Availability of information on resources received by service delivery units	D		
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	D	No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.	Discussion with MoPF and line Ministries

While the FMIS should yield reports enabling quality information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country, the system has not been configured to enable this type of reporting. Line Ministries like Health and Agriculture are developing their own separate financial information systems to counter this problem.

The current chart of accounts allows for the possibility of reporting by districts but not at any lower level of administrative unit.



A proposed upgrading of Free balance and adoption of a more complete and consistent chart of accounts may enable facilitation of this type of reporting.

3.6.3 PI-24 Quality and timeliness of in-year budget reports

This indicator assesses the scope of reports, their timeliness and the quality of information on actual budget implementation.

Indicator	Score	Meaning of PEFA score	Evidence
PI-24. Quality and timeliness of in-year budget reports	C+		
(i) Scope of reports in terms of coverage and compatibility with budget estimates	A	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	Timely revenue and expenditure reports showing monthly, year to date and budgetary data for both payments made and commitments are available from the FMIS.
(ii) Timeliness of the issue of reports	A	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	Enquiries made at MoPF and line Ministries indicate that reports are available inside 15 days after the end of a reporting period.
(iii) Quality of information	C	There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness	When Treasury are slow in processing CPVs the data is not timely and less useful. The non availability of other forms of reports also compromises their usefulness.

Real time revenue and expenditure reports showing monthly, year to date and budgetary data for both payments made and commitments are available at all times to corporate services staff in all ministries that are on line to the MoPF FMIS.

The usefulness of this data hinges on the time taken by Treasury staff to process Cash Payment Vouchers (CPV)s; so line Ministries often keep their own manual or automated register of expenditures that have been the subject of CPVs. Treasury staff say that CPVs are all recorded in the system upon receipt unless the CPV is defective for any reason. Free balance does not record the date of input but there is a manual register for CPVs in Treasury in which the date of receipt is recorded.

The standard reports provide information on expenditures paid and “commitments” by line item recorded against budget and no other format of report is available.

3.6.4 PI-25 Quality and timeliness of annual financial statements

Consolidated year-end financial statements are critical for transparency in the PFM system. To be complete they must be based on details for all ministries, independent departments and deconcentrated units.

In order to be useful and to contribute to transparency, financial statements must be understandable to the reader, and deal with transactions, assets and liabilities in a transparent and consistent manner. This is the purpose of financial reporting standards. Some countries have their own public sector financial reporting standards, set by government or another authorized body.

To be generally acceptable, such national standards are usually aligned with international standards such as the International Federation of Accountants' (IFAC) International Public Sector Accounting Standards (IPSAS), of which some are relevant for countries that adopt accrual based accounting, while others are relevant for cash-based systems. The Dimensions used for this indicator include: i) completeness; ii) timeliness; and iii) accounting standards used.

Indicator	Score	Meaning of PEFA score	Evidence
PI-25. Quality and timeliness of annual financial statements	C+		
(i) Completeness of the financial statements	A	A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.	The information in the public accounts is complete but includes extensive accounts payable that are not due and payable. Receipts and payments associated with overseas development that do not flow through the consolidated Fund are also not recognised.
(ii) Timeliness of submission of the financial statements	A	The statement is submitted for external audit within 6 months of the end of the fiscal year.	Statements are submitted after three months and the audit is usually completed within six months of year end.
(iii) Accounting standards used	C	Statements are presented in consistent format over time with some disclosure of accounting standards	An accounting standard is not used. The statements are presented in a consistent readable format.

The Public Accounts of the Government of Timor-Leste as required by Section 39.1(b) of the Budget and Financial Management Regulation should be consistent with international accounting standards. While the Statement of cash flows may be consistent with international accounting standards, all other statements are not consistent with international accounting standards because of the recognition of amounts which have not yet been incurred as expenditures. These amounts are also wrongly recognised as liabilities.

It is only possible to comply with international accounting standards when a cash basis or accrual basis of accounting is adopted. Accounting on a modified cash basis or a modified accrual basis is not the subject of accounting standards; as they are regarded as a stage in a transition process between cash and accrual accounting. Nevertheless, guidance is available for utilising these forms of accounting in government which the GoTL does not follow. The IFAC PSC Study 11 on Government Financial Reporting Accounting Issues and Practices of May 2000 would be a most useful reference for Treasury in preparing these accounts.

The notes to the cash flow statement would also require additional disclosure if they were to be brought into line with the International Public Sector Accounting Standard on cash reporting. This would require change to bring into the notes on the public accounts the value of receipts and payments from development spending which are currently not channelled through the Consolidated Fund. Such receipts and payments should be recognised providing that bilateral and multi lateral agencies have provided all the necessary information to the MoF as outlined at 1.3.24 of the International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting”.

3.7 External scrutiny and audit

3.7.1 PI-26 Scope, nature and follow-up of external audit

Greater transparency in the use of public funds is provided through an effective external audit. This is assessed on the basis of scope of audit, timeliness and follow up or recommendations.

Indicator	Score	Meaning of PEFA score	Evidence
PI-26. Scope, nature and follow-up of external audit	D+		
(i) Scope/nature of audit performed (incl. adherence to auditing standards).	B	Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues.	Annual Financial Report and Accounts indicates all entities are included in the financial audit
(ii) Timeliness of submission of audit reports to legislature	B	Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.	Annual Financial Report and Accounts for the year ended 30 th June 2006 were submitted in January 2007
(iii) Evidence of follow up on audit recommendations.	D	There is little evidence of response or follow up.	Evidence of and GoTL response to the auditors’ letter to management was not available

The audited financial statements and management letter are presented to Parliament within six months of every year-end. The external auditors perform their work over two inputs of three weeks each per year.

As the general government sector and all other Government entities are audited in the contest of the presentation of the Government of Timor-Leste Annual Financial Report and Accounts which includes the audit certificate prepared by the external auditors, the requirement for audit of 75% of Government expenditures is more than met.

3.7.2 PI-27 Legislative scrutiny of the annual budget law

In order to assess the role of the legislature in the annual budget process, this indicator reviews the scope of the legislature's scrutiny, procedures followed, time allowed and rules for in year budget amendments.

Indicator	Score	Meaning of PEFA score	Evidence
PI-27. Legislative scrutiny of the annual budget law	C +		
(i) Scope of the legislature's scrutiny.	C	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.	The Budget Papers are presented to parliament at the concluding stages of the Budget Circular calendar when line Ministry appropriations have been amalgamated and negotiated with MoPF
(ii) Extent to which the legislature's procedures are well-established and respected.	B	Simple procedures exist for the legislature's budget review and are respected.	The Parliamentary Economic and Financial Commission appraise the budget for 3-4 days and then 3 weeks are allowed for the plenary structure to consider the document.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	B	The legislature has at least one month to review the budget proposals.	Budget Circular and above procedure
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	A	Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.	Part IV Budget and Financial Management Regulation allows some scope for transfers and access to contingency funds

The Parliament has a two stage process for adoption of the budget involving three to four days with the Economic and Financial Commission and then 3 weeks with the plenary structure. The Parliament may only vote to make recommendations on the budget or to reject the Budget presented by the government

In the event that a budget is not adopted, the Budget and Financial Management law allows for the adoption of an appropriation of one twelfth of the prior year appropriation for each month.

The rules on supplementary appropriations in Part IV Budget and Financial Management Regulation provide scope for the executive to change appropriation subject to the issue of a regulation, but access to additional appropriation will require referral back to the Parliament to secure supplementary appropriation.

3.7.3 PI-28 Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee(s) or Commission, that examines the external audit reports and questions responsible parties about the findings of the reports. The operation of the committee(s) will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors.

The effectiveness of legislative scrutiny is assessed by timeliness of audit reports, extent of hearings and issuance and response to recommendations.

Indicator	Score	Meaning of PEFA score	Evidence
PI-28. Legislative scrutiny of external audit reports	D+		
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	A	Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.	
(ii) Extent of hearings on key findings undertaken by the legislature.	D	No in-depth hearings are conducted by the legislature.	
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	D	No recommendations are being issued by the legislature.	

The legislature in Timor-Leste tends to focus on the budget and does not spend much time on the annual financial report and accounts, which includes the external audit report. The annual financial report and accounts document is received by the Economic and Financial Commission in the National Parliament. The management letter from the external auditors is also tabled.

There is no external auditor to provide the Parliament with efficiency and effectiveness reports or performance, systems and value for money audit reports.

3.8 Donor practices

3.8.1 D-1 Predictability of Direct Budget Support

This indicator assesses the extent to which inflows of budget support affect the government's ability to formulate its budget and consequently implement it as planned. The assessment is based on the following dimensions:

- i) deviation of actual budget support from the forecasts; and
- ii) in-year timeliness of donor disbursements (on quarterly basis).

Indicator	Score	Meaning of PEFA score	Evidence
D-1 Predictability of Direct Budget Support	D+		
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	C	In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%.	Direct Budget support ran close to budget in the first two years under review but fell short by 90% in the 2005-06 year
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	The requirements for score C (or higher) are not met.	

Budget support to the consolidated fund consists of amounts provided by a number of donors which from the 2005/06 year is coming almost solely through the WB managed Consolidated Support Program (CSP).

Direct Budget support ran close to budget in the first two years under review but fell short by 90% in the 2005-06 year because no funds were actually released from the CSP during 2005-06.

Table X Forecast and Actual direct budgetary support to GoTL 2003/4 to 2005/06

USD millions	2003/4		2004/5		2005/6	
	Forecast	Actual	Forecast	Actual	Forecast	Actual
Grants from abroad	33.8	34.8	30.9	34.1	10.4	1.0
Variance		+2.9%		+10.4%		-90.4%

Data on meaningful or genuinely likely commitments from donors is not made available to the GoTL and actual data is not made available until it is requested by GoTL officials.



To obtain even a C score for dimension (ii), quarterly disbursement estimates would have to have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays not exceeded 50% in two of the last three years.

3.8.2 D-2 Financial information provided by donors for budgeting and reporting on project and program aid'

This indicator reflects the quality and timeliness of the information provided by the donors on their budget estimates for disbursement of project aid as well as actual disbursements made. It is assessed against the following dimensions: i) completeness and timeliness of budget estimates by donors; ii) frequency and coverage of reporting by donors on actual donor flows

Indicator	Score	Meaning of PEFA score	Evidence
D-2 Financial information provided by donors for budgeting and reporting			
(i) Completeness and timeliness of budget estimates by donors for project support	D	Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start.	Best possible outcome data is collected by MoPF but genuinely likely data is not available.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D	Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.	MoPF actively collects actual data from MDAs and Donors rather than receiving such reports

As indicated in the second dimension of performance indicator 7, quality data on the best possible projected income and expenditure on donor-funded projects is included in the budget papers in the combined sources budget schedules. This data assumes the development community will increase commitments to SIPs to mobilize resources to meet NDP goals and MDG priorities during the financial year. It effectively assumes all pipeline or likely projects will eventuate.

The External Assistance and Coordination Directorate of MoPF assemble all this information into a Registry of External Assistance (REA) and collects actual data from MDAs and donors to prepare Quarterly Reporting Matrixes.

Data on meaningful or genuinely likely commitments from donors is not made available.

3.8.3 D-3 Proportion of aid that is managed by use of national procedures

This indicator relates to the proportion of donor aid funds that are managed through national procedures (i.e. banking, authorisation, procurement, accounting, audit, disbursement and reporting).



Indicator	Score	Meaning of PEFA score	Evidence
PI 31. Proportion of aid that is managed by use of national procedures	D		
(i) Overall proportion of aid funds to central government that are managed through national procedures.	D	Less than 50% of aid funds to central government are managed through national procedures.	Generally additional requirements are in place over and above GoTL procedure. Interviews with Procurement Services, External Assistance and Coordination Directorate and World Bank staff

The GoTL procurement framework is generally relied upon only for local purchases. Loan agreements generally involve extra procurement procedures such as World Bank prior review of many transaction types and “no objection” requirements

Internationally competitive bidding processes are managed through the bilateral or multilateral agency’s procurement and other procedural frameworks.

GoTL procedures are generally used for banking, but slowness in release of funds by Treasury does encourage some overseas development agencies to use other approaches in getting funds to line departments.

As the GoTL does not have a body responsible for audit, GoTL procedure for audit can be relied on to the extent that the external auditors do audit donor funded activity. So the multi lateral and bilateral agencies tend to include in funding agreements the option to engage an external auditor.



4 Government reform process

4.1 Description of recent and on-going reforms

4.1.1 Recent Reform

The Government has proceeded with a number of reform measures designed to address problems with budget execution.

The initiatives included

- preparation of agency procurement plans in 2004-05 in key sectors and reporting on progress
- negotiation of front-loaded Expenditure Authorization Notices in key sectors, and
- delegation of responsibility for procurement to 6 line Ministries for contracts costing up to USD100,000 in late 2006

The GoTL has reduced the level of staff vacancies at MoPF. Vacancies have been filled in the Directorates of Budget, Statistics, Assets, Administration & IT and Customs. These have been permanent appointments through an internal recruitment process. Vacancies are still to be filled in Treasury and Macroeconomic and Tax Policy Unit. Some temporary staff have also been engaged.

The budget process was simplified for 2006-07. Outputs to the National Parliament remained similar but more ownership was taken by the local staff, and improved information on external resourcing was provided through better coordination between the Budget and Planning Offices.

4.1.2 Proposed Reform and program

The World Bank designed Planning and Financial Management Capacity Building Programme (PFMCBP) has been the result of a comprehensive assessment of PFM objectives and needs carried out jointly with the Government and development partners. It does build on pre-existing projects and interventions in the area and has taken account of lessons learned from activities facilitated by AusAID ADB and UNDP since independence.

The project is designed to facilitate provision of a framework for the delivery of highest quality value-for-money services possible, within an environment of open, honest, structured and reliable government.

Improvements in the GoTL's capacity for public financial management are expected to lead to improvements in service delivery, which would contribute to the achievement of NDP goals and associated outcomes in education, health, water supply and sanitation and infrastructure.



The programme development objective is sustainably strengthened planning, budgeting, public expenditure management and revenue administration for growth and poverty reduction, with emphasis on efficiency, effectiveness, accountability, integrity, service culture, and transparency. Sustainability in this context refers to the transfer of responsibility to Timorese nationals and the progressive elimination of dependence on internationally-recruited staff and advisers, while improved service culture refers to MoPF interactions internally and externally with line ministries and districts, which will feed into improved service delivery to the population and the private sector to improve the investment climate for growth. Both will help to reduce poverty.

The PFMCBP does represent a coherent, written strategy for PFM reform and comprises five inter-related components -

- Public Expenditure management focusing on strengthening the expenditure side of PFM, including planning, budget formulation and budget execution.
- Revenue Administration and macroeconomic Management
- Programme-wide activities focusing on the cross-cutting skills and knowledge, systems and processes, attitudes and behaviours that underpin professional work ethic, integrity, civil service standards, communication and information flows, basic skills, and enhanced human resources functions
- support for Governance and Management focusing on making sure that MoPF and its resources are managed in a strategic, transparent and effective fashion, and on building increasing levels of national ownership and responsibility for results
- Programme Implementation focuses on bolstering the MoPF capacity to administer the Programme by providing advisory support to the Administration and IT Directorate.

While the program does outline much specific technical assistance and training activities, for its first eighteen months at least; it is also designed to be very flexible and responsive to identified needs and successes in capacity building.

A Statement of Understanding will be agreed between the GoTL and development partners on the operation of the program and this will include the mechanism for agreement to the Annual Activity Plan and the procedures for agreeing changes to the plan during the year. This was expected to be agreed in February 2007.

4.2 Institutional factors supporting reform planning and implementation

4.2.1 Government leadership and ownership

The PFMCBP is seen as a GoTL owned support for its three pillar capacity building program integrating professional skills and knowledge, systems and processes and addressing employee attitudes and behaviour for a period of five years from 2007. The Prime Minister and the Council of Ministers have expressed ongoing concerns about slow budget execution and have been articulately demanding reform in these areas.

The PFM reform strategy is complemented by a strategic plan including a schedule for completing the various stages of work, but progress is not on schedule.



There is considerable ownership of reform in agencies which is not limited to officials in the MoPF.

The PFMCBP implementation and focal point will be the MoPF Directorate of Administration and IT. The Directorate does not have adequate professional staff but the Director and staff are dedicated full time to the reform task. They are being supported through the appointment of one Financial Management Officer now in place and an Adviser to the Program Implementation Office to be appointed as agreed by the GoTL and World Bank.

The PFMCBP is systemic training and orientation programme very effectively focused on facilitating in depth reform designed in the light of lessons learned from the reform effort so far.

The reform effort is the subject of meaningful support from donors in the form of Irish Aid having confirmed a contribution of €5.5 million and indicative contributions secured from Australia, New Zealand and UK DFID. Additional parallel support is being provided by Australia and Portugal.

Meaningful reform is also being progressed by officials and advisors in the context of the budget preparation process for 2007-08 to improve preparation of AAPs and to facilitate better budget execution, particularly in capital spending.

4.2.2 Coordination across government

The structure of the Annual Action Plans together with their associated goals, objectives and performance targets are still mostly of poor quality. They tend to focus on inputs rather than outputs; many now have little relationship to the current priorities of ministries; and the numerous performance targets hinder rather than enable the detection and rectification of non-execution of the budget.

Nevertheless, the requirements are in place for the AAP preparation to feed from the NDP and SIPs into the budget process and at least two Ministries, in the form of Agriculture and Health have commenced defining meaningful activities and performance indicators.

The procedure for the 2008/08 budget estimates process is designed to facilitate similar results across many line ministries.

The PFMCBP should facilitate making this process more results oriented and coordination across Government more meaningful.

4.2.3 Sustainability of the reform process

The major risks directly affecting reform are potential negative impacts of line position work performed by international consultants if that is done without recruitment of appropriate or sufficient Timorese staff and meaningful transfer of skills and knowledge from international consultants is not taking place.



Timor-Leste Public Finance Management - Performance Report

The fact that Timor-Leste began its history less than five years ago with almost no trained experienced government officials always meant that perhaps a generation of some forms of support was required.

However visionary leadership is in place in some areas of Government and progress is likely to very good in these areas and somewhat weaker elsewhere.

Setbacks are inevitable in circumstances such as that of scarce well trained experienced visionary leaders moving on; and in cases where bright prospects in middle or senior level positions are sent on overseas scholarships and do not return to Timor-Leste.

Attachment 1 Performance Indicators Summary

A. PFM-OUT-TURNS: Credibility of the Budget			
PI1	Aggregate expenditure out-turn compared to original approved budget	D	Cash outlays have fallen at least 5% and as much as 25% short of original budget.
PI2	Composition of expenditure out-turn compared to original approved budget		Not assessed as data by line Ministry on either cash or accruals accounting basis is not available.
PI3	Aggregate revenue out-turn compared to original approved budget	A	Domestic Revenue collections generally exceed the original budget estimates.
PI4	Stock and monitoring of expenditure payment arrears		Not assessed as data is unreliable. Expenditure payment arrears not monitored.
B. KEY CROSSCUTTING ISSUES: Comprehensiveness and Transparency			
PI5	Classification of the budget	D	Different classification is used in budget and Free Balance budget execution system
PI6	Comprehensiveness of information included in budget documentation	B	Breadth and depth of information in budget papers is excellent but the score is B rather than A for excluding previous year data.
PI7	Extent of unreported government operations	A	All operations are reported on.
PI9	Oversight of aggregate fiscal risk from other public sector entities.	A	Risk is comprehensively appraised in budget papers
PI10	Public access to key fiscal information	C	Budget documentation is available after adoption and other information is not.
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI11	Orderliness and participation in the annual budget process	B	The budget process is appropriately timetabled and participatory
PI12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	Forward estimates are an ingrained part of the budget and planning process.
C(ii) Predictability and Control in Budget Execution			
PI13	Transparency of taxpayer obligations and liabilities	D+	Public access to customs information in particular is very limited.
PI14	Effectiveness of measures for taxpayer registration and tax assessment	C+	These measures are in a development stage for clients not familiar with requirements.
PI15	Effectiveness in collection of tax payments	D	Tax arrears are significant but most may be uncollectible. Reconciliation is not complete
PI16	Predictability in the availability of funds for commitment of expenditures	D+	While appropriation is available the procedural framework constrains access.
PI17	Recording and management of cash balances, debt and guarantees	A	GoTL operates one bank account through BPA and has undertaken no borrowing
PI18	Effectiveness of payroll controls	D+	Payroll control framework lacks separation of duties and the conduct of audits

PI19	Competition, value for money and controls in procurement	B	Data to verify procurement method utilized is not available. Legislative requirements sound
PI20	Effectiveness of internal controls for non-salary expenditure	D+	The control framework is not risk based and lacks key analytical tools.
PI21	Effectiveness of internal audit	D	Internal audit capacity and resources are very low. Reports are not followed up.
C(iii) Accounting, Recording and Reporting			
PI22	Timeliness and regularity of accounts reconciliation	D	Accounts reconciliation is only done after year end.
PI23	Availability of information on resources received by service delivery units	D	These are not available because of the current configuration of the FMIS.
PI24	Quality and timeliness of in-year budget reports	C+	While these are issued in a timely manner, the information is usually not timely.
PI25	Quality and timeliness of annual financial statements	C+	Receipts and assets are understated and expenditure overstated in annual accounts.
C(iv) External Scrutiny and Audit			
PI26	Scope, nature and follow-up of external audit	D+	Audit limited to financial audit
PI27	Legislative scrutiny of the annual budget law	C+	Product is almost final and legislature may only make suggestions, reject or approve.
PI28	Legislative scrutiny of external audit reports	D+	The Legislature receives an annual financial audit report only.
D. Donor Practices			
D1	Predictability of Direct Budget Support	D+	Most budget support was not paid in 2005-06 and projected disbursement data is not made available
D2	Financial information provided by donors for budgeting and reporting on project and program aid	D	Information tends to be provided on a project by project basis and meaningful forward estimates tend not be available from donors
D3	Proportion of aid that is managed by use of national procedures	D	Additional procedures tend to be applied to the bulk of procurement



Attachment 2 Terms of Reference

Timor-Leste - EC support to Public Financial Management (9th EDF)

1. Introduction

Following the ratification of the Cotonou Agreement in December 2005, Timor-Leste (TL) has joined the ACP (Africa, Caribbean and Pacific) group. Previously, support by the European Commission was provided in the context of humanitarian and development assistance (the latter notably through thematic budget lines and Asia geographical budget line).

The Country Strategy Paper/National Indicative Programme (CSP/NIP) for TL, which was signed on 9/6/06, includes two focal areas: rural development (€12m) and institutional capacity building (€6m). Institutional capacity-building was selected given the weak administrative capacity of the government. The CSP refers specifically to the need to strengthen significantly and at a rapid pace the institutional and human resources capacity in Timor-Leste, to improve its management systems including Public Finance Management.

2. Context

The National Development Plan (NDP) 2003-2007, the Stability Program and the Sector Investment Programs establish the Government's vision for national development. The NDP has two strategic pillars of poverty reduction and equitable and sustainable economic growth. The Stability Program targets activities under the objectives of job creation, good governance and poverty reduction (the latter through education and health). The Sector Investment Programs (SIP) link the budget progress directly to the NDP, providing transparent planning for all ministries, for a 5-year expenditure cycle. In May 2002 the NDP was endorsed as the country's Poverty Reduction Strategy Paper (PRSP). Capacity building at all levels for effective planning and financial management and improved service delivery are specifically mentioned as crucial elements to achieve poverty reduction.

During the 4 years of independence, TL has made an impressive progress in building the foundation of the State and implementing the NDP. Notwithstanding the progress towards the achievement of some Millennium Development Goals, poverty is increasing. Human development ranking was 140 (out of 177) in 2005.

Economic recovery began in 2004 and continued into 2005 after 2 years of economic contraction caused by drought and the winding down of peace-keeping forces. Growth was supported by a rise in government income from oil and natural gas production in the Timor Sea (approx. \$130 million in FY2005). Non-oil GDP was estimated at \$350 million, up by 2.5% from FY2004, mainly thanks to a pickup in agriculture (which employs about 74% of the labour force), and an expansion of bank lending. However, the population is growing about 4% annually, leading the GDP to drop from 450 Million USD in 2001 to 366 in 2005. Unemployment has increased 8.5% national wide and 21% in urban areas with unemployment among the urban youth reaching 40%.



The rising revenues from petroleum production have strengthened the fiscal position. Total government receipts increased from \$105 million to \$192 million in FY2005, and are forecast to reach \$206 million in FY2006. However, the execution of expenditure plans and government projects is slow, reflecting an overly centralized process, limited skills and institutional capacity, and a high level of commitment to fiduciary accountability². A fiscal surplus of \$114 million, or 32% of non-oil GDP, was estimated for FY2005. The authorities continue to follow a policy of no domestic or external borrowing.

In early 2006 the Government announced a public investments plan within the 2006/07 budget aimed at reducing unemployment and creating the conditions for private investments. The projected 5% growth may be unrealistic as the recent political crisis is likely to have a negative influence on the economy³. The recently approved budget increase (from \$215 Million to \$315 million) will challenge the Government given the past record on budget execution.

The key macroeconomic policy development in 2005 was the enactment of the Petroleum Act to establish a long-term petroleum fund. The fund aims both to insulate the non-oil economy from potential inflationary and real exchange rate appreciation impacts and rent-seeking effects of oil and gas windfalls, and to maintain the value of the country's oil wealth, so that future generations also benefit from it. Revenues are subject to strict accountability and transparency measures. The intention is to limit annual budget spending to the combined total of domestic non-oil revenues and the estimated "sustainable" income from the petroleum fund (i.e. income that can be maintained indefinitely without depleting the fund). According to the FY2006 budget, the estimate of this income for the financial year is \$103 million. Together with an estimate of non petroleum revenues of \$47 million, this implies sustainable spending of about \$150 million.

Main findings of the latest evaluations of the PFM systems

In its history and since independence TL did not have a memory or a structure of PFM except the one established by the UN administration. Early capacity building initiatives have focused on getting the PFM system up and running, and thus the system remains heavily reliant on the presence of international advisers who have largely focused on in-line performance and, to a limited extent, on the transfer of skills. The main lessons drawn are related to skill and knowledge, to system and processes as well as to attitudes and behaviours.

- **Lack of Skills and Knowledge.** There is an acute shortage of qualified technical expertise, leading to difficulties in recruiting personnel. The understaffing in the Ministry of Planning and Finance (MoPF) is worrying in the face of escalating petroleum sector activity. There is also a lack of seasoned managers (those with experience as civil servants under the Indonesian occupation would not have held management positions). TL continues to rely on some international staff in the short-to medium-term, while stepping up recruitment from the growing pool of Timorese

² By March 2005, only 42% of approved procurement and just 6% of the FY2005 capital development budget had been spent. In addition, there was a large carryover of public spending from FY2004. Actual capital expenditure has been low, at less than 3% of non-oil GDP in the past 2 years.

³ According to estimates of the IMF the private sector GDP is likely to contract and without public investments it may decrease up to 5%. A large increase in public spending, including the UN mission, could offset the negative impact leaving the GDP flat. Higher inflation may take out also some of the benefits.



with graduate degrees and providing on-the-job training for recruits. Recently adopted regulations and systems require a working knowledge of Portuguese and English (while most staff are fluent in Tetun and Bahasa).

- Cumbersome and Incomplete Systems and Processes. With the exception of the Ministry of Health, line ministry planning is not yet framed by sector-wide indicators and targets connected to sector policy. The link between planning and budget preparation remains tenuous at all levels. There is a weak link between the NDP, SIPs, Annual Action Plans (AAPs) and expenditure of bilateral funds (much of which is still "off-budget"). Slow budget execution is due to centralised expenditure management; complicated ex-ante expenditure and procurement controls; reluctance to delegate. There is poor communication between the MoPF and line ministries and between line ministries and district services. There is currently no effective disbursement system to send funds to the districts, resulting in districts holding only small imprest funds, which cannot cover implementation of national programs or local service delivery. Access to financial management data is also limited. The current system forces line agencies to maintain shadow ledgers, which are not reconciled by the agencies with data in the MoPF system.
- Unproductive Attitudes and Behaviors. Many of the problems faced by the PFM system stem from an ineffective organizational culture characterized by a lack of transparency and accountability, and by systemic corruption. Most high-level staff have no leadership and management experience, and the incentive framework is weak and uncertain. Managers are reluctant to delegate, further reducing the degree of responsibility felt by staff. There are problems of staff absenteeism, lack of motivation.

The GoTL wants to focus on an integrated approach to institution building that relies on three pillars: skills and knowledge; systems and processes; and attitudes and behaviours. Through the Capacity Development Coordination Unit in the Office of the Prime Minister, the GoTL has adopted this three-pronged institution building approach government-wide, and has asked the World Bank to support the coordination of the a program for PFM based on this integrative framework (the "Planning and Financial Management Capacity Building Programme" - PFMCBP).

Brief description of the ongoing and planned reforms in the PFM area: purpose, status of implementation, donors involved in institutional support to PF.

A total of 10 bilateral and multilateral donors (annex 2) have been supporting the reforms of the sector and they were geared mainly in budget execution and transparency and accountability.

The main axes of current and planned interventions are:

- While budget execution is one of the immediate challenges, there is a need to forge closer links between planning and budgeting. The first steps are to harmonize the planning and budgeting cycles and enhance capacity to cost AAP activities. On the revenue side, there is a need to enhance capacity for tax administration and collection especially from the petroleum sector but also from domestic sources, and for customs administration.
- There is a need to develop systems and processes for transparent internal control mechanisms that would allow for greater delegation and decentralization of expenditure management decisions and implementation have not yet been developed.



- Information flows and horizontal communication and cooperation need to be improved. IT systems need to support transparency and accountability in budget execution and service delivery.
- There must be an explicit attention to strengthening leadership.
- The Government has made a strong commitment to building integrity and accountability in institutions. These include the establishment in 2005 of a Provedor (Ombudsman with independent powers relating to anti-corruption, human rights and administrative recourse) and the existing Office of the Inspector-General, who investigates fraud and corruption complaints, conducts reviews of ministry practices. A staged process is envisaged to build up national capacity to undertake independent audit.
- Work is under way to develop the legal and regulatory framework for the civil service, starting with a new Civil Service Act, promulgated in 2004. Public sector pay structures are being reviewed. A review of the qualifications and positions of those already in the service is planned also. A Human Resource Management Information System is being developed to support HRM and career development.
- Timor-Leste is divided into 13 administrative districts. The Government is focusing first on creating effective and accountable service delivery within the existing deconcentrated system, while at the same time developing options for eventual devolution of powers and resources to subnational entities.

3. Objectives of the assessment

- General objective: To assist the Commission in supporting PFM reforms in Timor-Leste
- Specific objectives:
 - 1) to bear a shored up judgement on the current intrinsic performance of the PFM systems of the country and (if relevant) on the perspectives of improvement of these systems through the design and implementation of reforms.
 - 2) To advise on relevance, feasibility and modalities of an EC support to the ("Planning and Financial Management Capacity Building Programme" (PFMCBP) managed by the World Bank with special emphasis on annex 6 Management and supervision of the program and annex 7 Financial management and disbursement arrangements.

4. Activities: areas to cover

For each of the areas mentioned below the assessment of the current performance of the systems (based on existing diagnosis) will have, if relevant, to be balanced by an assessment of the adequacy (to the weaknesses highlighted) of the ongoing and/or planned reforms and of their perspectives of effective implementation.

- Legal framework
- Revenues
- Debt management
- Scope of the budget
- Budget preparation and formulation
- Budget execution
- Accounting and reporting
- External scrutiny and audit
- Organisation and capacity for reform



The annex 1, for information only, mentions some questions which could be addressed during the evaluation for each of these areas.

Based on this assessment, the consultancy will have to provide a clear description of WB PFM reform programme institutional and operational modalities and advise on:

- opportunity of a complementary EC support to the on-going PFM reform programme;
- pro and cons of a parallel specific EC institutional strengthening project;
- operational modalities: untargeted or earmarked financial contribution to the basket fund mechanism;
- modalities (number, timing of disbursements) of a possible contribution to a basket fund mechanism;
- modalities of EC delegation association to the monitoring of that programme;

5. Output

- A draft Project Identification Fiche, to be provided as a result of the desk work.
- A draft Financing Proposal to be provided at the end of the assignment.
- A report covering the areas identified in § 3.

Both Project Identification Fiche and Financing Proposal will be drafted on the basis of the Commission formats.

6. Stakeholders

The main stakeholders for this mission should be:

- The Commission, which will pilot the mission, i.e.: preliminary contacts and official information of the government on the mission; financing and recruiting of the experts; consolidation of the comments (of other donors and government) on the mission's report; quality check of the report in coordination with other donors involved; dissemination of the tentative and final reports.
- Other donors involved: determining of their involvement and coordination modalities with Commission; if need be financing/recruiting of one expert.
- Government: determining of the main interlocutors (within the administration of finance) of the expert and the donors for the follow-up of the mission.
- Involvement of other State structures: contacts with Supreme Audit Institutions, Parliament.

7. Methodology

- Work Plan: before the start of the mission, the experts will present for advice to the national authorities and to the lead donor a work plan specifying the main steps of



the mission and indicating the list of interlocutors to meet and the related meetings foreseen. This work plan will include a mid term meeting gathering the involved stakeholders in order to report on the progress of work and on the possible difficulties met in carrying out the evaluation. A final debriefing session will be also foreseen.

- Sources: the expert will mention in the report on which sources of information and documentation they have relied upon to carry out the evaluation. They will specify to what extent these documentation/information sources are reliable for meeting the purpose of the evaluation.

8 Reporting

- At the end of the Desk phase, the consultant will provide a draft Project Identification Fiche
- Ahead of the final debriefing session of the mission, the experts will provide an "aide-mémoire" (10 pages maximum) drawing the main findings to be developed in the tentative report.
- Within one week after the end of the mission the experts will send to the national authorities and to the lead donor the tentative report.
- Within 15 days following the reception of the tentative report, the national authorities and the lead donor will provide their comments to the experts.
- Within 15 days following the reception of these comments, the experts will send the final report to the national authorities and the lead donor.
- The report will be written in English.

9. The experts' team

- The team will be composed of 1 (one) expert. The expert will have at least 10 years of professional experience in PFM analysis related to developing countries. Perfect command of English is requested. Knowledge of Portuguese will be an asset.

10. Location and duration of the assignment

The overall input for the assignment is estimated at 45 days. Of this total, 2 days will be assigned for briefing and debriefing in Brussels, 29 will be assigned in Timor-Leste, 4 days for travelling, 5 days for preparation of the Project Identification Fiche and 5 further days for Writing up the final report.



Attachment 3 Persons consulted

Government of Timor-Leste

Mr. Valentim Ximenes Vice Minister of State Administration
Mr. Eusebio da Costa Jeronimo Director of External Planning MoPF
Mr. Antonio Freitas, Director of Budget MoPF
Mr. Brad Bowman, Management Advisor MoPF
Mr. Richard Neeve, Budget Advisor MoPF
Mr. Domingus Dodrigues Pereira, Director of Customs
Mr. Abraão General Manager Banking and Payments Authority
Dr. Sebastiao Dias Ximenes, **Provedor of Human Rights and Governance**
Mr. Manuel C.C. Bucar Corte-Real, Inspector General
Mr. Billy Tarrillo Seior Advisor Audit and Investigations Office of the Inspector General
Mr. Masaya Sato Advisor Office of the Inspector General
Mr. João Gerardo Da Silva Director Procurement Services MoPF
Mr. Joao Cuimbra Acting Director of Procurement Services MoPF
Mr. Bob Brammer Advisor Procurement Services MoPF
Mr. Rui Roliva Legal Advisor MoPF
Mr. Domingos da Cruz Chief of Finance Ministry of Health
Ms. Cate Keene, Chief Financial Officer Health Sector Rehabilitation and Development
Mr. Antonio Pires Director of Finance Ministry of Education,
Mr. Manuel Montero Deputy Director Treasury
Mr. Subodh Kumar Mathur Advisor Treasury Department
Mr. Carlos R. Risopatron, UN Economic Advisor at the Prime Minister's Office
Mr. Barry F. Thomas Advisor to the Prime Minister
Mrs. Ervina Soares Pinto Director of Finance Ministry of Agriculture
Mr. Con Keong Finance Advisor Ministry of Agriculture
Mr. Macario Sanches Director of Administration and IT
Mr. Stephen Morris Capacity Building HR advisor MoPF
Mr. Angelo de Almeida Commissioner of Taxation
Mr. Terry Goddard Taxation Advisor
Mr. Jose Alexandro Carvalho, Treasury Accountant
Mr. Marion Miguel de Jesus Mesquila Deputy Director Treasury
Mr. Julião José Ximenes Internal Auditor
Mr. João Bosco Internal Auditor
Mr. Alberto Godhini Internal Auditor
Mr. Marcelo Piancastelli Advisor Treasury
Mr. Pedro Figueiro Advisor Treasury

European Commission - EuropeAid

Ms. Francisca Gonzalo-Puebla
Mr. Inaki Zabala
Mr. Guglielmo Colombo Head of Office Dili
Mr. Juergen Lobas Brussels by teleconference

Portugese Embassy

Dr. João Pinto, Ambassador



UNDP

Mr. Akbar Usmani Country Director

AusAID

Mrs. Robin Scott-Charlton, Counsellor Development Cooperation

IMF

Mr. Tobias Rasmussen, Resident Representative

New Zealand High Commission

Ms. Ruth Nuttall Ambassador

Ms. Chris Day Deputy Head of Mission

UK Consulate

Ms. Tina Redshaw, Honorary Consul

World Bank

Mr. Antonio Franco Country Manager Timor-Leste

Ms. Catherine Anderson Operations Analyst Governance Timor-Leste

Mr. Adam Nelson Public Sector Consultant East Asia Poverty Reduction and Economic Management Washington

Mr. David Chandler Public Sector Management Specialist Sydney

Asian Development Bank

Mr. Charles Andrews



Attachment 4 Reference documents

1. Asian Development Bank Country Strategy And Program Update 2006•2008 Democratic Republic Of Timor-Leste September 2005
2. AusAID: Government of Timor-Leste Public Sector Capacity Development Program Design Framework December 2005
3. European Commission: Timor-Leste / European Community Country Strategy Paper And National Indicative Programme for the period 2006-2007
4. European Commission: Supporting PFM reform and capacity development - what can we do better
5. European Commission: The European Parliament And The European Economic And Social Committee Governance And Development October 2002
6. Europe Aid: Institutional Assessment and Capacity Development Why, what and how? An Aid Delivery Methods Concept Paper September 2005
7. Europe Aid: Project Cycle Management Guidelines An Aid Delivery Methods Paper March 2004
8. Government of Timor-Leste: East Timor National Development Plan Planning Commission Dili May 2002
9. Government of Timor-Leste: Public Sector Management Priorities And Proposed Sector Investment Program; Office of the Prime Minister Capacity development and coordination unit, Ministry of Planning and Finance, Ministry of state administration, National Institute of Public Administration and National Directorate for Public Service April 2005
10. Government of Timor-Leste: The Democratic Republic of Timor-Leste Combined Sources Budget 2004-05 Budget Paper Number 1 May 2004
11. Government of Timor-Leste: The Democratic Republic of Timor-Leste General Budget of the State 2005-06 Budget Paper Number 1 August 2005
12. Government of Timor-Leste Annual Financial Report and Accounts 2005-06 December 2006
13. International Federation of Accountants (IFAC) Public Sector Committee (PSC) : Study 10 Definition and Recognition of Expenses/Expenditures April 1998
14. International Federation of Accountants (IFAC) Public Sector Committee (PSC) : Study 11 Government Financial Reporting Accounting Issues and Practices May 2000
15. International Monetary Fund : **Government Finance Statistics Manual**
16. International Monetary Fund: Democratic Republic Of Timor-Leste Staff Report for the 2005 Article IV Consultation Prepared by the Staff Representatives for the 2005 Consultation with Timor-Leste and Selected Issues and Statistical Appendix Asia and Pacific Department May 31, 2005
17. World Bank: Country Assistance Strategy for the Democratic Republic Of Timor-Leste for the period fy06-fy08 June 22,2005
18. World Bank: Project Appraisal on a proposed grant to the Democratic Republic of Timor-Leste for a planning and financial management capacity building program
19. World Bank Joint staff advisory note on the poverty reduction strategy paper Democratic Republic of Timor-Leste April 29,2005



Attachment 5 Expenditure

Data for year = 2003/4					
functional head	budget	actual	difference	absolute	percent
Office of the President of the Republic	400	320	-80	80	20.1%
National Parliament	1,167	1,148	-19	19	1.6%
Office of the Prime Minister	8,891	7,550	-1,341	1,341	15.1%
Secretariat of State for the Council of Ministers	531	284	-247	247	46.5%
Ministry of State Administration	2,729	2,443	-286	286	10.5%
Ministry of the Interior	10,489	9,533	-956	956	9.1%
Ministry of Justice	2,554	2,015	-539	539	21.1%
Ministry of Agriculture, Forestry and Fisheries	1,783	1,450	-333	333	18.7%
Ministry of Education, Culture, Youth and Sports	16,648	14,887	-1,761	1,761	10.6%
Ministry of Health	9,071	8,430	-641	641	7.1%
Secretariat of State for Labour and Solidarity	589	508	-81	81	13.8%
Ministry of Foreign Affairs and Cooperation	1,205	922	-283	283	23.5%
Ministry of Planning and Finance	4,304	3,829	-475	475	11.0%
Ministry of Transport and Communications	18,218	15,544	-2,674	2,674	14.7%
Secretariat of State for Trade and Industry	174	121	-53	53	30.3%
Timor-Leste Broadcasting	360	171	-189	189	52.5%
total expenditure deviation	79,113	69,154	-9,959	9,959	12.6%
composition variance	79,113	69,154		9,670	12.2%

Data for year = 2004/5					
functional head	budget	actual	difference	absolute	percent
Office of the President of the Republic	380	338	-42	42	11.0%
National Parliament	930	910	-20	20	2.1%
Office of the Prime Minister	1,004	816	-188	188	18.7%
Ministry of Defence	5,994	6,395	401	401	6.7%
Secretariat of State for the Council of Ministers	380	262	-118	118	31.1%
Ministry of State Administration	2,722	2,854	132	132	4.9%
Ministry of the Interior	9,296	8,543	-754	754	8.1%
Ministry for Development	480	298	-182	182	37.9%
Ministry of Justice	1,782	1,635	-147	147	8.3%
Ministry of Agriculture, Forestry and Fisheries	1,573	1,520	-53	53	3.4%
Ministry of Education, Culture, Youth and Sports	16,488	15,506	-982	982	6.0%
Ministry of Health	9,725	9,446	-279	279	2.9%
Secretariat of State for Labour and Solidarity	490	467	-23	23	4.7%
Ministry of Foreign Affairs and Cooperation	2,436	2,315	-121	121	5.0%
Ministry of Planning and Finance	3,675	5,835	2,160	2,160	58.8%



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Ministry of Transport and Communications	16,235	15,627	-608	608	3.7%
Secretariat of State for Trade and Industry	177	158	-19	19	10.9%
Judiciary	360	198	-162	162	45.1%
Banking and Payments Authority	620	620	0	0	0.0%
Timor-Leste Broadcasting	350	282	-68	68	19.5%
total expenditure deviation	75,097	74,024	-1,073	1,073	1.4%
composition variance	75,097	74,024		6,329	8.4%

Data for year = 2005/06						
functional head	budget	actual	difference	absolute	percent	
Office of the President of the Republic	595	638	43	43	7.2%	
National Parliament	1,381	1,930	549	549	39.8%	
Office of the Prime Minister	5,782	5,273	-509	509	8.8%	
Ministry of Defence	9,780	9,026	-754	754	7.7%	
Secretariat of State for the Council of Ministers	678	368	-310	310	45.8%	
Ministry of State Administration	4,149	3,939	-210	210	5.1%	
Ministry of the Interior	10,184	9,837	-347	347	3.4%	
Ministry for Development	453	475	22	22	4.9%	
Ministry of Justice	5,641	4,930	-711	711	12.6%	
Ministry of Agriculture, Forestry and Fisheries	4,450	4,590	140	140	3.1%	
Ministry of Education, Culture, Youth and Sports	18,220	17,349	-871	871	4.8%	
Ministry of Health	14,305	15,866	1,561	1,561	10.9%	
Secretariat of State for Labour and Solidarity	864	1,286	422	422	48.8%	
Ministry of Foreign Affairs and Cooperation	2,652	2,464	-188	188	7.1%	
Ministry of Planning and Finance	8,456	8,942	486	486	5.7%	
Ministry of Transport and Communications	2,617	2,308	-309	309	11.8%	
Ministry of Natural Resources, Minerals & Energy	8,487	9,999	1,512	1,512	17.8%	
Ministry of Public Works	9,142	8,582	-560	560	6.1%	
Secretariat of State for Youth and Sport	442	262	-180	180	40.7%	
Judiciary	503	248	-255	255	50.6%	
Banking and Payments Authority	10,740	10,740	0	0	0.0%	
Provedor of Human Rights	83	73	-10	10	11.8%	
Timor-Leste Broadcasting	826	685	-141	141	17.0%	
total expenditure deviation	120430	119,810	-620	620	0.5%	
composition variance	120430	119,810		9,357	7.8%	

Source: Government of Timor-Leste Annual Financial Report and Accounts