CROWN AGENTS
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

Financial Management of Development Projects
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EVALUATING PUBLIC FINANCIAL MANAGEMENT: PEFA ASSESSMENT

Session Introduction

Session Aim

- Identify and discuss tools available for assessing the robustness of project financial management systems

Session Learning Objectives – by the end of this course, you will be able to:

- Understand the key international assessment tools available for the evaluation of project financial management systems
- Appreciate the evaluation process of the PEFA framework and other international assessment tools

Session Agenda

Our Learning Journey – how we will achieve our objectives:

1. Project-specific systems assessments
2. Sector (country system) assessments
3. Governance and anti-corruption assessments (GAC)
4. How auditors assess risks (ISA 315)
5. Session close

Country (PFM) Systems

Recap of reasons for using country PFM systems for project implementation

- The centrality of PFM to the implementation of a country's development agenda
- Helps countries help themselves
- Reduces administrative and transaction cost burdens associated with receiving and managing aid

'Strengthening PFM should be a first order priority for countries and their development partners. Achieving the best possible value for money from public resources through transparent and accountable public finances is the most effective way of sustainably improving the range and quality of, and access to, essential public services for citizens.'

Old approach to assessing country PFM systems

- Different donors carried out separate diagnostic studies to identify weaknesses in PFM systems e.g. Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Report (CPAR), Public Expenditure Management and Financial Accountability Review (PEMFAR) - World Bank, FRA (DFID), Report on the Observance of Standards and Codes (ROSC) - IMF

Which led to:

- Overburdened administrations and high transaction costs (e.g. Niger received 10 PFM diagnostic missions in 2003 alone)
- Partial coverage and no systematic way of monitoring progress over time
- Diagnostics would lead to multiple action plans as well as fragmented and poorly sequenced reform efforts
- Country often did not take leadership role
- Action plans focused on PFM reform processes rather than on measurable PFM results

PEFA

(Public Expenditure and Financial Accountability)

PEFA – What is It?

- *If your country is implementing a series of PFM reform, would you like to know how well you are doing? PEFA is the tool*
- *PEFA: methodology for assessing PFM performance.*
- *PEFA program: provides a framework for assessing and reporting on strengths and weaknesses of PFM*

- Use quantitative indicators to measure performance
- Designed to provide a snapshot of PFM performance at specific points in time using a methodology that can be replicated in successive assessments, giving a summary of changes over time
- PEFA contains Components, Pillars and Dimensions
- Provides **94 characteristics** (**dimensions**) across **31 key components** of PFM in **7 broad areas of activity** (**pillars**).

PEFA as a PFM Performance Measurement Framework (PMF)

- PEFA: <u>**P**</u>ublic <u>**E**</u>xpenditure and <u>**F**</u>inancial <u>**A**</u>ccountability
- Developed by the seven PEFA Partners: the EC, the IMF, the World Bank and the governments of France, Norway, Switzerland and the UK
- Derived from the HIPC Expenditure Tracking Benchmarks
- The PEFA PFM Performance Management Framework (PMF) – issued 2005, minor upgrade 2011, major upgrade 2016 (Handout – PEFA PFM PMF 2016)
- Over 149 countries, 506 assessments (as at 1 April 2016).
- Has been applied in 94% of Low Income, 90% of Middle Income and 28% of High Income Countries
- Majority of assessments led by the World Bank and EC

PEFA PFM PMF

The PEFA PFM PMF assesses …

- how a country's PFM system compares to good practice in the seven pillars of performance of a PFM system:
  - *Budget reliability*
  - *Transparency of public finances*
  - *Management of assets and liabilities*
  - *Policy-based fiscal strategy and budgeting*
  - *Predictability and control in budget execution*
  - *Accounting and reporting*
  - *External scrutiny and audit*
- the extent to which the country's PFM system contributes to the three generally agreed objectives of a sound PFM system i.e.
  - *Fiscal discipline*
  - *Strategic allocation of resources*
  - *Efficient delivery of services*

PEFA – The Core Principles Underlying it

- *The PEFA Program builds on the principles of PFM Reform embodied in the Paris Declaration on Aid Effectiveness; the Accra Agenda for Action; the Busan Partnership Agreement, and the Addis Ababa Action Agenda*:

- A country-led agenda: a government-led reform program for which analysis, design, implementation and monitoring reflect country priorities
- A coordinated program of support from donors & international finance institutions in relation to analytical work, financing and technical support
- A shared information pool on PFM systems and their performance, shared among the stakeholders at country level

PEFA – What Are Its GOALS?

- *The goals of the PEFA Program are:*
- *to strengthen capacities to assess the status of country PFM systems and*
- *develop a practical sequence of reform and capacity development actions, in a manner that:*

1. Encourages country ownership
2. Reduces the transaction costs to countries
3. Enhances donor harmonization
4. Allows monitoring of progress of country PFM performance over time
5. Better addresses developmental and fiduciary concerns
6. Leads to improved impact of reforms

PEFA – THE 7 PILLARS

- PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving these objectives
- The seven pillars thereby define the key elements of a PFM system. They also reflect what is desirable and feasible to measure

PEFA – Pillars, Performance indicators, Dimensions

The Framework

- PEFA framework provides the foundation for evidence-based measurement of countries' PFM systems.
- PEFA assessment measures the extent to which PFM systems, processes and institutions contribute to the achievement of desirable budget outcomes:
  - aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery

Performance indicators and dimensions

- The PEFA framework assesses and reports on the strengths and weaknesses of PFM
  - Under **7 pillars**
  - using **31 performance indicators** that are further disaggregated into **94 dimensions**

PEFA – Scoring methodology: A, B, C & D

- The performance of each indicator and dimension is measured against a four point ordinal scale from A to D
- The highest score, A: is warranted if evidence clearly demonstrates that an internationally-recognised level of good performance is achieved
- D score: indicates performance is below the basic level
- Indicators with more than one dimension are scored according to either the lowest score amongst its dimensions (M1, the weakest link) or the average of its dimension scores (M2, average score)

Seven pillars reviewed under PEFA

- PILLAR 1 – Budget Reliability
- PILLAR 2 – Transparency of Public Finances
- PILLAR 3 – Management of Assets & Liabilities
- PILLAR 4 – Policy-based Fiscal Strategy & Budgeting
- PILLAR 5 – Predictability & Control in Budget Execution
- PILLAR 6 – Accounting and Reporting
- PILLAR 7 – External Scrutiny and Audit

- Look at each pillar and performance indicators (PI) under each pillar

PILLAR 1 – Budget Reliability

- *The government budget is realistic and implemented as intended*
- *This is measured by comparing actual revenues and expenditures with the original budget*

PI - 1. Aggregate expenditure outturn: The extent to which aggregate budget expenditure outturn reflects the amount originally approved

PI - 2. Expenditure composition outturn: The extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition, and use of contingency reserves

PI - 3. Revenue outturn: The change in revenue between the original approved budget and end-of-year outturn

PILLAR 2 – Transparency of Public Finances

- *Information on public financial management is comprehensive, consistent, and accessible to users*
- *Achieved via comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and access to fiscal & budget documentation*

PI - 4. Budget classification: if consistent with international standards

PI - 5. Budget documentation: comprehensiveness of information

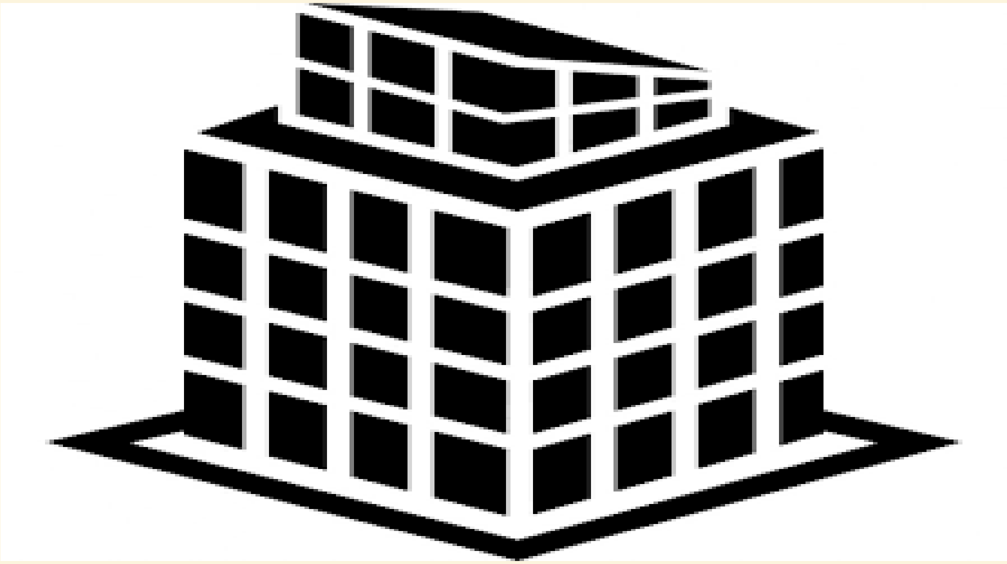
PI - 6. Central government operations outside financial reports: govt revenue/expenditure are reported outside CG financial reports

PI - 7. Transfers to subnational governments: transparency timeliness of transfers from central government

PI - 8. Performance information for service delivery: if audit taking place

PI - 9. Public access to fiscal information: fiscal info available

PILLAR 3 – Management of Assets & Liabilities



- *Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved and monitored*

PI - 10. Fiscal risk reporting: The extent to which fiscal risks are reported

PI - 11. Public investment management: The extent to which government conducts economic appraisals, selects, projects the costs, and monitors implementation of public investment projects

PI - 12. Public asset management: The ability of the government to manage and monitor its assets and ensure the transparency of asset disposal

PI - 13. Debt management: Whether records and controls are in place to ensure efficient and effective management of domestic and foreign debt

PILLAR 4 – Policy-based Fiscal Strategy & Budgeting

- *The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections*

PI - 14. Macroeconomic and fiscal forecasting: ability of a country to develop robust macroeconomic and fiscal forecasts

PI - 15. Fiscal strategy: capacity to develop and implement clear fiscal strategy

PI - 16. Medium-term perspective in expenditure budgeting : The extent to which expenditure budgets are developed for the medium term

PI - 17. Budget preparation process: The effectiveness of participation by relevant stakeholders in the budget preparation process

PI - 18. Legislative scrutiny of budgets: The nature and scope of legislative scrutiny of the annual budget

PILLAR 5 – Predictability & Control in Budget Execution

The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended

PI - 19. Revenue administration: how well this is being managed

PI - 20. Accounting for revenue: procedures for recording and reporting revenue collections

PI - 21. Predictability of in-year resource allocation: extent to which the central MOF is able to forecast cash commitments and requirements

PI - 22. Expenditure arrears: the extent to which there is a stock of arrears, and the extent to which a systemic problem is being addressed

PI - 23. Payroll controls: how payroll for public servants is managed

PI - 24. Procurement: how is managed in a transparent manner

PI - 25. Internal controls on non-salary expenditure: effectiveness of general internal controls for such expenditures

PI - 26. Internal audit: standards and procedures applied in internal audit

PILLAR 6 – Accounting and Reporting

- *Accurate and reliable records are maintained and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs*

PI - 27. Financial data integrity: The extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled

PI - 28. In-year budget reports : The comprehensiveness, accuracy and timeliness of information on budget execution

PI - 29. Annual financial reports: The extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards

PILLAR 7 – External Scrutiny and Audit

- *Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive*

PI - 30. External audit: The characteristics of external audit, including the audit of the government's annual financial reports and the independence of the external audit function

PI - 31. Legislative scrutiny of audit reports: The extent to which legislative scrutiny of the audited financial reports of central government is timely, significant and transparent. It also assesses whether the legislature issues recommendations and follows up on their implementation

PFM Performance Indicators

See pages 11-13 of the 2016 PEFA Handbook

I. Budget reliability:
1. Aggregate expenditure outturn
2. Expenditure composition outturn
3. Revenue outturn

II. Transparency of public finances:
4. Budget classification
5. Budget documents
6. Central government operations outside financial reports
7. Transfers to subnational governments
8. Performance information for service delivery
9. Public access to fiscal information

III. Management of assets and liabilities:
10. Fiscal risk reporting
11. Public investment management
12. Public asset management
13. Debt management

IV. Policy-based fiscal strategy and budgeting:
14. Macroeconomic and fiscal forecasting
15. Fiscal strategy
16. Medium term perspective in expenditure budgeting
17. Budget preparation process
18. Legislative scrutiny of budgets

V. Predictability and control in budget execution:
19. Revenue administration
20. Accounting for revenue
21. Predictability of in-year resource allocation
22. Expenditure arrears
23. Payroll controls
24. Procurement management
25. Internal control on nonsalary expenditure
26. Internal audit

VI. Accounting and reporting:

27\. Financial data integrity

27\. In-year budget reports

28\. Annual financial reports

VII. External scrutiny and audit:
30. External audit
31. Legislative scrutiny of audit reports

Structure of a PEFA indicator

Performance indicator (PI) number

PI-5. Budget documentation PI Title

Description

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is one dimension for this indicator.

Short description of the PI

Dimension and scoring

Score	Minimum requirements for scores
5.1. Budget documentation	
A	Budget documentation fulfills 10 elements, including every basic element (1-4).
B	Budget documentation fulfills 7 elements, including at least 3 basic elements (1-4).
C	Budget documentation fulfills at least 3 basic elements (1-4).
D	Performance is less than required for a C score.

Dimension to be assessed

Requirements to be met for a specific score

Coverage

BCG.

Time period

Last budget submitted to the legislature.

Measurement guidance

Annual budget documentation refers to the executive's budget proposals for the next fiscal year with supporting documents, as submitted to the legislature for scrutiny and approval. The set of documents provided by the executive should allow a complete picture of central government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years.[1]

PEFA Calibration and Scoring

- Scoring is calibrated on a four point cardinal scale: A – high performance, B – sound performance, C – basic performance, D – performance less than C (D* used if insufficient information)
- Each dimension of an indicator is rated separately (most indicators have 2, 3 or 4 dimensions)
- An indicator's score is the aggregate of its dimensions according to one of two methods (see page 9 of PEFA 2016):
  - Method M1 'weakest link' when all dimensions are critical for the process/system to function (failure of one fails the entire process)
  - Method M2 'averaging dimensions' when dimensions are sufficiently independent and process can function with one of the dimensions scored poorly – see table on page 10

Scoring method M1: 'Weakest link'

Example: PI-22 Expenditure arrears

Score	Minimum requirements for scores
22.1. Stock of expenditure arrears	
A	The stock of expenditure arrears is no more than 2% total expenditure in at least two out of the last three completed fiscal years.
B	The stock of expenditure arrears is no more than 6% total expenditure in at least two out of the last three completed fiscal years.
C	The stock of expenditure arrears is no more than 10% total expenditure in at least two out of the last three completed fiscal years.
D	**Performance is less than required for a C score.**
22.2. Expenditure arrears monitoring	
A	Data on stock, age and composition of expenditure arrears is generated quarterly within four weeks of the end of each quarter.
B	**Data on stock and composition of expenditure arrears is generated quarterly within eight weeks of the end of each quarter.**
C	Data on stock and composition of expenditure arrears is generated annually at the end of each fiscal year.
D	Performance is less than required for a C score.

Scoring method M2: 'Averaging method'

Example: PI-3 Revenue outturn

Score	Minimum requirements for scores
3.1. Aggregate revenue outturn	
A	Actual revenue was between 97% and 106% of budgeted revenue in at least two of the last three years.
B	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.
C	Actual revenue was between 92% and 116% of budgeted revenue in at least two of the last three years.
D	**Performance is less than required for a C score.**
3.2. Revenue composition outturn	
A	Variance in revenue composition was less than 5% in two of the last three years.
B	**Variance in revenue composition was less than 10% in two of the last three years.**
C	Variance in revenue composition was less than 15% in two of the last three years.
D	Performance is less than required for a C score.

Pakistan 2012 PEFA

Performance Indicators		Scoring Method	2009 Dimension Ratings i	2009 Dimension Ratings ii	2009 Dimension Ratings iii	2009 Dimension Ratings iv	2009 Overall Score	2012 Dimension Ratings i	2012 Dimension Ratings ii	2012 Dimension Ratings iii	2012 Dimension Ratings iv	2012 Overall Rating
A – Credibility of the Budget												
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	D				D	B				B
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	NA				NA	C	A			C+
Pi-3	Aggregate revenue out-turn compared to original approved budget	M1	NA				NA	B				B
PI-4	Stock and monitoring of expenditure payment arrears	M1	NR	D			NR	NR	D			NR
B – Comprehensiveness and Transparency												
PI-5	Classification of the budget	M1	A				A	A				A
PI-6	Comprehensiveness of information included in budget documentation	M1	B				B	A				A
PI-7	Extent of unreported government operations	M1	A	D			D+	A	C			C+
PI-8	Transparency of inter-governmental fiscal relations	M2	A	A	A		A	A	B	A		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	A			C+	C	A			C+
PI-10	Public access to key fiscal information	M1	C				C	B				B
C – Policy Based Budgeting												
PI-11	Orderliness and participation in the annual budget process	M2	A	C	A		B+	A	A	A		A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	B	B	C	C+	C	A	A	B	B+

Pakistan 2012 PEFA (2)

D – Predictability and Control in Budget Execution												
PI-13	Transparency of taxpayer obligations and liabilities	M2	C	B	B		B	C	B	B		B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	B		B	D	B	B		C+
PI-15	Effectiveness in collection of tax payments	M1	D	B	B		D+	C	A	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	C	D		D+	C	B	C		C+
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	B	A		B+	B	B	A		B+
PI-18	Effectiveness of payroll controls	M1	C	B	B	C	C+	B	A	A	B	B+
PI-19	Transparency, competition and complaints mechanism in procurement	M2	NA	NA	NA	NA	NA	B	D	D	D	D+
PI-20	Effectiveness of internal controls for non-salary Expenditure	M1	C	C	C		C	B	B	C		C+
PI-21	Effectiveness of internal audit	M1	D	D	D		D	D	D	D		D
E – Accounting, Recording and Reporting												
PI-22	Timeliness and regularity of accounts reconciliation	M2	C	B			C+	D	C			D+
PI-23	Availability of information on resources received by service delivery unit Quality and timeliness of in-year budget reports	M1	B				B	NA				NA
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	B		C+	C	A	B		C+
PI-25	Quality and timeliness of annual financial statements	M1	B	A	B		B+	C	A	C		C+
F – External Scrutiny and Audit												
PI-26	Scope, nature and follow-up of external audit	M1	B	C	C		C+	B	B	B		B
PI-27	Legislative scrutiny of the annual budget law	M1	B	C	D	C	D+	B	B	C	C	C+
PI-28	Legislative scrutiny of external audit reports	M1	D	C	C		D+	D	A	B		D+
G. Donor Practices												
D-1	Predictability of Direct Budget Support	M1	A	A			A	A	A			A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	A	C			C+	C	C			C
D-3	Proportion of aid that is managed by use of national procedures	M1	C				C	D				D

Ghana 2013 PEFA

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C				C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	NR	A			NR
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	C				C
PI-4	Stock and monitoring of expenditure payment arrears	M1	D	D▲			D
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C▲				C
PI-6	Comprehensiveness of information included in budget documentation	M1	C				C
PI-7	Extent of unreported government operations	M1	A	C			C+
PI-8	Transparency of inter-governmental fiscal relations	M2	C	D	D		D+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	C			C
PI-10	Public access to key fiscal information	M1	B				B
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	C	A		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	A	C	C	C+
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	D	A	C		C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		C
PI-15	Effectiveness in collection of tax payments	M1	B	A	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C	D	C		D+
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	C▲	C▲		C+
PI-18	Effectiveness of payroll controls	M1	A	C	B	B	C+
PI-19	Competition, value for money and controls in procurement	M2	B	D	D	B	C
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D	B	C		D+

Ghana 2013 PEFA (2)

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	D	C			D+
PI-23	Availability of information on resources received by service delivery units	M1	D				D
PI-24	Quality and timeliness of in-year budget reports	M1	C	C	C		C
PI-25	Quality and timeliness of annual financial statements	M1	C	A	C		C+
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	C	B	C		C+
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	C	D	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	B	B		D+
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	A	D			D+
D-2	Financial info provided by donors on project and program aid	M1	B	C			C+
D-3	Proportion of aid that is managed by use of national procedures	M1	C				C

Kenya PEFA 2012 (1)

	A: BUDGET CREDIBILITY	Score 2008 PEFA	Score 2012 PEFA	Performance changes
PI-1/M1	Aggregate expenditure out-turn compared to original approved budget	B	B	**No change**: Revenue shortfalls resulted in actual aggregate expenditure being reduced relative to the approved budget.
PI-2/ M1	Composition of expenditure out-turn compared to original approved budget	B	C+ (i) C (ii) A	**This indicator was revised in 2011, and thus the assessment is not directly comparable with the 2008** assessment, which, under the previous methodology, may have scored too high. The composition of variance was significantly higher in 2010/11 (16.6%) than in the previous two years, mainly related to increased defence expenditure. Dimension (ii) refers to the extent of unallocated contingency items, but the contingency was zero in any case.
PI-3/ M1	Aggregate revenue out-turn compared to original approved budget	A	B	**Performance deteriorated slightly**, due to challenges in forecasting the economic base variables during a period of both global and domestic economic uncertainty.
PI-4/ M1	Stock and monitoring of expenditure payment arrears	B (i) B (ii) B	C+ (i) C (ii) B	**Performance deteriorated**: The stock of arrears has increased since the 2008 PEFA assessment to 4.6% of total primary expenditure at the end of FY

Kenya PEFA 2012 (2)

				2011 from 2-3% at the end of FY 2008. MDAs generate the data, though the figures seem to differ according to the source of information.
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
PI-5/ M1	Classification of the budget	C	C	No change: The budget classification system is mainly based on an administrative and economic classification basis and doesn't clearly indicate the intended purpose of government spending.
PI-6/ M1	Comprehensiveness of information included in budget documentation	C *(revised from B)*	C	No change. The budget documents fulfil four of the nine benchmarks. The 2008 rating has been revised downwards, because the previous PEFA indicated that element 7 was satisfied, which was not the case.
PI-7/ M1	Extent of unreported government operations	D (i) D (ii) D	D (i) D (ii) D	No change. Information is available on the budgets of SAGAs and donor agencies, but far less so on actual spending. Very little information available on CDF.
PI-8/ M2	Transparency of Inter-Governmental Fiscal Relations	B (i) B *(revised from A)* (ii) A (iii) D	B (i) B (ii) A (iii) D	No change. Transparency of LATF is rated at B in 2008 assessment, as LA appear to have less than full understanding of LATF allocation criteria.
PI-9/ M1	Oversight of aggregate fiscal risk from other public sector entities	C ▲ (i) C (ii) C ▲	C (i) C (ii) C	No change: Consolidated reports on fiscal risk still not prepared. The 2008 assessment indicated a trend towards strengthening under dimension (ii) in terms of the preparation of consolidated fiscal risk reports on local governments, but no such reports were actually prepared.
PI-10/ M1	Public access to key fiscal information	B	B	No change: Four out of the six information elements are met: Annual budget document, budget execution reports, audited financial statements and external audit reports. Procurement contract awards are only published on the PPOA website, but not by the MDAs awarding the contracts.
	C. BUDGET CYCLE	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
	C (i) Policy-Based Budgeting			

Kenya PEFA 2012 (3)

PI-11/ M2	Orderliness and participation in the annual budget process	C+ (i) C (ii) A (iii) D	B (i) B (ii) A (iii) D	Performance improved through the strategic phase of budget preparation adding to the time available for budget preparation
PI-12/ M2	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C *(revised from C+)* (i) C (ii) B (iii) C *(revised from B)* (iv) D	C+ (i) C (ii) A (iii) C (iv) D	Performance improved through increased frequency and greater GoK ownership of DSA. The 2008 rating for dimension (iii) has been revised downwards to C, as the evidence appears to suggest this. The overall score is therefore revised downwards to C from C+.
	C (ii) Predictability & Control in Budget Execution			
	Revenue Administration			
PI-13/ M2	Transparency of taxpayer obligations and liabilities	B+ (i) B (ii) A (iii) B	B+ (i) B (ii) A (iii) B	No change in terms of ratings, but tax payer education and the tax appeals mechanism has strengthened (ii and iii).
PI-14/ M2	Effectiveness of measures for taxpayer registration and tax assessment	B (i) C (ii) A *(revised from B)* (iii) B	B (i) C (ii) A (iii) B	No change in terms of ratings, but performance is improving (e.g. through further linkages to other data base systems, though not yet to those in the financial sector), and improving quality of audits. Dim (ii) in 2008 assessment was rated as B on account of the waivers system, which falls, however, under PI-13 (i). The rating has been revised upwards to A.
PI-15/ M1	Effectiveness in collection of tax payments	D+ (i) D (ii) B (iii) A	D+ (i) D (ii) B (iii) A	No change as large stock and low collection rates of tax debts continue to be an issue. Strengthening continues, e.g. IT-based streamlining of tax collection, planned integration of tax debt management with ITMS.
	Budget Execution & Cash/Debt Management			
PI-16/ M1	Predictability in the availability of funds for commitment of expenditures	B+ (i) A (ii) B (iii) B	B (i) B (ii) B (iii) B	Performance slightly lower as frequency of updates of cash flow forecasting appears to have diminished.
PI-17/ M2	Recording and management of cash balances, debt and guarantees	B (i) B *(revised from A)* (ii) C (iii) B	B ▲ (i) B ▲ (ii) C (iii) A	No change, but strengthening occurring under (i) and (iii); The improved rating under (iii) mainly reflects the new Loan Guarantees Act and the quality of the Medium Term Debt Strategy. The A rating under dim (i) in the 2008 PEFA assessment should have been a B, but this does not change the overall rating.

Kenya PEFA 2012 (4)

	Internal Controls			
PI-18/ M1	Effectiveness of payroll controls	C+ (i) B (ii) B (iii) B *(revised from C)* (iv) C	B+ (i) A (ii) B (iii) A (iv) A	Performance improved through increased coverage of IPPD (mainly in reference to TSC), initial roll out of GHRIS and establishment of payroll audit functions in MSPS and TSC. The evidence for (iii) suggests this should have been rated B in 2008.
PI-19/ M2	Competition, value for money and controls in procurement	B (i) NA (ii) B (iii) NA (iv) A	C+ (i) B (ii) D (iii) B (iv) B	Indicator revised (Jan. 2011) and ratings not directly comparable, but the system has strengthened (e.g. introduction of a procurement manual and guidelines for framework contracts).
PI-20/ M1	Effectiveness of internal controls for non-salary expenditures	C (i) C (ii) C (iii) C	C (i) C (ii) C (iii) C	No change: (i) Expenditure commitment controls are not yet linked to projected cash availability; (ii) The extent of the applicability of the 1989 Financial Regulations & Procedures and successive Circulars is unclear and staff appear to place heavy reliance on accumulated knowledge and experience rather than a widely available well-documented system; (iii) Compliance with rules/procedures continue to be deficient in a number of areas, as documented in Auditor General reports. The relative importance of non-compliance in terms of fiduciary risk is difficult to determine.
PI-21/ M1	Effectiveness of internal audit	C+ (i) B (ii) B (iii) C	C+ ▲ (i) B (ii) B (iii) C	No change in terms of ratings, but the IA function is gradually strengthening. Capacity is improving and Audit Committees, where successfully established, are influencing the extent of implementation on Action Plans in MDAs, as recommended in audit reports.
	C. BUDGET CYCLE	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
	C (iii) Accounting, Recording and Reporting			
PI-22/ M2	Timeliness and regularity of accounts reconciliation	C *(revised from C+)* (i) B (ii) D *(revised from C)*	D (i) D (ii) D	Performance has deteriorated for (i) and appears to have deteriorated for (ii) which appears, however, to have been mis-scored in the 2008 assessment.

Kenya PEFA 2012 (5)

PI-23	Availability of information on resources received by service delivery units	D	D	No change: The data are available, but are not collated into reports.
PI-24/ M1	Quality and timeliness of in-year budget reports	C+ (i) A *(revised from B)* (ii) B (iii) C	C+ (i) A (ii) A (iii) C	No change, though the timeliness of reports (dim ii) has improved. The quality of data at district level continues to be an issue. Dim (i) in 2008 appears to have been underscored.
PI-25/ M1	Quality and timeliness of annual financial statements	D+ (i) D (ii) B (iii) D *(revised from C)*	D+ (i) D (ii) B (iii) D	No change: The revision of dim (iii) for the 2008 assessment is because accounting standards are not disclosed.
	C (iv) External Scrutiny and Audit			
PI-26/ M1	Scope, nature and follow-up of external audit	D+ *(revised from C+)* (i) C *(revised from B)* (ii) B (iii) D *(revised from C)*	D+ (i) C (ii) B (iii) D	No change, but capacity is strengthening: The ratings for dims (i) and (iii) appear to have too high in the 2008 assessment. Dim (i) made little reference to compliance with INTOSAI standards. Dim (iii) is concerned with management implementing recommendations, not KENAO making them.
PI-27/ M1	Legislative scrutiny of the annual budget law	C+ *(revised from D+)* (i) B (ii) B (iii) B *(revised from D)* (iv) C	C+ (i) A (ii) A (iii) A (iv) C	Performance improved due to the introduction of the BPS, more rigorous Standing Orders under the 2009 FMA, and more time for reviewing the draft budget. The D rating for dim (iii) in the 2008 PEFA assessment appears too low, a B rating is more appropriate.
PI-28/ M1	Legislative scrutiny of external audit reports	D+ (i) D (ii) B (iii) C	C+ (i) C (ii) A (iii) C	Performance improved due to a shortening of the time taken (though still long) to review audit reports and the greater in-depth nature of the hearings.
	D. DONOR PRACTICES	**Score 2008 PEFA**	**Score 2012 PEFA**	**Performance changes**
D-1/ M1	Predictability of Direct Budget Support	D	D	No change: Planned EU budget support was not disbursed.
D-2/ M1	Financial information provided by donors for budgeting and reporting on project and program aid	D *(revised from D+)* (i) D	D (i) D (ii) D	No change: The C rating for dim (ii) in the 2008 assessment is likely too high. About 2/3rds of aid shown in the budget estimates is in the form of

“While perhaps not as immediately visible as building a new hospital or new school, strengthening public financial management should be a first order priority for countries and their development partners. Achieving the best possible value for money from public resources through transparent and accountable public finances is the most effective way of sustainably improving the range, quality, and access to essential public services for citizens, as well for promoting business investment and growth.”

— PEFA user

The 2016 PEFA PFM Performance Report format

Executive Summary – provides an integrated and strategic overview.

1. **Introduction** – explains the context and purpose including process and methodology
2. **Country Background** –to allow sufficient understanding of the wider context to PFM reforms as well as the core characteristics of the PFM system
3. **Assessment of PFM Performance** – detailed assessment of PFM performance on the seven pillars comprising 31 indicators and 94 dimensions
4. **Conclusions of the analysis of PFM systems** – summary assessment of PFM performance on the seven pillars, the extent to which the three generally agreed objectives of a sound PFM system are supported, effectiveness of the internal control framework
5. **Government PFM Reform Process** – describes recent and on-going reforms and the arrangements in place to support PFM reform

Annexes – performance indicator summary; summary of observations on the internal control framework; sources of information; compare to PEFA 2011.

PEFA leading to PFM reform Plan: After PEFA

- Describe overall efforts made by government to improve PFM performance
- Provide a forward-looking perspective on the factors that are likely to affect future reform planning, implementation and monitoring
- **Approach to PFM reforms**: describes how the PFM reform program is linked to the overall policy and planning of government reforms, for example, through an overall national development plan, strategic planning arrangements, medium-term expenditure frameworks, etc.
- **Recent and on-going reform actions**: overview of the progress made by government in strengthening the PFM system. Extent to which ongoing reforms are targeting the PFM areas with the most important weaknesses identified
- **Institutional considerations**: extent to which institutional factors are likely to support the reform planning and implementation process
- Example: Government leadership and ownership; Coordination across government; sustainable reform process; Transparency of the PFM program
- ACTION PLAN FOR PFM REFORM can be developed – supported by donors

Session close

Let’s wrap up the session:

- Recap of key learning
- Final questions?
- Revisit session objectives – achieved?
- Application of learning – update your action plans
- What’s next?

THANK YOU /

CROWN AGENTS

ACCELERATING SELF-SUFFICIENCY & PROSPERITY