

## **PI-1. Aggregate expenditure out-turn compared to original approved budget**

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports), but excludes two expenditure categories over which the government will have little control. Those categories are (a) debt service payments, which in principle the government cannot alter during the year while they may change due to interest and exchange rates movements, and (b) donor funded project expenditure, the management and reporting of which are typically under the donor agencies' control to a high degree.

In order to understand the reasons behind a deviation from the budgeted expenditure, it is important that the narrative describes the external factors that may have led to the deviation and particularly makes reference to the impact of deviations from budgeted revenue, assessed by indicators PI-3 (domestic revenue) and D-1 (external revenue). It is also important to understand the impact of a total expenditure deviation on the ability to implement the expenditure composition as budgeted, ref. also PI-2 and PI-16.

### **Dimension to be assessed (Scoring Method M1):**

- (i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).

<b>Score</b>	<b>Minimum Requirements (Scoring Method M1)</b>
<b>A</b>	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
<b>B</b>	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.
<b>C</b>	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.
<b>D</b>	(i) 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.

## **PI-11. Orderliness and participation in the annual budget process**

While the Ministry of Finance (MOF) is usually the driver of the annual budget formulation process, effective participation in the budget formulation process by other ministries, departments and agencies (MDAs) as well as the political leadership<sup>1</sup>, 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.

The calendar should allow for passing of the budget law before the start of the fiscal year as well as for sufficient time for the other MDAs to meaningfully prepare their detailed budget proposals as per the guidance. Delays in passing the budget may create uncertainty about the level of approved expenditures and delays in some government activities, including major contracts. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual, including indicative budgetary ceilings for administrative units or functional areas.

In order to avoid last minute changes to budget proposals, it is important that the political leadership is actively involved in the setting of aggregate allocations (particularly for sectors or functions) from an early stage of the budget preparation process. This should be initiated through review and approval of the allocation ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate allocations (e.g. in a budget outlook paper).

### **Dimensions to be assessed (Scoring method M2):**

- (i) Existence of and adherence to a fixed budget calendar;
- (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent);
- (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years);

NOTE: The MDAs concerned for the purpose of this indicator are those which are directly charged with responsibility for implementing the budget in line with sector policies and which directly receive funds or authorization to spend from the MOF. Department and agencies that report and receive budgetary funds through a parent ministry should not be considered in the assessment.

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<sup>1</sup> By 'political leadership' is meant the leadership of the executive, such as the Cabinet or equivalent body. Involvement of the legislative in review of budget proposals is covered by indicator PI-27.

<b>Dimension</b>	<b>Minimum requirements for dimension score. Scoring Methodology M2</b>
(i) Existence of and adherence to a fixed budget calendar	<p><b>Score = A:</b> A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.</p> <p><b>Score = B:</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,</p> <p><b>Score = C:</b> An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.</p> <p><b>Score = D:</b> A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.</p>
(ii) Guidance on the preparation of budget submissions	<p><b>Score = A:</b> 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.</p> <p><b>Score = B:</b> A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission.</p> <p><b>Score = C:</b> A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments.</p> <p><b>Score = D:</b> A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.</p>
(iii) Timely budget approval by the legislature	<p><b>Score = A:</b> The legislature has, during the last three years, approved the budget before the start of the fiscal year.</p> <p><b>Score = B:</b> The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years.</p> <p><b>Score = C:</b> The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.</p> <p><b>Score = D:</b> The budget has been approved with more than two months delay in two of the last three years.</p>

## 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(s) 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 (ref. PI-26).

The focus in this indicator is on central government entities, including autonomous agencies to the extent that either (a) they are required by law to submit audit reports to the legislative or (b) their parent or controlling ministry/department must answer questions and take action on the agencies' behalf.

Timeliness of the legislature's scrutiny can be affected by a surge in audit report submissions, where external auditors are catching up on a backlog. In such situations, the committee(s) may decide to give first priority to audit reports covering the most recent reporting periods and audited entities that have a history of poor compliance. The assessment should favorably consider such elements of good practice and not be based on the resulting delay in scrutinizing reports covering more distant periods.

### Dimensions to be assessed (Scoring Method M1):

- (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).
- (ii) Extent of hearings on key findings undertaken by the legislature.
- (iii) Issuance of recommended actions by the legislature and implementation by the executive.

Score	Minimum requirements (Scoring methodology: M1)
<b>A</b>	(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports. (ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. (iii) The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.
<b>B</b>	(i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports. (ii) In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion. (iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence.
<b>C</b>	(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. (ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only. (iii) Actions are recommended, but are rarely acted upon by the executive.
<b>D</b>	(i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. (ii) No in-depth hearings are conducted by the legislature. (iii) No recommendations are being issued by the legislature.