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PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) ASSESSMENT

July 2012

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ABBREVIATIONS

AGA	Autonomous Government Agency
AMU	Aid Management Unit, MoF
ASU	Accounting Services Unit, CAG, MoF
BCE	Bureau of Customs and Excise, MoF
BFP	Budget Framework Paper
BIR	Bureau of Internal Revenue, MoF
BRU	Bank Reconciliation Unit, DoE
CAG	Comptroller and Accountant General, MoF
CARP	Complaints, Appeals and Review Panel, PPCC
CBL	Central Bank of Liberia
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
CSA	Civil Service Agency
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DCRU	Data Capture and Reconciliation Unit, DoR
DMU	Debt Management Unit, MoF
DoB	Department of Budget, MoF
DoE	Department of Expenditure (and Debt Management), MoF
DoR	Department of Revenue, MoF
DSA	Debt Sustainability Analysis
FAD	Fiscal Affairs Department, IMF
FY	Fiscal Year
GAC	General Auditing Commission
GAPS	Government Accounting Payroll System
GDP	Gross Domestic Product
GFSM	Government Finance Statistics Manual
GoL	Government of Liberia
GST	Goods and Services Tax
HIPC	Heavily Indebted Poor Countries
HRM	Human Resource Management
IAS	Internal Audit Secretariat
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
LBO	Legislative Budget Office
LRD	Liberian Dollar
LPO	Local Purchase Order
LRA	Liberia Revenue Authority
M&As	Ministries and Agencies

MFAU	Macro-Fiscal Analysis Unit, MoF
MoF	Ministry of Finance
MoPEA	Ministry of Planning and Economic Affairs (being merged with MoF)
MTEF	Medium-Term Expenditure Framework
NS	Not Scored
PAAC	Public Accounts and Audit Committee
PAN	Personnel Action Notice
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIU	Project Implementation Unit
PPCC	Public Procurement and Concessions Commission
PRS	Poverty Reduction Strategy
RCU	Reform Coordination Unit (PFM), MoF
Sida	Swedish International Development Agency
SOE	State Owned Enterprise
TAS	Tax Administration System
TIN	Taxpayer Identification Number
UK	United Kingdom
USAID	United States Agency for International Development
USD	United States Dollar

SUMMARY ASSESSMENT

At the request of the Government of Liberia (GoL), the IMF Fiscal Affairs Department (FAD) led an external assessment of the central government's public financial management (PFM) systems based on the Public Expenditure and Financial Accountability (PEFA) methodology.[1] The assessment was undertaken in close collaboration with the Ministry of Finance's (MoF) PFM Reform Coordination Unit (RCU), with the participation of staff of the African Development Bank and the World Bank**,** and with financial support from the European Union and Sida. The assessment examines progress since the PEFA assessment of 2007 and provides a renewed baseline for monitoring progress in PFM reform and for supporting the GoL in refining, where necessary, the current PFM reform strategy. The assessment snapshot date was April 23, 2012. The report was reviewed by the GoL, the PEFA Secretariat, a donor reference group,[2] and FAD, the latter being at the same time responsible for quality assurance.[3]

Main findings

Liberia has made significant improvements against the PEFA benchmarks. The scores show progress compared to the 2007 PEFA assessment, with 26 out of the 30 assessed indicators reporting ratings higher or equal to those obtained in 2007 and 12 of which showed improvements. These positive results have been achieved as a consequence of the strong political commitment to the PFM reform strategy and the determined implementation of reforms despite the prevailing human resource constraints and the challenges faced in the wake of the global financial crisis.

Revenue administration, arrears, debt management, procurement, and accounts reconciliation are the main areas where improvements have been recorded.

In addition, ongoing reforms in internal audit, in budget classifications and chart of accounts, and in the implementation of the IFMIS are likely to yield further improvements in the short to medium term. The internal audit function is still in a state of transition, with the newly established Internal Audit Secretariat (IAS) less than six months old, and the governing Internal Audit Oversight Board yet to be fully constituted. However, capacity development programs are under implementation, and ambitious plans underway to

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[1] The assessment mission team consisting of Duncan Last (FAD, head and assessment manager), Andrew Lawson (FAD expert, and technical lead), Camille Karamaga (FAD), Jonathan Nyamukapa (African Development Bank), Maxwell Dapaah (World Bank), Winter Chinamale (World Bank), and Cyprian Kamaray (FAD expert), visited Monrovia during April 10-23, 2012. Duncan Last and Andrew Lawson made a second visit during June 11-15, 2012.

[2] In practice, since a formal donor PFM-group is yet to be constituted, this consisted of separate comments from four donors, World Bank, African Development Bank, USAID, and European Union.

[3] FAD's quality assurance team – see PEFA Secretariat Disclosure of Quality Assurance Arrangements guidelines of 2011 – included Marco Cangiano, Manal Fouad, Brian Olden and Sailendra Pattanayak.

increase the pilot ministries serviced by the IAS to fifteen (15) by July 1, 2012, with full coverage across the rest of government by 2015.

Following initial delays in procurement, the Integrated Financial Management Information System (IFMIS) is now on a sound footing, achieving key milestones against deadline dates and with users growing in confidence. The IFMIS went live within the MoF in July 2011 and the process of rollout to ministries and agencies (M&As) will begin in July 2012. This will allow for a streamlining of control processes and a consequent speeding up of the budget execution process. It should also serve to improve the quality of bank reconciliations, as well as accounting and reporting processes. If the human resource management (HRM) module can be launched within the first six months of the fiscal year, it will also start to impact on the quality of payroll controls, an area of continuing concern.

Yet, significant deficiencies remain in the GoL's PFM system, which can only be addressed through steady and continuous implementation of PFM reforms. Of the 30 assessed indicators, 6 were rated as "B", 3 as "C+", 5 as "C", but 16 as either "D+" or "D". The fact that there continue to be deficiencies is not surprising given Liberia's starting point. However, many of these deficiencies affect areas which are essential to the effective performance of the Liberian public sector, such as payroll, procurement, and oversight of fiscal risks. With small adjustments of emphasis, current PFM reforms will serve to correct these deficiencies but they must be pursued with diligence and determination if sustainable improvements across the full PFM cycle are to be attained.

Performance against the seven broad performance areas defined in the PEFA methodology may be summarized as follows:

- **Budget credibility (PI–1 to PI–4) remains to be fully established, although payment arrears are under control and the GoL has coped effectively with the uncertainties in the timing of receipts of non-tax revenues from mining concessions**. The fiscal years covered by the 2012 assessment (2008/09–2010/11) have seen significant deviations between revenue collections and forecasts—most notably for non-tax revenues—and these have in turn generated wide deviations of expenditures from approved budget estimates at both the aggregate and institutional levels. However, from FY2005/06 to FY2010/11 the GoL budget grew by over 470 percent (from USD81 million to USD385 million), expanding its scope to include significant capital expenditures, whilst also substantially diversifying its revenue sources. In such a context, discrepancies between forecasts and actuals are only to be expected. It is to the credit of the GoL that these were managed in a prudent manner, which prevented the accumulation of payment obligations and protected fiscal stability. Going forward, the priority is to strengthen revenue and expenditure forecasting capacities, whilst also giving consideration to institutional arrangements, which might serve to smooth revenue flows from natural resource concessions.

- **Comprehensiveness and transparency (PI–5 to PI–10) have seen modest improvements since the last PEFA assessment**. The comprehensiveness of information included in budget documentation has improved, meeting six out of nine of the required benchmarks. Yet overall, the impression is of advances being made but not being fully consolidated. The budget classification system adopted for the FY2010/11 budget is based on the IMF's Government Finance Statistics Manual (GFSM) 2001, although it has yet to be used to generate reports on a functional or sub-functional basis, and the newly adopted 11 sector poverty reduction strategy (PRS) classification will only impact the next assessment. Budget documentation is relatively comprehensive but it still does not include a presentation of the fiscal deficit and its financing. Public access to fiscal information has improved, but in-year budget execution reports and end-year financial statements are still not issued and posted to the MoF website on a timely basis. In each of these areas, there is scope for the government to achieve 'quick wins' in comprehensiveness and transparency, through careful attention to the format, timing, and accessibility of fiscal reports. On the other hand, reporting by state-owned enterprises (SOEs) and autonomous government agencies (AGAs) remains incomplete and a consolidated annual report on SOE/AGA performance and potential fiscal risks has yet to be introduced. Reporting on externally financed development projects also remains a major shortcoming. Progress on these issues will require concerted government attention.

- **There has been some improvement in the quality of policy-based budgeting (PI–11 and PI–12)**. Significant efforts have been made in the last three years to strengthen the budget preparation process in accordance with the requirements of the new PFM Act 2009. Important efforts have also been made in the area of debt management, with debt sustainability analysis becoming an annual feature of the budgeting process. The FY2012/13 budget will include aspects of a medium-term expenditure framework (MTEF), an important step forward for the government. However, these efforts will remain limited so long as the annual budget fails to be passed on time: the legislature has failed to approve the budget before the start of the fiscal year for two of the three fiscal years under consideration. This late adoption of the budget undermines predictability, with knock-on effects on procurement and cash planning, generally weakening budget execution as a whole. Furthermore, the success of the MTEF and related efforts to strengthen sectoral planning will depend on greater integration of externally financed projects within the government's budgetary process.

- **Important advances have been made regarding predictability and control in budget execution (PI–13 to PI–21), notwithstanding the continuing weaknesses in cash planning and in payroll control.** Of the nine indicators assessed in this area, four have seen improvements, while four others have remained unchanged and one has only deteriorated slightly. In the revenue area, improvements are recorded in the transparency of taxpayer obligations and liabilities, in the effectiveness of registration and tax assessment, and in the effectiveness of collection of tax payments. While there is scope for further improvements, the steady progress made to date is impressive given the starting point in 2006. The external and domestic debt concerns, which prevailed in 2007, have been fully addressed, a new debt management strategy has been approved and a now well-established Debt Management Unit (DMU) is managing debt payments on a timely basis using the CS-DRMS system. The Public Procurement and Concessions Act of 2005 was updated and approved in September 2010, bringing Liberia into line with the best international practice. The requirements of the Act are being steadily put into place, although the buildup of adequate skills and capacities in M&As has inevitably taken time. However, two significant shortcomings remain within the budget execution process, cash planning and payroll controls, both of which will require priority attention.

- **Accounting and financial reporting (PI–22 to PI–25) are not yet at an adequate standard, although the introduction of IFMIS should bring significant improvements during FY2012/13.** The GoL has adopted the International Public Sector Accounting Standards (IPSAS) cash basis of accounting. However, the MoF has yet to establish systematic processes, based on these standards, for preparing quarterly in-year reports and, more importantly, end-of year financial statements, and for publishing these on a timely basis. The MoF produces an annual fiscal outturn report, and in 2011 prepared its first financial statements (for FY2009/10) in line with the IPSAS requirement, though too late for them to be audited. For FY2010/11, both in-year and the fiscal outturn reports were published with substantial delays, and the financial statements for that year have not yet been submitted for audit. Bank reconciliations of treasury-managed accounts are up-to-date, and there are no un-reconciled accounts maintained in the general ledger, although the reconciliation process has yet to migrate to IFMIS. Information on resources available to service delivery units is not systematically tracked anywhere in the GoL.

- **Despite significant improvements in audit capacity, the effectiveness of external scrutiny and audit (PI–26 to PI–28) is being held back because of the lack of follow-up of audit reports in the legislature.** Significant efforts have been dedicated to strengthening the capability of the General Auditing Commission (GAC). These efforts are beginning to bear fruit in the form of an increasing number of audit reports and a wider audit coverage of public institutions, including some SOEs and county development funds. However, the quality and timeliness of auditable documents produced by the MoF have so far made it impossible to conduct a satisfactory external audit of the government's annual financial statements. Moreover, none of the 72 audit reports produced to date have been considered by the legislature's Public Accounts and Audit Committees (PAAC). In brief, it is unclear if any of this audit work has resulted in remedial actions.

- **Donor practices (D–1 to D–3) have scarcely improved since 2007.** Budget support is potentially a critically important source of funding for the GoL to support accelerated implementation of its PRS. However, the value of budget support will be significantly reduced if disbursements remain as unpredictable as they are currently. Effective planning of disbursements, which would facilitate the government's cash flow planning, requires institutional arrangements and conditionality assessment processes that are currently not well established. Efforts have been made to gather and present information on externally-funded projects, first as an annex in the annual budget documentation submitted to the legislature, and, from FY2012/13, as a column alongside the government's own funding, although its status remains unclear. Information on actual spending, both in-year and annual, by externally funded projects has remained more elusive, relying on reporting by the funding agencies and/or the implementing units. Reporting on externally financed projects within budgetary and fiscal reports is the first step to bringing aid on budget, one that does not require an assessment of fiduciary risk on the use of country systems.

Consequences of the PEFA findings for the achievement of PFM objectives

Liberia's PFM system has been robust enough to ensure fiscal discipline and the allocation of resources to strategic priorities. Although there continue to be weaknesses in revenue forecasting, the GoL has been able to run a balanced budget through the use of contingency arrangements, and through tight control of budgetary allotments and commitments. As a consequence, new payment arrears have been avoided and old arrears have been progressively cleared. Although fiscal space has been constrained by the overhang of past commitments now managed through recognized domestic debt obligations, it has been possible to direct expenditures increasingly towards the strategic objectives laid down in the Liberia Rising 2030 vision document.

However, the PFM system is not yet sufficiently effective to promote operational efficiency in the delivery of government services. Control of expenditures has generally had to be maintained through "cash rationing", whereby budgetary allotments have been limited to the level of available cash rather than the level of approved appropriations. While this practice has retained fiscal control, it has made the level of expenditures unpredictable, with knock-on effects for the speed of budget execution, and consequently for its efficiency. The planning of spending has been further complicated by the regularly late passage of the annual budget by the legislature. The low level of budget execution of government-funded investment projects is the most obvious manifestation of the problems created by this system. Nevertheless, the quality of expenditure control and of data capture is now adequate to permit a shift from cash rationing to cash planning**,** so as to begin to construct a PFM system which also promotes operational efficiency.

Indicative priorities for 2012 and beyond

Consolidating the improvements achieved to date must be the first priority for the future. The PFM legal framework, including effective oversight of SOEs, is not yet fully implemented and will require continued capacity building and sensitization efforts. The successful rollout of the IFMIS system should permit a streamlining of expenditure controls (so as to accelerate budget execution), as well as an improvement in the timeliness and scope of bank reconciliation, an opportunity to establish a treasury single account, and an enhancement of accounting and reporting. Ensuring the successful rollout of the system, and maximization of the new functionalities it will bring, must remain the top priority.

Improving payroll control is the other key short-term priority. Payroll control is the most significant area of weakness in the current PFM system. This has been well appreciated by the government. The swift introduction of the HRM module within the IFMIS, and continuation of the efforts to "clean" up the payroll through effective use of audits, will help to address this problem.

A strategic shift to cash planning should also be possible in the coming fiscal year. This will lead to a range of actions at different levels: consolidation of all government cash balances held at the Central Bank of Liberia (CBL); development of an agreed disbursement schedule for budget support; introduction of provisions for the issuance of Treasury bills; and enforcement of rules for procurement and cash-flow forecasting, as prescribed in the PFM Act and financial regulations.

An increased dialogue between the executive and the legislature would also be beneficial for the functioning of PFM as a whole. Issues of mutual interest include: timely receipt of complete budget documentation, timely adoption of the annual budget, and scrutiny and follow up of audit report findings. The legislature and its relevant committees are likely to need ongoing support to better understand these issues, some of which could be provided by the General Auditing Commission (GAC) and the Legislative Budget Office (LBO).

Bringing externally-funded projects within the budget and within annual fiscal reports is also a priority to ensure optimal use of limited resources. While the Aid Management Unit (AMU) of MoF already collects significant information on externally funded projects for the purpose of the budget, more needs to be done to collect and report execution data.

Each of these reform areas is addressed in the existing PFM Reform Strategy and Action Plan. Any changes required will most likely be in the areas of refinements, prioritization, absorptive capacity, and sequencing. As part of its absorption of the PEFA assessment, the MoF and its partners could envisage in the coming months a light review of the current strategy and action plan.

Table 1. Summary of the PEFA 2012 Assessment in Comparison with PEFA 2007

	Indicator Description	Score 2007	Score 2012	Change
	PFM OUTTURNS: Credibility of the Budget			
PI–1	Aggregate expenditure outturn compared with original approved budget	B	**D**	↓
PI–2	Composition of expenditure outturn compared with original approved budget	D	**D+**	↑
PI–3	Aggregate revenue outturn compared with original approved budget	A	**D**	↓
PI–4	Stock and monitoring of expenditure payment arrears	D+	**B**	↑
	KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency			
PI–5	Classification of the budget	C	**C**	→
PI–6	Comprehensiveness of information included in budget documentation	C	**B**	↑
PI–7	Extent of unreported government operations	D+	**D+**	→
PI–8	Transparency of inter-governmental fiscal relations	NS	**NS**	→
PI–9	Oversight of aggregate fiscal risk from other public sector entities	D	**D**	→
PI–10	Public access to key fiscal information	C	**C**	→
	BUDGET CYCLE			
C (i) Policy Based Budgeting				
PI–11	Orderliness and participation in the annual budget process	B	**B**	→
PI–12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	D+	**C+**	↑
C (ii) Predictability and Control in Budget Execution				
PI–13	Transparency of taxpayer obligations and liabilities	C	**B**	↑
PI–14	Effectiveness of measures for taxpayer registration and tax assessment	C	**B**	↑
PI–15	Effectiveness in collection of tax payments	D+	**D+**	→
PI–16	Predictability in the availability of funds for commitment of expenditures	C+	**C**	↓
PI–17	Recording and management of cash balances, debt, and guarantees	C+	**B**	↑
PI–18	Effectiveness of payroll controls	D+	**D+**	→
PI–19	Competition, value for money, and controls in procurement	D+	**C**	↑
PI–20	Effectiveness of internal controls for non-salary expenditure	C+	**C+**	→
PI–21	Effectiveness of internal audit	D+	**D+**	→
C (iii) Accounting, Recording, and Reporting				
PI–22	Timeliness and regularity of accounts reconciliation	D	**C**	↑
PI–23	Availability of information on resources received by service delivery units	D	**D**	→
PI–24	Quality and timeliness of in-year budget reports	C	**D+**	↓
PI–25	Quality and timeliness of annual financial statements	D	**D+**	↑
C (iv) External Scrutiny and Audit				
PI–26	Scope, nature, and follow up of external audit	D	**D+**	↑
PI–27	Legislative scrutiny of the annual budget law	C+	**C+**	→
PI–28	Legislative scrutiny of external audit reports	NS	**D**	→
	DONOR PRACTICES			
D–1	Predictability of direct budget support	NS	**D**	→
D–2	Financial information provided by donors for budgeting and reporting on project and program aid	D	**D+**	↑
D–3	Proportion of aid that is managed by use of national procedures	D	**D**	→

I. INTRODUCTION

1. **The purpose of this PEFA assessment is to review the performance of Liberia's PFM framework for central government.** The assessment examines progress since the PEFA assessment of 2007, provides a renewed baseline for monitoring progress in the different areas of PFM reform, and supports efforts to refine, as needed, the current PFM reform strategy. The snapshot date for the assessment was April, 2012.

2. **It has been undertaken following the PEFA Performance Measurement Framework methodology as revised in January 2011.** The full set of methodological guidance provided by the PEFA Secretariat has been utilized, including the guidelines themselves and the various clarifications on the use of the guidelines, which have been issued since 2005.[4]

3. **The assessment has been undertaken upon the request of the GoL, under the leadership of the IMF Fiscal Affairs Department (FAD).** Staff from the African Development Bank and the World Bank participated as members of the assessment team, and funding for the exercise has also been provided by Sida and by the European Union. A draft assessment report was produced in April 2012 and was reviewed by the GoL, the PEFA Secretariat, FAD and four donors—the African Development Bank, the World Bank, the European Union, and USAID. Comments were incorporated, where appropriate, as corrections or amendments in a revised version discussed during a follow up visit to Liberia in June 2012 and submitted for final review. Follow up comments were received from the PEFA Secretariat and FAD, which have been reflected in the final version issued in July 2012, completing the quality assurance process.

4. **Government inputs for the assessment were coordinated by the RCU.** In addition to providing background data and documentation, they also arranged the full program of meetings requested by the assessment team, and organized the introductory and final workshop events.

5. **The assessment is based on publicly available documents or supplementary information provided by the GoL and other stakeholders.** These include the annual budget documents, in-year financial reports, the annual fiscal year outturns, and the reports of the GAC. The information gathered has been cross-checked against different sources to the extent possible.

6. **A wide range of interviews was undertaken to obtain additional information, including representatives of civil society and the private sector, as well members of the executive, the legislature and the GAC.** Within the Executive, interviews were held with all relevant departments of the MoF, as well as the Civil Service Agency and the Ministries of Education, Health and Social Welfare, and Public Works.

7. **The Minister of Finance provided the GoL's clearance to publish on July __, 2012, and the assessment was submitted to the IMF Board for publication on July __, 2012.**

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[4] These are available at www.pefa.org

II. COUNTRY BACKGROUND INFORMATION

A. Country Economic Situation

8. **The Republic of Liberia is a country in West Africa, bordered by Sierra Leone to the west, Guinea to the north and Côte d'Ivoire to the east, with a population of approximately 4 million people.** Following a protracted and brutal civil war between 1989 and 2003, which devastated the economy and society, peace was re-established in 2003. Democratic elections were held in 2006, in which Ellen Johnson Sirleaf was elected as President with a program to consolidate peace and security, revitalize the economy, and re-establish the basis for sound governance and development.

9. **The new government prepared the nation's first poverty reduction strategy (PRS), whose implementation has been positively evaluated.** The first PRS, "Lift Liberia", covered the period 2008–2011 and was structured around three development objectives: (i) to rebuild roads and other critical infrastructures; (ii) to revive the traditional engines of growth in mining, minerals, forestry and agriculture; and (iii) to establish a competitive environment to help diversify the economy over the medium term. Actions in support of these objectives were organized in four pillars—peace and security; economic revitalization; infrastructures and basic services; and governance and the rule of law. An independent assessment of the implementation of the strategy was published in February 2012,[5] which concluded that:

- 'About two-thirds of what was planned was done. Much of what was needed and was done were preparatory measures—developing detailed plans, building capacity, passing laws, rebuilding institutional and physical systems, and rehabilitating or repairing infrastructure.'
- 'Although these outputs have not achieved all the desired outcomes, there have been undeniable positive developments: peace was sustained, economic growth continued–especially in urban areas, poverty declined, some physical infrastructure improved, coverage of health and education expanded by most measures, and some aspects of governance improved.'
- 'Some fully satisfactory outcomes include macroeconomic stability with low inflation, essentially balanced budgets, and major reduction of external debt.'
- 'In a few areas, outcomes were unsatisfactory, indicating the need for more attention and perhaps a revised strategy: electric power, prompt delivery of justice, and decentralization.'

[5] Ministry of Planning and Economic Affairs/UN Development Program, "Lift Liberia Poverty Reduction Strategy: Final Report – A Results-Focused Assessment June 2008 – December 2011", February 2012.

10. **The achievement of macroeconomic stability and improved financial management was thus an area of fully satisfactory progress in the first PRS.** The economy has grown continuously since 2003, consumer price inflation has stabilized at 7–8 percent per annum and foreign direct investment has recovered from virtually zero in 2006 to USD 400 million in 2010. In addition, 15 out of the 17 “institutional deliverables” within this area of the PRS were deemed to have been achieved, according to the February 2012 assessment. These related to several core aspects of public finance management reform, including:

- Revision of the Revenue Code and the Investment Code;
- The overhaul of the Bureau of Customs and Excise;
- The introduction of an automated Customs system;
- The revision of policies and procedures for mineral and forestry taxation;
- The passing of a new and comprehensive PFM Law;
- The establishment of sound banking arrangements for the GoL;
- The introduction of rules and procedures for management of debt and loan guarantees;
- The introduction of a medium-term macro-fiscal framework; and
- The design, development and piloting of the IFMIS.

11. **After reaching a peak rate of growth in real GDP of 9.4 percent in 2007, economic growth declined to 4.6 percent in 2009, largely as a consequence of conditions in the international financial markets.**[6] A return to faster growth is projected in 2011 and 2012, largely driven by investments in the mining sector. (Table 2.) However, growth in real non-mining GDP is projected at only 3.1 percent in 2012, which equates to per capita growth in real non-mining GDP of 1 percent or less. Liberia is a dual currency environment, with USD accounting for two third of currency notes in circulation by value. The exchange rate of the Liberian dollar (LRD) has remained relatively stable, currently 75 LRD = 1 USD.

12. **The key challenge for the future is to release the structural impediments, which constrain growth outside of the enclave sectors, so that jobs can be created for a young, growing and under-employed population**. It is clear that the enclave sectors of mining and forestry may provide significant government revenue in future but only limited employment. Accelerating growth outside of these sectors is critical but can only be achieved if structural impediments can be successfully addressed, in particular deficiencies in infrastructure,[7] a

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[6] The rates of annual growth in real GDP estimated by the IMF up to 2009 are: 2004–2.6 percent; 2005–5.3 percent; 2006–7.8 percent; 2007–9.4 percent; 2008–7.1 percent. [IMF (December 2011), *Liberia 7th Review under Extended Credit Facility Arrangement*.]

[7] The Africa Infrastructure Country Diagnostic estimated in 2010 that meeting Liberia’s infrastructure needs would require at least USD3.7 billion over ten years (382 percent of 2010 GDP), to cover requirements for roads, power, ports, water and sanitation, and telecommunications but excluding ports for which private financing was likely to be available.

lack of security in land tenure, unfavorable population demographics, capacity gaps, and an undeveloped financial sector.

Table 2. Summary Economic Data for Liberia, 2009–2012

	2009	2010 (Preliminary)	2011 (Preliminary)	2012 (Projected)
	Annual Percentage Change (unless stated)			
GDP at constant prices	4.6	5.0	6.4	8.8
Agriculture and Fisheries	6.4	2.7	3.9	1.8
Forestry	1.4	6.7	5.6	1.9
Mining and panning	6.8	46.4	93.1	153.9
Manufacturing	-3.8	3.1	3.1	3.1
Services	6.9	5.7	5.3	5.2
Consumer Prices (annual average)	7.4	7.3	8.5	2.9
Real GDP excluding mining	4.6	4.6	4.7	3.1
Nominal non-mining per capita GDP (USD)		248.4	278.4	282.7
Population (millions)	3.7	3.8	3.9	4.0

Source: IMF, *Liberia 8th Review under Extended Credit Facility Arrangement*, May 2012 (based on data from the GoL, and IMF staff estimates and projections).

13. **The launch of national consultations for the design of the "Liberia Rising 2030" strategy provides an opportunity to address these challenges.** A concept paper for "Liberia Rising 2030" has been developed, focused on the target of achieving middle income status by 2030, through broad participation, responsive governance and national cohesion. Since the re-election of President Johnson Sirleaf in 2011, a national consultation process has been launched to assist in the formulation of a strategy to accompany this vision. This will comprise Liberia's second PRS, covering the period 2012–2017.

B. Budgetary Outcomes

14. **The maintenance of balanced budgets has been a key principle of budgetary management under the current administration.**[8] Initially this policy was pursued as one of the requirements to move quickly to accession of HIPC funding. However, prudent fiscal management policies have continued to be followed since achieving HIPC completion point, as a way of dealing with the uncertainties in the timing of the receipt of non-tax revenues deriving from mining concessions. Specifically, from FY2008/09 onwards, the GoL has adopted a policy of dividing the budget into a "core" component for essential operational expenditures and a "contingent" budget, comprising investment projects, which would only be initiated following confirmation of such revenues. As a result, the budget was in surplus in

[8] The Liberian Government's fiscal year runs from July 1st to June 30th.

FY2009/10 and has shown modest deficits in other years.[9] (See Table 3 taken from the latest IMF review)

Table 3. Fiscal Operations of the Central Government, FY2008/09–FY2011/12

	FY2008/09 (Actual)	FY2009/10 (Actual)	FY2010/11 (Actual)	FY2011/12 (Proj.)
	Percentage of GDP			
Total revenue and grants	**28.0**	**32.3**	**36.6**	**40.2**
Revenue	25.2	30.8	32.7	37.3
Tax Revenue	22.7	23.3	26.3	28.9
Non-tax Revenue	2.5	7.5	6.4	8.4
Grants	2.8	1.5	3.9	2.9
Expenditures and Net Lending	**29.7**	**31.6**	**37.4**	**40.3**
Current expenditures	25.7	28.0	30.2	35.7
Wages and salaries	10.9	12.8	13.5	15.9
Goods and services	9.0	8.6	8.4	9.9
Subsidies and transfers	4.9	6.2	7.9	9.6
Interest	0.9	0.5	0.4	0.4
Capital Expenditure	4.0	3.5	7.2	4.6
Of which:				
Foreign loan financed	0.0	0.0	0.9	1.5
Domestic and grant financed	4.0	3.5	6.2	3.1
Overall Balance				
Including Grants	**-1.7**	**0.7**	**-0.8**	**-0.2**
Excluding Grants	-4.5	-0.8	-4.7	-3.0
Financing	**1.7**	**-0.7**	**0.8**	**0.2**
Net external financing	-0.4	-0.4	0.4	1.1
Net internal financing	2.1	-0.3	0.4	-0.9
Memorandum items:				
Iron ore-related revenues	0.0	3.3	3.1	3.8
Total public external debt stock	382.2	188.1	11.2	12.0
Central Govt. domestic debt stock	35.4	32.9	28.5	24.8

Source: IMF, *Liberia 8th Review under Extended Credit Facility Arrangement*, May 2012 (based on data from the GoL, and IMF staff estimates and projections)

15. **The post-civil war period has also been characterized by fast growth in domestic revenue as a proportion of GDP.** The tax and customs collection processes were quickly revitalized in the post-war period through a series of institutional and policy reforms, so that already in 2005/06 domestic revenue collections were estimated at 14.8 percent of GDP, rising to 21.9 percent in 2006/07. Tax collection has continued to be buoyant and has been complemented by non-tax revenues deriving from natural resource concessions.

[9] It should be stressed, however, that this policy came at a cost in terms of the under-implementation of the investment projects, which were funded from the contingent budget.

16. **In terms of the economic composition of spending, it has proven difficult to raise capital spending above 15 percent of total expenditure.** A significant rise in capital spending was recorded in FY2011 (7.2 percent of GDP, or 19.3 percent of total spending) but this is projected to fall in FY2012 to 4.6 percent of GDP (11.4 percent of total spending). There is a significant under-estimation of capital spending resulting from the exclusion of aid-financed investment projects managed outside of the budget but, nevertheless, within a post-conflict economy, such as Liberia, with a development strategy explicitly focused on meeting infrastructural needs, an annual capital spending target of 20 percent of public spending would normally be considered a realistic ambition. In the recent past, capital spending has been constrained by two key factors:

- The pressures to meet ongoing debt obligations, as well as an expanding wage bill (due to increasing numbers of teachers, health workers, police and security personnel as the GoL takes up more of its core functions; and to pressures for salary increases as salaries rise above the living wage), have made it difficult to include a high level of capital spending within the "core budget". As a consequence, capital spending has been contingent on receipt of somewhat unpredictable non-tax revenues;

- Secondly, there have been inefficiencies in the management of procurement processes, partly as a consequence of regular delays in the enactment of the budget by the legislature, which have in turn delayed the approval of annual procurement plans, and partly due to weak procurement capacity in M&A.

C. Legal and Institutional Framework for PFM

17. **Liberia has a multi-party legislative system modeled on US constitutional provisions.** The legislature is bicameral comprising of the Senate and the House of Representatives, both of which are the lawmaking bodies. The judicial system is headed by a supreme court, supported by such subordinate courts as the legislature may from time to time establish. Executive power is vested in an elected President, as Head of State and Government, who holds office for a term of six years (with a maximum of two terms per person).

18. **Liberia is a unitary state by law, with no sub-national governments. However, there are 15 counties that form a deconcentrated part of central government, with county superintendents appointed by the President.** The counties are involved in minimal financial management which covers the conveyance of the Social Development Funds and the County Development Funds to the beneficiary projects.

19. **The PFM system is primarily regulated by the PFM Act 2009 and the Public Procurement and Concessions Act 2005.** The PFM Act of 2009 governs all matters relating to the management of the public finances. Furthermore, M&As are governed by financial regulations issued by the MoF and approved by the President under the PFM Act and by their own individual legal frameworks approved by the legislature. The Minister of Finance has the

authority to manage the Consolidated Fund, allowing for an effective and efficient cash management. The President has overall responsibility for all policy matters related to the national budget and PFM system, which are then explicitly delegated to the Minister of Finance.

20. **The laws, regulations, guidelines, and strategies underpinning PFM implementation include:**

- PFM Act 2009 and enabling PFM regulations of 2010
- Public Procurement and Concessions (PPC) Act 2005 (amended 2010), and PPC Regulations of December 2009
- Revenue Code of Liberia Act of 2000 (as amended 2011)
- General Auditing Commission established under the Constitution, whose autonomous status and reporting to the legislature were clarified in 2005
- Financial Rules 2007; Domestic and Foreign Travel Ordinances 2007
- Cash-Basis International Public Sector Accounting Standard 2010
- Classification and Chart of Accounts 2011
- PFM Guidelines for State-Owned Enterprises (SOEs) 2011
- Guidelines for Issuing Government Guarantees for SOEs 2011
- Liberia Poverty Reduction Strategy (PRS) 2008–2011 (new PRS about to be issued)
- PFM Reform Strategy, 2011–2014 and supporting Operations Manual, Capacity Building Framework, and Monitoring Framework
- Internal Audit Strategy 2010
- Debt Management Strategy 2009

21. **The Minister of Finance has the responsibility under the PFM Act for the overall management of the execution of the budget**, whereas ministers of individual spending ministries, and other heads of budgetary institutions and agencies, are responsible for the execution of their budgets in accordance with the PFM Act. The budget is reviewed by a joint Ways and Means Committee comprising members from both chambers of the legislature, before being voted in plenary session.

22. **PFM operations for all M&As are centralized in the MoF and coordinated by three deputy ministers:**[10]

- The **budgeting function**, previously undertaken by the Bureau of Budget in the President's Office, is now domiciled in the MoF under a Deputy Minister Budget. The MoF Department of Budget (DoB) is responsible for budget formulation as well as for issuing budget allotments (releases) to M&As.

- **Revenue collection** is under the management of the Department of Revenue (DoR), reporting to the Deputy Minister Revenue. The GoL has opted for an autonomous Liberia Revenue Authority, currently in the process of being established.

- **Treasury management,** the **processing of payments** for M&As, and the **accounting and reporting** of financial transactions rests with the Comptroller and Accountant General's Department (CAG) supervised by the Deputy Minister Expenditure and Debt Management.

23. **A number of units also exist, reporting directly to the Minister**. These include the Macro-Fiscal Analysis Unit (MFAU), the AMU, and the RCU. The National Budget Committee provides high-level policy coordination, while the Debt Management Committee and the Cash Management Committee provide technical coordination in the areas of debt and cash management respectively.

24. **Separate structures exist for the internal audit and procurement functions, with operational units being established in M&As.** The internal audit function is established in some public entities and an Internal Audit Governance Board (IAGB) and a Secretariat have been recently created to coordinate the internal audit function across the whole of government. However, the IAGB has only been functional since February 2012 and is still at an early stage in the process of institutionalization. The public procurement function was boosted by the enactment of the PPC Act, 2005, and the subsequent creation of the Public Procurement and Concessions Commission (PPCC). Dedicated procurement units have since been established in most M&As but capacity development remains an ongoing process.

25. **The Auditor General is responsible for the annual audit of the central government accounts, including all ministries, agencies and other public institutions, and SOEs.** The Auditor General heads the GAC established under the Constitution as an autonomous agency reporting directly to the legislature. Under the standing orders of the House of Representatives, a PAAC is constituted at the beginning of each session to examine

[10] There is also a fourth Deputy Minister Administration, who looks after the organizational and operational needs of the MoF, and coordinates support for reform efforts. The GoL is currently in the early stages of merging the Ministry of Planning and Economic Affairs with the MoF, which may lead to further changes in deputy minister responsibilities to accommodate the planning function.

the audited accounts and report submitted by the Auditor General. A similar committee is also established by the Senate.

III. Assessment of PFM Systems, Processes, and Institutions

26. **The methodology adopted for the Liberia 2012 PFM assessment is available online at www.pefa.org**. In addition to a comprehensive description of the methodology, the site also provides additional clarification on the interpretation and application of the guidelines. The PEFA methodology identifies 6 core dimensions crucial for an orderly and transparent PFM system, and a further dimension to measure donor practices:

- **Credibility of the budget**—the budget is realistic and is implemented as intended;
- **Comprehensiveness and transparency**—the budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public;
- **Policy-based budgeting**—the budget is prepared with due regard to government policy and its implications over a medium-term perspective;
- **Predictability and control in budget execution**—the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;
- **Accounting, recording and financial reporting—**adequate records and information are produced, maintained and disseminated to meet decision-making, control, management and reporting purposes;
- **External scrutiny and audit**—legal and institutional arrangements for external scrutiny of public finances and follow up by the Executive are operating effectively.
- **Donor practices—**donor grants and external loans provided for the funding of government activities are budgeted and disbursed considering the predictability of funds, the allocation and effective use of those funds, and the promotion of the use of national systems and procedures.

27. **This chapter explains the assessments reached for the 2012 indicator scores, comparing them with the 2007 PEFA assessment.** It also briefly comments on the likely impact on future PFM performance of the GoL’s current PFM reforms. One indicator—PI–8 on transparency of inter-governmental fiscal transfers—cannot be scored because Liberia is a unitary state with no sub-national levels of government.

A. Budget Credibility

PI–1. Aggregate expenditure outturn compared to original approved budget

28. This indicator measures the extent of difference between actual primary expenditure and the originally budgeted primary expenditure.[11] It aims to assess the extent to which the PFM system has the necessary mechanisms to develop and agree a realistic budget, based on accurate revenue projections, and to execute expenditures during the year in a manner consistent with the initially approved budget. The better equipped the PFM system is to do this, the more predictable will be the budget execution process and the more credible the overall budget process.

PI–1: 2012 Assessment (scoring method M1)	**Score 2007**	**Score 2012**
In two of the last three completed fiscal years, the actual central government expenditure fell short of budgeted primary expenditure by an amount in excess of 15 % of the originally budgeted primary expenditure	B	D

Table 4. Central Government Budget vs. Actual Expenditure FY2008/09–FY2010/11

Primary Expenditure	2008/09	2009/10	2010/11
Budget (Original)	293.0	329.0	343.3
Actual Expenditure	237.3	264.0	372.1
Difference	-55.7	-65.0	+28.8
Percentage difference	-19.0 %	-19.8 %	+8.4 %

Source: MoF, budget books and fiscal year outturns, USD millions

29. **Actual central government primary expenditure deviated from the originally approved estimates by more than 15 percent in 2008/09 and in 2009/10, predominantly as a consequence of shortfalls in non-tax revenues.** Specifically, there were expenditure shortfalls in these years of 16.1 percent and 19.8 percent. These were due to deliberate decisions taken by the GoL to reduce spending in the light of the lower than expected levels of revenue collections. (See PI–3 below.)

30. **By contrast, central government primary expenditure exceeded the originally approved budget by 8.4 percent in 2010/11,** as a consequence of revenues coming in above target, and higher than expected disbursements of budget support. A comparison with the

[11] Primary expenditure excludes payments of principal and interest on debt because they can often be subject to sources of volatility, such as interest rate fluctuations, which are outside of the control of the government. It also excludes externally financed project expenditures as their execution is also largely outside of the control of the government, although in Liberia, externally financed projects are neither managed through the Budget nor included in fiscal reports, so this adjustment has not been necessary.

revenue outturns analyzed under indicator PI–3 illustrates the close correlation between revenue and expenditure outturns.

31. **The mechanisms utilized to cut expenditure were relatively predictable and transparent, relying on the use of a pre-identified "contingent budget", to be withheld in the event of revenue shortfalls**. In 2008/09, the budget presented to the legislature distinguished between a "core budget", covering essential commitments and recurrent expenditures, and a "contingent budget" (of USD27 million) comprising investment projects to be funded in the event of revenue projections being fully met. While the magnitude of revenue short-falls required additional cuts to be made in other areas, the impact of these cuts was minimized by the procedures adopted. Similar arrangements have been retained in subsequent years.

32. **The 2012 assessment suggests a decline in the degree of budget credibility from the assessment conducted in 2007 but it would be misleading to draw such a conclusion.** The level of budgeted primary expenditure in 2006/07 was only USD119 million, less than half of what it was two years later in 2008/09, at the outset of the assessment period here considered. This exponential growth has been made possible by a deepening and a broadening of the sources of revenue. With both expenditure and revenue aggregates changing so quickly and wholly new sources of revenue and new areas of expenditure being opened, it is understandable that the capacity for accurate forecasting has been stretched. It is to the credit of the GoL that they have had the foresight to introduce a contingent budget mechanism to assist in dealing with the consequent uncertainties.

33. **Moreover, the government has clearly demonstrated its commitment to fiscal prudence through the application of a strict cash-based balanced budget rule since 2006.** The rule requires that cash expenditures, including repayments of debt and arrears, do not exceed total revenues each year. Since payments are not made until revenues have actually been received, the government must respond to any shortfall in actual or expected resources by reducing or delaying planned expenditure. The government has yet to re-establish the use of treasury bills, and has not had access to either domestic or external borrowing during the assessment period**.** The almost inevitable consequence is a higher level of variance of actual expenditure from the initially approved budget.

34. **The reduced level of variance between budgeted primary expenditure and the expenditure outturn in FY2010/11 suggests that forecasting capacities have improved and that a higher level of budget credibility may be expected in the future.** Continued efforts are being made to strengthen revenue forecasting and budget formulation capacities. In the meantime, the GoL has prudently chosen to retain the distinction between the "core budget" and the "contingent budget" for the FY2010/11, FY2011/12 and the forthcoming FY2012/13 budgets, allowing spending to be adapted to revenue performance.

PI–2. Composition of expenditure outturn compared to original approved budget

35. This indicator measures the extent to which variance in expenditure composition exceeded overall deviation in primary expenditure (as defined in PI–1) during the last three years. It also considers the practices utilized in budgeting for contingencies. The scoring methodology has been refined since the 2007 assessment, by the inclusion of a second dimension (on contingencies)[12] and by a refinement of the method of calculation of the variance in expenditure composition.

PI–2 : 2012 Assessment (Scoring method M1) Dimensions:	Score 2007	Score 2012	
(i): the variance in expenditure composition has exceeded 15 percent in each of the last three years.	D	D	D+
(ii): the average level of expenditures charged directly to the Contingency Reserved Fund vote, has been substantially less than 3 percent.		A	

36. **The variance, from the budget, of central government expenditure composition exceeded 15 percent in all three of the years under consideration (see Table 5).** In 2008/09 and 2009/10 this was, in large part, a consequence of the approach adopted by the GoL to the distribution of expenditure cuts across M&As in response to revenue shortfalls. Cuts were applied initially to the "contingent budget", which had been allocated unevenly across M&As, given its primary focus on infrastructure investment projects; thus, in 2009/10 for example, the Ministry of Public Works experienced a close to 50 percent cut in its budget (from USD39.9 million to USD20.1 million). Secondly, in applying additional cuts over and above the expenditures foreseen in the "contingent budget", the budgets of certain M&As enjoyed a degree of protection, either as a consequence of statutory requirements or deliberate policy decisions.[13]

Table 5. Composition Variance and Contingency Budget for PI–2

Year	for PI–2 (i) composition variance	for PI–2 (ii) contingency share
2008/09	22.6%	
2009/10	19.2%	0.1%
2010/11	16.3%	

Source: based on data provided by MoF—see Annex III

37. **Nevertheless, the level of compositional variance remained above 15 percent in 2010/11, despite the fact that revenue targets were met**. This can be attributed either to

[12] Not to be confused with the "contingent budget" approach utilized in Liberia in the last few years. For the purposes of this assessment, the "contingent budget" is considered to be fully part of the annual budget.

[13] The full analysis of this indicator is presented in Annex III. It is notable, for example, that both in 2008/09 and 2009/10 the budgets of the National Legislature, the Ministry of State for Presidential Affairs, the GAC, the Ministry of Education and the University of Liberia remained largely unchanged or, in some cases, increased.

errors in the calculation of budgetary requirements for areas of expenditure initially presented to the legislature, later corrected through budget transfer authorities (virements)[14] or to the inclusion during the year of additional spending, through supplementary budgets. Indeed, there were two supplementary budgets approved during 2010/11, one corresponding to the USD15 million of deferred revenue obtained from Chevron and a further supplemental of USD24 million.

38. **Thus, in total, supplementary budgets during 2010/11 amounted to slightly more than 10 percent of original appropriations.** While correct legal and regulatory procedures were followed in obtaining approval for these changes to the budget, it is generally considered good practice to avoid supplementary budgets where possible and to minimize budgetary virements, so as to allow spending to be as planned and predictable as possible, which should lead to higher efficiency and value for money.

39. **The government budgeted for small contingency reserve funds in 2008/09 and 2010/11 and none at all in 2010/11.** Approved appropriations for the contingency reserve fund comprised USD1.76 million in 2008/09 (0.4 percent of the budget) and USD2 million in 2009/10 (0.1 percent of the budget). Thus, over the three years the average level of the contingency fund comprised slightly more than 0.1 percent of the budget. In 2008/09, USD1 million of the contingency reserve fund was spent and recorded directly against the contingency item, rather than being transferred to the eventual areas of spending. In 2009/10 spending from the contingency reserve fund was negligible (USD0.05 million) but was again recorded directly against the contingency item itself.

40. **In comparison with the 2007 PEFA assessment, the situation has remained essentially unchanged.** Further progress is needed to strengthen the quality of the budget formulation process so as to avoid the need for supplementary budgets and high levels of budgetary virements within year.

PI–3. Aggregate revenue outturn compared to original approved budget

41. This indicator measures actual domestic revenue collection compared to domestic revenue estimates in the original approved budget. It excludes funding received from budget support grants but includes all components of domestic tax and non-tax revenue. In common with indicators PI–1 and PI–2, the data for this section is drawn from the annual budgets approved by the legislature and from the final fiscal year outturns for 2008/09, 2009/10 and 2010/11. The scoring methodology has changed since the 2007 assessment, the main difference being that over-collection is now also considered as part of the forecasting accuracy assessment.

[14] In Liberia, budgetary virements are made through "Budget Transfer Authorities" (BTAs) and are therefore often referred to as "transfers". In the text we utilize the term 'virements' where appropriate, so as to avoid confusion with budgeted inter-departmental transfers or subventions.

PI– 3: 2012 Assessment (scoring method M1)			Score 2007	Score 2012
Domestic revenue projections have been below 92 percent of projections in two of the last three years.			A	D
Domestic revenue collections as a percentage of original projections in approved budget:	2008/09	76.1%		
	2009/10	79.1%		
	2010/11	100.3%		

42. **During the period of assessment, actual collections fell substantially below budgeted revenue in two years and were marginally above target in 2010/11.** Shortfalls in collections of non-tax revenue were the primary cause of the large aggregate short-falls experienced in 2008/09 and 2009/10. This was in large part a consequence of the complications arising in the bidding and contract ratification processes for various concessions, including notably the Western Cluster concession, which needed to be re-tendered in 2008/09, and the Bong Mines/China Union concession, for which only half of the originally budgeted USD43 million signature bonus was received during the 2009/10 fiscal year. The difficulties in finalizing these concession contracts were in part a consequence of the 2008 global financial crisis, which dampened international primary commodity prices and undermined business confidence.

Table 6. Liberia Actual Domestic Revenue Compared to Original Budget Estimates

	2008/09	2009/10	2010/ 11
Projected Tax Revenue	171.7	246.6	231.1
Actual	189.7	224.7	267.3
Percentage difference	**10.5 %**	**-8.9 %**	**15.6 %**
Projected Non-Tax Revenue	106.0	101.0	106.1
Actual	21.6	50.3	71.2
Percentage difference	**-79.6 %**	**-50.2 %**	**-32.9 %**
Aggregate Projected Revenue	277.7	347.7	337.4
Actual	211.3	275.0	338.5
Percentage difference	**-23.9 %**	**-20.9 %**	**0.3 %**

Source: MoF: Approved budgets and fiscal year outturns, USD millions

43. **However, over the period assessed, the reliability of both tax and non-tax projections has shown deficiencies**. Table 6 shows that tax collections substantially exceeded forecasts in 2008/09 and 2010/11, while being significantly below forecasts in 2009/10.[15] Over-shooting of revenue targets has less serious consequences than under-collection but it also tends to undermine the predictability and consequent efficiency of the corresponding expenditures. With a fast growing economy, and an expanding revenue

[15] Using PEFA criteria, performance of tax revenue alone would have scored a "C', with actual revenue being between 92 percent and 116 percent of budgeted revenues in two years (and below 92 percent in the third year.)

administration system, it is not surprising that revenue forecasts have lacked accuracy but it is important to put in place the capacities and the organizational framework to address these deficiencies.

44. **Current institutional arrangements for preparing revenue forecasts are generally appropriate, but may need to be reconsidered once the Liberia Revenue Agency (LRA) is established.** At present, the MFAU generates aggregate revenue forecasts based on the macro-economic framework (mainly using IMF estimates). The DoR develops a separate revenue projection based on planned revenue administration efforts. The two forecasts are then compared before arriving at a final forecast for approval by the Minister of Finance. While this is, in a broad sense, an appropriate approach, the MFAU's unit for tax policy and revenue forecasting is relatively new and has limited capacity. With the re-housing of revenue collection and administration functions in a semi-autonomous LRA during 2012/13, it will be especially important to develop a stronger capacity for independent revenue forecasting and analysis of tax policy within the MFAU and to formalize the process by which final forecasts are agreed for inclusion in the executive's budget proposal.

45. **There are currently no mineral resource revenue smoothing mechanisms in place, despite the growing importance of revenues received from mining and concession operations.** Utilization of such funds should, as a general rule, always be decided through the budgetary process, as at present. However, all countries face the dilemma of determining when natural resource receipts should be incorporated into the budget envelope. The GoL has in recent years opted for their immediate inclusion based on the anticipated dates of finalization of negotiations and transfer of payments. However, as was noted under PI–1 and PI–2, this creates uncertainty in the level of available budgetary resources, with investment projects having to be deferred as a consequence. Many countries, including some in the sub-region, have opted instead for a "Natural Resources Stabilization Fund" as a useful way of smoothing the flow of receipts into the budget. Such funds should of course be fully reflected in budget operations.

46. **Under the new methodology, the 2007 assessment for PI–3 would have been a "B"; hence the 2012 score reflects a deterioration in forecasting accuracy.** Given the increasing complexity and scale of the revenue collection and administration process, this should not be surprising. Yet, it does underscore the need for greater attention to revenue forecasting capacities, and the related organizational and institutional arrangements.

PI–4. Stock and monitoring of expenditure payment arrears

47. This indicator has two dimensions and measures: (i) the level of arrears; and (ii) the availability of data for monitoring the stock of arrears. It is concerned with measuring the stock of arrears and the extent to which the systemic problems, which generate arrears, have been brought under control.

PI–4 2012 Assessment (Scoring method M1) Dimensions:	**Score 2007**		**Score 2012**	
(i) The stock of arrears stood at 9.6 percent of budgeted expenditure as of December 2011, with reduction by more than 80 percent in the last two years.	D	D+	B	B
(ii) Data on the stock of arrears is generated annually, but may not be complete because it is likely that there remain a small number of pre-2006 claims, which have not yet been presented.	C		B	

48. **Three potential sources of arrears were reviewed**. These were: a) payment claims arising from the period prior to 2006, notably for salaries and rents; b) new claims arising from payments for goods and services remaining outstanding; and c) unpaid interest on domestic or external debt. For a period of nearly twenty years up to 2006, when the National Transitional Government of Liberia (NTGL) was appointed, external and domestic debt was not serviced, and many central government salary and rental commitments remained unpaid. A major debt reconciliation process was undertaken over 2006 and 2007, through which the vast majority of outstanding arrears were identified, renegotiated and either forgiven or reconstituted as government debt. The assessment against this PEFA indicator permits a judgment on how far that process has been successful in bring past arrears under control and in creating systems to prevent the accumulation of new arrears.

49. **Liberia's public and publically guaranteed debt decreased from USD5.2 billion at the end of June 2007, much of which was in arrears, to USD565 million at the end of September 2010.** Liberia's external multilateral and Paris Club bilateral debt was cleared through the HIPC process. Negotiations with non-Paris Club creditors are still ongoing, however. The two creditors with unresolved debt as of December 2011 were: Saudi Arabia—USD27.2 million principal and USD1.3 million of unpaid interest—where negotiations were expected to be completed in June 2012; and Taiwan—USD44 million principal and USD39.2 million accrued and unpaid interest—with which Liberia has had no relations since 2003.

50. **The bulk of the domestic debt (87 percent) is consolidated in one loan from the CBL, the remainder being mainly domestic salary and vendor arrears.** These salary arrears and unpaid claims of suppliers arise from the period before 2007. Salary arrears at the end of 2006 were assessed at USD33.53 million arising from the period prior to the NTGL and USD3.8 million of salaries and allowances from the NTGL period (2003–2006). Nearly two thirds of these salary arrears were cleared by end of 2008, with the remainder being cleared at a rate of USD1–2 million per year, with the stock at the end 2011 amounting to USD5 million. Audited arrears to suppliers amounted to USD50.2 million as of the end of 2006, and are being settled at a substantial discount rate—from a stock of USD11.2 million in 2008, declining to USD1.9 million by December 2011. Budget allocations are made each year to settle these arrears in accordance with agreed arrears clearance schedules.

51. **New claims for pre-2006 arrears continued to arise, mainly through court judgments, although the value has so far remained relatively small.** Some of these court judgments arose from suppliers refusing to accept the discounted settlement mentioned above. Others are entirely new claims arising from the pre-NTGL period. The increase in claims can be attributed to the judiciary system becoming fully functional again, although the likelihood of significant future new claims arising from the pre-NTGL period is relatively low. Outstanding court judgments at the end of 2011 amounted to just under USD2 million, with a further USD5 million still in litigation.

52. **In summary, the stock of arrears at the end of 2011 stood at USD49.4 million, including the interest owed on the Saudi Arabian and Taiwanese loans, or 9.6 percent of the 2011/12 budget (of USD516.4 million)**.

53. **The above analysis is based on regularly published reports from the DMU, which are considered to be reasonably accurate**. However, the assessors note with concern that there is a lack of consistency, both in nomenclature and in amounts, between data published by the DMU and the annual budget allocations intended for arrears clearance, making it difficult for assessors to fully reconcile arrears information.

54. **The combination of commitment control and cash budgeting has effectively limited the accumulation of new arrears in recent years**. Data on outstanding commitments is systematically generated by the accounting system and presented in the final year fiscal outturn report. While some of these outstanding commitments could represent a potential source of new payment arrears, the 90-day "grace period" for the clearance of outstanding commitments after the year-end is generally sufficient to clear any outstanding payments under these commitments. What remains after the "grace period" (and reflected in the fiscal outturn report) consists mainly contracts where goods and services have not yet been delivered or where there is some dispute with the supplier. Reported outstanding commitments have fallen from USD19.5 million in 2008/09 to USD4.4 million in 2010/11

55. **For the most part, the problem of arrears in domestic and overseas debt payments identified in the 2007 PEFA has been resolved**. Following the debt HIPC debt relief process, the GoL has significantly reduced its debt stock and is now current with the vast majority of its domestic and external debt obligations. Furthermore in-year budgetary controls are effective at preventing accumulation of new arrears. It therefore achieves a "B" score due to the fact that (i) arrears are within 2–10 percent of budget and significant arrears clearance has taken place in recent years, and (ii) debt management reports provide regular and generally reliable data on arrears, albeit difficult to reconcile with budget allocations for arrears clearance.

B. Comprehensiveness and Transparency

PI–5. Classification of the budget

56. This indicator assesses the quality of the classification system used in practice for formulating, executing and reporting the central government budget.

PI–5 : 2012 Assessment (scoring method M1)	Score 2007	Score 2012
New GFSM 2001-based classifications and associated chart of accounts introduced in 2011 include administrative, economic and functional classifications. However, while transactions are routinely coded with functional codes, reports by functional classification are not yet available.	C	C

57. **New GFSM 2001-based[16] budget classifications and an associated chart of accounts (CoA) were introduced for the FY2010/11 budget.** The new 39 digit CoA, a significant expansion of the 14 digit version introduced in 2007, provides the usual range of elements—administrative, fund, projects, program, functional, location, and economic—required in modern budget formulation, as well as codes for 'sector' and 'policy area'. However, the program classification is not effective, and the location classification is not used systematically. Furthermore, while the new CoA facilitates reporting by functional classification, and codes for functions and sub-functions are mandatory when processing financial transactions on IFMIS, reporting by functions/sub-functions is not yet included in standard published documents: for example, the FY2010/11 budget and annual outturn report, and the FY2011/12 budget do not include summaries by functional classification.

58. **The economic classification in the new CoA follows the GFSM 2001 approach**. It includes codes for accrual even though accounting remains on cash basis.[17] The effectiveness of the classification will depend on its systematic and consistent use in both budgeting and accounting, for which there is currently no formal quality assurance procedure.

59. **Programs, which have featured in GoL budgets since FY2007/08, remain in practice simply as a sub-agency classification.** The "program" structure introduced in FY2007/08, while being a step in the right direction, remains undeveloped and is little more that an administrative breakdown of spending within each ministry or agency. The new CoA includes a program element, but so far this remains unpopulated, and therefore unused.

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[16] Government Finance Statistics Manual 2001, IMF

[17] For example, coding for consumption of fixed capital is provided in the CoA. However, acquisition of fixed assets have been classified under this code to satisfy the cash accounting approach of expensing in the year of acquisition, which leads to misleading reporting of acquisition of fixed assets under recurrent spending, and therefore should be reconsidered.

60. **The new CoA facilitates expenditure reporting by the extended PRS sectoral classification, although it will only impact on the assessment once a full budget cycle has been completed.** The new PRS-based sector classification groups M&As into 11 sectors, similar enough to the 10 high-level functions of the COFOG classification to be considered a proxy. The sector coding will facilitate production of reports by sectoral composition of spending. Once this reporting evidence is available, a 'B' score can be attributed to this indicator. For the time being, however, this present assessment is limited to evidence from the last completed fiscal year, namely 2010/11, which only had the 4 sectors of the old PRS, and hence the score must remain a 'C'.

61. **Significant recent progress has been made in the area of budgetary and accounting classifications, which will translate into an improved score once a full fiscal year is completed with the new classifications.** The new CoA and the newly operational IFMIS should lead to regular in-year and end-year reporting by functional and sub-functional classification, which has not been the case so far. Current reform plans should focus on effective implementation and use of reporting against all active classifications.

PI–6. Comprehensiveness of information included in budget documentation

62. This indicator assesses the extent to which budget documentation information is made available for scrutiny and approval by the legislature.

PI–6: 2012 Assessment (Scoring method M1)	**Score 2007**	**Score 2012**
Recent budget documentation fulfills six of the nine required information benchmarks	C	B

63. **The FY2011/12 annual budget and supporting documents, as submitted to the legislature for scrutiny and approval, allow a complete picture of central government revenue forecasts, budget proposals and outturns of previous years**. In addition, the Budget Framework Paper (BFP) outlines government's priorities for the respective budget year and contains information on the overall macroeconomic and fiscal framework within which the annual budget has been developed. Recent reforms have greatly strengthened the comprehensiveness and quality of information included in the budget documents.

64. **The budget document does not provide a clear definition of what constitutes the fiscal deficit and how it will be financed**. Section 5 of the FY2011/12 BFP indicates that "annual borrowing is limited to 3 percent of the previous fiscal year's GDP, with a maximum of 1 percent of GDP raised through domestic borrowing". No further information is provided on the actual amount of the deficit and how it will be financed. Furthermore, projected aid inflows, besides budget support, are not included in the report on central government fiscal operations (table 1 of the budget) to provide a clear picture of the projected deficit and how it will be financed. To further improve the comprehensiveness of the budget, a clear definition of fiscal deficit in accordance with GFSM should be provided.

65. **A brief statement was provided on financial assets in Section IV of the FY2011/12 budget but no breakdown of its composition was given.** A breakdown of financial assets including details of estimated values is required for comprehensiveness.

Table 7. Comprehensiveness of Budget Documentation

	Item	Incld.	Source
1	Macroeconomic assumptions, including estimates of aggregate growth, inflation, and exchange rate	Yes	Budget Framework Paper
2	Fiscal deficit, defined according to GFSM, or other internationally recognized standard	No	Fiscal deficit is not defined in budget document
3	Deficit financing, describing anticipated composition	No	Composition of deficit financing not provided
4	Debt stock, including details at least for start of current year	Yes	Annex 3 of budget document
5	Financial assets, including details at least for the beginning of the current year in a timely manner	No	Financial assets not detailed in budget documents
6	Prior year's budget outturn, presented in the same format as the budget proposal	Yes	In main budget Document
7	Current year's budget (revised budget or estimated outturn), presented in same format as budget proposal	Yes	In main budget document
8	Summarized budget data for both revenue and expenditure according to main heads of classifications used, including data for current and previous years	Yes	In main budget document
9	Explanation of budget implications of new policy initiatives, with budgetary impact estimates of all major revenue policy changes and major changes to expenditure programs	Yes	Policy Changes Section of the President's message to the legislature

Source: MoF

66. **The assessment shows that the comprehensiveness of the budget documentation has improved.** The 2007 PEFA assessment scored this indicator as a C because the breadth and depth of information in the budget documentation did not include information on macro-economic assumptions, debt stock, fiscal assets, prior year's outturn, summarized data according to GFSM classification and implications of new policy initiatives on revenue policy and expenditure programs. Budget documentation is substantially more comprehensive in 2011. However, inclusion of an estimate of the fiscal deficit (following a GFSM classification), of the anticipated sources of financing for the deficit, and the breakdown of financial assets would allow Liberia to fulfill international best practice.

67. **The medium-term expenditure framework (MTEF) approach adopted for budgeting starting in FY2012/13 fiscal year is likely to further enhance the comprehensiveness and clarity of budget documentation submitted to the legislature**. In particular, this should serve to strengthen the presentation of the financial operations of the Central government to include a GFSM-compliant presentation of the fiscal deficit, and to incorporate summary information on externally financed public investments.

PI–7. Extent of unreported government operations

68. This indicator has two dimensions measuring: (i) the level of unreported extra-budgetary expenditure (excluding donor funded projects); and (ii) the information on donor-funded projects included in fiscal reports.

<table>
<tr><th>PI–7 : 2012 Assessment (Scoring method M1)
Dimensions:</th><th colspan="2">Score 2007</th><th colspan="2">Score 2012</th></tr>
<tr><td>(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1–5 percent of total expenditure.</td><td>B</td><td rowspan="2">D+</td><td>B</td><td rowspan="2">D+</td></tr>
<tr><td>(ii) Information on donor funded projects is included as an annex to the budget but is not complete, and corresponding information on actual expenditures is not presented in the annual outturn reports.</td><td>D</td><td>D</td></tr>
</table>

69. **The use of own revenues and fees and charges, as a source of funding for unreported operations has been largely controlled.** M&As predominantly follow the legal requirement[18] to pay all tax and non-tax revenues (except those revenues allowed otherwise to be retained) promptly into the Consolidated Fund bank account held at the CBL. There has also been an improvement in the payment of consular fees collected by overseas missions into the appropriate account at the CBL. This was facilitated by the establishment in October 2009 of a division within the DoR, which now ensures that overseas missions open separate bank accounts for consular fees, transferring those fees regularly on a monthly basis to the CBL. Information gathered from the DoR revealed that total consular fees gathered in FY2010/11 amounted to about USD1.65 million (around 0.4 percent of revenue collected).

70. **Nevertheless, there exist shortcomings in recording government fiscal operations in two particular areas, which in aggregate are of modest fiscal significance**:

i. Vendor fees for private service providers[19] as well as bank charges by commercial banks are debited to the transitory bank accounts against revenues collected, with the net amounts transferred to the revenue bank account held at the CBL, and no consolidated record kept of the value of these deductions. However, the amounts involved are said to be less than 0.5 percent of total domestic revenue.

ii. Cash advances made to M&As into their departmental bank accounts as operational expenditures are expensed in the books of the Treasury with no adjustments made for movements in the balances held in those bank accounts. There is no system established for tracking transactions in those departmental bank accounts, especially those held in commercial banks. Therefore, these funds are managed as if they were transfers rather than as advances for payments of goods and services. It is therefore possible that unused

[18] B.6 and B.7 of the PFM Regulations, 2009

[19] Such as vendors of licence plates, or printers of work and resident permits

balances in these accounts are carried over at the close of the fiscal year, creating a source of off-budget spending in the subsequent year. However, the values of funds carried over would certainly be modest.

71. **Information on donor-funded projects with projected disbursements of USD464,168,717 is included in the budget documents for FY2010/11 as an annex but fiscal outturn reports present only treasury-managed expenditures**. Section 9 of the PFM Act of 2009 requires that the budget should "include all donor financing provided directly to the budget in support of the central government, including general budget support, basket funding of sectors, and funding of government projects". To address this legal requirement, the FY2010/11 budget document included an annex listing donor funded projects, although without much details on the individual projects. However, in-year quarterly fiscal outturn reports for FY2010/11 only included treasury managed expenditures and excluded the majority of externally funded projects. Nevertheless, separate aid management reports consolidating actual disbursement information from donors are produced on a quarterly basis and made available of the MoF website. However, they are by no means comprehensive and they present expenditure information following the classification systems of the respective donors rather than those of the GoL.

72. **The assessment in 2012 shows an improvement in the first dimension of this indicator compared to 2007**. The improvement in the quality of performance of the indicator was as a result of intensified effort in getting all revenues paid into bank accounts held at the CBL, especially the consular fees from overseas missions. However, information on externally funded projects continues to be weak, meaning that there has been no improvement from a "D" on the second dimension of this indicator.

PI–8. Transparency of intergovernmental fiscal relations

73. This indicator has three dimensions that measure: (i) transparency and objectivity in the horizontal allocation between subnational governments; (ii) timeliness of reliable information to subnational governments; and (iii) the extent of consolidation of fiscal data for general government according to sectoral categories. Because Liberia does not have sub-national governments, this indicator is not applicable and cannot be scored.

PI–8 : 2012 Assessment (scoring method M2) Dimensions:	**Score 2007**	**Score 2012**
(i) Transparency and objectivity in the horizontal allocation between subnational governments	NO SCORE	NO SCORE
(ii) Timeliness of reliable information to subnational governments		
(iii) The extent of consolidation of fiscal data for general government according to sectoral categories		

74. **Liberia has no sub-national governments.** There are, however, 15 counties but these are a deconcentrated part of central government, with county superintendents appointed by the President. County authorities do not have any independent revenue collection rights

and the bulk of their expenditure management responsibilities are undertaken as agencies of central government, with no discretionary autonomy over allocations. Some local autonomy does exist, however, in relation to (i) the County Development Fund, established by the legislature in 2006/07 to fund locally identified projects at the county level, and (ii) special social and economic development grants included in mineral and other concession agreements. In the FY2010/11 budget, total allocations to such funds and grants amounted to just under USD17 million, or 4.9 percent of total budgetary spending.[20]

75. **A county financial management unit has been established by the CAG to coordinate and monitor disbursements of the County Development Fund and other funds allocated to counties**. Allocations to the County Development Fund are made through the budget, and then executed as grants or transfers to the counties by the county superintendents located in each county under the Ministry of Internal Affairs. County development committees have been established to prepare and submit projects to the county superintendents, for financing under the County Development Fund.

76. **There is no change in government structure since the 2007 assessment and therefore the no score remains valid.**

77. **Current reforms are likely to increase the relative importance of the county level within the budgetary and expenditure management chain.** In the short-term county treasuries are envisaged, which will deconcentrate PFM to the county level where capacity will be built. In the medium term, as the government's stated decentralization policy is implemented, the reforms will need to adapt to the more challenging framework of sub-national governments, and the development of new institutional arrangements to manage inter-governmental relations.

PI–9. Oversight of aggregate fiscal risk from other public sector entities

78. This indicator has two dimensions and assesses: (i) the extent of central government monitoring of autonomous government agencies (AGAs) and SOEs; and (ii) the extent of central government monitoring of sub-national governments' fiscal position. Given that there are no sub-national governments in Liberia only dimension (i) is covered. The assessment covers the last completed fiscal year.

[20] See page 152 and 152 of the FY2010/11 National Budget.

PI–9 : 2012 Assessment (scoring method M1) Dimensions:	**Score 2007**		**Score 2012**	
(i) The majority of AGAs and SOEs do not submit annual financial reports to central government. The budget document includes a consolidated overview, but its coverage is incomplete.	D	D	D	D
(ii) There are no sub-national governments in Liberia.	NO SCORE		NO SCORE	

79. **Although sections 41 and 45 of the PFM Act require AGAs and SOEs to submit quarterly financial reports and annual accounts to the Finance Minister, compliance remains partial.** As Table 8 shows, the law and associated regulations clearly set out to whom these reports are to be submitted: AGAs to the President, the Finance Minister and the parent sector minister; SOEs to the Finance Minister, the parent sector minister, and the Bureau of State Enterprises; and, annual accounts to the Auditor General (who approves external auditors for SOEs). It also sets deadlines for submission—within 30 days for quarterly reports, and within 2 months for annual accounts. However, while the accounts for almost all SOEs are audited by external auditors, they are not systematically submitted to the MoF and other stakeholders as required by law. The GAC audits the accounts of AGAs but again these are not submitted to MoF and other stakeholders.

Table 8. Financial Reporting Requirements of SOEs and AGAs

Entity type	Type of report	Timeframe	Authority/ Oversight	Legislation
SOEs	Quarterly financial statement	One month after end of previous quarter	Finance Minister, Sector Minister	Section 45 PFM Act and Part M Financial Regulations
	Annual Financial Statements	Two months after the end of the fiscal year	Finance Minister, Sector Minister, Auditor General and Bureau of State Enterprises	
AGAs	Quarterly financial statement	One month after end of previous quarter	President, Minister	Section 41 PFM Act and Part L Financial Regulations
	Annual Financial Statements	Two months after end of the previous FY	President, Minister, Auditor General	

Source: PFM Act 2009, Financial Regulations 2009

80. **A summary annex showing financial operations of each SOE was submitted as an annex to the FY2010/11 budget as required by the PFM Act 2009; however, it was no longer available in the FY2011/12 budget documentation.** The requirement of the PFM Act is to present a snapshot of the financial operations of SOEs, including those without financial support from GoL budget. The appendix to the FY2010/11 budget provided information on financial performance of SOEs for FYs 2008/09, 2009/10, as well as projected revenue and expenditure for FY2010/11 and resulting surplus/deficit. The exercise was led by the Department of Budget (DoB) which noted that some of the submitted data was

not consistent with MoF records, especially for FY2009/10. A total of 15 entities submitted some financial information as required by MoF. However, 50 percent of them provided incomplete financial data either on revenues or expenditures. Unfortunately, the annex did not reappear in the 2011/12 budget documents.

81. **The monitoring of fiscal risks associated with AGAs and SOEs is limited to monitoring of guarantees**. The BFP considers some aspects of fiscal risk related to budget formulation, and the MFAU also monitors some of these risks during budget execution. The fiscal risk analysis covers revenue (including donor grants) and expenditures of central government as well as public debt and government guarantees. However, apart from the monitoring of guarantees, the fiscal risk statement contained in the BFP does not include any assessment of financial operations of AGAs and SOEs.

82. **The assessment shows while there has been some improvement in the reporting of subsidies to public corporations, the status of reporting from SOEs and AGAs has not changed significantly since the 2007 assessment.** This reflects the general failure of SOEs to comply with reporting requirements under the PFM Act, a shortcoming that the MoF is currently addressing.

83. **Reporting by SOEs and AGAs is already a priority under the PFM reform strategy.** A new SOE monitoring unit is being set up within the MoF and the preparation of detailed reporting formats for SOEs are envisaged for implementation in 2012. These actions should help implement the PFM Act and improve future scoring under this indicator.

PI–10. Public access to key fiscal information

84. This indicator assesses transparency by ascertaining the accessibility of fiscal information to the public against a number of information benchmarks. The assessment is based on the latest available information.

PI–10 : 2012 Assessment (Scoring method M1)	**Score 2007**	**Score 2012**
The government made available within the stipulated time only two of the six listed information benchmarks.	C	C

85. **Annual budget documentation can be obtained by the public and interested groups from the MoF website at around the time it is submitted to the legislature.** The annual budget documents, including the President’s budget message and the BFP, are posted on the internet in a timely manner, although the size of files posted may need to be reconsidered in the light of the quality of local internet links. Printed versions of the budget documentation are in limited supply, mainly for internal use and not readily available to the public, as the government printer remains closed.

Table 9. Public Access to Fiscal Information

No.	Item	Timely Availability	Source
1	Annual budget documentation when it is submitted to the legislature	Yes	MoF website
2	In-year execution reports within one month of end of period	No	MoF website
3	Year-end financial statements within 6 months after completed audit	No	MoF website
4	External audit reports within 6 months of completed audit	Yes	GAC website
5	Contract awards above USD100,000 posted quarterly	No	PPCC website
6	Resources available to primary service units	No	

Source: MoF; GAC; and PPCC websites

86. **In-year budget execution reports are not routinely made available to the public in a timely manner.** Although the mid-year and the quarter three fiscal outturn reports for 2010/11 were made available to the public through the MoF website, they were published almost three months after the end of the quarter reported on. The first quarter report was not made available. Furthermore the fiscal outturn reports are generally aggregated and do not provide comparative information against the original budget.

87. **Year-end financial statements for the last completed financial year were not made available to the public within six months of completed audit**. This is because the government has not yet produced nor published the consolidated financial statements for the year ended June 30, 2011. An IPSAS cash based set of financial statements for the central government budget was first produced for the year ended June 30, 2010, but this was produced late (November 2011) and had not yet been audited at the time of this review. Moreover, it was undertaken as an ‘ad hoc’ exercise supported by an external consultant, and internal capacity and procedures have yet to be established to ensure this is sustainable.

88. **The GAC prepares an audit report on the fiscal outturns submitted by MoF, as well as audit reports on the operations of M&As**. However, since consolidated accounts are still not being prepared by the MoF, there have been no external audit reports on central government consolidated operations to date. Other audit reports prepared by the GAC have generally been posted to the GAC website within two months of completion.

89. **Contract awards with a value exceeding USD100,000 are not published quarterly through appropriate means**. Although the PPCC has made efforts to publish all contract awards irrespective of value, for 2010/2011 this was not done routinely, and certainly not on a quarterly basis.

90. **Information on resources delivered to primary service units is not generally available and not reflected in the annual budget documents.** The accounting system does

not at the moment capture detailed information about resources made available to primary service units such as individual schools or primary health clinics. Furthermore, based on discussions with the authorities, such information is not readily obtainable even from individual departments.

91. **The assessment recorded in 2007 has remained unchanged in 2012.** This is largely attributed to limited progress in preparing consolidated annual accounts and financial statements and in developing consistent and timely in-year reporting. The range of information included in budget documentation as well as in-year reports has nevertheless improved.

92. **The PFM reform strategy recognizes the need to improve the quality and availability of reliable fiscal information.** In the short-term, the IFMIS is the most likely reform to significantly improve this situation, given its accounting and reporting facilities. Publication of detailed budget execution information will reflect political commitment to transparency and full implementation of the PFM Act.

C. Policy-Based Budgeting

PI–11. Orderliness and participation in the annual budget process

93. This indicator has three dimensions and assesses: (i) the existence and adherence to a fixed budget calendar; (ii) the existence of quality of guidance on the preparation of budget submissions; and (iii) timely budget approval by the legislature. The assessment covers the last budget approved by the legislature for (i) and (ii), and the last three fiscal years for (iii).

<table>
<tr><th>PI–11 : 2012 Assessment (scoring method M2)
Dimensions:</th><th colspan="2">Score 2007</th><th colspan="2">Score 2012</th></tr>
<tr><td>(i) An annual budget calendar exists but some delays are experienced in its implementation. The calendar allows M&As 6 weeks to complete their budget estimates.</td><td>B</td><td rowspan="3">B</td><td>B</td><td rowspan="3">B</td></tr>
<tr><td>(ii) A comprehensive and clear budget circular is issued to M&As which reflects approved cabinet ceilings prior to distribution to M&As.</td><td>A</td><td>A</td></tr>
<tr><td>(iii) The legislature has failed to approve the budget before the start of the fiscal year in two of the last three fiscal years.</td><td>C</td><td>D</td></tr>
</table>

94. **A clear annual budget calendar that provides sufficient time for line ministries to prepare complete budget submissions does exist and is largely respected.** Information received from the DoB, which was confirmed in discussions with three sector ministries, indicates that the budget calendar was closely respected in preparing the 2011/12 budget. According to this calendar, M&As have more than six weeks between receipt of the budget call circular in February and completion of their final detailed budget estimates in early April.

95. **The budget circular provides clear guidance to M&As on the budget process, including timing and information required in submissions.** The FY2011/12 circular provides ceilings to each ministry for both recurrent and development expenditures for budget year plus two outer years. The ceilings are discussed by the National Budget Committee and approved by Cabinet before the circular is issued. The expenditure ceilings were established after receiving policy inputs from spending entities through submission of sector policy notes. Nonetheless, the assessment team was informed that some M&As still exceeded their ceilings despite their participation in the ceiling-setting Cabinet meeting.

96. **Significant efforts have been made in the last three years to strengthen the budget preparation process in accordance with the requirements of the PFM Act of 2009**. The budget process has moved gradually to two phases: a strategic phase culminating in the preparation of the BFP setting out the policy priorities and the proposed ceilings to be submitted to Cabinet for approval; and a detailed preparation phase guided by detailed instructions in the call circular drawn from the agreed BFP. During the strategic phase, M&As are asked to prepare sector policy notes. For the detailed budget preparation phase, specific instructions are issued concerning formats, classifications, inclusion of all sources of revenue and grants, as well as the more traditional guidance on the preparation of the wage bill and capital spending.

97. **For two of the three fiscal years under consideration, the budget was not approved before the start of the fiscal year**. For both of the last two years, the legislature adopted the budget three months after the start of the fiscal year. According to the Legislative Budget Office (LBO) these delays were in part due to incomplete information supplied by the Executive—for example, the 2011/12 budget documents, though submitted on April 30, 2011, were withdrawn shortly afterwards for one week because of data reconciliation issues between the various tables of the budget. Nevertheless, the time period allowed for scrutiny by the legislature has generally been two months, which should be sufficient to allow the budget to be enacted prior to the start of the fiscal year.

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

98. This indicator has four dimensions. It assesses: (i) the preparation of multi-year fiscal forecasts; (ii) the scope and frequency of debt sustainability analysis (DSA); (iii) the existence of sector strategies; and (iv) linkages between capital and recurrent estimates. The assessment covers the last two completed fiscal years for dimension (i), the last three years for dimension (ii), and the last year for dimensions (iii) and (iv).

<table>
<tr><th>PI–12 : 2012 Assessment (scoring method M2)
Dimensions:</th><th colspan="2">Score 2007</th><th colspan="2">Score 2012</th></tr>
<tr><td>(i) Forecasts of fiscal aggregates are prepared for at least two years on a rolling basis.</td><td>D</td><td rowspan="4">D+</td><td>C</td><td rowspan="4">C+</td></tr>
<tr><td>(ii) A DSA for external and domestic debt has been undertaken annually in the last three years.</td><td>C</td><td>A</td></tr>
<tr><td>iii) Although the number of sector strategies has increased recently, these strategies are not costed in a substantive way, with future year aggregates consistent with the overall fiscal framework.</td><td>C</td><td>C</td></tr>
<tr><td>(iv) Budgeting for investment and recurrent expenditure are separate processes with no sharing of recurrent costs of capital.</td><td>D</td><td>D</td></tr>
</table>

99. **The fiscal framework includes forecasts of the main fiscal aggregates over three years on a rolling basis.** However, there is no clear link between the outer years and subsequent budget estimates. This reduces the importance of the outer-year estimates to the budget process. Moreover, the fiscal deficit and its financing (notably, from budget support loans) are not clearly presented in the fiscal framework (see paragraph 63).

100. **DSAs have been undertaken in the last two years.** DSAs were carried out in both FY2010 and FY2011 in collaboration with staff of the IMF and World Bank. The DSAs covered both domestic and external debt and were based on analysis of macro-fiscal data, including projected assumptions for future budget support and project related borrowing.

101. **Sector policy notes are now prepared for all sectors but these are not substantively costed in a manner consistent with the aggregate fiscal framework.** Medium-term sectoral planning and budgeting is in its nascent stage, having been introduced as part of the MTEF process in FY2012. Four sectors managed to complete their sector policy notes for the FY2011/12 cycle, while all of the 11 newly created PRS-related "sectors", covering the whole budget, completed their sector policy notes for the FY2013 cycle. Thus, the budget estimates were partially underpinned by the forward estimates derived from these sector policy notes. However, the costing process was not comprehensive and the aggregate spending estimates generated from the sector policy notes were not consistent with the aggregate fiscal framework.

102. **Budgeting for investment and recurrent costs were done as separate processes with no sharing of information on current and future recurrent costs of investment decisions.** As defined in the guidelines for the Public Sector Investment Program, the preparation and selection of projects to be included in the annual budget is undertaken under the purview of the Ministry of Planning and Economic Affairs (MoPEA). The approved project proposals are then submitted to the MoF for funding. The recurrent budget preparation is a separate process overseen by the MoF, without taking into account current and future recurrent cost implications of these project proposals.

103. **As the MTEF becomes institutionalized the performance against this indicator will improve**. The MTEF, which is being phased in with the 2012/13 budget, should provide

an improved framework for coordination of recurrent and capital spending, as well as a more consistent basis for medium-term fiscal projections. However, the initiative is still at a relatively early stage.

D. Predictability and Control in Budget Execution

PI–13. Transparency of taxpayer obligations and liabilities

104. This indicator has three dimensions which assess: (i) the clarity and comprehensiveness of legislation and regulations on tax liabilities; (ii) taxpayer access to information on tax liabilities and administrative procedures; and (iii) the existence and functioning of a tax appeals mechanism. The indicator covers broadly defined tax obligations, including customs duties. The assessment covers the current period.

PI–13 : 2012 Assessment (scoring method M2) Dimensions:	**Score 2007**		**Score 2012**	
(i). The tax and customs laws, available on the MoF website, provide a clear, comprehensive, and transparent framework for assessing tax liabilities. Implementation, however, is affected by general capacity weaknesses.	C	C	B	B
(ii) Taxpayers have access to information on tax liabilities and administrative procedures	C		C	
(iii) A tax appeals mechanism exists, but is in its infancy.	C		B	

105. **Liberia's tax and customs laws and regulations are generally of good quality**. Taxpayers' obligations are clearly spelt out in an integrated piece of legislation, the Liberia Revenue Code (2000). The Act provides for management and administration of direct as well as indirect taxes. Section 4 of the Code establishes the coverage of taxes and duties assessed and collected in the Republic of Liberia. These include Personal and Business Income Tax, Goods and Services Tax (GST), Excise Taxes, Customs Duties, and Real Property Tax. Existing tax incentives have recently been removed or formally included in the Revenue Code. These developments promote transparency and limit the discretion of the authorities.

106. **Liberia's Revenue Code is readily accessible on the MoF website and the MoF carries out multiple outreach efforts with taxpayers.** The law provides for effective communication between the revenue administration services and taxpayers under Section 58 of the Code. Taxpayer education services have been launched including bi-weekly radio broadcasts, billboards, print media and targeted outreach programs. Multiple tax clinics or awareness campaigns are organized each year by the Taxpayer Education Services Unit. Tax awareness brochures have been prepared and disseminated for GST.

107. **Notwithstanding these efforts, discussions with private sector representatives suggest that some confusion may remain among taxpayers with regard to their tax obligations.** In addition, there is a belief among some that inconsistent decision making with regard to tax liabilities sometimes occurs in spite of the clarity and comprehensiveness of the legislation and tax procedures. The problem may lie with the general weakness of the accounting standards and capacities in both the public and private sectors of Liberia, which is likely to impact on the quality of business financial records on which tax liabilities are then determined.

108. **Taxpayers have the right to appeal against tax determinations.** A Tax Appeals Board has been recently set up and publicized through print media, radio and pamphlets. Appeals procedures have been recently drafted and submitted to management for consideration. A taxpayer may challenge a DoR determination within 30 days of receipt. Similarly, taxpayers have a right to contest valuation and classification of merchandise imported into the country. The assessing unit in DoR must then review the determination and either adjust it or confirm it. If the taxpayer is still not satisfied, he/she may appeal to the Tax Court, subject to payment of 60 percent of the determination—a level of payment which could be considered punitive in cases where the determination is likely to be annulled. Where the taxpayer fails to pay, the DoR may go for prosecution after a series of warnings issued to the taxpayer. The appeals mechanism in Customs and Excise (BCE) seems to be more structured and robust than the one in the Bureau of Internal Revenue (BIR).

109. **Since the 2007 assessment, important changes have been made to the legal framework, to taxpayer access to information, and to the appeal process**. These have introduced greater transparency for taxpayers regarding their tax liabilities and expanded the options open to them to challenge tax determinations. Shortcomings are mainly related to weak capacities in both the public and private sectors, which continues to create opportunities for tax avoidance and collusion, though on a gradually diminishing scale.

110. **The PFM reform strategy calls for the establishment of a semi-autonomous revenue authority, where improved remuneration and capacity building will help further reduce remaining distortions in the tax and customs services.** The draft bill establishing the Liberia Revenue Authority is already with the legislature where its passage is anticipated in the near future. Preparations for its establishment are already underway including, among other things: (i) a code of conduct, (ii) a human resource manual, (iii) a communication strategy, and (iv) the information technology requirements.

PI–14 Effectiveness of measures for taxpayer registration and assessment

111. This indicator has three dimensions which assess: (i) controls in the taxpayer registration system; (ii) the effectiveness of penalties for non-compliance with registration and declaration obligations; and (iii) the planning and monitoring of tax audit and fraud investigation programs. The assessment measures current performance.

<table>
<tr><th>PI–14 : 2012 Assessment (scoring method M2)
Dimensions:</th><th colspan="2">Score 2007</th><th colspan="2">Score 2012</th></tr>
<tr><td>(i) Taxpayers are registered in a central tax administration system (TAS), directly linked to the ASYCUDA customs system, and part of a one-stop-shop arrangement for registering domestic and foreign-owned businesses, supplemented by occasional surveys of potential taxpayers and financial sector regulators. Property taxes and vehicle licenses, as well as individual professional service providers are currently excluded from TAS.</td><td>C</td><td rowspan="3">C</td><td>B</td><td rowspan="3">B</td></tr>
<tr><td>(ii) Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed if they are to have a significant impact on collections.</td><td>C</td><td>C</td></tr>
<tr><td>(iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.</td><td>C</td><td>B</td></tr>
</table>

112. **The Liberian Business Registry provides an efficient one-stop-shop for most business and taxpayer registration.** The registry brings together, under one roof, services previously undertaken separately by the ministries of Finance, Foreign Affairs, and Commerce. Registration is currently based on a unique taxpayer identification number (TIN) recorded in the current Tax Administration System (TAS). Taxpayers are classified on registration as small, medium or large according to clearly defined turnover thresholds. For importers, TINs are issued through the BCE's ASYCUDA system, via a link to the TAS system.

113. **TINs are generally required for all taxpayers, with some exceptions.** The exceptions include: persons eligible for paying property tax or vehicle licenses, neither of which are done through the TAS system. TIN requirements are not applied to individual taxpayers operating in areas outside of Monrovia that the TAS system does not yet reach. However, decentralization of business registration services (using the one-stop-shop approach) has recently started with satellite centers in 2 counties: Nimba and Grand Bassa. Taxation of individual professional services (such as lawyers, accountants, and auditors) is also not yet fully developed in Liberia, so this group is at present excluded from the registration system. The informal sector is, not surprisingly, also outside the taxpayer administration system. Furthermore, TINs are not required to open a bank account.

114. **Information on potential and/or existing taxpayers is regularly imported into the TAS from a variety of sources where it is available for cross-referencing and analysis.** Captured information includes: information on payment of motor vehicle licenses—paid through the Ministry of Transport—captured for business entities with vehicle fleets; information on taxpayers trading with government is obtained from the MoF Expenditure Department which collects a 3 percent withholding tax on invoices; and, private companies are also required to deduct the withholding tax from their suppliers' invoices, and remit it to government. Annual returns are supposed to show individuals and companies with whom the taxpayer has had transactions. Occasional surveys by the BIR have also increased the size of the tax base. In practice, however the BIR's ability to regularly reconcile and cross-reference this taxpayer data is limited due to ongoing capacity constraints.

115. **The TAS system is currently being upgraded to a more integrated system (SIGTAS), which is due to go online from September 2012**.

116. **The GoL revenue administration runs a self-assessment regime to determine tax liabilities of taxable persons.** The law prescribes penalties for late filing, failure to file, and applicable to late tax payment and failure to pay taxes on due date as well. Penalties are set sufficiently high and monthly compounded rates are applicable up to a limit of 50 percent of the self-assessed tax.

117. **Collection enforcement needs to be improved.** Both the BIR and BCE have enforcement sections. A harmonized enforcement manual has been developed and capacity being created. In particular, the BIR has proposed a number of remedies, such as improving collection procedures, the consistent application of penalties, and improved staff training in dealing with taxpayers.

118. **In the short-run government incentives do not seem to indicate sufficient levels of compliance.** An amnesty on penalties and interest was introduced in the 2010/11 fiscal year budget speech delivered in April 2010, effectively waiving varying percentages of penalties and interest where arrears were paid within certain timeframes. The 2011/12 due date for return filing has been extended from March 31, 2012 to April 30, 2012, as an incentive for increasing compliance. Yet, less than 30 percent of the taxpayers in the Large Taxpayers Department have filed their returns as of the due date on March 31, 2012.

119. **There has been good progress recently in the area of audit especially in audit planning and execution.** Regular taxpayer risk profiling is done based on a checklist of established criteria. Transparent audit processes have been instituted based on established audit guidelines.

120. **The introduction of risk-profiling for audit planning has raised the score on this dimension but the robustness of the risk profiling will need to be proven for this score to be maintained or improved**. The use of risk-profiling in tax audit planning represents a significant improvement over the previous more 'ad hoc' approach to tax audits. However, it will be important to ensure that suitable risk criteria are maintained. For example, the Chamber of Commerce alleged that there was widespread misuse of exemptions on customs duties, which made it difficult for those companies complying fully with regulations to compete effectively. Over time, risk-profiling would need to take account of such issues, if they were found to be of substantive importance. Future GAC audits of the revenue administration process would normally be expected to provide an opinion on the adequacy of the risk-profiling process for tax audit planning.

PI–15 Effectiveness in collection of tax payments

121. This indicator has three dimensions which assess: (i) the collection ratio for gross tax arrears (being the percentage of tax arrears at the beginning of the fiscal year which was collected during that fiscal year, taking the average of 2009/10 and 2010/11); (ii) the

effectiveness of transfer of tax collections to the treasury by the revenue administration; and (iii) frequency of complete accounts reconciliation between tax determinations, collections, arrears records, and receipts by the treasury. The assessment covers last 2 completed FYs.

PI–15: 2012 Assessment (scoring method M1) Dimensions:	Score 2007		Score 2012	
(i) Tax arrears significantly exceeded 2 percent of tax collections in the last two years, during which the average arrears debt collection ratio was well below 60 percent.	D	D+	D	D+
(ii) All tax revenue is paid directly into accounts controlled by the treasury.	A		A	
(iii) While complete reconciliation between collections and transfers to treasury are done daily, reconciliation between collections and tax assessments (tax ledgers) is less frequent and rigorous. Regular monitoring of delinquent taxpayers is however undertaken.	D		B	

122. **A system of arrears registration exists in both the BCE and the BIR**. In the BIR arrears are registered according to taxpayer segmentation: large, medium and small taxpayers. In addition, arrears are recorded on an ageing basis. Monthly reports on arrears are available on demand.

123. **Table 10 provides information on arrears for 2010 and 2011 for large tax payers based on data provided by BIR (reported in annex)**. The arrears debt collection ratio has been calculated using (a) the opening balance of arrears at the beginning of the period and (b) the balance of arrears more than 12 months old still outstanding at the end of the period (i.e. not collected during the year). The average debt collection ratio for the two years is 38.64 percent, and the average arrears to total tax collection ratio was 7.17 percent. According to the BIR large tax payer office, the high level of arrears at the beginning of 2011 (USD18.82 million) were in three revenue categories namely: surface rental fees (USD4.8 million), concession payments due (USD8.1 million) and land rental fees (USD4.3M). Some of these arrears were cleared by the end of 2011.

Table 10. Debt Collection Ratio for Tax Arrears 2009/10 and 2010/11 (*USD millions*)

Large Taxpayer Department	End Dec 2010	End Dec 2011
a. Opening balance of arrears	1.46	18.82
+ New arrears during the year	19.54	18.77
- Arrears collected during the year	(2.18)	(21.66)
b. Closing balance	18.82	15.94
b.1 Of which outstanding for more than 12 months	1.03	9.82
c. Total tax revenues (FY basis)	*224.7*	*267.3*
d. Arrears debt collection ratio (a–b.1)/a)	29.45%	47.82%
Average arrears debt collection ratio	**38.64%**	
e. Arrears as a ratio of total tax revenue (b/c)	8.38%	5.96%
Average arrears to total tax collection ratio	**7.17%**	

Source: MoF/DoR

124. **The data in Table 10 shows that arrears clearance was more effective in 2011 compared to 2010, and the overall level of arrears declined as well.** This indicates some progress in addressing collection of arrears, which has been brought about through improved taxpayer education and outreach programs, better access to information, and the establishment of new arbitration mechanisms to resolve tax disputes.

125. **Tax payments are paid directly into the main treasury account at the CBL for all the taxes collected in Monrovia, which accounts for 85 percent of all tax payments**. The BCE and BIR have a total of 17 and 24 designated collection centers respectively across the country. These collection centers remit their collections daily to county-based commercial bank transitory accounts controlled by the CAG, which are cleared at least every fortnight into the main treasury account.

126. **The BIR has an effective system of transfer of collections based on the unique collection process where payments are recorded directly into the CBL payment system**. The BIR has direct access to the payment system, and is therefore able to reconcile taxpayer payments on a daily basis with records of tax determinations stored in TAS. This system allows the BIR to create single ledgers (compliance checklists) for a taxpayer reflecting all payments made per tax type.

127. **However, the maintenance of taxpayer accounts in TAS has not always been timely, leading to late production of delinquent payer lists**. This is in sharp contrast to the payments tracking system that has been so successfully established, and means that many of the taxpayer accounts in TAS do not reflect the correct position of the taxpayer's affairs at any given time thereby impacting the timely enforcement of filing and debt obligations. Discussions with the DoR confirmed that routine reconciliation between taxpayer accounts and the payments system is not in place. This is in part due to the fact that taxpayer ledgers are maintained in Excel spreadsheets and cannot be easily consolidated. As a result the DoR has no means of routinely confirming that all payments received have been posted to taxpayer ledgers, although it appears that regular checks on individual taxpayer ledgers are undertaken by the BIR. The new SIGTAS should be able to provide improved reconciliation facilities once all of DoR's operations have been transferred to it.

128. **Tax receipts are reported daily to the treasury**. The CBL payments system allows the BIR to aggregate revenue payments by tax type, and to report these on a daily basis to the CAG. However, since consolidation of ledgers does not take place (noted in the previous paragraph), the DoR has no effective means of communicating the impact of inevitable taxpayer accounting changes posted to these ledgers—such changes can affect the breakdown of revenue collections by type.

PI–16. Predictability in the availability of funds for commitment of expenditure

129. This indicator has three dimensions which assess: (i) the extent to which cash flows are forecast and monitored; (ii) the reliability and horizon of periodic in-year information on ceilings for expenditure commitment; and (iii) the frequency and transparency of adjustments to budget allocations made above the level of management of M&As.

<table>
<tr><th>PI–16 2012 Assessment (Scoring method M1)
Dimensions:</th><th colspan="2">Score
2007</th><th colspan="2">Score
2012</th></tr>
<tr><td>(i) A cash flow forecast is prepared for the fiscal year but it is prepared late within the year (often not until the 2nd quarter) and is not systematically updated monthly.</td><td>C</td><td rowspan="3">C+</td><td>C</td><td rowspan="3">C</td></tr>
<tr><td>(ii) Budget allotments for M&As, which constitute commitment ceilings, are made for a monthly period only.</td><td>C</td><td>C</td></tr>
<tr><td>(iii) Significant in-year adjustments are made either through budget transfer authorities (virements) or supplementary budgets. These are fully transparent but relatively frequent.</td><td>B</td><td>C</td></tr>
</table>

130. **Although cash inflows and outflows are monitored on a daily basis, a fully functional annual cash-flow planning and management process has yet to be established.** The government has been successful in controlling expenditure commitments (and, thereby, payments) so as to prevent unplanned fiscal deficits and the accumulation of arrears. (See PI–1 and PI–4). This has been achieved through the daily monitoring of cash balances, through careful control of the budgetary allotments issued by the DoB, and through centralized monitoring of the commitments incurred by government through the issue of Local Purchase Orders (LPOs) by M&As. The achievement of this level of control has been essential in permitting the government to attain HIPC completion point and to retain control over its public finances. However, the approach is essentially a system of cash rationing which falls short of the requirements for annual cash-flow planning and management, specified in section 34 of the PFM Law.

131. **A consolidated annual cash-flow plan is prepared but it is generally finalized after the start of the fiscal year and is not systematically updated during the year, limiting its value.** Article H of the Financial Regulations requires the Cash Management Unit of the CAG to prepare a consolidated annual cash-flow plan, based on the approved annual budget and the individual ministerial cash plans. This should include contingency measures to address the consequences of monthly shortfalls or surpluses with respect to the established cash plan, and should be complemented by a rolling quarterly cash-flow forecast, to be prepared each month.

132. **The current environment for effective cash management suffers from of the following challenges**:

- The legislature has been late in adopting the annual budget in the last two years (see PI–11), delaying the preparation of the ministerial procurement plans and related cash-flow plans, on which the consolidated annual cash plan should be based, as required by the PFM Act and its financial regulations (Part D).

- Even then, not all agencies comply with the legal requirement to produce procurement and cash-flow plans, despite pressure from the PPCC and circulars from the DoB requiring receipt of ministerial cash plans before the issue of budget allotments.
- The GoL has not agreed procedures with those donors providing budget support that would lead to a schedule of projected quarterly disbursements. Consequently, budget support estimates are omitted from the consolidated annual cash plan.
- To date the GoL has not had recourse to Treasury Bills to smooth over short-term liquidity shortfalls.

133. **The monthly availability of cash has therefore been the primary criterion for deciding budgetary allotments**. Within such an environment with limited treasury management tools, updating of the consolidated annual cash plan has been of limited consequence and has therefore not been practiced systematically.

134. **M&As are issued with monthly (rather than quarterly or 6-monthly) budget allotments, undermining the predictability of expenditure commitments**. While such an approach is prudent in the current deficiencies in cash-flow management, it does undermine predictability of resources during the year, and consequently the efficiency of budget execution. The MoF has, however, announced its intention to move to quarterly allotments from July 1, 2012—for the five largest spending ministries—to begin issuing treasury bills in 2012, and to move ahead with cash management reforms.

135. **Significant and relatively frequent in-year budget adjustments take place through reallocations and supplementary budgets but such transfers are fully transparent and in conformity with legal and financial requirements.** Uncertainties over revenue forecasts—most notably in FY2008/09 and FY2009/10—have made in-year adjustments necessary. M&As do not have the authority to undertake any budgetary reallocations, even within the same program area, without the authorization of the MoF. The MoF can approve budget reallocations across economic categories (but not to or from wages) and across program areas within the same M&A, but cannot increase an M&A’s total budget appropriation, nor reallocate resources between M&As without legislative approval.

136. **The assessment suggests that the performance recorded by this indicator has deteriorated slightly in comparison with the 2007 ratings, changing from C+ to C**. The main reason is that in the 2007 assessment, in-year budget adjustments were judged to be less frequent than they have been in more recent years. When considering this slight deterioration it is important to remember, as has already been stressed in this report, that the budget has increased almost five-fold from only USD81 million in 2005/06 to USD385 million in 2010/11—the growth in size has been accompanied by a growth in scope to include capital expenditure, and an increasing reliance on inherently unpredictable non-tax revenues. Under

such circumstances, it is to be expected that a higher level of in-year adjustments will be necessary, until budget formulation and revenue forecasting capacities can be developed, and institutional arrangements introduced to deal more effectively with revenue fluctuations.

137. **The PFM reform strategy and action plan should lead to improvements in this indicator over the medium term**. Under the reform strategy, the MoF intends to move from the current cash rationing approach to a system based on cash flow planning.[21] Effective cash flow planning adapts short-term cash balances to the requirements of budget execution, rather than the other way around. It minimizes idle cash balances in government accounts, and makes full use of treasury management instruments—such as Treasury Bills, shortly to be reintroduced in Liberia. By making funds available as and when required, it will enhance the GoL's ability to better guarantee the execution (and performance) of the higher priority programs within its budget.

PI–17. Recording and management of cash balances, debt, and guarantees

138. This indicator has three dimensions which assess: (i) the quality of recording and reporting of debt data; (ii) the extent of consolidation of the government's cash balances; and (iii) the systems for contracting loans and issuance of guarantees.

<table>
<tr><th>PI–17 : 2012 Assessment (scoring method M2)
Dimensions:</th><th colspan="2">Score 2007</th><th colspan="2">Score 2012</th></tr>
<tr><td>(i) Domestic and foreign debt are effectively recorded and reported by the DMU in the MoF quarterly fiscal reports</td><td>C</td><td rowspan="3">C+</td><td>B</td><td rowspan="3">B</td></tr>
<tr><td>(ii) Central budgetary government cash holdings are monitored daily and reconciled monthly, but a comprehensive and consolidated cash position involving all government accounts is not prepared due to lack of information on the many M&A-operated bank accounts at the CBL and commercial banks.</td><td>C</td><td>C</td></tr>
<tr><td>(iii) Central government's contracting of loans, and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity</td><td>B</td><td>A</td></tr>
</table>

139. **Domestic and foreign debt records are complete and regularly updated by the DMU in the MoF.** In 2006, the GoL was faced with an enormous and unsustainable debt overhang, and had been unable to borrow from any source for a good number of years. Most of the debt, which had been contracted in the early 1980s, was in arrears. As part of the HIPC process, a comprehensive debt stock and domestic debt verification exercise was undertaken in 2006–7. This led to the development of a domestic debt resolution strategy, which was implemented with the assistance of the international accounting firm, KPMG. The comprehensive recording of Liberia's debt was also essential to prepare for clearance of

[21] C. Rwamuganza, "Liberia: Improving cash flow planning and government banking arrangements – follow up mission", FAD, April 2012.

multi-lateral and bilateral debt in the context of HIPC. Commercial debt has also been fully surveyed and much of it cleared.

140. **Liberia is well positioned to manage the resumption of borrowing**. Liberia reached HIPC Decision Point in March 2008 and achieved HIPC Completion in 2010. External borrowing has since resumed, so far in the form of concessional budget support credits from multi-lateral sources. Domestic borrowing is also set to resume in 2012 following the recent agreement between the CBL and the MoF to resume the issuance of treasury bills.

141. **The DMU updates records quarterly, based on a complete reconciliation process.** The DMU undertakes a comprehensive quarterly update and reconciliation of the public sector debt recorded in the CS-DRMS database. A quarterly debt management report is prepared that is made publicly available on the MoF website. The DMU also sends an annual report on Liberia's debt to the Minister of Finance who in turn includes it in his overall report to Cabinet. To further strengthen debt record keeping a consistent monthly reconciliation of debt records is needed to ensure timely resolutions of any discrepancies.

142. **Central government cash holdings are monitored daily and reconciled monthly, but a consolidated cash position of all government accounts is not prepared.** The MoF maintains five active accounts controlled by the CAG at the CBL: two operating accounts (USD and LRD), two revenue accounts (USD and LRD) and one payroll account in LRD. The balances of these accounts are sent daily to the MoF, where they are consolidated and monitored as the basis for the issue of new budget allotments. On the other hand, M&As operate at least 210 bank accounts at the CBL[22] (many of which are actually dormant), as well as an unknown number accounts in commercial banks (mainly for externally-funded projects). The balances on these accounts are not known to the CAG and are therefore never consolidated with the main treasury balances in order to derive an overall government cash position.

143. **The GoL's banking arrangements remain at odds with Section 34 of the PFM Act which requires that they follow, to the extent possible, a treasury single account approach**. The M&A-operated accounts in both the CBL and in commercial banks are neither linked to the main treasury account, nor are their balances consolidated to provide a holistic view of GoL cash resources, as would be expected under a treasury single account model. A recent decision requiring the CAG to be a signatory to all government accounts is a step towards implementing the provisions of the PFM legal framework (financial regulations R.3.2), and may help prevent proliferation of new accounts in commercial banks. However, further effort is also required to improve surveillance of existing commercial bank accounts.

[22] C. Rwamuganza (April 2012).

144. **Article 34 (iii) of Liberia's constitution and sections 28 and 29 of the 2009 PFM Law provide clear and transparent processes for contracting loans and guarantees.** The PFM Law makes the Minister of Finance solely responsible for overseeing government borrowing in accordance with specific regulations issued under the PFM Act. Up to HIPC completion point in 2010, Liberia operated a balanced budget with no borrowing. The 2011/12 BFP set the annual borrowing limit to 3 percent of the previous fiscal year's GDP, with up to 1 percent of GDP raised through domestic borrowing. The 2011/12 budget remained well within these limits. The 2012/13 medium-term BFP modifies this approach capping total debt stock at 60 percent of GDP while allowing between 3 and 10 percent of GDP of new borrowing per year on a net present value basis.

145. **The 2009 debt management strategy (adopted by Cabinet in 2010) established the Debt Management Committee to strengthen debt management and ensure debt sustainability**. The committee is chaired by the Minister of Finance and includes the Governor of the CBL, the Minister of Justice, the Minister of Planning and Economics Affairs, and the Minister of State for Presidential Affairs. It approves the three-year government debt management strategy that is embodied within the overall macroeconomic development strategy. The committee also approves all loan agreements and guarantees on behalf of the central government, and approves annual government borrowing limits to be reflected in the BFP. All loans approved by the committee must subsequently be ratified by the legislature before they can become effective.

146. **A new guideline on the issuance of guarantees has just been approved by Cabinet in 2012**. However, no guarantees have yet been issued yet under this guideline.

147. **The assessment shows that the performance recorded in 2007 has improved in 2012.** This is attributable to: i) improved recording and reporting of debt information; and ii) adoption and implementation of a defined strategy and clear framework for setting borrowing limits, contracting loans, and issuing guarantees.

148. **Further improvement in this indicator will depend on establishing tighter control of the government's cash balances.** Regarding banking arrangements, these improvements should in principle center around the gradual implementation of the treasury single account model prescribed in the PFM Act, starting by closing dormant accounts and transferring any balances to the main treasury account. Improvements are also needed to the treasury's control over GoL cash resources. Both these measures are envisaged under the current PFM reform strategy.

PI–18. Effectiveness of payroll controls

149. This indicator has four dimensions that assess: (i) the degree of integration and reconciliation between personnel records and payroll data; (ii) the timeliness of changes to personnel records and the payroll; (iii) the internal controls of changes to personnel records and the payroll; and (iv) the existence of payroll audits to identify control weaknesses and/or ghost workers.

PI–18 : 2012 Assessment (scoring method M1) Dimension:	Score 2007		Score 2012	
(i) Personnel and payroll data are not directly linked. The integrity of the payroll is significantly undermined by lack of periodic reconciliation between GAPS and the CSA database	C	D+	D	C
(ii) Required changes to the personnel records and payroll takes more than 3 months for a minority of employees	D		C	
(iii) Controls of changes to data on GAPS are clear, but integrity of the payroll data is not fully secured	C		C	
(iv) There is an ongoing comprehensive biometric data capture and clean up exercise of the civil service personnel database. GAC and CSA have undertaken partial payroll and pension audits the within the last three years.	D		C	

150. **The integrity of the payroll remains significantly undermined by significant differences between the personnel records on the payroll and kept by CSA.** The civil service payroll, denominated in Liberian Dollars (LRD), is processed on the Government Accounting Payroll System (GAPS) operated by the CAG Payroll Division. Three categories of payroll are processed on GAPS : (i) regular payroll (over 50,000 employees) for personnel validated by the CSA; (ii) supplementary payroll (around 9,000 employees as of March 2012) for personnel who are already working but not yet validated by the CSA; and (iii) retroactive payroll (about 80 employees, although the number fluctuates from month to month) for personnel who have been validated by the CSA but have not been paid due to delays in updating their records in GAPS.

151. **GAPS and the CSA personnel database are not linked**. As a result, the CSA personnel database, which serves as the control file to the payroll, is not reconciled with GAPS, not even on a periodic basis. Without periodic reconciliation, there is significant risk that the integrity of the payroll data could be compromised without detection in the ordinary payroll processing cycle, a risk that has surfaced periodically over the last few years. There is general lack of adequate internal controls around payroll processing, fragmentation of payroll processing and lack of regular reconciliation between CSA personnel and GAPS payroll data.

152. **Furthermore, significant top-up allowances as well as the salaries of certain government agencies, both of which are paid in US dollars, are processed outside of GAPS creating a shadow payroll processing system.** The allowances, decided by each sector ministry and significantly higher than the regular pay, are paid in US dollars to government employees with specialized skills or experience on a monthly basis through the Accounting Services Unit (ASU). Security sector agencies—the Armed Forces of Liberia, the Liberia National Police, the Special Security Service, and the National Security Agency—also process their payroll through the ASU outside of GAPS. In March 2012, a total of USD687,286, representing approximately 10 percent of the regular civil service payroll and allowances, was processed outside GAPS, making it difficult to apply standard controls and audit trails to all government payroll processing.

153. **There have nevertheless been recent improvements to payroll processes, notably the introduction of direct deposit to employee bank accounts**. The bulk checks and payroll lists are both generated from GAPS, although the payroll list has to be uploaded into Excel before it can be transmitted to the commercial banks holding employee accounts. This process is under the supervision of the Assistant Minister Expenditure, who password protects each file before it is sent out. Lists are also sent to M&As for checking and possible follow up by employees. However, the printing of pay slips has been discontinued, leaving it up to the individual employee to check his or her bank balance and take up any discrepancies with the M&A personnel office. While this may be a practical and expedient approach, it does expose the direct deposit scheme lists to the risk of interference between their generation on GAPS and their posting to bank accounts by the commercial banks, especially if employees do not regularly check their accounts.

154. **The direct deposit scheme currently covers most employees based in Monrovia and a significant number of employees based in the counties, in total around 70 percent of employees**. This improvement, which stands out as a major achievement for a country such as Liberia, reduces the risk of fraudulent or duplicate payments and at the same time reduces the problem of the significant check float on the government's payroll bank account. Plans to expand the scheme to all employees are underway, with the first three counties being tackled from June 2012. Expansion of this approach outside of Monrovia is linked to the availability of commercial banking services within the counties, which has been improving.

155. **Delays in processing changes to payroll can occasionally take longer than three months, requiring retroactive adjustments for a minority of employees.** A Personnel Action Notice (PAN) is used to effect changes to the payroll system. All requests for additions, deletions, transfers and other modifications are initiated by M&As and submitted to the CSA for vetting and approval. The approved PAN is submitted to the Deputy Minister Expenditure and Debt Management for approval and, to the DoB to check for funds availability in the case of additions to the payroll. After approval by both departments, the PAN is sent back to the CSA, onwards submission to the Payroll Office of the CAG for input into GAPS. Although majority of PANs are generally processed within three months, discussions with two ministries reveal delays in processing PANs, sometimes beyond three months for a minority of employees resulting in occasional retroactive adjustments to payroll. The delays are primarily caused by a combination of factors including, the manual approval process, errors on PANs submitted by M&As, which are sent back for corrections to be made, and late submission of PANs by M&As after employees are hired.

156. **There have been significant efforts to eliminate ghost workers from the payroll, starting in the immediate post-conflict period**. These efforts, which were assisted by a number of donors, in particular the World Bank, led to the removal of some 11,000 ghost workers from the GoL payroll. Weaknesses in the legacy payroll system and related check management procedures have been of ongoing concern to the GoL. The GAC conducted a payroll audit on unclaimed checks in 2011 cited major internal control weaknesses in the

handling of unclaimed checks that resulted in fraudulent encashment of checks for the period reviewed.

157. **More recently, payroll audits have been undertaken by the GAC within the last three years, in parallel with the biometric registration of civil servants initiated by the CSA**. The government-wide biometric exercise was initiated in 2010 to clean up the civil service database in order to populate the IFMIS HRM module with clean records. Despite good progress made in this regard and completion of verification of employees of the smaller M&As, this exercise remains as yet incomplete for the 5 more complex and significantly larger M&As—Education, Internal Affairs, Health, National Security Agency, and Justice, together representing 85 percent of the workforce. While the biometric registration exercise is ongoing, it is unlikely to be completed before the implementation date now set for the HRM module, now set to go live in July 2012.

158. **While significant efforts have been made to improve payroll management, there continue to be significant risks in the current payroll system and controls.** The delay in implementing the HRM module, originally planned for July 2009, has impacted upon those initiatives, which hinged on replacing the more rudimentary GAPS, in particular, the routine reconciliation of payroll and CSA records and enhanced payroll controls. The program of payroll audits, intended to clean up the payroll prior to its transfer to IFMIS, has not kept pace with its original schedule. Given the risks involved and its size, the payroll remains at the very top of the list of fiduciary challenges faced by the GoL.

159. **The implementation of the HRM module will provide a more secure environment in which personnel records and the payroll can be managed**. Keeping its implementation on-track should be a top priority for the coming months. Once this is operational, the payroll and personnel management issues mentioned above can begin to be more effectively addressed.

PI–19 Transparency, Competition and Complaints Mechanisms in Procurement

160. This indicator has four dimensions which assess: (i) the degree of transparency, comprehensiveness and competition in the legal and regulatory framework; (ii) the use of competitive procurement methods; (iii) public access to complete, reliable and timely procurement information; and, (iv) existence and operation of an independent procurement complaints mechanism. The structure and method of scoring of this indicator has been substantially revised since the 2007 PEFA assessment.

PI–19 2012 Assessment (scoring method M2) Dimensions:	Score 2007		Score 2012	
(i) The PPC Act meets five of the six elements of the transparency, comprehensiveness and competition in the legal and regulatory framework dimension	Not directly comparable	D+	B	C
(ii) Most M&As lack good procurement planning and end up using shopping or single sourcing due to time constraints			D	
(iii) Procurement information on contract awards and data on procurement complaints are not systematically made available to the public			D	
(iv) An independent administrative procurement complaints system exists but its membership needs to be reconstituted to comply with the revised PPC Act			B	

161. **Liberia's public procurement framework is underpinned by the Public Procurement and Concessions Act (PPC Act) 2005 and the Liberia Procurement Regulations issued in 2010.** The PPC Act, as amended and restated in September 2010, is accessible on the PPCC website. The Act, which to a large extent complies with the international best standards, applies to the procurement of goods, works and services, financed in whole or in part from public funds. It meets most of the compliance criteria of the new PEFA assessment methodology (see Table 11). Key elements of the Act include:

i. Advertised open competitive bidding is set as the default method of procurement and requires that procuring entities using a method other than the open competitive method provide grounds for choosing a different method (section 46);
ii. Publication of bidding opportunities is required (sections 49(3)(a) and 57(1)), as well as publication of intention to award and contract awards respectively (sections 31(1) and 37), although there is no provision requiring the PPCC to publish approved procurement plans for procuring entities;
iii. A Complaints, Appeals and Review Panel (CARP) is to be established for deciding on complaints and appeals made to the PPCC (section 10). Furthermore, no contract to be signed for 14 days following publication of notice of intent of award (section 31) to allow sufficient time for any complaints against the intended contract award.

162. **Despite the above provision in the PPC Act, the reality is that most M&As lack good procurement planning and as a result end up using shopping or single sourcing due to time constraints.** The PPCC has to provide No Objection to entities wanting to use procurement methods other than open competition. Although, no data is available to determine the level of non-compliance related to changes in procurement methods, discussion with the PPCC reveal poor M&A procurement planning which results in the use of shopping or single sourcing due to time constraints. This may be forcing the PPCC to issue higher levels of No Objections than they would otherwise give in a better functioning environment.

Table 11. Summary of the Characteristics of the PPC Act in Relation to PEFA Criteria

	Item	Included	Source
1	Is organized hierarchically and precedence is clearly established;	Yes	Overall PPC Act
2	Freely and easily accessible to the public through appropriate means;	Yes	Available at PPCC website.
3	Applies to all procurement undertaken using government funds	Yes	Overall PPC Act
4	Makes open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	Yes	Section 46
5	Provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	No	Only procurement opportunities and contract awards have to be published.
6	Provides for an independent administrative procurement review process for procurement complaints by participants prior to contract signature.	Yes	Section 10

163. **Publication of procurement information is not always systematic, even when this is required under the PPC Act.** The PPCC has started to publish the procurement plans of the five largest spending ministries—finance, public works, health and social welfare, education and internal affairs—although this has not been systematic. Furthermore, while most M&As advertise contract opportunities that are for open competitive bidding, contract awards are rarely advertised by M&As, although the PPCC publishes the summary list of contracts that were prior-reviewed by them within a particular fiscal year.

164. **The PPC Act does not require the publication of complaints.** Government units do not publicize data on procurement complaints. However, the PPCC does publish data on resolved complaints on its website, through ad hoc reporting, media sources and bulletins.

165. **An adequate independent administrative procurement complaints process exists, although its current membership needs to be adjusted to satisfy the new requirements under the revised PPC Act of 2010.** As can be seen from Table 12, the current CARP, which has been established for some time, meets most of the PEFA criteria for such panels. The one reservation is that the CARP has not yet been re-constituted to comply with the revised requirements under the new Act, a change that should have been completed within 75 days from the effective date of the revised Act.

166. **The successful implementation of the complaints process will depend on the manner in which the CARP undertakes its duties and responsibilities**. It will need to make a clear break with past practices of direct involvement in procurement activities. It will also need to respect the deadline of 80 days to resolve complaints, as prescribed in the Act—it is not possible to make this judgment given the limited number of complaints that the CARP has handled so far. On the procuring entities side, the provision in the Act that

requires them to respond to complaints from bidders need to be operationalized through the development of appropriate procedures and/or regulations.

Table 12. PEFA Assessment of Procurement Complaints, Appeals and Review Panel

Complaints are reviewed by a body which:	Complies?
Is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government;	Yes
Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;	Yes
Does not charge fees that prohibit access by concerned parties	Yes
Follows processes for submission and resolution of complaints that are clearly defined and publicly available;	Yes
Exercises the authority to suspend the procurement process	No data available
Issues decisions within the timeframe specified in the rules/regulations	No data available
Issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).	Yes

167. **The 2012 PEFA assessment points to significant improvements over 2007 (despite the changes to the scoring methodology)**. This is due to the improved legal framework and the operationalization of the CARP. Nevertheless further work on regulations and other subsidiary instruments will be required if all aspects of the revised Act are to be effectively implemented.

168. **The PFM reform strategy sees capacity building as the main challenge in the procurement area**. Capacity building is essential if the procurement reforms introduced over the last few years are to have their full impact on performance over the medium term. The focus should be on strengthening the oversight role of PPCC and general capacity building initiatives for procurement personnel within M&As.

PI–20. Effectiveness of internal controls for non-salary expenditure

169. This indicator has three dimensions and assesses: (i) the effectiveness of expenditure commitment controls; (ii) the comprehensiveness, relevance, and understanding of other internal control rules and procedures; and (iii) the degree of compliance with rules for processing and recording transactions.

<table>
<tr><th>PI–20 : 2012 Assessment (scoring method M1)
Dimension Ratings:</th><th colspan="2">Score
2007</th><th colspan="2">Score
2012</th></tr>
<tr><td>(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to cash availability and approved budget with minor exceptions, notably advances to M&As.</td><td>B</td><td rowspan="3">C+</td><td>B</td><td rowspan="3">C+</td></tr>
<tr><td>(ii) Internal controls over non-salary expenditure consist of a basic set of rules for processing and recording transactions. However, application of the rules is seen as cumbersome and often leads to significant processing delays.</td><td>C</td><td>C</td></tr>
<tr><td>(iii) Rules are complied with in a significant majority of transactions, but use of simplified procedures in unjustified situations and weak controls are an important concern.</td><td>B</td><td>C</td></tr>
</table>

170. **Expenditure commitment controls are in place and effectively limit commitments to approved budget allocations and actual cash availability for most types of expenditure, with minor exceptions.** Section 25(2) of the PFM Act states that "all commitment approvals shall be subject to availability of adequate balance of uncommitted allotments on the budget line(s) against which the commitment are being made". Part P4 (2) of the Financial Regulations further states that "expenditure commitments shall be controlled against spending and procurement plans approved by the Minister, based on allocations and allotments from approved budgets; and a head of government agency shall make an expenditure commitment only against the procurement plan approved for the government agency, office or unit in accordance with the Public Procurement and Concessions Act (2005)".

171. **Budget allotments (commitment thresholds) for non-wage spending are established by the DoB for each M&A once the budget is adopted by the legislature.** Each ministry and agency is responsible for submitting to the DoB a monthly cash plan, which is used as the basis for monthly cash allotments issued to M&As by the DoB. The execution process remains highly centralized, requiring MoF approval at both the commitment and the payment voucher stages. Following receipt of cash allotment from the DoB, the M&A prepares Local Purchase Orders (LPO) which are reviewed and approved by the Accounting Services Unit (ASU) of the MoF. The ASU encumbers the amount of the LPO which it then approves, allowing the M&A to initiate procurement of goods and services. On receipt of goods and services, the M&A forwards the payment voucher along with the approved LPO, invoice(s), procurement documentation, and delivery note to the ASU which checks for conformity with the order and processes the voucher for payment. The treasury reviews all vouchers and issues checks for payment based on the availability of cash. From July 2012, these processes will be recorded and approved on IFMIS.

172. **While the majority of transactions follow the above commitment control procedures, there are some exceptions.** One important exception is the monthly advances made to M&As for expenditures generally settled by cash. These advances are expensed at the time the advance is made against available budget lines (fuel, office materials, etc…) for which allotments have been established. According to the PFM regulations, an account reconciling this advance should be submitted by the M&A before the next month's advance is provided, but in practice this does not happen systematically, due to weak M&A controls and lack of enforcement by MoF. Sometimes this approach is also used for expedient processing of disaster or project-related spending, especially where there is some urgency involved. Donor-funded projects follow commitment control rules established by donor agencies and generally implemented through separate Project Implementation Units (PIUs).

173. **Autonomous agencies and special funds are also generally not following the GoL commitment control procedures**. Section 39 of the PFM Act explicitly requires them to follow the same PFM rules as M&As.

174. **Internal controls for non-salary expenditures consist of clear rules for processing and recording transactions, although they are generally acknowledged to be cumbersome and slow.** The highly centralized rules are prescribed in the PFM Law and its enabling regulations, as well as in the Financial Rules issued in 2006 before the PFM Act was adopted. A review of a sample of vouchers at the Accounting Services Unit (ASU), which processes all government financial transactions, revealed more than 17 steps from initiation of an LPO to payment of the invoice, some of which are duplications—for example, payment vouchers reviewed by the ASU are then pre-audited by both a GAC auditor located in the MoF and a staff of the Physical Audit Unit in the CAG.

175. **While M&As complain about significant MoF processing delays, in practice these controls regularly identify LPOs and payments vouchers which do not comply with the provisions of the legal framework, leading to their rejection by ASU.** An analysis of data of routine financial transactions for the months of July to September 2011 (Table 13) reveal that 34 percent (USD22.8 million) of transactions were rejected by the ASU in this period for non-compliance with financial rules, the procurement act, and unjustified use of simplified procedures, among others. From this limited analysis it is possible to conclude that (a) there is weak compliance with the legal framework by M&As, and (b) the centralized controls in force in the MoF are effective and justified.

176. **Concern over the weak controls in M&As has also been raised by the Auditor General (GAC).** The GAC's M&A audits of the past three years highlight significant internal control weaknesses leading to irregularities including wrongful payment, misappropriation of funds, unaccounted for payments, and improper authorization of payment vouchers, among others. In 2010, the GAC prepared a special report on M&A internal control risks, identifying 76 common internal control weaknesses that required particular attention.

Table 13. Rejection Rate of FY2011/12 First Quarter Vouchers

Month	Total vouchers processed		Rejection	
	Number	Amount (USD)	Number	Amount (USD)
July	423	8,680,032.81	68	1,930,133.10
August	769	16,022,848.94	231	7,229,909.64
September	682	41,683,644.56	258	13,649,373.47
Total	**1,874**	**66,386,526.31**	**557**	**22,809,416.21**
Percent rejected—numbers and USD value			**30%**	**34%**

Source: MoF/CAG/Accounting Services Unit

177. **In summary, while commitment controls have been effective under the cash budgeting approach, weaknesses in other internal controls at the level of M&As lead to significant rejection rates when transactions are sent to MoF for processing.** On the other hand, the MoF's own procedures to validate transactions, while considered burdensome by many M&As, appears to be effective, based on the rejection rates. Nevertheless, while centralized MoF controls may be viewed as critical at this time, the high rejection rate is also

symptomatic of a lack of widespread understanding or respect—at the line ministry level—of the PFM Act, the PPC Act, and associated regulations.

178. **The current PFM reform strategy recognizes internal control weaknesses and envisages a number of actions to address them.** Among these are: (a) the emphasis on further awareness building and training on the PFM legal framework; (b) the establishment of the internal audit function (see indicator PI–21); (c) the rollout of the IFMIS to M&As which is expected to help strengthen their budget execution management and transaction processing; and (d) the strengthening of oversight functions, including closer scrutiny of audit reports by the legislature and follow up of audit recommendations.

PI–21. Effectiveness of internal audit

179. This indicator has three dimensions which assess: (i) the coverage and quality of the internal audit function; (ii) the frequency and distribution of reports; and (iii) the extent of management response to internal audit findings.

PI–21 : 2012 Assessment (scoring methodology M1) Dimension Ratings	**Score 2007**		**Score 2012**	
(i) Internal audit is recently operational for at least the most important central government entities and has initiated some systems review (at least 20 percent of staff time), but may not yet meet recognized professional standards.	D	D+	C	D+
(ii) Reports are either non-existent or very irregular.	D		D	
(iii) A fair degree of action taken by many managers on major issues but often with delay.	C		C	

180. **The internal audit function in Liberia is still in a state of transition**. The newly established Internal Audit Secretariat (IAS) is less than six months old, and the governing Internal Audit Oversight Board has yet to be fully constituted in line with the Internal Audit Strategy adopted in 2010. The IAS is headed by an executive director who is assisted by a deputy and a small core staff. Its professional staff currently consists of director and deputy director of internal audit placed in each of eight (8) critical pilot ministries (Finance; Health; Education; Public Works; Lands, Mines and Energy; Agriculture; Internal Affairs; and Foreign Affairs). The eight director/deputy director teams are being assigned qualifying staff from existing ministry internal audit units. The directors/deputy directors will themselves remain part of the IAS, and will be rotated across the ministries every six months, partly as a means of widening their knowledge of government operations in general, and partly to maintain their independence from the entities being audited.

181. **The IAS intends to apply internal audit methodology that is in line with International Internal Audit Standards and the Institute of Internal Auditors guidelines**. Elements of risk-based planning and execution are already evident in their documents as a way to increase the focus on systemic issues in the future. However, the newly established internal audit units led by IAS staff have yet to produce substantive reports—available reports are limited to those produced by the pre-IAS internal audit units

whose audit focus was primarily transaction or investigation based. Because many of the investigative audits were requested by line ministry management, those audit recommendations that were accepted were generally acted upon.

182. **The new IAS internal audit units are required to produce regular (quarterly) reports that will be shared with all key stakeholders including the MoF and the GAC, in addition to the ministry audited.** This is in sharp contrast to the work of the old units which did not produce regular reports, their reports tending to be in response to specific management requests, and whose reports were generally not widely circulated.

183. **The new IAS team is working to produce annual audit plans and tailor made audit programs that will improve both coverage and quality of work done.** Included in the specific issues for follow up are the seventy six (76) internal control issues identified by the GAC in 2010 as critical to improving PFM performance in the GoL (see PI–20). Ministry-specific Audit Committees are being established to monitor management implementation of audit recommendations.

184. **The assessment shows that the poor performance recorded in 2007 has so far improved only marginally in the 2012 assessment.** This can be largely attributed to the government's slow implementation of the 2009 PFM Law and Regulations and the new Internal Audit Strategy, in particular the appropriate staffing of internal audit units.

185. **With the IAS now in place, ongoing actions under the PFM reform strategy should have a significant impact both over the short and medium term in performance against this indicator.** Ambitious plans are already underway to increase the pilot ministries serviced by the IAS to fifteen (15) by July 1, 2012, with full coverage across the rest of government by 2015. Especially important during this period will be the steps taken to assimilate staff from existing internal audit and related units into the IAS, avoiding any further duplication of functions between the new IAS, the MoF's Physical Audit Unit, and certain pre-audit activities of the GAC's continuous audit initiative in the MoF.

E. Accounting, Recording, and Reporting

PI–22. Timeliness and regularity of accounts reconciliation

186. This indicator has two dimensions, which assess the regularity of: (i) bank reconciliations; and (ii) reconciliation and clearance of suspense accounts and advances.

<table>
<tr><th>PI–22 : 2012 Assessment (scoring method M2)
Dimension ratings:</th><th colspan="2">Score 2007</th><th colspan="2">Score 2012</th></tr>
<tr><td>(i) Bank reconciliation for all centrally managed bank accounts now take place at least monthly at aggregate and detailed levels, usually within four weeks of the end of the period</td><td>D</td><td rowspan="2">D</td><td>B</td><td rowspan="2">C</td></tr>
<tr><td>(ii) Suspense accounts are not common and no staff advances were given. However, monthly cash advances are made to M&As and immediately expensed in the books of the Treasury with no subsequent reconciliations or adjustments.</td><td>D</td><td>D</td></tr>
</table>

187. **Revenue bank accounts are reconciled on daily basis.** These include two main accounts held at the CBL, and several transitory accounts held in commercial banks. The reconciliations, carried out by the Data Capture and Reconciliation Unit (DCRU) in the Revenue Department, are between revenue information in the Tax Administration System (TAS) and the comparative data provided in the bank statements. The reconciliations done by the DCRU are not approved by a senior official supervising that Unit. However, the reconciled TAS revenue figures are currently being used for reporting purposes.

188. **The GoL's two main expenditure bank accounts as well as its LRD payroll bank account are reconciled monthly and signed off by the CAG.** These three accounts are held at the CBL. While reconciliation of the two main expenditure accounts is straightforward, reconciliation of the payroll account requires uploading of the payroll records into Excel from GAPS, then reconciling the Excel records against the bank statement entries. The monthly reconciliation of the LRD payroll account is further complicated the large number of unpresented checks each month, which includes stale checks requiring reversals in the books. However, the significant progress towards use of direct payments to employee bank accounts has simplified payroll reconciliation, and significantly improved timeliness of the LRD account bank reconciliation.

189. **The situation reported above reflects relatively recent improvements dating from the beginning of FY2011/12**. Prior to this, most employees were being paid by checks, and therefore reconciliation of the LRD payroll bank accounts was an onerous task, complicated by the fact that LRD payroll check numbers were not being recorded on the CBL bank statements. As a result, the LRD payroll bank account was rarely reconciled on time, and often not done at all. Reconciliation of the other two expenditure accounts were generally less problematic and therefore completed on a more systematic and timely basis.

190. **Although bank reconciliations are currently performed in a timely manner, these reconciliations are not yet fully operational on the new IFMIS system**. Revenue information is not directly uploaded into IFMIS due to coding differences affecting particularly non-tax revenues (currently being addressed), hence IFMIS is not currently part of the revenue account reconciliation process. On the expenditure side, while the operations accounts are now reconciled using the IFMIS bank reconciliation facility, there are some teething problems (such as occasional difficulties in uploading the bank statements) that are currently experienced with this, as the facility has only recently gone live. Also, there have been long delays in posting bank charges and commissions into IFMIS (implying that the reconciled information in IFMIS is not always up to date). Discussions are underway to address these issues. The payroll is not yet operational on IFMIS which means its bank reconciliation facility cannot yet handle the payroll account.

191. **As mentioned earlier, M&As operate some 210 departmental bank accounts at the CBL, as well as an unknown number in commercial banks (some in USD, others in LRD)**. The departmental bank accounts for M&As are not under the control of the CAG nor are the flows in those accounts captured in the financial records of the central government. Nonetheless, the CAG has access on demand to the balances in those departmental bank

accounts held at the CBL. Since the number of department bank accounts in commercial banks is not known to the CAG, neither are their balances monitored by his office. Many of these are externally-funded project accounts, which remain outside the budget, the treasury's cash control, and the government's accounting and reporting processes. Reconciliation of externally funded project accounts is generally done by project implementation units or by the Project Financial Management Unit of the MoF.

192. **There are no suspense accounts maintained in the general ledger for central government, and there is no system of staff advances.**

193. **However, the regular monthly transfers made to all M&As for operational purposes should be treated as accountable 'advances' instead of being expensed as final payments by the treasury**. These treasury 'advances' account for approximately 15 percent of the national budget. Although the MoF requires justification and submission[23] of acquittal supporting documents for previous advances given before processing subsequent advances, the justifications are not used for accounting purposes. The justifications are used only to review the use of funds against the purposes of the advances given, but there is no proper accounting and reconciliation of the advances given to the M&As in the accounting system. For this reason, the balances in the departmental bank accounts in either the CBL or in commercial banks are neither captured nor reconciled in the books of the Treasury.

194. **The assessment shows that there have been some improvements in performance against this indicator since 2007.** This is attributable largely to the dedicated and much more effective bank reconciliation operations in the CAG and the DoR. The situation regarding accounting the monthly cash advances to M&As remains unchanged, however.

195. **The current PFM reform strategy and action plan could address both the extension of bank account reconciliation to all government bank accounts and the issue of accounting for monthly cash transfers to M&As**. The roll out of IFMIS to M&As will (a) facilitate bank reconciliation of those accounts managed by them, and (b) eliminate the need for monthly cash advances. The introduction of the treasury single account approach will also progressively strengthen the CAG's oversight of all government bank accounts.

PI–23. Availability of information on resources received by service delivery units

196. This indicator assesses the extent to which information is collected and processed, which demonstrates the level of resources (cash and kind) actually received by front line service delivery units. It focuses on the information available on resources received by primary schools and primary health clinics.

[23] Based on Rule 45 of the 2007 Financial Rules

PI.23: 2012 Assessment (scoring method M1)	2007 Score	2012 Score
No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.	D	D

197. **Information on resources available to service delivery units is not systematically tracked anywhere in the GoL.** There are just under 2,300 primary schools and over 450 health facilities in Liberia. The MoF and relevant ministries do not systematically track spending at individual service delivery units, nor do they undertake periodic surveys to determine whether allocated resources reach intended frontline service delivery units. The service delivery units do not generally report their spending, and where they do it is generally not consolidated.

198. **The accounting system is not equipped to provide information in this regard**. Recently established “Monitoring and Evaluation” teams follow up on performance of agreed activities on behalf of the parent ministries, but within the accounting system there is no evidence that the beneficiary units keep track of what they receive, nor is there evidence of compilation of such information centrally. The situation in Liberia is complicated by the fact that schools and health centers continue to receive significant funds from donor-funded non government organizations and other charitable organizations. This information is neither tracked nor systematically recorded in any coordinated manner. Where operating costs for these service delivery units are funded through the budget—e.g., school materials, health center drugs, medical supplies and equipment—they are usually purchased centrally by the parent ministry and distributed in kind to the units. As was the case in 2007, small funds for operations and maintenance are also transferred to certain schools and clinics.

199. **There have been no independent tracking exercises carried out in the past three years.** Public Expenditure Tracking Surveys (PETS) have been used successfully in other countries to assess the availability of resources at service delivery units. PETS can be a useful “barometer” which can quickly identify any bottlenecks in the provision of funds to frontline service delivery units that may affect their individual functioning, which in turn could impact on attaining national performance targets set out in PRS documents, such as increased education or health coverage.

200. **There has been no change in this indicator since the 2007 assessment, reflecting that it has so far not been a priority area for the GoL**. The current priorities under the PFM reform strategy are unlikely to have a significant impact on the GoL’s performance against this indicator. The IFMIS is not currently designed to capture detailed performance by service delivery units, although such changes could be accommodated in the future if required. Finally, there are no provisions for PETS at this time in the budget, but there have been preliminary discussions with ODI/BSI to initiate a PETS in the coming year.

PI–24. Quality and timeliness of in-year budget reports

201. This indicator has three dimensions which assess: (i) the scope of reports in terms of coverage and compatibility with budget estimates; (ii) the timeliness of the issue of reports; and (iii) the quality of information included in in-year budget reports.

<table>
<tr><th>PI–24 : 2012 Assessment (scoring method M1)
Dimension ratings:</th><th colspan="2">2007 Score</th><th colspan="2">2012 Score</th></tr>
<tr><td>(i) In-year budget execution reports are generally produced at aggregate level both by administrative and economic classifications, covering both commitments and cash expenditure compared to the original as well as adjusted annual budgets.</td><td>C</td><td rowspan="3">C</td><td>B</td><td rowspan="3">D+</td></tr>
<tr><td>(ii) Reports are required by law to be prepared quarterly, but they are not always issued and rarely published within 8 weeks of end of quarter.</td><td>C</td><td>D</td></tr>
<tr><td>(iii) Concerns about data accuracy arising from unreconciled monthly advances to M&As and exclusion of the bulk of externally-funded expenditures. The reports are nevertheless considered to be useful.</td><td>C</td><td>C</td></tr>
</table>

202. **In-year and end-year fiscal outturn reports at relatively aggregated level showing both commitment and payment data are posted on the MoF's website.** These reports provide comparison between budget and actual spending at aggregate level only, summarized separately by M&A and by economic classifications. They do not provide a breakdown of ministry and agency spending by economic classification, and thus do not facilitate the monitoring of the detailed budget estimates. The reports show original budget, adjusted budget, allotments, commitments, and actual spending, and contain generally informative material presented in both graphical and narrative formats.

203. **Section 36 (4) of the PFM Act of 2009 requires that the Minister of Finance produces a consolidated quarterly report within 45 days of the end of each quarter, comparing budget execution to the estimates contained in the annual budget**. Table 14 shows that publication of in-year and end-year reports is both sporadic and untimely.

Table 14. Timeliness of In-Year Reports over the Last Three Fiscal Years

Fiscal outturn reports	PFM Act due date*	Date posted on MoF website	Actual delay after quarter end
FY2008/09			
Mid-year review		February 2, 2009	5 weeks
Annual fiscal outturn		November 5, 2009	17 weeks
FY2009/10			
First quarter	November 15, 2009	November 13, 2009	6 weeks
Annual fiscal outturn	November 1, 2010	December 19, 2010	24 weeks
FY2010/11			
Mid-year review	February 14, 2011	March 23, 2011	12 weeks
Third quarter fiscal outturn	May 15, 2011	June 23, 2011	12 weeks
Annual fiscal outturn	November 14, 2011	January 30, 2012	30 weeks

∗ The PFM Act 2009 provides up to 45 days for consolidated reports after end of quarter, sets mid-February as the deadline to submit the mid-year review to the legislature, and provides 4 months for the MoF to submit a final account to the Auditor General.

204. **The coverage of the fiscal outturn reports is partial, being limited to transactions processed centrally by the MoF through the main treasury accounts**. While the reports include monthly cash transfers ('advances') made to M&As (generally expensed at the time the advances are issued), they do not include actual spending by M&As against those advances (see PI–22). Contrary to good accounting practices these advances are generally neither properly reconciled nor captured in the accounts before new advances are issued. Furthermore, since any balances on these advances remain with the ministry or agency, the reports also fail to reflect the consolidated cash position of government, as they only cover those transactions processed through the main treasury bank accounts held at the CBL and the transitory bank accounts held in commercial banks for revenue collection.

205. **Project-related externally-funded expenditures are also mostly excluded from the fiscal outturn reports**. In effect, externally-funded project expenditures remain excluded from the budgetary process, even though an important part of this spending is carried out using bank accounts under the control of M&As and through PIUs located at their level.

206. **Quarterly fiscal reports were still not being generated from the IFMIS system at the time of the assessment, but instead compiled from statements received from different departments**. Statements of revenue, expenditure and budget allocations received respectively from the Departments of Revenue, Expenditure, and Budget of the MoF, are consolidated into quarterly fiscal reports by MFAU and published on the MoF website.

207. **The reliability of the fiscal reports for the period FY2008/09 to FY2010/11 was undermined by reconciliation problems at the time.** The revenue data for FY2010/11 are considered reliable as reconciliation of the revenue bank accounts was already being effectively carried out by the DCRU of the DoR. Expenditure data in the same period, however, cannot be viewed with the same confidence, as at the time there were significant delays in carrying out bank reconciliations (this has considerably improved since then—see PI–22). For the two earlier periods FY2008/09 and FY2009/10, the GAC reports significant data accuracy concerns over the financial records of these two years.[24]

208. **The assessment shows that the performance recorded in 2007 deteriorated in 2012, mainly because of timeliness issues.** This is attributable to the substantial delays in the publication of fiscal outturn reports, where these are actually published. The concerns over the coverage, level of detail and quality of data reflected in fiscal reports continue unabated.

209. **Current reforms could contribute to improved performance against this indicator over the short term.** Improved quality and coverage of in-year budget information will depend on effective use of IFMIS for financial recording and reporting, and effective bank reconciliation under IFMIS.

[24] Report of the Auditor-General on the Fiscal Outturns for the Fiscal Years 2008/09 and 2009/10.

PI–25. Quality and timeliness of annual financial statements

210. This indicator has three dimensions which assess: (i) the completeness of the financial statements; (ii) the timeliness of submission of the financial statements; and (iii) the accounting standards used.

PI–25 : 2012 Assessment (Scoring method M1) Dimension ratings	**2007 Score**		**2012 Score**	
(i) A set of financial statements was prepared for FY2009/10 with information on revenue, expenditure and bank balances, but excluding extra-budgetary and most donor information.	D	D	C	D+
(ii) The financial statements were submitted for external audit 17 months after the end of the FY2009/10, and the statements for FY2010/11 have not yet been submitted.	NS		D	
(iii) IPSAS Cash Basis and national PFM requirements were not fully complied with.	NS		D	

211. **The GoL has adopted a cash basis IPSAS standard in 2009 for annual financial statements, but this has not yet been fully complied with**. In compliance with the PFM Act of 2009, the Minister of Finance in consultation with the Auditor General introduced the cash basis IPSAS standard on behalf of the government to enhance transparency, scrutiny and accountability. The cash basis IPSAS standard prescribed presentation of general purpose financial statements containing a statement of cash receipts and payments which (i) recognizes all cash receipts, cash payments and cash balances controlled by government and (ii) separately identifies payments made by third parties on behalf of government. Furthermore, it promotes comparison of budget and actual amounts.

212. **The CAG prepared a set of central government consolidated financial statements for FY2009/10, as required under the new PFM Act and the recently adopted cash basis IPSAS standard**.[25] However, they were submitted with such significant delay—17 months after the end of the fiscal year, well outside the 4 months required in the Act—that the Auditor General, who had already completed the annual audit based on the annual fiscal outturn report, chose not to take them into account, while acknowledging their existence. Annual financial statements for FY2010/11 had still not been submitted to the Auditor General at the time of the assessment, i.e. 10 months after year-end.

213. **The FY2009/10 financial statements deserve recognition in the PEFA assessment, although their coverage, like the annual fiscal outturn reports, falls short of the cash basis IPSAS accounting standard**. The financial statements correctly included: (i) a cash flow statement, with receipts and payments of the government for that year analyzed by economic classification; (ii) notes on accounting policies; and (iii) comparison with the approved budget. The coverage, however, did not include financial information on externally-funded projects. Cash basis IPSAS standard specifically requires information on

[25] Section I.12 of the 2009 PFM Regulations and Section 37 of the PFM Act of 2009

externally-funded project expenditures to be included in the financial statements, together with the corresponding grant and/or loan receipts. Furthermore, the financial statements submitted captured only the transactions of the five main treasury bank accounts held at the CBL, excluding the numerous departmental bank accounts held by M&As. The FY2009/10 financial statements also failed to fully comply with the PFM Act and its regulations, for example: (a) information on public debt was only provided in aggregate form; and (b) no information was provided on equity investments, securities, advances, public loans, and similar holdings of government.

214. **The adoption of the IPSAS standard and the preparation of a first set of financial statements for FY2009/10 are encouraging signs of potential progress against this indicator.** For the record, the 2007 assessment was based on the production of fiscal outturn reports, which fell substantially short of the requirements for financial statements as specified in the PEFA methodology, and therefore dimensions (ii) was not scored. Furthermore, because of the absence of any accounting standards in 2007, dimension (iii) was also not scored. In retrospect, according to the PEFA methodology, both these dimensions should have been scored “D”.

215. **Current reforms should have a significant impact both over the short and medium term in the GoL’s performance against this indicator.** Specifically, the introduction and roll out of the IFMIS system and the effective use of its bank reconciliation facility should improve the timeliness, comprehensiveness, and reliability of financial statements. It will also be important to ensure regular, sustained, and timely preparation of financial statements. Further efforts will also need to be made on coverage issues, however, particularly concerning donor-funded project-related expenditure, if the cash basis IPSAS standard that the GoL has adopted is to be fully complied with.

F. External Scrutiny and Audit

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

216. This indicator has three dimensions which assess: (i) the scope and nature of the audit performed annually (including adherence to auditing standards); (ii) the timeliness of annual submission of audit reports to the legislature; and (iii) the evidence of follow-up on audit recommendations.

<table>
<tr><th>PI–26 : 2012 Assessment (scoring method M1)
Dimension ratings:</th><th colspan="2">2007 Score</th><th colspan="2">2012 Score</th></tr>
<tr><td>(i) Central government entities representing over 75% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports also identify significant issues.</td><td>D</td><td rowspan="3">D</td><td>C</td><td rowspan="3">D+</td></tr>
<tr><td>(ii) The GAC’s Consolidated Fund reports are submitted to the legislature within twelve months from its receipt of the consolidated financial statements.</td><td>D</td><td>C</td></tr>
<tr><td>(iii) There is little evidence of response or follow up to audit recommendations.</td><td>D</td><td>D</td></tr>
</table>

217. **Since 2005, the GAC operates as an independent body reporting to the legislature.** In 2005, chapter 53 of the executive law of 1972—which established the GAC headed by an Auditor General with tenure of 15 years reporting to the President—was amended to give the Auditor General's office separate and independent status from the Executive, reporting directly to the legislature, which is in line with best practice. However, the same amendment reduced tenure to 4 years and did not clearly stipulate the financing of the office—contrary to best practice which would tend towards a longer tenure (6–7 years) and a separate vote or appropriation determined by the legislature.

218. **The financial statements for the year ended June 30, 2011 had not yet been submitted to the Auditor General for review at the time of the assessment.** Likewise, for the last year audited, the CAG initially did not submit financial statements of the Consolidated Fund of Liberia (for the year ended June 30, 2010) as required by the PFM regulations but instead compiled and submitted for audit, in February 2011, the fiscal outturn report for FY2009/10. A set of IPSAS cash-based financial statements were subsequently presented to the Auditor General for his review in November 2011, when he had already completed the audit fieldwork based on the fiscal outturn report. No action was taken by the Auditor General on the IPSAS cash-based financial statements because of the late submission of the financial statements, and the 'audit' was finalized based on the fiscal outturn report. The GAC indicates that they will include the audit of the FY2009/10 IPSAS cash-based financial statements with the audit of the FY2010/11 financial year.

219. **In auditing the FY2009/10 fiscal outturn report produced by the CAG, the GAC undertook transactional audits of all central government M&As.** The fiscal outturn report was deficient in information on the government's assets, liabilities and fund balances, and for that reason, the report does not portray GOL's financial performance, position and cash flows**.** The audit was therefore limited to verifying revenues and expenditures for the year. The GAC confirmed the CAG's submitted figures with the beneficiary M&As where possible. Its findings, however, are not encouraging: seven M&As were unable to provide confirmation statements; and, where M&As did provide statements the report noted significant and unexplained deviations from the CAG's report. The CAG also reported unsupported expenditure in excess of USD 10,105,000 for FY2010.

220. **The overall audit coverage of central government entities amounted to more than 75 percent of total expenditures in FY2011.** In addition to the M&As, the GAC also audited three County Development Funds and several SOEs (included the National Oil Company of Liberia and Liberia Petroleum Refining). These audits comprised primarily transaction level testing, although the audit reports did identify significant issues.

221. **The GAC adopted auditing standards consistent with International Organization for Supreme Audit Institutions directives.** The audit approach is risk-based and includes a review of the systems and management controls, to the extent that the Auditor General deems this necessary to effectively carry out the audit of the entity concerned.

222. **The FY2009/10 fiscal outturn report was presented to the GAC for audit on February 28, 2011 (8 months after fiscal year end), and the Auditor General submitted his report thereafter to the President and the legislature on February 13, 2012 (just under 12 months later).** The report was immediately posted on the GAC website, as well as shared with other stakeholders such as civil society and selected institutions. The FY2009/10 audit report was produced at the same time as the FY2008/09 audit report, making it the third Consolidated Fund report produced by the GAC since its re-establishment in 2005.

223. **The GAC audit report includes the recommendations of the Auditor General and occasionally, but not always, a response by the MoF**. Hence there are no agreed follow-up actions listed for each recommendation made by the Auditor General. Follow-up of audit recommendations is now one of the responsibilities assigned to the new IAS internal auditors in the MoF and other pilot M&As.

224. **Audit coverage has significantly improved since the 2007 assessment but timeliness of the annual audit and follow-up of audit recommendations remain significant challenges.** The identified delays emanated from both the time taken for the CAG to finalize and submit the annual fiscal outturn reports and the consolidated accounts, as well the failure on the part of the management of entities being audited to provide requested information on a timely basis. The combination of these factors made it exceedingly difficult for the GAC itself to audit the entire consolidated account in a timely manner.

225. **Current reforms will have some impact over the short term in performance against this indicator.** The implementation of the IFMIS should result in the production of more reliable financial statements for FY2012/13. In addition, as the GAC's own capacity continues to improve, both in terms of numbers and the experience of staff at the front lines, improvements in the quality, coverage and depth of audits can be expected. Finally, as the newly established IAS becomes fully operational the shortcomings in follow up of audit recommendations by the MoF and other M&As will hopefully be overcome.

PI–27. Legislative scrutiny of the annual budget law

226. This indicator has four dimensions and assesses: (i) the scope of the legislature's scrutiny; (ii) the extent to which the legislature's procedures are well-established and respected; (iii) the adequacy of the time allowed for the legislature to provide a response to the Executive's budget proposals; and (iv) the rules for in-year amendments to the budget without ex-ante approval by the legislature. The assessment covers the last completed FY.

PI–27 : 2011 Assessment (scoring method M1) Dimension scores:	Score 2007		Score 2012	
(i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates but does not include a review of medium-term policies and the medium-term fiscal framework.	C	C+	B	C+
(ii) Procedures for the legislature's budget review are comprehensive and well-established but only partially respected.	C		C	
(iii) The legislature has at least two working months to review the budget proposals.	B		A	
(iv) Clear rules exist for in-year budget amendments by the Executive and are usually respected, but they allow extensive administrative reallocations.	B		B	

227. **The legislature's review of the annual budget focuses on the detailed annual proposals but also gives consideration to fiscal policies and aggregates.** The process of Legislative scrutiny includes an overview of fiscal aggregates and the planned fiscal policy, in addition to the details of the expenditure estimates contained in the functional, administrative and economic itemization of expenditure. For FY2010/11, the presentation of the annual budget was preceded (in March 2010) by the distribution of the BFP, which had included medium-term forecasts of the key budgetary aggregates. However, there is no evidence of detailed discussion of the medium-term forecasts or of medium-term policy priorities, either at that time or during the review of the Executive's budget proposal.

228. **Nevertheless, the quality of technical analysis of the annual budget proposals has improved since 2007, helped in part by the recently-established LBO.** The LBO was established in late 2010 and provided support to the scrutiny of the 2011/12 budget proposals, through its Director and three technical experts, covering respectively macroeconomic, expenditure and revenue issues. In addition to the LBO's technical analysis, the legislature also solicited comments on the proposed budget from the Auditor General as well as from independent experts, including university lecturers.

229. **The legislature's review of the budget is undertaken initially by the joint Ways and Means Committee before presentation to a joint plenary session of the House of Representatives and the Senate.** There are specialized sub-committees and standard legislative procedures in place for the Senate and the House of Representatives to review the budget proposals. Whilst well established, these are not always well-respected. Most significantly, the fact that for three successive years the adoption of the budget has been delayed well beyond the start of the new fiscal year (July 1) demonstrates that the time schedule for these processes is not respected. (See PI–11).

230. **The legislature is provided two months to review the budget proposals, in accordance with the provisions of the PFM Act 2009.** The budget estimates for the last two completed fiscal years have been submitted to the legislature within the statutory timeframe prescribed under the Act, i.e., by April 30 of each year. However, this is not

always the case, for example there has been a delay this year for the 2012/13 budget, although this is a knock-on effect of the change of administration after the elections last year. The deadlines in the PFM Act therefore need to be respected by both parties for the budget to be adopted on time.

231. **Clear rules for in-year budget amendments are laid out in the PFM legislation, requiring a supplementary appropriation for any expenditure not previously appropriated.** Powers to approve budgetary reallocations are vested in the office of the Deputy Minister Budget.[26] There are restrictions on virements to or from personnel emoluments subject to approval by the CSA. No reallocation may be made to increase amounts appropriated for foreign travel or purchase of vehicles. No reallocation may be made that increases the budget of an agency, with the exception of donor-funded expenditure where increases of up to 20 percent are permitted beyond which Minister of Finance and donor agency approvals are required. Reallocations between programs within the same agency may not exceed 10 percent. Virements within an agency program's goods and services or capital expenditures may be made without limitation. Inter-agency reallocations are not permitted.

232. **Virement rules are usually respected but in recent years there have been extensive administrative re-allocations through in-year budgetary reallocations, in advance of the supplementary appropriations**. Evidence from PI–2 show that budgetary reallocations have contributed to variance in expenditure composition of more than 15 percent in each of the past 3 fiscal years.

PI–28. Legislative scrutiny of External Audit reports

233. This indicator has three dimensions which assess: (i) the timeliness of examination of external audit reports by the legislature; (ii) the extent of hearings on key findings undertaken by the legislature; and (iii) the extent of issuance of recommended actions by the legislature and implementation thereof by the executive. At the time of the 2007 PEFA assessment, external audit reports had not been available for scrutiny since before the civil war, hence the indicator could not be scored.

<table>
<tr><th>PI–28 : 2012 Assessment (scoring method M1)
Dimension scores:</th><th>2007
Score</th><th colspan="2">2012
Score</th></tr>
<tr><td>(i) Examination of audit reports by the legislature does not take place.</td><td rowspan="3">NO SCORE</td><td>D</td><td rowspan="3">D</td></tr>
<tr><td>(ii) No in-depth hearings are conducted by the legislature.</td><td>D</td></tr>
<tr><td>(iii) No recommendations have been issued by the legislature</td><td>D</td></tr>
</table>

[26] Financial Management Regulations 2009:Part E (Budget Execution), Section E8 on reallocations

234. **The Public Accounts and Audit Committee (PAAC) of the legislature has met only twice and has not yet reviewed any of the audit reports issued by the GAC over the past three years.** The GAC has issued 72 audit reports since its inception, and none of them have been formally reviewed by the PACCs.[27] Reasons provided for the lack of reviews include: the absence of a 'secretariat' for the relevant committee in the legislature; limited capacity and time as regards the specific committee members; and, the length and complexity of the audit reports presented by the GAC.

235. **Good practice requires that the legislature reviews the reports of the Auditor General, hold appropriate hearings on key findings with the responsible officers from the audited institutions, agree on actionable recommendations, and also require follow up on the implementation of those recommendations.** While technically the practice of legislative scrutiny of external audit reports has been re-established since 2007, indicating an important step forward in democratic accountability, in practice there has been little change as the PAACs have not met to discuss the audit reports. This lack of action ultimately discourages the auditors, who remain powerless to enforce their recommendations, and, ultimately, to impose penalties on those who fail to implement recommended actions.

236. **Fulfillment of existing roles as required by the law should have a significant impact on the government's performance against this indicator, both over the short and the medium term.** The PFM reform strategy recognizes the importance of external oversight, and provides for support to the legislature aimed at strengthening its role of scrutinizing the budget and reviewing audit reports. More effective use could also be made of limited capacities and available legislative time if the two PAACs were to be merged into a single joint committee, as is the case with the Ways and Means Committee. The GAC could assist the process further by simplifying its reports and recommendations, and assisting the PAACs, as seems to work satisfactorily in neighboring countries.

G. Donor Practices

D–1. Predictability of direct budget support

237. This indicator has two dimensions which assess: (i) the deviation of annual budget support disbursements from the forecasts provided by the donor agencies at least six weeks prior to the submission to the legislature of the government's budget proposal; and (ii) the in-year timeliness of donor disbursements by quarter. The indicator was not assessed in 2007 because the GoL was not at that time receiving regular budget support.

[27] There are two Public Accounts and Audit Committees, one in the House of Representatives and one in the Senate.

<table>
<tr><th>D–1 : 2012 Assessment (scoring method M1)
Dimension scores</th><th>2007
Score</th><th colspan="2">2012
Score</th></tr>
<tr><td>(i) In two of the last three fiscal years budget support disbursements fell short of the forecast by more than 15 percent.</td><td rowspan="2">NO SCORE</td><td>D</td><td rowspan="2">D</td></tr>
<tr><td>(ii) There are significant delays in-year timeliness of donor disbursements</td><td>D</td></tr>
</table>

238. **General budget support has been provided to Liberia from FY2009/10 onwards by the World Bank, the African Development Bank, and the European Union**.[28] Estimates included as Annex 1 of the FY2010/11 budget suggest that budget support amounted to approximately 14 percent of official development assistance, while program and project aid represented approximately 86 percent.

239. **Annual deviations between estimated direct budget support and actual provision of funds have been substantial over the last three fiscal years.** As shown in Table 15, in FY2009/10 actual budget support came in at 15 percent above the estimated amount, while in FY2010/11 33 percent below, and in FY2011/12, 36 percent below.[29] As budget support has fallen short by more than 15 percent in two out of three fiscal years, this dimension scores a D. This poor predictability of inflows of budget support has significantly impacted the fiscal operations of the GoL.

Table 15. Direct Budget Support—Estimated versus Actual (*in USD*)

	FY2009/10	FY2010/11	FY2011/12
Budgeted	10,980,656	58,500,000	41,630,000
Actual	12,590,394	38,980,200	26,725,358
Difference	1,609,738	(19,519,800)	(14,902,642)
Percent change	**+15%**	**-33%**	**-36%**

Source: AMU, MoF

240. **Quarterly disbursement schedules for budget support have yet to be agreed with donors, and aid inflows have generally lagged behind annual disbursements set out in financing agreements due to delays in meeting agreed conditionalities**. Discussions with the AMU reveal that the GoL has yet to develop and agree on a quarterly disbursement schedule with donors on budget support disbursements. Furthermore, representatives from the main donors providing budget support in Liberia indicated that actual disbursements have generally lagged scheduled disbursements due to delays in meeting stipulated prior actions as well as late submission of disbursement requests by GoL.

[28] The IMF's just completed three-year Extended Credit Facility for Liberia was for balance of payments purposes and is not considered budget support.

[29] Data on budget support projections and disbursements for FY2011/12 have been included despite the fact that it had not concluded at the time of the assessment. This is because the AMU, as well as the concerned donors, were able to confirm that no further budget support disbursements would be forthcoming within FY2011/12.

241. **No arrangements are currently in place for coordinating the management of budget support but with only three providers at present, such arrangements should not be difficult to establish.** At present, the GoL does not have an explicit strategy on budget support, but the creation of a strategy and a corresponding coordination framework should not be unduly difficult, based for example on coordinated work between the AMU and the MFAU. Similarly, with only three current providers of budget support, it should be possible to raise awareness of the treasury management costs and the broader transaction costs generated by the current un-coordinated arrangements, and to move relatively swiftly to more structured arrangements for the review of disbursement conditions and the scheduling of disbursements.

D–2. Financial information provided by donors for budgeting and reporting on project and program aid.

242. This indicator has two dimensions which assess: (i) the completeness and timeliness of budget estimates by donors for project support; and (ii) the frequency and coverage of reporting by donors on actual flows for project support.

<table>
<tr><th>D–2 : 2012 Assessment (scoring method M1)
Dimension scores</th><th colspan="2">2007
Score</th><th colspan="2">2012
Score</th></tr>
<tr><td>(i) Most donors provide budget estimates of anticipated disbursements of project aid at least 3 months in advance of the government's fiscal year.</td><td>D</td><td rowspan="2">D</td><td>C</td><td rowspan="2">D+</td></tr>
<tr><td>(ii) Few donors provide regular reports to MoF on actual disbursements.</td><td>D</td><td>D</td></tr>
</table>

243. **Most of the larger donors manage their aid flows with full discussion and disclosure on commitments and projected annual disbursement within the framework of financing agreements and respond to solicitation from the AMU.** The larger donors in Liberia include World Bank, United Nations, United States, African Development Bank and European Union. Since 2009, the AMU requests and obtains inputs on projected annual disbursements by project from most donors and other major foreign foundations active in Liberia. While the estimates are generally provided on a timely basis and included as an annex to the annual budget, donors do not break down estimates in a manner consistent with the government's budget classification. Donors advised that this was partly due to lack of clear requirements and guidelines for submission of project data as part of the budget preparation process.

244. **Most donors do not provide quarterly project expenditure reports to the government on a regular basis.** The fiduciary covenants of the projects contained in project Financing Agreements, do not include a requirement to send quarterly reports to the GoL. The agreed formats for financial reporting for such projects cater only to the specific needs of the donor providing the funds and are often inconsistent with the GoL's chart of accounts classification and quarterly in-year fiscal outturn reporting format. Also, with the exception of the MoF's Project Financial Management Unit which generates periodic financial reports

for World Bank, African Development Bank, and European Union financed projects under its purview (using the reporting formats prescribed by the donor institution), donors do not submit quarterly financial reports to the government. The quarterly fiscal outturn reports therefore largely exclude donor financed projects. Given the size of the donor financed project portfolio in Liberia, excluding outturns on donor-funded expenditures means that a significant portion of the government's fiscal operations goes unreported.

245. **The assessment shows that financial information provided by donors for budgeting and reporting has not improved significantly from the 2007 performance.** This is a result of weak donor management within the GoL and unsatisfactory donor cooperation in providing essential data to the government. The poor quality of donor reporting on funding and disbursements poses a major challenge to the government's sectoral planning and macro-fiscal framework. There is a need for the GoL to provide clearer requirements and guidelines so as to ensure that, as part of the budget preparation process, donors provide project budget estimates, which follow the GoL chart of accounts and are submitted at stages consistent with the GoL budget preparation calendar.

246. **The PFM reform strategy recognizes the shortcomings in the area of aid reporting, and envisages a number of actions, some already underway.** The MTEF effort to introduce medium-term budgetary planning and forward estimates to support implementation of the PRS includes donor-funded spending and provides a common framework for the coordination of aid information. In this context the strengthening of the AMU and its role in the budget process is also envisaged.

D–3. Proportion of aid that is managed by use of national procedures

247. This indicator measures the proportion of aid managed by national procedures. It considers budget support, other forms of program aid—such as common basket funds and sector-wide approach arrangements, and project support. It considers what proportions of each of these modalities utilize national procedures for banking and disbursement, accounting and reporting, procurement and external audit.

D–3 : 2012 Assessment (Scoring method M1)	**2007 Score**	**2012 Score**
Less than 50 percent of aid funds to central government are managed through national procedures.	D	D

248. **The bulk of donor-funded expenditures are managed outside of the GoL budgetary processes.** Most donors generally implement their projects through PIUs embedded in M&As or use the MoF's Project Financial Management Unit for disbursement and financial reporting. The treasury, financial reporting, auditing and procurement arrangements utilized for donor projects are in most cases parallel to country systems.

249. **Combining budget support with an estimate of GoL-executed projects, the estimated proportion of aid flows utilizing national procedures remains below**

50 percent. A rough approximation of the proportion of aid flows utilizing national procedures is shown in Table 16. This combines data on the actual disbursements of budget support, which by definition uses the full set of national procedures, with the AMU's estimates of "GoL-executed" projects, as presented in Annex 1 of the annual budget documents. The basis for categorizing certain projects as "GoL-executed" is not clear, since the same budget documents indicate that these "GoL-executed" projects are not subject to appropriation in the enacted budget and are not executed through the Consolidated Fund. Nevertheless, even utilizing this categorization, it is clear that less than 50 percent of projects or programs financed by donors use government systems.

Table 16. Approximate Estimate of GoL-Executed Aid Flows (*USD millions*)

Description	FY2009/10		FY2010/11		FY2011/12	
	Amount	% of Total aid	Amount	% of Total aid	Amount	% of Total aid
a. GoL executed projects (budget)	69.3	16.4 %	23.7	7.1 %	90.9	35.9 %
b. Non-GoL executed projects (budget)	340.3	83.1%	268.7	80.9 %	135.8	53.6 %
c. Budget support (actual: 100% GoL executed)	12.6	3.0 %	39.0	11.7 %	26.7	10.5 %
Estimated GoL executed aid flows (a + c)	**81.9**	**19.4 %**	**62.7**	**18.8%**	**117.6**	**46.4 %**
Estimated total aid flows (a+b+c)	422.2		332.3		253.4	

Source: Annex 1 of 2009/10, 2010/11 and 2011/12 budget documents and AMU data on budget support

IV. Implications of the PEFA Assessment for PFM Reforms

A. Current Arrangements for PFM Reforms

250. **In 2011, the GoL adopted a 4-year PFM reform strategy and action plan covering the period 2011 to 2014**. The strategy defined six (6) themes with the following objectives and outcomes:

- Improving budget credibility
- Expanding budget coverage and strengthening budget execution
- Strengthening revenue administration
- Enhancing transparency and accountability in PFM
- Enhancing controls and respect of the PFM legal framework
- Strengthening treasury management

251. **The action plans under each theme identify the specific activities to be undertaken in the reform period and the departments/units responsible for carrying them out**. The action plans also include cross-cutting activities which are likely to impact on

the success of each theme, in particular those related to PFM capacity building, IFMIS, and effective oversight. The activities selected in each theme reflect the current weaknesses in the PFM environment, the ongoing reform efforts that have been considered priorities by the GoL and endorsed by donors providing support in the PFM area, and the need to implement the PFM Act of 2009 and its regulations.

252. **The PFM reform strategy has been endorsed by donors, a group of which have provided an additional financing package to support its implementation**. Financing under this package, amounting to USD28.55 million, has been provided by Sida, World Bank,[30] African Development Bank, and USAID. PFM reform activities are also being financed under a number of individual ongoing projects, including: World Bank EGIRP and (with Sida) IFMIS; USAID governance and economic management; African Development Bank MoF capacity building; FAD (Sida/European Union, Japan, and others funds) PFM reforms, MTEF, and revenue administration; and ODI/BSI MTEF and budget preparation.

253. **A monitoring and evaluation framework has been adopted for the PFM reform strategy and action plan**. The monitoring framework, which uses a number of PEFA indicators, among others, is intended to generate periodic reports to evaluate progress and to make adjustments over the lifetime of the reforms. A mid-term external evaluation is also envisaged.

254. **Internal management and oversight of the reforms is defined in the accompanying PFM reforms operational manual**. The manual defines roles and responsibilities at various levels:

- **executive oversight level**: a PFM Steering Committee, chaired by the Minister of Finance, which meets four times a year and attended by several ministers, the heads of CSA and the PPCC, and the Auditor General, with two of the sessions also attended by donors;
- **technical oversight level**: a PFM Technical Committee, chaired by a Deputy Minister, which meets monthly and brings together theme/component managers;
- **coordination level**: a Reform Coordination Unit to oversee the coordination of reforms, to consolidate work plans and budgets, to liaise with donors, and to provide general administrative support to the PFM reform activities; and
- **operational level**: theme leads and component managers (generally department heads) responsible for operational oversight of the agreed reform activities within their areas of specialization, and ultimately accountable for results.

[30] The World Bank contribution is a credit of USD5 million.

B. Implications of the 2012 Assessment for the PFM Reform Strategy

(a) **<u>Theme 1</u>—Credible budget: "**to improve the credibility and reliability of the national budget to assure greater consistency between policy commitments as set out in its development strategy and the services delivered to the public"

255. **The relevant PEFA indicator results confirm that there is much to be done in this area, but that the PFM reform strategy is broadly on track**:

- The first 3 budget credibility indicators, PI–1 to PI–3 with their respective scores of D, D+, and D, justify the proposed activities of improving M&A budget costing, providing greater policy guidance to M&As, enhancing revenue forecasting and policy analysis capacity, and transiting to an MTEF. In undertaking these reform activities, it would be useful to ensure that they are guided by more in-depth diagnostics of why there have been such significant deviations in both expenditures and revenues in past budgets. This could be part of an annual budget review process early in the budget cycle, which would guide the specific actions to be taken for the next fiscal year.

- Indicator PI–11, while scoring an overall B, identifies a major weakness of the budget process in the last few years, namely that the budget is not adopted before the start of the fiscal year as measured by the D in dimension (iii). While improvements in this area require action on the part of the legislature, hence the PFM reform activity in this area, they will also require action on the part of government, namely to submit all documentation on time at the end of April. Furthermore, MoF could explore means to enhance its dialogue with the legislature over budgetary matters, for example through an earlier submission of the BFP which should lead to a better understanding of the budget when it is submitted.

- Indicator PI–12, which assesses the multi-year perspective in the budget, is assessed as C+, indicating that progress is being made in this area, although much more remains to be done. In addition to the ongoing introduction of the MTEF, PFM reforms target development of sector strategies (which scored C under dimension (iii)) and public investment planning and project appraisal.

(b) **<u>Theme 2</u>—Budget coverage and execution: "**to make the budget more comprehensive in reflecting inflows and spending activities. The goal is to improve the quality of information on fiscal operations to better inform the government's decision making process."

256. **The relevant PEFA indicator results justify the specific areas of focus under this theme** :

- Indicator PI–7 dimension (ii) score of D reconfirms that most donor-funded projects remain outside the government's planning and budgeting processes, and fully justify the priority actions planned under this theme. However, it should be noted that bringing donor funded spending into the planning and budgeting processes is a medium-term task which requires consultation and careful sequencing over time.

- Indicator PI–3 confirms weak results in the collection of non-tax revenues, one of the areas targeted under this theme. However, given the diverse nature of non-tax revenues in Liberia, it may be appropriate to start this work with a survey of non-tax revenues and their potential, to identify those revenues where substantive gains could be made. Furthermore, with possible developments in the area of decentralization, some of these non-tax revenues may become revenues of sub-national governments, which may be better positioned to improve collections of these taxes.

- Indicator PI–9 highlights the fiscal risks associated with lack of reporting from autonomous agencies and funds, one of the areas targeted under this theme.

(c) **Theme 3**—**Revenue mobilization: "**to improve the efficiency and integrity of revenue administration and increase revenue resources."

257. **Indicators PI–13 to PI–15 confirm the good progress already made in the area of revenue administration.** This is evidenced in the strong performance of tax revenues over the last few years, which has led to the rapid expansion of resources available for critical spending programs. The PFM reform strategy aims to further strengthen revenue administration, enhance its integrity, and establish an autonomous revenue agency. On the tax policy side the strategy is guided by the regional ECOWAS initiative to introduce VAT, replacing the current GST. While these actions will contribute only marginal improvements in the PEFA scores under indicators PI–13 to PI–15, their contribution to budgetary resources should continue to be significant in the coming years.

(d) **Theme 4**—**Enhanced transparency and accountability in PFM: "**to improve transparency and accountability in PFM by increasing the government's ability to report and account for the revenues it collects and for public expenditures, and to strengthen the GAC and the legislature, enabling them to better execute their oversight role as assigned under the Liberian Constitution and the PFM Act."

258. **The weak results in the relevant PEFA indicators confirm that further reforms actions are needed in reporting, monitoring, and oversight functions**. The PFM reform strategy focuses on four specific areas:

- *Strengthening legislative oversight*: indicators PI–27 and PI–28 which score C+ and D respectively confirm the planned follow up actions to ensure that: (a) legislative scrutiny and adoption of the budget is undertaken in a timely manner, which requires the development of an effective LBO to provide technical support to members of the legislature; and (b) the government's audited accounts are properly scrutinized with time-bound follow-up actions for the government to implement.

- *Timely and comprehensive reporting*: indicators assessing in-year (PI–24) and annual (PI–25) reporting, which scored D+ and D respectively, underscore the importance of the reform actions envisaged under this theme.

- *Timely external audits*: the PFM reform strategy recognizes the significant capacity building efforts of recent years, and focuses attention in the coming years on coverage and follow up, in line with the limited C score of indicator PI–26.

- *Oversight of SOEs*: the absence of effective reporting by SOEs is reflected in the D score of indicator PI–9, which also covers SOEs. The PFM reform strategy aims to redress this through the establishment of a MoF unit dedicated to gathering and consolidating in-year and annual financial reports from SOEs, as required under the PFM Act.

(e) **Theme 5—Enhanced controls and respect of the PFM legal framework: "**to strengthen the implementation of the regulatory framework and to implement sanctions for non-compliance."

259. **Significant efforts have been made to control spending, as evidenced by the non-accumulation of new arrears (see PI–4), many of the relevant PEFA indicators point to the need for further efforts.** The PFM reform strategy focuses on the following areas in the coming years:

- *Expenditure controls and internal audit*: ongoing weaknesses in the predictability of funds (indicator PI–16, score C), in payroll controls (indicator PI–18, score C), in controls for non-salary expenditure (indicator PI–20, score C+), and in internal audit (indicator PI–21, score D+), underpin the rationale for continued reform actions under this theme. The selected priorities for the next few years are to enhance controls in M&As, to provide supporting manuals, and to implement the internal audit strategy.

- *Procurement*: indicator PI–19, assessed as a C, reflects the recent improvement in the legislative framework for procurement. The PFM reform strategy now focuses on developing the capacity required to implement it.

- *Establishing an effective sanctions regime*: the above-mentioned weaknesses often reflect a failure to comply with the provisions of the legal framework, which the MoF is seeking to redress through the introduction of an effective sanctions regime. The PFM strategy also recognizes the ongoing need for capacity building and continuous sensitization on roles, responsibilities and provisions of the legal framework.

(f) **Theme 6—Treasury management: "**to continue efforts to strengthen the treasury management function at MoF and in all ministries, agencies, and counties in order to increase efficiency in its services, enhance the value of its financial resources, limit idle cash, and minimize financial waste and losses."

260. **The MoF's track record in managing cash resources over the last few years has served the government well.** However, slippages have crept in, particularly in the expansion of bank accounts and consequent cash balances outside the control of the treasury (see PI–17). Furthermore, as the government restarts its post-HIPC borrowing program and re-establishes a treasury bills market, the MoF recognizes the need to move from its current cash budgeting approach to an enhanced cash management framework. The PFM reform strategy envisages the following actions under this theme:

- *Strengthening cash flow planning*: the C score under indicator PI–16 justifies the introduction of a more effective cash flow planning system aimed at delivering resources as and when required to the various spending programs of government.

- *Enhanced control over banking arrangements*: the idle balances outside of the control of the treasury (PI–17) and the ongoing difficulties in accounts reconciliation (PI–22) together point to the need to re-establish treasury control over bank accounts, as required under the PFM Act. The PFM strategy envisages in particular the establishment of a treasury single account approach.

- *Strengthened debt and liquidity management*: the re-establishment of a treasury bills market is important for cash management, but the debt management aspects of treasury bills, as well as the growing number of new longer term loans and guarantees that the government envisages to contract, also need to be addressed to ensure effective monitoring of the GoL's financial liabilities. The reform plan aims to keep the DMU up to the mark to handle these new tasks.

- *Establishing county treasuries*: while there is currently no decentralization in Liberia, the government is committed to move this agenda forward in the coming years. The PFM reform strategy, in anticipation of future capacity needs at the county level as well as to cater for the growing number of transactions which today take place in the counties, envisages the establishment of county treasuries under MoF supervision.

(g) **Cross-cutting activities**: The PFM reform strategy also envisages two cross-cutting activities which serve the needs of several themes. These are the development and rollout of the IFMIS, and the implementation of systematic capacity building programs to fill the current gaps in planning, budgeting, procurement, accounting and audit.

261. **In summary, the PFM reform strategy generally addresses the shortcomings and weaknesses identified in the PEFA assessment.** Any changes required will most likely be in the areas of refinements, prioritization, absorptive capacity, and sequencing. As part of its absorption and ownership of the PEFA assessment, the MoF could envisage in the coming months a light review of the current strategy and action plan.

ANNEX I. Sources of Evidence for Each PEFA Indicator (2012)

Indicator	Indicator Description	Documentary Evidence	Supporting Interviews
A. PFM OUTTURNS: Credibility of the Budget			
PI–1	Aggregate expenditure outturn compared with original approved budget	Approved Annual Budgets and Fiscal Year Outturn reports for 2008/09, 2009/10 and 2010/11	Macro-Fiscal Analysis Unit, MoF; Department of Revenue, MoF
PI–2	Composition of expenditure outturn compared with original approved budget	Approved Annual Budgets & Fiscal Year Outturn reports for 2008/09, 2009/10 and 2010/11	Macro-Fiscal Analysis Unit, MoF; Department of Revenue, MoF
PI–3	Aggregate revenue outturn compared with original approved budget	Approved Annual Budgets and Fiscal Year Outturn reports for 2008/09, 2009/10 and 2010/11	Macro-Fiscal Analysis Unit, MoF; Department of Revenue, MoF
PI–4	Stock and monitoring of expenditure payment arrears	(i) Approved Annual Budgets and Fiscal Year Outturn reports for 2008/09, 2009/10 and 2010/11 (ii) Fourth Quarter report on Public Sector Debt, 2010/11 (iii) Executive Budget Proposal for 2012/13 (June, 2012)	Macro-Fiscal Analysis Unit, MoF; Comptroller and Accountant General's Department, MoF Debt Management Unit, MoF
B. KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency			
PI–5	Classification of the budget	(i) Classifications and Chart of Accounts, June 2010 (ii) COA Mapping Guide Final–11 June 2010 (iii) Section 35 (4) of the PFM Act of 2009 (iii) Budget Book FY2010/11	Accounting Services Unit, CAG
PI–6	Comprehensiveness of information included in budget documentation	2011/12 Budget	Macro-Fiscal Analysis Unit, MoF
PI–7	Extent of unreported government operations	(i) Printout on Consulate Fees (ii) Budget Book FY2010/11	(i) Macro-Fiscal Analysis Unit, MoF (ii) Accounting Services Unit, CAG (iii) Data Capture and Reconciliation Unit; Department of Revenue (iv) Sector Ministry Division; Department of

Indicator	Indicator Description	Documentary Evidence	Supporting Interviews
			Revenue (v) Aid Management Unit, MOF
PI–8	Transparency of inter-governmental fiscal relations	(i) Draft Framework for County Treasuries, June 2011 (ii) Budget Book FY2010/11	PFM Reforms Coordination Unit, MOF Accounting Services Unit, CAG
PI–9	Oversight of aggregate fiscal risk from other public sector entities	(i)Sections 41 and 45 PFM Act 2009 and Par XX Financial Regulations (ii) Budget Framework Paper 2010/11	(i)RCU (iii)Macro-Fiscal Analysis Unit (iii)FAD Report “Liberia Financial Reporting Framework for SOEs” April 2012
PI–10	Public access to key fiscal information	Web sites for Min of Fin, PPCC, and GAC	Centre for Transparency and Accountability in Liberia (CENTAL); Private individual (selected by RCU secretary); Chamber of Commerce; Donor Group in Liberia.
C. BUDGET CYCLE			
C(i) Policy Based Budgeting			
PI–11	Orderliness and participation in the annual budget process	(i)Budget Calendar FY2011/12 (ii)BFP FY2011/12 (ii) President’s Budget Speeches FY2011/12 (iv)Approved budgets FY2009/10, 2010/11, and 2011/12	(i)Macro-Fiscal Analysis Unit (ii)Department of Budget (iii)Ways and Means Committee of legislature (iv)Legislative Budget Office
PI–12	Multi-year perspective in fiscal planning, expenditure policy, and budgeting	(i)Medium-Term Fiscal Framework 2009/10–2011/2012 (ii) Budget Circular 2011/12 (iv)Budget Framework Paper 2011/12	(i)Macro-Fiscal Analysis Unit (ii)Department of Budget (iii)Debt Management Unit (iv)IMF Africa Department (v)IMF website
C(ii) Predictability and Control in Budget Execution			
PI–13	Transparency of taxpayer obligations and liabilities	(i) Liberia Revenue Code (Chapter 16 Enfoncement Provisions + Sections 4,58,59,60) (ii)Brochures+ Pamphlets for GST and small taxpayers (iii)Brochures and pamphlets for Tax Appeals Board (iv) FAD Report Aug 2011	(i)DoR (ii)BIR (iii)Customs (iv)FAD/Revenue Administration Division (v)Chamber of Commerce

Indicator	Indicator Description	Documentary Evidence	Supporting Interviews
PI–14	Effectiveness of measures for taxpayer registration and tax assessment	(i)Liberia Revenue Code 2000 (ii)Enforcement Manual 2011 (iii) Letters of engagement with taxpayers (iv) Tax Clearance Certificate	i)DoR (ii)BIR/Enforcement Unit (iii)Customs (iv)FAD/Revenue Administration Division
PI–15	Effectiveness in collection of tax payments	(i)FAD Report August 2011 (ii)MoF/DoR/BIR data (ii) Summary Bank reconciliation statement Statements for Feb and Mar 12	(i)DoR (ii)BIR/Data Capture Unit (iii)Customs (iv)FAD/Revenue Administration Division
PI–16	Predictability in the availability of funds for commitment of expenditures	PFM Act, 2009; Financial Regulations	Comptroller and Accountant General's Dept; Central Bank of Liberia Ministries of Education, Health and Public Works
PI–17	Recording and management of cash balances, debt, and guarantees	Quarterly debt management reports,	Debt Management Team, Comptroller and Accountant General
PI–18	Effectiveness of payroll controls	Payrolls for January to March of 2012	Payroll Department, Accounting Services Unit
PI–19	Competition, value for money, and controls in procurement	Public Procurement and Concessions Act, PPCC Website, PPCC bulletins	Public Procurement and Concessions Commission, Ministry of Public Works
PI–20	Effectiveness of internal controls for non-salary expenditure	Sample Vouchers at Accounting Services Unit	Accounting services Unit, Comptroller and Accountant General
PI–21	Effectiveness of internal audit	PFM Act 2009, PFM Regulations, GOL Internal Audit Strategy (2010)	Internal Audit Secretariat, Comptrollers in Ministries of Education and Health, ASU, GAC
C(iii) Accounting, Recording, and Reporting			
PI–22	Timeliness and regularity of accounts reconciliation	(i) Summary Bank Reconciliation Statements for the month of February and March 2012 (ii)Rule 45 of the Financial Rules, 2007 (ii) Printouts from IFMIS system for Object Code level 26	(i) Payroll and Reconciliation Unit, CAG (II) Data Capture and Reconciliation Unit, Revenue Department (iii) Director of Banking, CBL (iv) Accounting Services Unit, CAG (v) Comptroller and Accountant General
PI–23	Availability of information on resources received by service delivery units	None	Min of Education, Min of Health, CAG (ASU), Manager-IFMIS Implementation.

Indicator	Indicator Description	Documentary Evidence	Supporting Interviews
PI–24	Quality and timeliness of in-year budget reports	(i) Section 36 (4) of the PFM Act of 2009 (ii) Section I.10 of the PFM Regulations for PFM Act 2009 (iii) Mid-year Review for Fiscal Year, FY2010/11 (iv) Quarter Three Fiscal Outturn Report, FY2010/11 (v) Annual Fiscal Outturn, FY2010/11 (vi) Report of the Auditor General on the fiscal outturns for FY2008/09 and FY2009/10	Macrofiscal Unit, MOF Aid Management Unit, MOF MoF's website
PI–25	Quality and timeliness of annual financial statements	(i) Annual Fiscal Outturn, FY2009/10 (ii) Interim Financial Statements for the fiscal year July 1, 2009 to June 30, 2010 (iii) Report of the Auditor General on the fiscal outturns For FY2008/09 and FY2009/10 (iv) Cash-Basis International Public Sector Accounting Standard as adopted by the GoL	Comptroller and Accountant General (CAG) General Auditing Office (GAO) MoF's website
C(iv) External Scrutiny and Audit			
PI–26	Scope, nature, and follow up of external audit	Chapter 53 of the Constitution (GAO), GAC Amendment Act (2005), GAC audit of the 2009/10 Consolidated Fiscal Outturn Report, 2010/11 GAC Audits of Individual Ministries, Agencies, SOEs and selected County Administrations	GAC, CAG, Ministries of Education and of Health
PI–27	Legislative scrutiny of the annual budget law	(i) Receipt of the President's Budget Speech in legislature FY2011/12 (ii) Section 11 PFM Law 2009 (iii) Internal procedure handbook for legislative committees	(i) Ways and Means Committee (ii) Legislative Budget Office (iii)Department of Budget

Indicator	Indicator Description	Documentary Evidence	Supporting Interviews
PI–28	Legislative scrutiny of external audit reports	Chapter 53 of the Constitution (GAO), GAC Amendment Act (2005)	Public Accounts and Audit Committee
D. DONOR PRACTICES			
D–1	Predictability of direct budget support	Data provided by the Aid Management Unit on budget support	Aid Management Unit, MoF Donor Group in Liberia
D–2	Financial information provided by donors for budgeting and reporting on project and program aid	FY2009/10, FY2010/11 and FY2011/12 Budgets and Fiscal Outturn Reports	Aid Management Unit, MoF Donor Group in Liberia
D–3	Proportion of aid that is managed by use of national procedures	Annex 1 of the annual Budgets, and AMU data on budget support	Aid Management Unit, MoF Donor Group in Liberia

ANNEX II. Stakeholders Met During April 2012 Field Mission

Name	Department	Position/ Function
1. CENTAL		
Thomas Doe Nah		Director
Saini M. Dixon		
Shine G. Williams		
2. Central Bank of Liberia		
Walker, Richard	Banking Department	Director
3. Chamber of Commerce		
Monie Captan		President
Francis Dennis		Vice-President
4. Civil Service Agency		
Dr. William Allen		Director General
Dr. Puchu Leona Bernard	Human Resource Policy	Deputy Director-General
Shadi Baki	HRM Information System	Director
5. General Auditing Commission		
Janga A. Kowo	GAC	Chief Financial Officer
Nyankor Matthew	Specialized Audits	Executive Director
Lenin Dwana	Consolidated Audit	Acting Director
6. Internal Audit Governance Board		
Paul C. Collins	IAS	Executive Director
Emmanuel Nyeswa	IAS	Deputy Executive Director
7. Legislative Budget Office		
Moses Roberts	LBO	Deputy Director, Macroeconomics
Moses T.Cooper	LBO	Deputy Director, Revenue
Prof Julius Caesar	LBO	Director
8. Legislature		
Senator Hon. Edward B. Dagoseh	Liberian Senate	Chairman PAAC and Co-Chair of the Ways and Means Committee
9. Future Liberia Revenue Authority		
Elfrieda Tamba	LRA	Designated Executive Director
10. Ministry of Education		
Edwin K. Tetteh	Office of the Minister	Advisor Operations and Administration
Augustine S. Josiah	Finance	Comptroller
11. Ministry of Finance		
Hon. Sebastian Muah	Department of Budget (DoB)	Deputy Minister Budget/Acting Finance Minister
Augustine Blama	DoB	Senior Budget Policy Advisor
Hon. Angela Cassell-Bush	Department of Expenditure (DoE)	Deputy Minister Expenditure and Debt Management
Hon. Dr James Kollie	Department of Revenue (DoR)	Deputy Minister Revenue
Hon. Decontee King-Sackie	DoR	Assistant Minister Revenue
Siejepo Jloteh	DoR, Customs	Revenue Compliance and Enforcement
William Buku	DoR	Operational Policy
Roosevelt Simoke	DoR	Tax Appeals
Jesse Korboi	DoR, BIR	Deputy Commissioner

Cecilia D.McGill	DoR	Director, Customs Enforcement
Jomaxim P. Jolo	DoR, Large Tax Division	Director RRS section
Juanita Bropleh	DoR	Analyst, Revenue Data Capture
Name	**Department**	**Position/ Function**
Silver Oyet	DoR, BIR	Technical Expert
J. Richardson Ndorbor	DoR	
Hon. Jordan Sulonteh	DoA	Deputy Minister Administration
Boom Wilson	CAG	Comptroller and Accountant General
Hanson Kiazolu	CAG	Accounting Services Unit
Siafa T. Chowoe	CAG, ASU	Deputy CAG
Mohamed Sheriff	MFAU	Director
Dorsla Facarthy	MFAU	Economist
David Chieh	MFAU	Economist
Bobby Musah	MFAU	Economist
Timothy Robinson	MFAU	Economist
Alexander Netah	MFAU	Economist
Babah Conteh	MFAU	Economist
Jerry Taylor	DMU	Director
Robert Doe	DMU	Deputy Director
Jeremiah Jerbo	DMU	Economist
Sam Joe	Aid Management Unit	Director
Alphonso B. Jolo	DoE, DCRU	Director
Ms. Gormah T.Carpee	DoE, DCRU	Deputy Director
Omaru M. Sesay	DoE, DCRU	Senior Reconciler
Mrs. Etta C. Salvage	DoE, Payroll	Acting Director
Isaiah B. Armah	DoE, Payroll	Principal Analyst
Kpambu P. Turay	DoE, Payroll	Acting Deputy Comptroller
Juvenal C. Pearson	DoE, Bank Reconciliation Unit (BRU)	Officer in Charge
Flomo B. Hassin	DoE	Financial Analyst
Orlando S. Yelobah	DoE, BRU	Financial Analyst
Abraham B. Morris	DoE, BRU	Financial Analyst
Ms. Musu L. Faijue	DoE, BRU	Senior Bookkeeper
C. Garthy Cephar	DoE, BRU	Accountant
Bernard Jappah	RCU	Coordinator
Kubai Khasiani	RCU	FAD PFM Resident Advisor
Stephen Barungi	RCU, IFMIS	Financial Management Specialist
Sam Hodge	RCU	Capacity Building Officer
Herbert Soper	RCU	Financial Management Specialist
12. <u>Ministry of Health</u>		
Toagoe T. Karzon		Financial Comptroller
13. <u>Ministry of Planning and Economic Affairs</u>		
Hon. Jackson Wonde	Sectoral and Regional Planning	Deputy Minister
14. <u>Ministry of Public Works</u>		
Joseph Forkpah	Finance	Assistant Comptroller

ANNEX III. Data Analysis Tables for PEFA Indicators PI–1 and PI–2

Ministry/Agency	Fiscal Year 2008/09 Original budget	Actual Spending	Adjusted budget	Deviation	Absolute deviation	%
National Legislature	17,964.0	18,300.5	15,094.9	3,205.6	3,205.6	**21.2%**
Ministry of State	7,314.8	8,269.7	6,146.5	2,123.2	2,123.2	**34.5%**
Ministry of Finance	9,049.4	8,811.5	7,604.1	1,207.4	1,207.4	**15.9%**
Ministry of Internal Affairs	7,602.0	8,243.2	6,387.8	1,855.4	1,855.4	**29.0%**
Civil Service Agency	1,664.0	1,802.2	1,398.2	404.0	404.0	**28.9%**
General Auditing Commission	2,869.6	3,100.1	2,411.3	688.8	688.8	**28.6%**
Ministry of Foreign Affairs	8,050.0	7,324.8	6,764.3	560.5	560.5	**8.3%**
National Elections Commission	3,052.0	3,325.4	2,564.6	760.8	760.8	**29.7%**
LISGIS	3,004.6	2,840.3	2,524.7	315.6	315.6	**12.5%**
The Judiciary	9,524.0	10,042.2	8,002.9	2,039.3	2,039.3	**25.5%**
Ministry of Justice	15,300.7	15,463.4	12,857.0	2,606.4	2,606.4	**20.3%**
Ministry of National Defense	6,197.8	5,894.6	5,207.9	686.7	686.7	**13.2%**
Ministry of Education	18,820.9	21,806.7	15,814.9	5,991.8	5,991.8	**37.9%**
University of Liberia	4,019.6	4,533.5	3,377.6	1,155.9	1,155.9	**34.2%**
Ministry of Health & Welfare	15,128.9	13,049.0	12,712.6	336.4	336.4	**2.2%**
JFK Medical Centre	5,521.7	5,150.5	4,639.8	510.7	510.7	**9.2%**
Ministry of Youth & Sports	4,000.2	3,835.2	3,361.3	473.9	473.9	**11.8%**
Ministry of Agriculture	5,472.0	4,596.0	4,598.0	-2.0	2.0	**0.0%**
Ministry of Lands, Mines & Energy	3,501.5	3,120.6	2,942.3	178.3	178.3	**5.1%**
Ministry of Public Works	17,683.1	16,475.8	14,858.8	1,617.0	1,617.0	**9.1%**
Remaining M&As	115,485.0	70,324.7	97,040.3	-26,715.6	26,715.6	**23.1%**
Allocated expenditure (excl. debt)	281,225.8	236,309.9	236,309.9	0.0	53,435.4	
Contingency Reserved Fund	1,762.0	1,011.7				
Total Expenditure (excl.debt)	282,987.8	237,321.6				
Overall (PI-1) variance						**16.1%**
Composition (PI-2) variance						**22.6%**
Contingency share of budget						**0.4%**

Ministry/Agency	Fiscal Year 2009/10 Original budget	Actual Spending	Adjusted budget	Deviation	Absolute deviation	%
National Legislature	19,145.6	20,603.4	15,446.1	5,157.3	5,157.3	**33.4%**
Ministry of State	7,272.0	8,183.7	5,866.8	2,316.9	2,316.9	**39.5%**
Ministry of Finance	14,746.9	13,205.7	11,897.3	1,308.4	1,308.4	**11.0%**
Ministry of Internal Affairs	8,711.1	7,790.4	7,027.8	762.6	762.6	**10.9%**
Civil Service Agency	1,885.4	1,543.6	1,521.1	22.5	22.5	**1.5%**
General Auditing Commission	3,200.0	3,337.5	2,581.7	755.8	755.8	**29.3%**
Ministry of Foreign Affairs	9,222.0	8,252.7	7,440.0	812.7	812.7	**10.9%**
National Elections Commission	3,182.2	5,796.7	2,567.3	3,229.4	3,229.4	**125.8%**
LISGIS	3,214.2	3,289.1	2,593.1	696.0	696.0	**26.8%**
The Judiciary	11,312.7	10,550.7	9,126.7	1,424.0	1,424.0	**15.6%**
Ministry of Justice	19,645.0	18,228.0	15,849.0	2,379.0	2,379.0	**15.0%**
Ministry of National Defense	8,285.4	7,370.8	6,684.4	686.4	686.4	**10.3%**
Ministry of Education	24,996.8	23,882.7	20,166.6	3,716.1	3,716.1	**18.4%**
University of Liberia	6,000.0	6,893.4	4,840.6	2,052.8	2,052.8	**42.4%**
Ministry of Health & Welfare	18,791.4	14,020.3	15,160.3	-1,140.0	1,140.0	**6.1%**
JFK Medical Centre	6,000.0	4,394.9	4,840.6	-445.7	445.7	**7.4%**
Ministry of Youth & Sports	4,130.0	2,841.4	3,332.0	-490.6	490.6	**11.9%**
Ministry of Agriculture	7,100.0	3,798.0	5,728.1	-1,930.1	1,930.1	**27.2%**
Ministry of Lands, Mines & Energy	3,900.0	3,083.7	3,146.4	-62.7	62.7	**1.6%**
Ministry of Public Works	39,900.0	20,117.4	32,190.1	-12,072.7	12,072.7	**30.3%**
Remaining M&As	106,406.4	76,667.3	85,845.4	-9,178.1	9,178.1	**8.6%**
Allocated expenditure (excl. debt)	327,047.1	263,851.4	263,851.4	0.0	50,639.6	
Contingency Reserved Fund	2,000.0	170.0				
Total Expenditure (excl.debt)	329,047.1	264,021.4				
Overall (PI-1) variance						**19.8%**
Composition (PI-2) variance						**19.2%**
Contingency share of budget						**0.1%**

Ministry/Agency	Fiscal Year 2010/11 Original budget	Actual Spending	Adjusted budget	Deviation	Absolute deviation	%
National Legislature	21,016.7	23,400.0	22,778.0	622.0	622.0	**2.7%**
Ministry of State	10,673.3	14,200.0	11,567.8	2,632.2	2,632.2	**22.8%**
Ministry of Finance	38,135.7	58,600.0	41,331.7	17,268.3	17,268.3	**41.8%**
Ministry of Internal Affairs	21,031.0	21,900.0	22,793.5	-893.5	893.5	**3.9%**
Civil Service Agency	11,944.7	4,000.0	12,945.7	-8,945.7	8,945.7	**69.1%**
General Auditing Commission	4,470.3	5,000.0	4,844.9	155.1	155.1	**3.2%**
Ministry of Foreign Affairs	10,674.2	10,700.0	11,568.8	-868.8	868.8	**7.5%**
National Elections Commission	10,955.6	13,100.0	11,873.7	1,226.3	1,226.3	**10.3%**
LISGIS	3,129.5	3,000.0	3,391.8	-391.8	391.8	**11.6%**
The Judiciary	10,678.9	11,300.0	11,573.9	-273.9	273.9	**2.4%**
Ministry of Justice	21,143.7	22,300.0	22,915.7	-615.7	615.7	**2.7%**
Ministry of National Defense	9,702.9	12,600.0	10,516.1	2,083.9	2,083.9	**19.8%**
Ministry of Education	30,121.2	31,900.0	32,645.5	-745.5	745.5	**2.3%**
University of Liberia	9,949.0	9,900.0	10,782.8	-882.8	882.8	**8.2%**
Ministry of Health & Welfare	24,855.4	25,500.0	26,938.4	-1,438.4	1,438.4	**5.8%**
JFK Medical Centre	6,074.5	6,600.0	6,583.6	16.4	16.4	**0.3%**
Ministry of Youth & Sports	4,090.8	3,500.0	4,433.6	-933.6	933.6	**22.8%**
Ministry of Agriculture	7,522.6	6,100.0	8,153.0	-2,053.0	2,053.0	**27.3%**
Ministry of Lands, Mines & Energy	6,229.9	2,500.0	6,752.0	-4,252.0	4,252.0	**68.3%**
Ministry of Public Works	33,282.5	28,000.0	36,071.8	-8,071.8	8,071.8	**24.3%**
Remaining M&As	47,644.6	58,000.0	51,637.5	6,362.5	6,362.5	**13.4%**
Allocated expenditure (excl. debt)	343,327.0	372,100.0	372,100.0	0.0	60,733.2	
Contingency Reserved Fund	-	-				
Total Expenditure (excl.debt)	343,327.0	372,100.0				
Overall (PI-1) variance						**8.4%**
Composition (PI-2) variance						**16.3%**
Contingency share of budget						**0.0%**

Results Matrix

	for PI-1	for PI-2 (i)	for PI-2 (ii)
Year	**Total expenditure deviation**	**Composition variance**	**Contingency share**
2008/09	16.8%	23.7%	
2009/10	19.8%	19.2%	0.1%
2010/11	8.4%	16.3%	

Score for indicator PI-1:	**D**
Score for indicator PI-2 (i):	***D***
Score for indicator PI-2 (ii):	***A***
Overall Score for indicator PI-2:	**D+**

Debt, Calculation of Primary Expenditure, and Contingency Reserve *(US $ millions)*	**Fiscal Year 2008/09** Original Appropriation	Expenditure Out-turn	**Fiscal Year 2009/10** Original Appropriation	Expenditure Out-turn	**Fiscal Year 2010/11** Original Appropriation	Expenditure Out-turn
External Debt	*2,200.0*	*812.4*	*5,000.0*	*4,999.9*	*7,972.0*	*6,200.0*
Domestic Debt	*12,900.0*	*10,616.4*	*12,988.6*	*8,595.3*	*18,080.0*	*6,400.0*
Total Debt (Interest & Principal)	15,100.0	11,428.8	17,988.6	13,595.2	26,052.0	12,600.0
Total Expenditure (Core & Contingent)	298,087.8	246,852.5	347,035.7	277,616.6	369,379.0	384,700.0
Total Expenditure *less* Debt	**282,987.8**	**235,423.7**	**329,047.1**	**264,021.4**	**343,327.0**	**372,100.0**
Contingency Reserve Fund	***1,762.0***	***1,011.7***	***2,000.0***	***50.0***		

Note: Original budget appropriations are taken from the budget and actual expenditures from the fiscal outturn. Actual expenditures are presented on a cash basis. Primary expenditure includes general claims (broken down by ministry in the case of 2010/11).

ANNEX IV. Data on Collection of Tax Arrears—FY2009/10 and FY2010/11

LARGE TAXPAYERS DIVISION
ENFORCEMENT SECTION
RESPONSE TO IMF REQUEST (TAX ARREARS AND AGE OF TAX ARREARS)
AS OF DECEMBER 31, 2010

Wednesday, 2 May 2012

DOMESTIC TAX ARREARS AS AT DECEMBER 31, 2010				
	TAX KIND	USD	LD	TOTAL (USD)
OPENING BALANCE	GST	55,334.82	-	55,334.82
	Withholding on salary	78,133.85	27,633.93	78,528.62
	2%	30,628.05	63,047.20	31,528.72
	AUDIT ASSESSMENT	1,000,318.39		1,000,318.39
	P&I DETERMINATION	291,145.91	46,239.38	291,806.47
NEW ARREARS	GST	436,705.13	743,710.24	447,329.56
	Withholding on salary	523,996.05	10,352,799.84	671,893.19
	2%	-	-	-
	AUDIT ASSESSMENT	800,318.38		800,318.38
	GSM LICENSE FEE	4,800,000.00		4,800,000.00
	CONCESSION PAYMENT	8,175,000.00		8,175,000.00
	LAND RENTAL FEES	4,393,937.00		4,393,937.00
	P&I DETERMINATION	221,256.42	2,397,435.45	255,505.50
COLLECTED	GST	416,359.53	-	416,359.53
	Withholding on salary	293,717.44	9,244,825.83	425,786.38
	2%	11,564.37	9,827.20	11,704.76
	AUDIT ASSESSMENT	1,297,202.93		1,297,202.93
	P&I DETERMINATION	29,911.30	89,955.71	31,196.38
CLOSING BALANCE		**$ 18,758,018.42**	**$ 4,286,257.30**	**$ 18,819,250.67**

AGE OF DOMESTIC TAX ARREARS AS AT DECEMBER 31, 2010				
	N0. OF TAX DEPTORS	USD	LD	TOTAL (USD)
1 - 3 MONTHS	85	9,037,208.47	1,621,441.53	9,060,371.92
3 - 6 MONTHS	19	8,701,867.46	304,680.00	8,706,220.03
6 - 12 MONTHS	7	25,347.64	6,882.60	25,445.96
OVER 12 MONTHS	59	993,588.20	2,353,719.12	1,027,212.76
TOTAL	**170**	**$ 18,758,011.76**	**$ 4,286,723.25**	**$ 18,819,250.67**

PERCENTAGE OF TOTAL				
	% TAX DEPTORS	USD	LD	TOTAL (USD)
1 - 3 MONTHS	50%	48%	38%	48%
3 - 6 MONTHS	11%	46%	7%	46%
6 - 12 MONTHS	4%	0%	0%	0%
OVER 12 MONTHS	35%	5%	55%	5%
TOTAL	**100%**	**100%**	**100%**	**100%**

LARGE TAXPAYERS DIVISION
ENFORCEMENT SECTION
RESPONSE TO IMF REQUEST (TAX ARREARS AND AGE OF TAX ARREARS)
AS OF DECEMBER 31, 2011

Thursday, 3 May 2012

DOMESTIC TAX ARREARS AS AT DECEMBER 31, 2011				
	TAX KIND	**USD**	**LD**	**TOTAL (USD)**
OPENING BALANCE	GST	8,373.95	-	8,373.95
	Withholding on salary	79,115.84	83,244.48	80,305.05
	2%	42,229.34	91,255.97	43,533.00
	Rental Income	60,879.05	-	60,879.05
	Business Registration	3,400.00	8,000.00	3,514.29
	Bus. Operational Liscense/Merchants	-	70,600.00	1,008.57
	SURFACE RENTAL	30,050.00	-	30,050.00
	Land Rental/Bid Fee	100,000.00	-	100,000.00
	Resident Permit	100.00	-	100.00
	BUSINESS LICENSE FEES	208.57	-	208.57
	W/H ON CONTRACT & SERVICES-10%,15%	21,684.19	-	21,684.19
	AUDIT ASSESSMENT	903,043.31		903,043.31
	GSM LICENSE FEE	4,800,000.00		4,800,000.00
	CONCESSION PAYMENT	8,175,000.00		8,175,000.00
	LAND RENTAL FEES	4,393,937.00		4,393,937.00
	P&I DETERMINATION	196,953.14	46,239.38	197,613.70
SUB TOTAL		18,814,974.39	299,339.83	18,819,250.67
NEW ARREARS	GST	89,568.79	-	89,568.79
	Withholding on salary	330,306.09	4,398,188.81	393,137.36
	2%	141,052.33	-	141,052.33
	Rental Income	2,216.00	-	2,216.00
	AUDIT ASSESSMENT	889,179.63		889,179.63
	GSM LICENSE FEE	6,050,000.00		6,050,000.00
	CONCESSION PAYMENT	11,209,051.23		11,209,051.23
SUB TOTAL		18,711,374.07	4,398,188.81	18,774,205.34
COLLECTED	GST	11,579.50	-	11,579.50
	Withholding on salary	267,430.97	4,393,040.89	330,188.70
	2%	105,392.11	-	105,392.11
	Rental Income	9,560.00	-	9,560.00
	GSM LICENSE FEE	3,650,000.00		3,650,000.00
	CONCESSION PAYMENT	16,957,228.23		16,957,228.23
	AUDIT ASSESSMENT	591,318.22	-	591,318.22
SUB TOTAL		21,592,509.03	4,393,040.89	21,655,266.76
CLOSING BALANCE		$ 15,933,839.43	$ 304,487.75	$ 15,938,189.25

AGE OF DOMESTIC TAX ARREARS AS AT DECEMBER 31, 2011				
	N0. OF TAX DEBTORS	**USD**	**LD**	**TOTAL (USD)**
1 - 3 MONTHS	40	941,896.41	19,660.59	942,177.28
3 - 6 MONTHS	23	122,364.71	28,540.64	122,772.43
6 - 12 MONTHS	33	5,055,080.41	140,247.14	5,057,083.94
OVER 12 MONTHS	35	9,815,158.46	69,800.00	9,816,155.60
TOTAL	**131**	**$ 15,934,499.99**	**$ 258,248.37**	**$ 15,938,189.25**

PERCENTAGE OF TOTAL				
	% OF TAX DEBTORS	**USD**	**LD**	**TOTAL (USD)**
1 - 3 MONTHS	31%	6%	8%	6%
3 - 6 MONTHS	18%	1%	11%	1%
6 - 12 MONTHS	25%	32%	54%	32%
OVER 12 MONTHS	27%	62%	27%	62%
TOTAL	**100%**	**100%**	**100%**	**100%**

ANNEX V. Comparison of PEFA Scores by Indicator and Dimension: 2007 and 2012

Indicator	Dimension	2007 Assessment		2012 Assessment	
PI–1: Aggregate expenditure outturn compared to original approved budget	The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e., excluding debt service charges and externally financed project expenditure).	**B**		**D**	
PI–2: Composition of expenditure outturn compared to original approved budget	(i) Extent of the variance in expenditure composition, during the last 3 years, excluding contingency items.	**D**		**D**	**D+**
	(ii) The average amount of expenditure actually charged to the contingency vote over the last 3 years.			**A**	
PI–3: Aggregate revenue outturn compared to original approved budget.	Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget.	**A**		**D**	
PI–4: Stock and monitoring of expenditure payment arrears	(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	**D**	**D+**	**B**	**B**
	(ii) Availability of data for monitoring the stock of expenditure payment arrears.	**C**		**B**	
PI–5: Classification of the Budget	The classification system used for formulation, execution and reporting of the central government's budget.	**C**		**C**	
PI–6: Comprehensiveness of information included in budget documentation	Typology of information in the budget documentation most recently issued by the central government.	**C**		**B**	
PI–7: Extent of unreported government operations	(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e., not included in fiscal reports.	**B**	**D+**	**B**	**D+**
	(ii) Income/ expenditure information on donor-funded projects which is included in fiscal reports.	**D**		**D**	
PI–8: Transparency of inter-governmental fiscal operations	(i) Transparent and rules based systems for the horizontal allocation among SN governments of unconditional and conditional transfers from central government.	**NS**	**NS**	**NS**	**NS**
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year.	**NS**		**NS**	

Indicator	Dimension	2007 Assessment		2012 Assessment	
	(iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories.	NS		NS	
PI9: Oversight of aggregate fiscal risk from other public sector entities	(i) Extent of central government monitoring of autonomous government agencies and public enterprises.	**D**	**D**	**D**	**D**
	(ii) Extent of central government monitoring of SN governments' fiscal position.	NS		NS	
PI–10: Public access to key fiscal information	Typology of fiscal information which is publicly available.	**C**		**C**	
PI–11: Orderliness and participation in the annual budget process	(i) Existence of and adherence to a fixed budget calendar.	**B**	**B**	**B**	**B**
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	**A**		**A**	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	**C**		**D**	
PI–12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	(i) Preparation of multi-year fiscal forecasts and functional allocations.	**D**	**D+**	**C**	**C+**
	(ii) Scope and frequency of debt sustainability analysis.	**C**		**A**	
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	**C**		**C**	
	(iv) Linkages between investment budgets and forward expenditure estimates	**D**		**D**	
PI–13: Transparency of Taxpayer obligations and liabilities	(i) Clarity and comprehensiveness of tax liabilities.	**C**	**C**	**B**	**B**
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	**C**		**C**	
	(iii) Existence and functioning of a tax appeal mechanism.	**C**		**B**	
PI–14: Effectiveness of measures for taxpayer registration and tax assessment	(i) Controls in taxpayer registration system.	**C**	**C**	**B**	**B**
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	**C**		**C**	
	(iii) Planning and monitoring of tax audit and fraud investigation programmes.	**C**		**B**	

Indicator	Dimension	2007 Assessment		2012 Assessment	
PI–15: Effectiveness in collection of tax payments	(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**	**D+**	**D**	**D+**
	(ii) Effectiveness of transfer of revenue collections to the Treasury by the revenue administration.	**A**		**A**	
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears and receipts by Treasury.	**D**		**B**	
PI–16: Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored.	**C**	**C+**	**C**	**C**
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	**C**		**C**	
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	**B**		**C**	
PI–17: Recording and management of cash balances, debt and guarantees	(i) Quality of debt data recording and reporting.	**C**	**C+**	**B**	**B**
	(ii) Extent of consolidation of the government's cash balances.	**C**		**C**	
	(iii) Systems for contracting loans and issuance of guarantees.	**B**		**A**	
PI–18: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between personnel records and payroll data.	**C**	**D+**	**D**	**D+**
	(ii) Timeliness of changes to personnel records and the payroll.	**D**		**C**	
	(iii) Internal controls of changes to personnel records and the payroll.	**C**		**C**	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**D**		**C**	
PI–19: Competition, value for money and controls in procurement	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	**Not readily comparable**	**D+**	**B**	**C**
	(ii) Use of competitive procurement methods			**D**	
	(iii) Public access to complete, reliable and timely procurement information.			**D**	
	(iv) Existence of an independent, administrative procurement complaints system.			**B**	

Indicator	Dimension	2007 Assessment		2012 Assessment	
PI–20: Effectiveness of internal controls for non-salary expenditure	(i) Effectiveness of expenditure commitment controls.	**B**	**C+**	**B**	**C+**
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	**C**		**C**	
	(iii) Degree of compliance with rules for processing and recording transactions.	**B**		**C**	
PI–21: Effectiveness of Internal Audit	(i) Coverage and quality of internal audit function.	**D**	**D+**	**C**	**D+**
	(ii) Frequency and distribution of reports	**D**		**D**	
	(iii) Extent of management response to internal audit findings.	**C**		**C**	
PI–22: Timeless and regularity of accounts reconciliation	(i) Regularity of bank reconciliations.	**D**	**D**	**B**	**C**
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	**D**		**D**	
PI–23: Availability of information on resources received by service delivery units	Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by front-line service delivery units (primary schools and primary health clinics).	**D**		**D**	
PI–24: Quality and timeliness of in-year budget reports	(i) Scope of reports in terms of coverage and compatibility with budget estimates.	**C**	**C**	**B**	**D+**
	(ii) Timeliness of the issue of reports.	**C**		**D**	
	(iii) Quality of information.	**C**		**C**	
PI–25: Quality and timeliness of annual financial statements	(i) Completeness of the financial statements	**D**	**D**	**C**	**D+**
	(ii) Timeliness of submission of the financial statements.	**NS**		**D**	
	(iii) Accounting standards used.	**NS**		**D**	
PI–26: Scope, nature and follow-up of external audit	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	**D**	**D**	**C**	**D+**
	(ii) Timeliness of submission of audit reports to legislature.	**D**		**C**	
	(iii) Evidence of follow up on audit recommendations.	**D**		**D**	
PI–27: Legislative scrutiny of the annual budget law	(i) Scope of the legislature's scrutiny.	**C**	**C+**	**B**	**C+**
	(ii) Extent to which the legislature's procedures are well-established and respected.	**C**		**C**	
	(iii) Adequacy of time for the legislature to provide a response to budget proposals.	**B**		**A**	

Indicator	Dimension	2007 Assessment		2012 Assessment	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	**B**		**B**	
PI–28: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	**NS**	**NS**	**D**	**D**
	(ii) Extent of hearings on key findings undertaken by the legislature	**NS**		**D**	
	(iii) Issuance of recommended actions by the legislature and implementation by the Executive.	**NS**		**D**	
D–1: Predictability of Direct Budget Support	(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.	**NS**	**NS**	**D**	**D**
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	**NS**		**D**	
D–2: Financial information provided by donors for budgeting and reporting on projects and programmes	(i) Completeness and timeliness of budget estimates by donors for project support	**D**	**D**	**C**	**D+**
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	**D**		**D**	
D–3: Proportion of aid that is managed by use of national procedures	Overall proportion of aid funds to central government that are managed though national procedures.	**D**		**D**	