



PARLAMENTO NACIONAL

República Democrática de Timor-Leste

COMMITTEE ON PUBLIC FINANCES

Scanned and roughly translated by La'o Hamutuk. May contain errors. For more information, see <http://www.laohamutuk.org/econ/OGE11/CGA11/LHsubComCGSA2011Nov12.htm>

Excellency,
President of the National Parliament
Dr. Vicente da Silva Guterres

Date: December 4, 2012

Ref. No.: 59 / 1a/III/Com. C

Subject: Submission of the Report and Opinion on the General State Accounts, 2011

Pursuant to Article 178.1 of the Rules of Procedure of the National Parliament, I refer to you the Annual Report and Opinion on the General State Accounts for 2011.

Accept, Mr. President, the assurances of my highest esteem and consideration.

The acting President of the Committee,

Izilda Manuela Pereira Soares da Luz

REPORT AND OPINION ON THE GENERAL STATE ACCOUNTS FOR 2011

December 3, 2012

[Many pages and attachments omitted]

VIII. Findings and Recommendations of the Committee on Public Finance

The report and opinion on the General State Accounts must be submitted to the National Parliament by the High Administrative, Tax and Audit Court (or until its installation, the Court of Appeal) by the end of the year following that in respect of Account, pursuant to Article 29.4 of its Organic Law (LOCC). The Court of Appeal referred its report and opinion on the General State Accounts for 2011 to the National Parliament on 19 October 2011 (*sic, actually 2012*), thus fully complying with the deadlines prescribed by law.

For the third consecutive year the National Parliament is assessing the General State Accounts, supported by the report and opinion prepared by the Court of Appeal and the input received during the public hearings held by the Committee on Public Finance (Committee C) covering the 2011 State Accounts.

Committee C notes once again its concern about technical limitations that the Court of Appeal continues to invoke in respect of the budgetary oversight process and the judgment of the General State Accounts that

it is empowered to do. The entry into force of the Organic Law of the Chamber of Accounts for the Administrative, Tax and Audit Court, Law no. 9/2011 of 17 August, made his way to the Court of Appeal and could quickly overcome the limitations that have evinced in its Report and Opinion on the 2010 General State Accounts. The Committee welcomes, however, the significant increase in the technical training of the Court of Appeal and the highly complex work that was developed.

Given the constraints identified by the Court of Appeal (TR) in the level of its skilled human resources in economic and financial aspects, the Public Finance Committee recommends that since the Court lacks internally the human assets that it needs, it should appoint an independent auditor to examine the audited State accounts.

Subject to the advice and recommendations contained in the Report and Opinion of the Court of Appeal, which this Committee fully supports, however, it is necessary to reinforce the call for attention to a number of situations that require urgent regularization, some of which also underlined by non-governmental organizations that were heard by the Committee C sitting in a public hearing, to attain more transparent, effective and efficient management of public money.

- **Recommendations**

The following are the recommendations made by Committee C, which are expected to come to enrich the debate in plenary on the 2011 General State Accounts.

1. It is recommended that the Government refers to the National Parliament prior to the debate on the State accounts, their completed audit reports.
2. It is recommended that the government be more judicious in the use of contingency funds and taking attention its use must be exceptional. Expenditure incurred by the Contingency Fund in 2011 totaled \$29.5 million, almost reaching the ceiling of 5% of global spending of the General State Budget allowed by Article 37 of the Budget and Financial Management Law.

The law is clear when it states that the expenses that may be supported by the Contingency Fund shall be undelayable, urgent and unpredictable. Unfortunately the analysis of the extensive listing of expenditures from the contingency fund (pages 73 to 80 of the Annual Financial Statements and Accounts of the Consolidated Fund of Timor-Leste for the year 2011 by the Director-General of the Treasury), needs a fix from Committee C from the path that has been followed by the Government in recent years, given that the vast majority of the expenditures from the Contingency Fund in 2011 are operating expenses, which should have been planned and timely entered in the General State Budget that was submitted to National Parliament.

It will be advisable for the Government to proceed now on the budgetary adjustments it deems necessary throughout each exercise within the same category of expenditure in the light of the actual execution verified for each Ministry in the various categories listed, and thus avoid the need for systematic, unjustified contingency amounts.

3. It is recommended that the Government review its strategic options and prioritize future investments in the health sector, taking into account the serious shortcomings in this area and the fact that, in 2011, appropriations for this purpose were only 6% of total spending from the Consolidated Fund of Timor-Leste.
4. The “reviews” performed by an independent external auditor of the procurement procedures used by a number of public entities, following the decentralization of the procurement system, allow us to see that the creation of laws and regulations were insufficient, making it necessary to complement them

with an effective system of internal and external control, and enforcement of sanctions on those who do not obey the law. Committee C recommends to the Government urgently to ensure the establishment and monitoring of an effective control system, to look into responsibilities and sanction those responsible for breaches of procurement law and the possible mismanagement of public funds.

5. It is recommended to the Government be more realistic and cautious about the projects it wants to implement. It is noted that a large amount of investment in infrastructure projects scheduled for 2011, covered by the Infrastructure Fund and technical training by the Human Capital Development Fund, obtained zero or practically zero execution. It is important that the government make a consistent analysis of the reasons that delayed the implementation of these projects and provide to the National Parliament sufficiently disaggregated information about the multiannual projects covered by the Special Funds and hold responsible those responsible for weak enforcement, where blame can be assigned.
6. It is recommended that they be resolved in advance, serious problems detected at the programming level of the computer application “Free Balance” of the Transparency Portal, since the values it extracts have a very low reliability (for example, no items of expense with execution above 100%, expenditures for items never mentioned in any budget line throughout the year, reinforcements of appropriations made by budget changes after that are not included in the final budget (because they were not properly added to the initial appropriation).

Data presented by the State are not totally reliable and reduce the validity of any serious analysis which is intended to be based on that same data. It will be also necessary to solve the problem of monetary units used in budget execution tables (e.g. Is one million, one hundred and twenty and one thousand U.S. dollars – 1,121 million with a comma to separate decimal places, then the value of \$500,000 will be presented in the tables as 0,500 and not as 500 as is happening).

7. It is recommended that the Government timely present and submit account documents to the National Parliament and the Court of Appeal. The elections at the end of the first half of 2012, may partly justify the delay in delivery, but not the nearly five months that have ensued.
8. It is recommended that the Government jointly with the General State Accounts, present to the National Parliament studies of economic, social and environmental impact and economic-financial viability of the amount of all projects financed with State Budget resources, and subsequent evaluation (in the General State Account) of the contribution to the realized expenditures for them for real improvements in people’s quality of life.
9. The control of inflation is of paramount importance to any economy. In 2011, inflation reached record values that perhaps would advise adopting specific budget adjustments, in order to minimize their effects at domestic levels. The estimates used in the design of the State Budget in 2011 pointed to inflation rates around 4%, but the real rate, reached in December 2011, was 17.4%, representing an average annual rate of inflation of 13.5%.

The rising cost of living in 2011, especially in Dili, resulting from the increase of 17.4% on most goods and services included in the Consumer Price Index (CPI), should have caused the government to take further fiscal and economic measures with corresponding budget translations. It is important that the government adjust its current investment policy and perhaps temporarily slow down the pace of infrastructure construction, to reduce imported inflation.

10. It is recommended that the General State Accounts include charts of unpaid debts to suppliers of goods and services at the end of the year and again request the Ministry of Finance to provide to this Committee by the end of this year, a listing of all contracts awarded in 2011 by direct agreement.

11. It is recommended that the National University of Timor-Leste (UNTL) find other ways to increase its cash flow, with the goal of becoming less dependent on the State coffers.
12. It is recommended that the Government avoid resorting to the Petroleum Fund revenues above the Estimated Sustainable Income (ESI) to support the non-oil deficit, in order to safeguard the future of coming generations. Additionally, because it turns out that the most suitable option for financing the State Budget is using balances carried over from the Consolidated Fund, as the opportunity cost (cost of money) of this solution will be lower than the opportunity cost of the Petroleum Fund. The tendency to increase the weight of the budget deficit over GDP, indicates the unsustainability of public finances in the long term.
13. It is recommended that the Government review its current purchasing policy, particularly with regard to office supplies and explore the possibility of establishing something like a “central shop” for the purchase of large quantities to cover the annual needs to all Ministries, with the aim of reducing the overall costs to the State, by achieving economies of scale and increased leverage with suppliers.
14. It is recommended to carry out a similar study to make more expeditious acquisition of airline tickets, which will prioritize, where possible, domestic travel agencies.
15. It is recommended to the Government to provide timely audit reports to all Ministries audited in the General State Accounts, so that they have the ability to adequately prepare for hearings to be convened by the National Parliament.
16. Finally, taking into account recent experience (audit “review” of procurement procedures performed in 2012), it is believed that it would be useful to the Finance Ministry to think about future decentralization of other functions to the various ministries in a phased manner, starting by testing decentralized procedures in only two or three pilot ministries and only expanding to other ministries after validating the system and certifying the procedures.

- **Opinion**

Committee C is of the opinion that the National Parliament must report, for investigation, to the Prosecutor-General of the Republic, evidence of fraud found by the Independent Auditor in the process of “reviewing” the procurement procedures decentralized to ministries, and that the Opinion of the Court of Appeal should be sent also to the Anti-Corruption Commission to clean up any responsibility for a situation that has been going on since 2010, payments to non-existent employees.

Committee C commends the Government for providing to the Court of Appeal the duly audited State accounts and for requesting “review” audits of the procurement procedures used by various public entities, after the start of the decentralization process and believes that Ministers should be given to the term of one year to implement corrective measures in procurement systems of the ministries in charge which were criticized by the independent auditor and then hold politically accountable the ministers who are not able to deliver on time.

IX. Voting

The Report and Recommendations of the Committee on Public Finances were discussed and approved on December 3, 2012, with 9 votes in favor, 0 against, and 0 abstentions, reserving to the parliamentary benches their political positions for plenary debate.

Dili, National Parliament, on December 3, 2012

The Reporting Deputy

/s/

(Florentina Pereira da Conceição Martins Smith)

The Acting President

/s/

(Izilda Manuela Soares da Luz Pereira)