

# The Republic of Sierra Leone

## Public Financial Management Performance Assessment Report – 2010

### CENTRAL GOVERNMENT



**The Republic of Sierra Leone**

**Public Financial Management  
Performance Assessment Report 2010  
(CENTRAL GOVERNMENT)**



**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of November 16, 2010)

Currency Unit = Leone

US\$1.00= Le 4,160

**FISCAL YEAR**

January 1 – December 31

**Preface**

This Public Financial Management (PFM) Performance Assessment Report is based on the PEFA PFM Performance Measurement Framework, which includes a performance rating on 31 indicators covering the entire PFM cycle in the central government, and assesses impact on budget goals.

This work was jointly led by the Multi Donor Budget Support Partners comprising UK Department for International Development, World Bank, European Commission and African Development Bank and the Government of Sierra Leone.

A team of consultants was contracted to carry out the detailed technical work for the study.<sup>1</sup> The team assessed the current situation by reviewing background documents, collecting necessary data and interviewing key Government and development partner officials during August 2010. We are grateful to the many officials of the Government of Sierra Leone who interacted with the team, provided the information needed and assisted in organization of the study, as well as the representatives of the Sierra Leonean private sector.

This final report is based on discussion among the various interested parties and their comments on earlier drafts. Comments were received from the World Bank, African Development Bank, DFID and Government of Sierra Leone. The PEFA Secretariat also reviewed the draft. We are grateful to the various reviewers for the useful comments and suggestions.

A dissemination and validation workshop was held on 1<sup>st</sup> December 2010, and the report was finalised after this workshop.

---

<sup>1</sup> John Short (Team Leader), Sharon Hanson Cooper of REPIM ([www.repim.eu](http://www.repim.eu)). Due to issues relating to the timing of the visit to Sierra Leone and the availability of the selected national consultant at that time, a national consultant was not engaged for this assessment

## Table of Contents

Preface.....	iii
Table of Contents.....	iv
Glossary.....	v
Overview of the Indicator Set.....	viii
Summary Assessment.....	x
A. Background.....	x
B. Integrated Assessment of PFM Performance.....	x
C. Assessment of the Impact of PFM Weaknesses.....	xvi
D. Prospects for Reform Planning and Implementation.....	xvii
E. Institutional Factors Supporting Reform Planning and Implementation.....	xviii
F. Key Changes from 2007 to 2010.....	xviii
G. Targets for Reform.....	xix
Appendix 1. Links between the six dimensions of an open and orderly PFM system and the three levels of budgetary outcomes.....	xxi
1. Introduction.....	1
2. Country Background Information.....	3
2.1. Description of the Country Economic Situation.....	3
2.2. Budgetary Outcomes.....	11
2.3. Legal and Institutional Framework for PFM.....	13
3. Assessment of the PFM Systems, Processes and Institutions.....	16
3.1. Budget credibility.....	16
3.2. Transparency and comprehensiveness.....	26
3.3. Policy-based budgeting.....	34
3.4. Predictability and control in budget execution.....	39
3.5. Accounting, recording and reporting.....	61
3.6. External scrutiny and audit.....	65
3.7. Donor practices.....	73
4. Government Reform Process.....	77
4.1. Recent and on-going reform measures.....	77
4.2. Institutional factors supporting reform planning and implementation.....	83
Annex 1. Summary and Explanation of Indicator Scores.....	91
Annex 2. Schedule of Meetings for PEFA 2010 – Central Government.....	104
Annex 3. Documents Consulted.....	106

## Glossary

AfDB	African Development Bank
AGA	Autonomous Government Agency
AGD	Accountant General's Department
ASSL	Audit Service Sierra Leone
ASYCUDA	Automated System for Customs Data
BB	Budget Bureau
BCC	Budget Call Circular
BFP	Budget Framework Paper
BoSL	Bank of Sierra Leone (Central Bank)
CAP	Common Action Plan (NB: this is now the National Action Plan)
CFAA	Country Financial Accountability Assessment
CHO	Community Health Officer
COFOG	Classification of the Functions of Government
CPAR	Country Procurement Assessment Report
CSO	Civil Society Organisations
CTB	Central Tender Board (discontinued 2005)
CWIQ	Core Welfare Indicators Questionnaire
DACO	Development Assistance Coordination Office, MoFED
DBOC	District Budget Oversight Committee
DFID	Department for International Development
DFMAS	Debt Management and Financial Analysis System
DMO	District Medical Officer
DSA	Debt Sustainability Analysis
EBE	Extra Budgetary Expenditure
EC	European Commission
ECOWAS	Economic Community of West African States
EGPRSP	Economic Growth Poverty Reduction Strategy Paper
EPRU	Economic Policy Research Unit
ESO	Establishment Secretary Office
EU	European Union
FRA	Fiduciary Risk Assessment
GBAA	Government Budgeting and Accountability Act
GBS	General Budget Support
GFS	Government Financial Statistics
GoSL	Government of Sierra Leone
GRS	Governance Reform Secretariat
GST	Goods and Services Tax
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HRMO	Human Resource Management Office
IBMS	Integrated Budget Management System
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INGO	International Non Government Organisation
INTOSAI	International Organization of Supreme Audit Institutions
IPASB	International Public Sector Accounting Standards Board

Republic of Sierra Leone: PFM Performance Assessment Report 2010

IPFMRP	Integrated Public Financial Management Reform Project
IRCBP	Institutional Reform and Capacity Building Project
LC	Local Council
LG	Local Government
LGA	Local Government Act
LGFD	Local Government Finance Department
LM	Line Ministry
LTU	Large Taxpayer Unit
MDAs	Ministries, Departments and Agencies
MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goals
MEFF	Macro-economic and fiscal framework
MO	Medical Officer
MoDEP	Ministry of Development and Economic Planning
MoEYS	Ministry of Education, Youth & Sports
MoFED	Ministry of Finance and Economic Development
MoHS	Ministry of Health and Sanitation
MTEF	Medium Term Expenditure Framework
NAP	National Action Plan
NaSCA	National Commission for Social Action
NASSIT	National Social Security Insurance Trust
NCP	National Commission for Privatisation
NRA	National Revenue Authority
NSA	Non State Actors
OGAU	Other Government Accounts Unit
OVP	Office of the Vice President
PAC	Public Accounts Committee
PAF	Progress Assessment Framework
PAYE	Pay As You Earn
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFMRU	Public Financial Management Reform Unit
PHU	Peripheral Health Unit
PIU	Project Implementation Unit
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSRU	Public Sector Reform Unit
RMIP	Records Management Improvement Programme
SDPS	Service Delivery and Perception Survey
SLIHS	Sierra Leone Integrated Household Survey
SLP	Sierra Leone Police
SLRA	Sierra Leone Roads Authority
SOE	State Owned Enterprises
SSL	Statistic Sierra Leone
SSP	Strategic Planning Action Process
TA	Technical Assistance

Republic of Sierra Leone: PFM Performance Assessment Report 2010

TIN	Tax Identification Number
TOR	Terms of Reference
UNDP	United Nations Development Programme
USL	University of Sierra Leone
VAT	Value Added Tax
VFM	Value For Money
VIPS	Value Added Tax Information Processing System

### Overview of the Indicator Set

		Score 2010					Score 2007				
		Indicator	Dimension				Indicator	Dimension			
			(i)	(ii)	(iii)	(iv)		(i)	(ii)	(iii)	(iv)
<b>A. PFM-OUT-TURNS: Credibility of the budget</b>											
PI-1	Aggregate expenditure out-turn compared to original approved budget	B					B				
PI-2	Composition of expenditure out-turn compared to original approved budget	C					C				
PI-3	Aggregate revenue out-turn compared to original approved budget	C					B				
PI-4	Stock and monitoring of expenditure payment arrears	D+	D	C			No Score	NS	D		
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>											
PI-5	Classification of the budget	C					A				
PI-6	Comprehensiveness of information included in budget documentation	A					C				
PI-7	Extent of unreported government operations	No Score	NS	D			No Score	NS	D		
PI-8	Transparency of inter-governmental fiscal relations	A	A	A	A		B	A	A	D	
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C+	C	B			C	C	C		
PI-10	Public access to key fiscal information	B					B				
<b>C. BUDGET CYCLE</b>											
<b>C(i) Policy-Based Budgeting</b>											
PI-11	Orderliness and participation in the annual budget process	D+	C	C	D		C+	A	C	D	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C	A	D	D	D+	C	B	D	D
<b>C(ii) Predictability and Control in Budget Execution</b>											
PI-13	Transparency of taxpayer obligations and liabilities	B	C↑	A	C↑		C+	C	B	C	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B	B	B		C	C	C	C	
PI-15	Effectiveness in collection of tax payments	D+	D	B	A		D+	D	B	D	
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C	B	C		C+	C	B	B	

Republic of Sierra Leone: PFM Performance Assessment Report 2010

PI-17	Recording and management of cash balances, debt and guarantees	C+↑	B↑	C	C↑		C+	B	C	C	
PI-18	Effectiveness of payroll controls	D+	D	D	B	C	D+	D	D	B	B
PI-19	Competition, value for money and controls in procurement	C+	B	C	C		C	C	C	C	
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	B	B	C		C+	B	B	C	
PI-21	Effectiveness of internal audit	D+↑	C	C	D↑		D+	C	C	D	
<b>C(iii) Accounting, Recording and Reporting</b>											
PI-22	Timeliness and regularity of accounts reconciliation	B	B	B			C	B	D		
PI-23	Availability of information on resources received by service delivery units	A					A				
PI-24	Quality and timeliness of in-year budget reports	B+	B	A	B		C+	A	A	C	
PI-25	Quality and timeliness of annual financial statements	C+	C	A	C		D+	C	D	C	
<b>C(iv) External Scrutiny and Audit</b>											
PI-26	Scope, nature and follow-up of external audit	C	C	C	C		D+	C	D	C	
PI-27	Legislative scrutiny of the annual budget law	C+	C	C	A	C	C+	C	C	A	A
PI-28	Legislative scrutiny of external audit reports	D+↑	D↑	A	C		D+	D	A	C	
<b>D. DONOR PRACTICES</b>											
D-1	Predictability of Direct Budget Support	D	D	D			C+	A	C		
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	D	C			D+	D	C		
D-3	Proportion of aid that is managed by use of national procedures	D					D				

## **Summary Assessment**

### **A. Background**

1. The regulatory framework for PFM has been positively transformed by the adoption of a number of new laws.
2. The Government of Sierra Leone has supplemented the improved legislative framework in a number of ways: new institutions and functions were established (the National Revenue Authority and internal audit units); procedural innovations were put into place for budget planning and monitoring such as the Medium-term Expenditure Framework (MTEF), sector strategies, budget oversight committees, and Public Expenditure Tracking Surveys (PETS); and capacity increases and improvements were made in the number and quality of staff within the Ministry of Finance, the Accountant-General's Department and the Office of the Auditor-General. In addition, a new Integrated Financial Management and Information System (IFMIS) has replaced the old, unsustainable Financial Management and Accounting System (FMAS).
3. Recent assessments of progress and impact have been documented in the 2007 PEFA. Weaknesses included lack of budget credibility and predictability, fiscal management challenges, weaknesses in expenditure control (including payroll), and low levels of transparency. The Government<sup>2</sup> considered that much remained to be done to move the system to a level that is capable of directing resources to priority areas and support high quality expenditure outcomes.
4. This PEFA Progress Report represents the most recent independent assessment.

### **B. Integrated Assessment of PFM Performance**

#### **1. Credibility of the budget**

5. Aggregate financial discipline has been steady, yet there are still some features that cause concern. On the domestic revenue side, there has been a tendency to over-estimate expected revenues relative to actual revenue. As well the usage of non transparent discretionary exemptions to promote development undermines the tax base. Budget support from donors has not been predictable. The ability to spend was thus compromised from the two sources of revenues. Consequently, there is still considerable variance between actual and budgeted expenditure for individual MDAs with some MDAs receiving in-year increases while others receive in-year decreases that reflect in year reaction to demand for expenditure and reassessment of needs, as well as discussions with the IMF missions that monitor the agreed IMF Programme. This makes it difficult for MDAs to implement planned operations coherently, but also points to failures in the budget formulation process where priority setting and planning is weak. While IFMIS is being used to control commitments, the overhang of arrears is also an issue though the Government has now addressed the matter of arrears and has a plan in place to pay them off.

---

<sup>2</sup> Integrated PFM Reform Project (IPFMRP)

## **2. Comprehensiveness and transparency**

6. GoSL has achieved some measurable improvements on individual scores within this range. However, the significance of a second consecutive “no score” on “Extent of unreported government operations” is of concern and material to overall comprehensiveness and transparency issues.

7. The classification system/chart of accounts uses GFS/COFOG compliant economic and administrative classification only. The advances made under IFMIS to render the budget consistent to GFS/COFOG (but not GSF 2001) have now been completed and a poverty related expenditure code has been introduced which could easily be extended to incorporate the functional category. Budget documentation has been greatly improved.

8. The Local Governments Equitable Grants Distribution Formulae provides clear and timely information on allocations to each of the 19 local councils for each of the devolved services. Follow up on the monitoring of budget execution is in place and local council report regularly and are audited annually. The present system for overseeing fiscal risk from other public bodies is in place, but suffers from a lack of focus on overall fiscal risk.

9. While public policy hearings are held in August each year to review MDAs’ strategy and ensure that the budget and procurement plans are prioritized based on the resource envelope, the budget formulation process is generally weak and requires a complete overhaul if it is to link policy and planning to expenditures.

10. Civil society is engaged in monitoring government expenditure through district level budget oversight committees and other active Non State Actors, which involves widespread community and civil society sensitisation meetings on budgetary and public financial matters. Public access to key information can still be improved by some simple management changes. In-year budget execution reporting take some six weeks compared to the four weeks considered ideal. Overall, some transparency and accountability improvements have been achieved. Parliament scrutinises audit reports after publication by the Auditor General and recent years have seen improvements in this process but delays remain and the recent efforts in addressing the backlog of legislative scrutiny reforms must be sustained.

## **3. Policy-based budgeting**

11. There is a calendar for the preparation of the MTEF and Budget as a combined process. The budget calendar could be improved though the incorporation of a detailed macroeconomic scenario as a precursor to the Budget Call Circular. Presently, the Budget Bureau issues the call circular in the summer months and then awaits an IMF mission in the autumn months to revise the macroeconomic forecast and attendant ceilings. The Ministry of Finance and Economic Development determines the ceilings, which are sent to the MDAs in the Budget Call Circular.

Cabinet is not formally involved in budget preparation until it is sent the Budget Framework Paper.

12. In none of the years between 2007 and 2009 was the budget calendar adhered to in line with the GBAA and consequently Parliament did not approve the budget until well into the financial year.

13. There is an MTEF, but in reality, the budget is an annual one and the medium term forecasts of future expenditure plans are not robust nor are they coherently linked to policy or plans. Expenditures are broken down by economic categories and by sector, which usually corresponds to a ministry. There are no costed sector strategies and investment is not linked to its recurrent expenditure implications. The Development and Recurrent budgets are currently produced by the Budget Bureau, but there is little formal linkage between the two budgets and there is an absence of a capital and recurrent focus.

14. A Debt Sustainability Analysis includes an analysis of both external and domestic debt and is now conducted annually.

#### **4. Predictability and control in budget execution**

15. The National Revenue Authority has made considerable progress in improving the national taxation system and the taxpaying culture by bringing together the revenue mobilisation functions of the Income Tax and Customs Departments into a single unified authority. NRA continues to move forward and make progress with the introduction of Goods and Services Tax (a VAT), ASYCUDA++ for Customs and a unique Tax Identification Number (TIN) linked to other databases. Information on taxes is good with a new website and active taxpayer education. Arrears are high, but falling, and are being addressed.

16. The overall budget strategy is based upon the level of estimated revenues determining expenditure levels. The Budget Bureau prepares quarterly cash flow forecasts at the start of the fiscal year and notifies MDAs of the quarterly ceilings based on procurement plans for non-salary/non interest expenditures. Wages and salaries are calculated centrally. Quarterly allotments are made to all MDAs. The Net Domestic Financing Committee meets on a weekly basis and monitors the cash position. This process gives heads of budget organizations an expenditure plan at the beginning of the fiscal year. MDAs reported considerable uncertainty with the timing and the overall availability of funds for non-interest, non-wage expenditure during the year. Quarterly allocations are often paid in tranches and any quarter allocation reflects the accumulation of commitments to contractors. However, in-year reallocations are frequently done outside the process established in the budget law and regulations.

17. A Single Treasury Account (the Consolidated Revenue Fund) has now been operating for some time. The sub-accounts within the Treasury Account are treated as a consolidated cash balance within the BoSL which is reconciled on a regular basis. However, the consolidation process only applies to the Single Treasury Account

maintained at the BoSL and therefore excludes a significant number of departmental bank accounts, mainly for externally assisted projects and subvented agencies. Consolidation of many of these balances into the treasury system would be a major improvement in the present cash management arrangements and make the Single Treasury Account a reality in practice.

18. All central government loans and guarantees have to be endorsed by the MoFED and approved by Parliament, and the criteria and ceilings are being developed within the overall debt strategy.

19. In terms of payroll data integrity, improvements are ongoing including those encompassed by the reform plan which is to ensure that all personnel on the database have a complete master file held in HMRO central records and that current payroll records in the respective MDAs mirror this master file. Salary payments are handled centrally by the Accountant General's Department. The payroll module of IFMIS was introduced in April 2006. This has improved controls, audit trails and reporting facilities.

20. There have been a number of specific clean up exercises undertaken since 2007 which have targeted the verification of employment records and physical checks of current employees, initially for the key MDAs as priorities.

21. Changes to personnel and payroll records for all public servants (including new starts) are processed on a standard amendment form. Although procedures are in place to ensure that amendments received at the start of the month are reflected in that month's payroll, in practice, delays in processing payroll amendments do occur.

22. The control over procurement established by the Procurement Act 2004 and the Public Procurement Regulations 2006 is overseen by the National Public Procurement Agency (NPPA). Each year since its establishment in 2006, the NPPA has extended its scrutiny to an increasing number of procurement entities in line with its mandate. The prescribed system for procurement commences with the requirement for all MDAs and other agencies to produce a Procurement Plan as part of the budget cycle. The NPPA scrutiny whilst thorough in terms of the entities and contracts captured by its monitoring system still has some way to go in terms of completeness of all procuring entities and comprehensiveness of all procurements.

23. The Procurement Act regulatory requirements have established criteria for the use of open competition and the avoidance of non competitive practices such as the potential for contract splitting to avoid thresholds and the inappropriate use of single source suppliers. Such practices will become harder as procurement planning and implementation is more widely applied. The Act also provides for complaints and appeals and significant levels of capacity building and resources will be required to establish the process more credibly and with actual and perceived independence of the IPRP.

24. The appropriations module of IFMIS became operational June 2005 and provides a hard budget control to ensure that spending does not exceed overall quarterly budget allocations. The implementation of the purchasing module commenced in late 2006. It has the capacity to record specific commitment obligations and Local Purchase Orders. The AGD is able to produce monthly statements comparing approved budget with the total of the executed budget and the outstanding contractual commitments. The AGD does not allow the budget/cash limits to be exceeded. In practice, the main focus at present is on keeping payments within approved limits, rather than closely supervising outstanding expenditure commitments.

25. The Financial Administration Regulations were updated in 2007 are comprehensive and levels of understanding by those who apply them appear to be increasing; in addition the AGD –Other Charges Unit provides another layer of central scrutiny and ad hoc training.

26. The concept of public sector internal audit (as a new function and distinct from internal controllers) is still relatively new to Sierra Leone. From August 2010 after the deployment of the new staff there are now 26 separate Internal Audit Department units established and staffed with total of 130 internal auditors. In day to day line management terms, these IADs function independently from the finance department and report directly to Vote Controllers.

27. There are examples of IADs which are more established and function better than others but overall it is not yet a strong institutional platform. In addition, the management responses to internal audit reports need to be improved; audited entities are often slow to respond to internal audit reports or fail to address issues raised in reports adequately.

## **5. Accounting, recording and reporting**

28. During 2007 reconciliations started to be carried out on a regular basis and have been sustained. Improvements to the IFMIS reconciliation module in 2007 have delivered measurable improvements to the bank reconciliation process. Currently, there is a daily cash balance summary available of all Treasury Accounts and a discipline of regular monthly reconciliations which are completed by the 15<sup>th</sup> day of the following month.

29. Public Expenditure Tracking Surveys are undertaken annually. The PETS reports, however, consistently point at weaknesses in record keeping at the point of receipt of goods and transfers, but follow up in respect of record keeping has been poor.

30. The in year budget reports produced by the IFMIS system provide an extensive budget reporting system on a monthly basis with ever improving quality and accuracy of information. The reports encompass budgetary integrity and indicate whether resources have been used in conformity with legal authorisations and

mandatory requirements. The reports also show the status of resources and expenditures (uncommitted balances and undisbursed commitments), and take into account the needs of different users and in addition to those produced monthly “flash reports” can be produced at any time.

31. There has been a significant increase in timeliness of the Financial Statements. Currently GoSL prepares accounts, which are not in line with IPSAS (cash) neither is the full set of statements required by the GBAA Section 57(5) produced.

## **6. External scrutiny and audit**

32. The Audit Service Sierra Leone (ASSL) audit work performed in 2009 covered 69.3% of the total national actual expenditure of central government for the fiscal year 2008. During 2009 work was undertaken in respect of performance audits. The first of these covering Education Inspection Service was reported on in 2010 and a second report is yet to be completed.

33. The Finance Committee carries out the scrutiny function on the budget and Public Accounts Committee on audited accounts. While annual budget has been late in each of the recent three years, the scrutiny process has taken the allotted 2 months and as a result, the approval of the budget has been into the financial year which has necessitated a Presidential Order to allow expenditures to take place.

34. The submission of the 2008 Accounts met the Auditor General’s constitutional mandate to submit to Parliament her report on the accounts to the legislature within twelve months of the end of the period covered. This report was laid before Parliament on 14<sup>th</sup> January 2010. In addition, a Value for Money (VFM) report on Inspection and Supervision of Secondary Schools was submitted to Parliament on 2<sup>nd</sup> March 2010 and laid before Parliament on 16<sup>th</sup> March 2010. Training was given to PAC members on the concept of performance audits including guidance on appropriate questions prior to the hearings on the VFM report.

35. The clarification of Standing Order 75<sup>3</sup> in 2009 means that Auditor General’s reports can now be made public as soon as they are laid before Parliament and based on last year’s decision the 2006 and 2007 audit reports were made public in electronic format at that time.

## **7. Donor Practices**

36. There is significant volatility in budget support disbursements compared to estimates. This is apparent in the in-year timeliness of the disbursement of budget support, where actual disbursements do not track forecasts well. Actual disbursements of Direct Budget Support exceeded forecasts for 2009 and fell short in 2007 and 2008.

---

<sup>3</sup> Audit reports could not be published until after scrutiny by Parliament.

37. Financial information, including its completeness and timeliness, provided by the donors for budgeting and reporting on project and programme aid is still weak. However, it is a reflection of these donor practises, the nature of aid management within the Government of Sierra Leone and the inadequacies in the reporting of PIUs to the OGAU.

38. In terms of the proportion of aid that is managed by national resources the best proxy is still to use the budget support figures as there was little evidence found of other aid using IFMIS.

### **C. Assessment of the Impact of PFM Weaknesses**

39. Weaknesses can be summarized as:

- **Budget Planning**
  - Need to improve planning and budget formulation in line ministries to fully reflect policy priorities established through the MTEF. This weakness limits both allocative and technical efficiency in delivering services that reflects government policy.
- **Budget Execution**
  - The process of in-year budget revision linked to IMF missions operates outside the confines of the rules for virement and supplementary budget (which only relates to an increase in the total budget). This impacts on allocative efficiency and strategic service delivery, but is to ensure aggregate fiscal discipline
- **Budget Accounting and Controls**
  - Failure to achieve best value for money through comprehensive competitive procurement practices which encompass all public funds will continue to be a high risk area. The appeals process requires significant additional effort and resources to be fully implemented and independent.
- **Budget Reporting and External Audit**
  - The Single Treasury Account has the ability to produce meaningful consolidated financial reports with the focus on straightforward budget execution reports rather than broader financial management reporting.
  - Nevertheless there are many subvented agencies and project accounts that are outside the ambit of the STA and IFMIS. The poor coverage impacts on fiscal discipline, but also on allocative efficiency.
  - Formal responses are made to the Auditor General though not always in a timely manner and sometimes responses are not forthcoming until requested by the PAC.
- **External Scrutiny**
  - The budget documentation is reviewed by the Finance Committee and passed by Parliament, but needs to be tabled on time.

- Further ASSL audit approach and methodology improvements should now focus on incremental increases in scope to ensure adequate scrutiny of all public funds; further development of specialist audit areas; and the further development of its audit opinion work on the Accountant General's Annual Statement of Accounts.

#### **D. Prospects for Reform Planning and Implementation**

40. The PEFA assessment has been produced during a significant period in the overall reform of PFM in Sierra Leone covering:

- Budget Formulation – the creation of a cadre of budget officers in MDAs under the Budget Bureau.
- Budget Execution and Accounting – the continued role out of the IFMIS and the coverage the STA and the production of timely financial reporting.
- Significant payroll verification exercises and the identification of key cadres / categories of officers which have received top up salaries
- Developments in procurement implementation
- Ongoing decentralisation to Local Councils
- Increase in the IT platform of many systems, in particular, IFMIS.
- Internal Audit – new concepts in the development of financial management control and internal controls which includes improved institutional and methodological arrangements for internal audit within Government. The creation of a cadre of internal auditor officers in MDAs under the Internal audit Department in MOFED.
- External Audit – the publication of more timely audit reports and Auditor General's Opinion on the Financial Statements

41. These reforms are significant and cover the full range of PFM and are supported by technical assistance from a range of bilateral and multilateral donors, particularly the Integrated PFM Reform Project. They continue to require continued strong leadership and coordination from Central Government as well as significant inputs from staff in all ministries which will require new skills (and consequently training) as well as commitment to implementing these changes. The challenge of fully implementing such an ambitious set of PFM reforms should not be underestimated, in particular during a period of economic downturn.

42. The PEFA assessment has pointed to weaknesses in policy and planning and as a result in budget formulation which is focused presently on aggregate expenditures rather than the distribution to spending agencies that reflects their policies and plans. Strengthening control by improving accounting systems, internal audit and internal control is important but without the expenditure being fully focused on service delivery, expenditure is limited in terms of effectiveness and efficiency. Such a reform can only be implemented over a number of years, but the basic building block of a budget law, a defined budget calendar, medium term resource envelop estimation and setting ceilings are in place.

43. The integration of the recurrent and development budgets and the use of capital and recurrent budgets with inclusion of information on donor projects in the

planning stage of the budget process is an important step in achieving a better focus on budget preparation.

44. The GoSL should now also ensure that IFMIS and related control improvements acknowledged within other indicators of this assessment are sustained and deepened; that the material concerns raised in the 2008 audit opinion are acted upon with the ultimate aim of producing timely and accurate Statements of Accounts which can be given an unqualified opinion.

#### **E. Institutional Factors Supporting Reform Planning and Implementation**

45. The reform programme is an essential part of the GoSL's democracy and stabilisation plan as set out in the original PRSP, Vision 2025 and the new PRSP, Agenda for Change. It is support by the political process and implemented though the Vice President and the Minister of Finance

46. Donor partners actively support the reform programme by linking budget support to it but also provide technical assistance to ensure it is supported in its implementation

47. Institutional factors which have taken place in supporting the reform programme include the following:

- The integration of MODEP and MOF into MOFED which has provided the opportunity for a unified recurrent and capital budget instead of the existing recurrent/development budget. .
- The integration of DACO into the main MOFED building, which has allowed donor issues to be mainstreamed.
- The integration of the PFM reform unit into the main MoFED building.
- Strengthened of parliamentary capacity in the analysis of public finance, such as increased numbers of parliamentary clerks, researchers and exposure to best practice in other countries
- Autonomy of the Auditor General. Although autonomy has been secured *de jure*, there are ongoing and continued improvements to be made in line with full international best practice such as the financial independence of the ASSL, though a number of these are outside the scope of PI-26 N

#### **F. Key Changes from 2007 to 2010.**

48. Solid progress in the quality of PFM systems and processes has been achieved between 2007 and 2010, as measured by the PEFA methodology. This is shown in Figures 1 below.

**Figure 1: Sierra Leone:  
Summary Comparison of PEFA Scores 2007 and 2010.**

Indicator	2010 (No.)	2007 (No.)
A	3	2
B or B+	6	4
C or C+	12	14

Republic of Sierra Leone: PFM Performance Assessment Report 2010

D or D+	9	9
No score	1	2
Upward Arrows	3	Not applied in 2007
Improved Scores	10	-
Reduced Score	4	-
Dimension	2010 (No.)	2007 (No.)
A	12	11
B or B+	14	12
C or C+	28	30
D or D+	14	15
No score	1	2
Upward Arrows	6	Not applied in 2007
Improved Scores	16	
Reduced Score	8	

The improvements in scoring have, in some cases arisen purely as a result of small managerial or administrative improvements, but nevertheless represent some 30 per cent of the indicators. The most significant development which influenced the scores from 2007 to 2010 was the improvements and roll-out of the IFMIS, which improved the overall scores in Cash Management and Accounting Recording and Reporting. The biggest improvement in overall scoring was in quality and timeliness of in-year budget reports quality and timeliness of annual financial statements. The introduction of the Tax Identification Number (TIN) also led to an improved score in tax registration. The improvements in systems for addressing and recording debt also feed through to improved scores. Addressing arrears moved that indicator from a no score to a D+.

49. The Assessment Team noted sixteen indicators where the scores had not changed. However, the three upward arrows are a good indicator of positive trajectory of change even if these have yet to feed into improved scores. The introduction of ASYCUDA ++ and GST have not been sufficiently established but merit an upward arrow even if the appropriate scores have not yet improved. Upward arrows show potential effectiveness in tax collection (new systems and tax), recording and management of cash balance (debt recording and loans) effectiveness in payroll (audit), internal audit (improved coverage) and scrutiny of audit reports (timeliness). Four indicators had reduced scores.

### G. Targets for Reform

50. Improvements in the quality of public financial management can have a positive impact on aggregate fiscal discipline, the strategic allocation of resources, and the efficiency of public service delivery. The linkages between current weaknesses in PFM and these three aspects of budgetary outcomes are highlighted in the Appendix to the Summary below.

**Appendix 1. Links between the six dimensions of an open and orderly PFM system and the three levels of budgetary outcomes**

	<b>1. Aggregate fiscal discipline</b>	<b>2. Strategic allocation of resources</b>	<b>3. Efficient service delivery</b>
<b>A1 Budget credibility</b>	<i>In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.</i>		
<b>The budget is realistic and is implemented as intended</b>	In the past three years, domestic revenue has been below that forecast, and the (non-interest) budget has suffered from cuts in two of these years. Donor support for the budget has been unpredictable which has also lead to uncertainty in budget execution. The level of arrears is significant, but is decreasing and is now fully quantified.	The challenge will be to better forecast revenue and sharply reduce or eliminate the use of tax waivers. This will allow a better allocation of resources at the planning stage rather than reducing allocations during the budget execution stage. It will also assist in fiscal discipline as it will remove pressure on revenue	The recent years have shown reasonable aggregate expenditure discipline but there have been compensatory cuts and increases at the MDA level. These deviations mean that planning of inputs needed to achieve better and more efficient service delivery is being sacrificed to achieve aggregate fiscal balance.
<b>A2 Comprehensiveness and transparency</b>	<i>Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.</i>		
<b>The budget and fiscal risk oversight are complete and fiscal and budget information is accessible to the budget</b>	None of the 2007to 2009 budgets was produced according to the statutory timetable and the need for a Presidential Warrant (and temporary cessation of expenditure was avoided. While procedures for the assessment of fiscal risk from other fiscal bodies are in place, these are not implemented effectively.  The concerns within indicator PI-7 such as the lack of availability of	Availability of information on the budget and scrutiny of the budget by Parliament and its Finance Committee provides adequate transparency. Public access to information has been improving and can easily be improved further.  There are no longer delays in producing annual accounts (and therefore audited accounts). This means that oversight by the Parliamentary Public Accounts Committee has been carried without delay.	District level budget oversight committees and PETS are able to provide timely feedback on service delivery. However, record keeping at the point of receipt is in need of improvement

Republic of Sierra Leone: PFM Performance Assessment Report 2010

	<b>1. Aggregate fiscal discipline</b>	<b>2. Strategic allocation of resources</b>	<b>3. Efficient service delivery</b>
	sufficient, complete and clear data in respect of extra budgetary items has an impact here, also.		
<b>A3 Policy-based budgeting</b>	<i>A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy.</i>		
<b>The budget is prepared with due regard to government policy</b>	In theory, the adoption of the MTEF allows government policy to be linked to planning. In practise, this is weak and nonexistent. The resource envelop to which this relates has not been realised in recent years which compromises the credibility of an MTEF. MDAs have little incentive to plan even if they had the capacity to do so as in-year changes are frequently applied based on resource availability.	The budget calendar provides sufficient time for due deliberation by Parliament (Finance Committee), but is not followed. Cabinet involvement in establishing ministerial ceilings that reflect broad policy objectives is after the event and is therefore minimal.  The absence of fully defined sector strategies has meant that ceilings are defined more by macro considerations than costed plans.	The underdeveloped nature of the bottom up element of the MTEF with respect to costed strategies and linkages of recurrent and capital budget will inhibit optimum service delivery. The MTEF need to be revisited and restated with a back to basics approach.
<b>B1. Predictability and control in budget execution</b>	<i>Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.</i>		
<b>The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and</b>	The execution of the budget is based on planned allocation limits that are conveyed to budget holders. These limits are based on revenue forecasts and are set to ensure fiscal discipline is maintained. The AGD does not allow the budget/cash limits to be exceeded. In practice,	Budget execution and control is based on the set budget in terms of both institutions and line item economic categories, but the changes that result from in year changes compromises allocation of resources linked to any strategic plans that do exist.	Heads of budget organizations receive an expenditure plan at the beginning of the fiscal year. Quarterly allocations are often paid in tranches and fourth quarter budget cuts provide a disincentive to contract for goods and services even if these are included in procurement plans.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

	<b>1. Aggregate fiscal discipline</b>	<b>2. Strategic allocation of resources</b>	<b>3. Efficient service delivery</b>
<b>stewardship in the use of public funds</b>	the main focus is on keeping payments within approved limits, rather than closely supervising outstanding expenditure commitments (except in subsequent quarterly allocations). Arrears are now addressed and curtailed. The budgetary control system is tightly operated and there is no possibility of a budget being exceeded without the allocation of additional resources.		
<b>B2. Accounting, recording and reporting</b>	<i>Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.</i>		
<b>Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes</b>	The Single Treasury Account has been operating for some time. The sub-accounts within the Treasury Account are treated as a consolidated of cash balance within the BoSL which is reconciled on a regular basis. However, the consolidation process only applies to the Single Treasury Account maintained at the BoSL and therefore excludes a significant number of departmental bank accounts, mainly for externally assisted projects and sub-vented	The IFMIS generates reports on expense analysis, (weekly or more frequently if required) Cash Flow, Allocation monitoring and Commitment/Obligation reports. Flash reports on release of funds to MDAs are produced manually by the Budget Bureau, as well as there being the opportunity for MDAs to access IFMIS to select parameters based on the Chart of Accounts periods, etc. to filter, sort and group information in reports. Analysis can be based on any segment in the Chart of Accounts, including all the mapped codes, allowing data to be compared to the original budget. Expenditure is covered at	The data that is being recorded could enhance the bottom up element of the MTEF and improve on service delivery at the planning and budget formulation stages. However in reality this does not take place.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
	agencies. This is a major weakness.	both commitment and payment stages.	
<b>C1. Effective external scrutiny and audit</b>	<i>Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.</i>		
<b>Arrangements for scrutiny of public finances and follow up by executive are operating</b>	<p>The Parliamentary Finance Committee scrutinises the budget, which ensures political as well as technical input, but cabinet is not involved in the budget formulation process until at later stage in the calendar.</p>	<p>The Audit Service has developed a general audit manual and a Code of Ethics; audits are based on INTOSAI and IFAC International Standards of Auditing. Audits predominantly comprise transactions audits i.e. whether accounts have been properly kept, rules and procedures followed, resources expended for the purpose appropriated and proper accounting records have been maintained</p> <p>The ASSL is in the early stages of modernizing its audit approach in line with the ongoing developments in PFM reforms in Sierra Leone including the ongoing roll-out of computerized systems, in particular IFMIS</p>	<p>The Audit Service undertakes predominantly financial audits which acknowledge the systems aspects of that work – though not full systems based audit. Regular performance audits reporting to Parliament have yet to be established. The first VFM audit presented in 2009 was supported by technical assistance; sustainable in house capability for VFM and other systems audits is not yet established.</p>

## 1. Introduction

### Background

Emerging from 10 years of conflict in 2001, Sierra Leone continues to recover strongly from the effects of the war, with real GDP growth consistently above 6 percent over the last 5 years. In 2005, the Government of Sierra Leone (GoSL) set out its policy strategy to promote economic growth, food security and job creation in its Poverty Reduction Strategy Paper (PRSP). According to this plan, one of the foundations for sustained pro-poor growth is the maintenance of macroeconomic stability and continued improvement in public financial management. The second (2009) Poverty Reduction and Strategy Paper (PRSP II) or *Agenda for Change* which covers the period (2008-2012) identified key priority areas for poverty reduction. The PRSP II was designed to address a number of key strategic priority areas including power, infrastructure, agriculture, education and health.

The war had a devastating impact on public financial management both in terms of loss of skilled personnel, but also damage to infrastructure, including the destruction of the building that housed the Ministry of Finance in 1997. Despite these setbacks, GoSL has made significant progress in rebuilding and strengthening public expenditure systems with support from the international community since 2001. In 2002, a limited scope Country Financial Accountability Assessment was undertaken. Since then, the regulatory framework for PFM has been transformed by a number of new laws, including:

- The Government Budgeting and Accountability Act, 2005
- Financial Regulations , 2007
- National Revenue Authority Act, 2003
- Local Government Act, 2004
- Public Procurement Act, 2004

The Government of Sierra Leone is implementing a wide-ranging public financial management (PFM) improvement program. Several development partners are providing technical and financial support to this programme, and PFM actions are also covered in budget support operations. The World Bank, EC, UK and AfDB have provided financial and technical support to strengthen PFM in Sierra Leone. The Ministry of Finance PFM Reform Unit is supported by the World Bank and AfDB who covers salary and running costs, while UK is funding a resident advisor to support implementation of the National Action Plan and PFM aspects of budget support. Other donor interventions include institutional strengthening of the Ministry of Finance supported by EC and AfDB, support to the National Revenue Authority by UK, support to the Office of the Auditor General by UK and AfDB, and support to the implementation of an Integrated Financial Management Information System (IFMIS) and decentralization by the World Bank, DFID and EC-funded Institutional Reform and Capacity Building Project – IRCBP.

In 2005, a draft Common Action Plan (CAP) was drawn up, combining all existing PFM action plans into a single tool to monitor progress in this area. A PFM Oversight Steering Committee was established to monitor and coordinate the Government's PFM reform programme as an integral whole as set out in the CAP. In March 2006, GoSL held a workshop for key PFM practitioners to understand the methodology for ranking the PEFA indicators. A self-assessment using the PEFA methodology was conducted at the end of the workshop and used to develop a consolidated PFM National Action Plan (NAP).

As part of the move to greater donor harmonization and alignment of budget support donors around the Multi-Donor Budget Support (MDBS) arrangement, a Progress Assessment Framework (PAF) was established in 2005 comprising all PFM-related benchmarks used by budget support donors. The first joint donor review of the PAF took place in June 2006. The official Aide Memoire communicating the results of this review was made public at the Consultative Group Meeting held in

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

November 2006. In 2007 a benchmarking PEFA was undertaken by external consultants. In 2008, the Government of Sierra Leone, in consultation with, and support from its key development partners, conceptualized and formulated an Integrated PFM Reform Project (IPFMRP) aimed at widening and deepening the PFM reform process through harmonized donor support for a coherent set of prioritized and sequenced PFM reforms. This is now the focal point for donor support for PFM reform.

### **The PFM Performance Assessment Study**

Against this backdrop, this PFM performance assessment study was carried out to obtain a holistic view of current PFM performance, and to feed into the process of prioritizing key improvements going forward

This PFM Performance Assessment Report is based on the PEFA PFM Performance Measurement Framework, which includes a performance rating on 31 indicators covering the entire PFM cycle in the central government, and assesses impact on budget goals. The report also examines progress made in recent years and address changes since the 2007 PEFA.

Public financial management at the level of central government (including ministries, departments, autonomous agencies and deconcentrated entities) may cover only a limited amount of public expenditures that take place in a country, depending of the devolution of responsibilities to sub-national governments and public enterprises. In Sierra Leone, public finances cover the Central Government and transfers to the Local Councils and any transfers to subvented organisations and parastatals. The analysis of PFM in this report focuses on central government. There is a separate PEFA coving 5 Local Councils. However, an assessment of the transfers and associated process from Central Government is included with reference to the finding of the Local Council PEFA as triangulation. In effect, this PEFA relates to around 95 per cent of public expenditures as transfers to Local Councils form the Central Government represents around 95 per cent of Local Council revenue.

The structure of General Government in Sierra Leone is as follows:

Institutions	Number of entities	% of total public expenditures
Central Government*	60	88.9%
Autonomous Government Agencies	32	4.8%
Sub-National Governments	19	6.3%

Includes ministries, departments and agencies.

Source: Budget Bureau (MoFED) - 2009 Budget Estimates

Central Government is the dominant fiscal force.

## 2. Country Background Information

### 2.1. Description of the Country Economic Situation

The population of Sierra Leone is estimated at 5.6 million in 2009 (projection from 2004 census) from 4.977 million in the 2004 Census, the first for some 20 years. Life expectancy at birth has improved to 41.8 years (2006 UNDP HDR), and the overall social indicators improved as reflected in the Demographic and Health Survey conducted in 2008. Data on trends in some key human development available from Demographic and Health Survey (DHS) implemented in 2008 suggested improvements in recent period. Table 1 provides the data.

Under-five mortality rate is estimated at 140 deaths per 1,000 live births, which is an improvement over the figure of 286 per 1000 live births from the MICS 2000 and MICS3 2005. MICS 2000 is based on data for 1997 and the 2005 MICS3 estimate applies to 2002, which was the year when the conflict ended. The infant mortality rate also decreased to 89 per 1000 in indicated in the DHS from 170 per 1000 in both MICS 2000 and MICS 2005. A range of other indicators are provided in table 2. There are clear signs of progress in terms of immunization rates. School enrolment has dramatically increased, and the gap between vulnerable children such as orphans and other children has been reduced. Progress has also been achieved in terms of knowledge about HIV-AIDS.

Table 1: Sierra Leone: Social Indicators

Population (2004 Census projection for 2009)	5,579,667
Urban	39.6 percent
Rural	60.4 percent
Aged 20 and above	46.3
Crude Birth Rate (2009 estimates)	40.6 / 1000
Crude Death Rate (2009 estimates)	16.6 /1000
Infant Mortality Rate (DHS 2008)	89/ 1000
Under Five Mortality Rate (DHS 2008)	140/ 1000
Maternal Mortality Rate	857 / 100,000 live births
Life Expectancy at Birth (2008)	47.3 years
Average Completed Fertility	5.9 births / woman
Total Fertility Rate (per women) 2005-2007 (DHS 2008)	5.1
Contraceptive Prevalence Rate, 2008 (Women)	10.2%
Disability Prevalence	7.0 per thousand
Underweight Prevalence (Children under 5 years)	21 percent
Stunting Prevalence (Children under 5 years)	36 percent
Prevalence of HIV	1.5 percent
Access to Health Services	40percent
Access to Safe Water	57 percent
Access to Sanitation	66 percent

Source: (SLDHS (2008), 2004 Census & updated estimates

### Poverty Profile

Poverty estimates by PRSP unit (DACO) and the National Statistical Office using the Sierra Leone Integrated Household Survey of 2003/2004 suggest that 66.4% of the population is poor (47% in urban areas versus 79% in rural areas). Rural areas account for the largest proportion of the poor (73%, versus 61% of the population). The average person's total consumption falls short of the minimum consumption level necessary in order not to be poor by 27.5% of the poverty line.

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

For all poverty measures, the Eastern Region records the highest poverty, followed by the Northern Region. The Western Region has the lowest poverty measures. The five poorest districts according to poverty incidence are Kailahun, Kenema, Bonthe, Tonkolili and Port Loko. Though Bombali ranks sixth in poverty incidence, it ranks second in terms of the poverty gap, followed by Kenema and Bonthe. The same holds for the severity of poverty, with Kailahun, Bombali, Kenema and Bonthe recording the highest squared poverty gaps. It is worth noting that rural areas in the Western region tend to have high levels of poverty in comparison to Freetown. This may be because as in other poor countries, provincial people are eager to go to the Capital City area with the hope of enhancing their livelihoods. Yet a majority of migrants are unskilled and find themselves in the periphery of the Capital City, often living in slums and in some cases in rural areas. In some cases their socio-economic condition may then be worse than that of those who remained in rural areas. In the case of Sierra Leone, this situation may have been aggravated by the civil war as the Western area including Freetown witnessed unprecedented influx of upcountry dwellers during the war. Notwithstanding ongoing effort to resettle internally displaced persons, many are reluctant to go back to their original settlements. Yet, for a good proportion of them, it may well be that continuing to dwell in Western slums/periphery is no better than living in the countryside.

**Extreme poverty:** Extreme poverty is defined as a household having a consumption level below what is needed to meet basic food needs. At national level, 21% of the population lives in extreme poverty, with rural areas faring again much worse than urban areas and especially Freetown. The Eastern Region registers the highest levels of extreme poverty, followed by Northern Region. The Western area has again the lowest levels of extreme poverty. At the district level extreme poverty is most prevalent in Bombali, Kailahun, Kenema and Koinadugu. Overall, the geography of extreme poverty is very similar to that of poverty.

The Human Development Index (HDI) is a summary measure of three dimensions of human development: leading a long and healthy life (measured by life expectancy at birth), being knowledgeable (measured by literacy and school enrolment) and having a decent standard of living (measured by GDP per capita).

Sierra Leone falls in the Low Human Development category (less than 0.5) and is ranked 180 out of 182 countries in the UNDP report.<sup>4</sup> Despite this lowly position, life expectancy is up from 41 years in 2004 and GDP Per capita (\$PPP) from 561 in 2004.

Human Development Index Sierra Leone				
2003	2004	2005	2006	2008
0.298	0.334	0.350	0.357	0.365
	Life Expectancy	Education Enrolment	Adult Literacy	GDP Per capita (US\$PPP)
2008	47.3 years	44.6	38.1	713

### Employment Trends between 2003 and 2007

Employment trends suggest likely improvements in standards of living between 2003 and 2007 as labour force participation rates have increased much faster than unemployment rates. Limited comparable data are available between the 2003 SLIHS and the 2007 CWIQ, and a thorough analysis of trends in employment would need to be much more detailed than what is presented here. Nevertheless there are some clear and useful trends in basic employment variables worth highlighting. Labour force participation rates have increased very substantially between 2003 and 2007, by about 7 percentage points. The increase has been largest among the poorest quintiles (in the fifth quintile, the

<sup>4</sup> HDIs are taken from UNDP's Human Development Report for 2005, 2006 and 2009.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

much lower labour force participation rate is due in part to the fact that the statistics is computed among all individuals aged 15 to 64, with many of the younger group still enrolled in school or at the university among better off households). There has also been an increase in unemployment between 2003 and 2007, but this increase is much lower than the increase in labour force participation. Therefore, presumably, households have been able to benefit from higher incomes as more household members were willing to and able to find work in 2007 than was the case in 2003.

Data on shifts in employment patterns also point to an improvement in standards of living. There has apparently been a substantial shift away from agriculture to better paying jobs in industry and services, and to some extent in community services and government. The shifts seem to be large in only four years, but they may be related to the resumption of industrial and service-oriented activities after the conflict. Overall, these shifts are consistent with the improvement in standards of living expected from growth as well as with the gains in terms of assets owned by households between the two survey years.

	2003	2004	2005	2006	2007	2008	2009
GDP Le billion	2327.0	2898.6	3510.2	4217.0	4966.5	5826.0	6407.0
of which Agriculture, Forestry & Fishing %	43.7	45.9	48.4	47.3	46.2	46.3	46.1
of which Industry %	10.28	10.46	9.87	9.49	9.96	7.87	6.5
of which Construction %	1.90	1.96	2.22	2.11	2.06	2.03	1.9
of which Trade and Tourism %	13.70	10.93	10.29	10.92	11.90	11.92	11.8
of which Transport, Storage and Communication %	8.40	6.79	7.57	7.54	8.40	10.14	10.8
of which Services (incl. Govt)	43.71	39.05	38.46	39.09	39.13	41.40	42.8
GDP L per capita (000)						1,068	1,148
GDP \$ per capita (parallel)						201	233
Real GDP Growth	9.3	7.4	7.3	7.4	6.4	5.5	4.0
CPI Freetown (Year on Year %)	11.3	14.4	13.1	8.3	13.8	12.2	10.8
Export of Goods & Services (\$m)	177	215	262	307	335	334	323
Import of Goods & Services (\$m)	406	367	453	437	494	597	606
Current Account Balance excluding official transfers(\$m)	-95	-139	-169	-137	-201	-297	-264
Foreign Exchange Reserves(\$m)	59.4	124.9	168.3	184.2	215.5	209.5	336.5
Foreign Exchange Reserves months of imports	1.9	3.3	4.4	4.7	4.5	4.4	6.4
Total external debt (\$m)	1,637.8	1,712.1	1,754.4	1,743.8	552.9	620.2	692.6
Exchange rate L/\$							
Official	2,338.5	2,696.7	2,889.6	2,961.8	2,984.5	2,980.7	3,385.6
Parallel		2,860.4	2,965.1	3,020.6	3,000.0	2,983.8	3,525.9
Government Revenue (Le bl.)	268.0	319.3	416.0	495.6	536.2	662.7	750.2
Government Expenditure (Le bl.)	598.0	668.1	828.3	915.5	835.5	1,223.2	1,452.2
Revenue to Expenditure ratio	0.45	0.48	0.50	0.54	0.64	0.54	0.52

Source: Statistics Sierra Leone, IMF, EPRU

In 2001 and 2002, the donor community assisted the Government of Sierra Leone to develop an Interim Poverty Reduction Strategy Paper (IPRSP) and a National Recovery Strategy (NRS) to improve the economy, restore and consolidate peace and ensure civil authority all over the country among other things. The government wrapped up its disarmament, demobilization and reintegration program in 2004 with 72,000 former combatants disarmed and demobilized, over 56,000 ex-combatants benefiting from social and economic reinsertion programs, and virtually all 200,000 internally displaced persons and 100,000 former refugees resettled. The full Poverty Reduction Strategy (PRS) was finalized in 2005. In December 2006, Sierra Leone reached the Completion Point

under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative and, in so doing, also gained additional relief under the Multilateral Debt Relief Initiative (MDRI). Parliamentary and Presidential elections were completed in August 2007, with a Presidential run-off election in September 2007. The elections, judged to be free and fair, resulted in a transfer of power to the opposition party. The new leadership has placed strong emphasis on a campaign against corruption and more investment in physical infrastructure to buttress ongoing investments in health and education outlined in the PRSP II or Agenda for Change. These developments have contributed to strong economic growth in recent years. The donor community have strongly supported expenditures as domestic revenue has ranged between 45 to 64 per cent of total expenditure.

Real GDP grew by 9.3 percent in 2003 owing largely to increased investments in rehabilitation activities supported by development partners following the end of the conflict in 2002. Economic growth slowed down in subsequent years averaging 7.1 percent over 2004-2007 driven mainly by expansion in agriculture, services, construction and investments in mining. Despite the global economic and financial crisis, economic growth remained strong in 2008 and 2009 at 5.5 percent and 4 percent respectively on account of increased investments in agriculture and infrastructure.

External sector performance has been closely linked to developments in the global economy. The global financial and economic crisis and the corresponding drop in incomes in advanced economies weakened the demand for the country's main exports during 2008 but exports started to recover in 2009.

With respect to the external account, exports grew strongly after the civil war with mineral exports averaging about 85 percent of total exports between 2005 and 2007. However, the global economic and financial crisis adversely affected economic performance in 2008 and 2009. Export performance (including mineral export) was particularly affected. Mineral export fell to 79 percent of total export and subsequently slowed down to 60 percent of total export in 2009. Imports also grew initially as a result of the huge rehabilitation need in the country following the end of the conflict and subsequently owing to the escalation in the international prices of food and fuel. As a result, the current account deficit widened significantly to minus US\$297 million in 2008 from minus US\$95 million in 2003. The exchange rate between the Leone and international currencies was relatively stable during 2005-2007. However, as a result of the global crisis, the exchange rate depreciated substantially against major currencies during 2008 and 2009. The gross reserves (in months of imports) averaged 4.2 between 2004 and 2007, reached 4.4 months in 2008 and jumped to 6.4 in 2009 as a result of the allocation by the IMF of the equivalent of US\$128 million in the third quarter of 2009. Sierra Leone obtained debt relief under the HIPC Initiative and most of its debt was cancelled under the MDRI in 2006 which improved the country's debt profile considerably. The total stock of external debt declined from US\$ 1.74 billion 2006 (pre-debt relief period) to US\$ 550 million in 2007 (immediate post debt relief period).

2010 has ushered in a welcome economic recovery with robust global mineral prices supporting an upturn in that sector led by diamonds, rutile, bauxite and ilmenite. Compared to the first half of 2009, gold production was 74 percent higher in the first half of 2010, bauxite was 14 percent higher, ilmenite 2 percent higher and diamonds 31 percent higher. Agriculture and fisheries which generate about 50 percent of GDP have also performed well with increased production of rice, cocoa, rubber and fish.

### **Overall government reform programme**

The Poverty Reduction Strategy Paper (PRSP) and Vision 2025 documents provide the overarching policy framework for Sierra Leone. They present the core strategic issues that must provide the objectives for all plans, policies and programmes that aim to contribute to the development of Sierra Leone.

Sierra Leone's Vision 2025, which was developed through consensus, summarises the development principles, which Sierra Leoneans agreed must guide their development efforts for the foreseeable future. The strategic areas of focus chosen which are the basis for plans and policies for Sierra Leone are to:

- Attain a competitive private sector-led economic development with effective indigenous participation;
- Create a high quality of life for all Sierra Leoneans;
- Build a well-educated and enlightened society;
- Create a tolerant, stable, secure and well-managed society based on democratic values;
- Ensure sustainable exploitation and effective utilisation of our natural resources while maintaining a healthy environment; and
- Become a science and technology driven nation.

The PRSP presents the policy and strategy to implement this broad agenda to address the poverty challenges and attain the medium term objectives of attaining food security and creating employment opportunities. It is developed around three main pillars, which have been also linked to the achievement of the MDGs, namely:

Pillar 1: Promoting good governance, security and peace;

Pillar 2: Promoting pro-poor sustainable growth for food security and job creation;

Pillar 3: Promoting human development.

The first pillar has been influenced by the recent emergence of the country from the brutal conflict that reduced the capacity for state governance and security. Although significant progress has been made in re-building institutions for governing the state and safeguarding national security, there is still need for deeper reforms, and to strengthen the capacity for effective and efficient delivery of basic services and long-term sustainable development. Civil society's assessment of the poverty situation through consultation has emphasised various aspects of bad governance as one of the main causes of their deepening poverty. Consolidation of peace and nation-wide reconciliation are also expected to provide the enabling environment for the transition to medium and longer-term development.

The second pillar emphasises the continued implementation of sound economic policies to attain macroeconomic stability and a more favourable environment for private sector development. A stable macro-economy will also underpin the sectoral and other more specific interventions that have been designed through participatory processes involving consultations with civil society and other community stakeholders in the country. Pro-poor, economy-wide, and sectoral growth is critical to strengthening food security systems for the poor and job creation opportunities, especially for the growing number of unemployed and underemployed young men and women in the urban and rural areas.

The third pillar underscores the point that poverty reduction must be underpinned by investment in human resources. Rational investment in the health and education of the population and increasing access to basic services provide the basis for enhancing the capacities of the poor and reducing their vulnerability for sustained poverty reduction.

## **Second PRSP**

The second Poverty Reduction and Strategy Paper (PRSP II) or *Agenda for Change* which covers the period (2008-2012) identified key priority areas for poverty reduction. The PRSP II was designed to address a number of key strategic priority areas including power, infrastructure, agriculture, education and health considered vital for economic growth, poverty eradication and economic development. Power and infrastructural development including feeder roads and trunk roads, and general transportation are considered vital for eliminating the impediments to entrepreneurial development and supporting productivity and growth of rural farming and cottage industries. Moreover, the lack of

electricity impedes growth of small and medium scale enterprises. Human development is also a major pre-condition for sustained economic development. Therefore, following the implementation of the PRSP I, Government of Sierra Leone is now in the middle of implementing the PRSP II designed to move the country on to the next phase in the path of development.

### **Rationale for PFM reforms**

The central rationale for PFM reforms is the rebuilding of PFM legislation and skills to strengthen public expenditure. This is to improve the efficiency and effectiveness of public spending and consequently reduce poverty. Key elements of the public expenditure reforms include managing fiscal risks, improving public investment management, strengthening budget execution, furthering procurement reforms and improving the integrity of the Government payroll.

### **Support to Government Program**

With respect to Public Sector Reform, measures have been initiated, supported by Donors, to ensure the efficient functioning of the public sector. These include:

- DFID assisted management and functional reviews of government ministries, departments and agencies (MDAs) and the overall architecture of GoSL, and the conversion of the Establishment Secretary's Office to a Human Resource Management Office); assistance on training policy; and assistance on reform strategy.
- UNDP assistance in establishing a Senior Executive Service Implementation Unit in the Office of the President.
- World Bank assistance on Civil Service Training Centre and Institute of Public Administration and Management, and assistance on pay issues.

The African Development Bank has supported the AGD, ASSL and Public Debt Management Unit (through a project that started in 2001). A major component of this project has been to provide technical and financial assistance to strengthen PFM capacity including: staff training, provision of office equipment and facilities, short-term technical assistance, and IT connectivity between PMDU, Bank of Sierra Leone, and Accountant General's Department.

Specific support to Public Financial Management from DFID includes:

- support to the Auditor General covering:
  - institutional and legislative arrangements;
  - audit policies and procedures;
  - staff development and training;
  - joint audit plans and programmes accompanying on-the-job training;
  - awareness-raising outside the Auditor-General's Department;
  - support services, facilities and equipment within the Auditor-General's Department;
- assistance to the National Commission for Privatisation.
- assistance on records management.
- extensive support to the Anti Corruption Commission *via* technical assistance and operational costs.
- support for the National Democratic Institute to improve the operational and reporting capacities of Parliamentary Committees. This project is no longer operational.

The EU is providing support to the Institutional Capacity Building of the Ministry of Finance – which is a wide support package to the key Ministry of Finance Departments. The project operates via external and local Technical Assistants, provision of equipment and intensive training activities. Support is provided to: Accountant Generals Department, MoF Budget Bureau, EPRU, Tax Policy Division and Internal Audit Unit. Activities currently cover the following areas:

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

- Improved budget preparation: decentralised procurement training workshops, linking the budget and PRSP training, MTEF training, training of district budget oversight committees, training on budget hearings and accountants training
- Improved accounting control, management, monitoring and reporting of expenditure: provision of internal audit manuals and handbooks and training activities in their use, computer auditing training, training of internal audit units, procurement training workshops, public expenditure, management and control training to vote controllers and managers, provision of computers and IFMIS licenses and IFMIS training to 4 largest spending ministries, business processes training for IT staff, training workshop in the role of ICT and provision of GoSL ICT policy, operationalising the records management unit and stores management unit in Accountant Generals Department, and development of personnel files and payroll controls in ESO
- Reduction in fraud and waste: procurement training workshops: review of internal audit units of local councils; review of imprest accounts of MDAs, review of internal audit units in MDAs and local councils, review of teachers salary payments and other education expenditures, public expenditure and management and controls training, district oversight committee and CSO training, budget monitoring visits to districts,
- Sustainability of public financial services through Institutional Strengthening and capacity building: remuneration and other expenses of LTAs and ETAs conducting training and capacity building activities, nation-wide training/sensitisation workshops on local and national taxes; accountancy training for accountants (diploma training and overseas training), IFMIS training, IFMIS rollout and related training, records and stores management

The World Bank-financed Public Financial Management Reform programme, managed by the Public Financial Management Reform Unit (PFMRU) includes sub-components covering:

- improvements to the legal and regulatory framework;
- the implementation of a new Integrated Financial Management Information System (IFMIS) and the design of interim financial management systems for local Government;
- a strengthened MTEF; procurement reform; and associated monitoring and evaluation arrangements.

DFID provision of consultancy to assist DFID and the World Bank to strengthen their advisory capacity in public financial management to include:

- Advising the Government of Sierra Leone on public financial management issues and ways of reducing fiduciary risk to direct budgetary support
- Supporting the Government/Donor Public Financial Management Oversight Committee, which monitors an integrated PFM reform programme (National Action Plan)
- Actively promoting co-ordination of donor inputs to public financial management reform to maximize efficiency and effectiveness and minimizing transaction costs to the Government.
- Working closely with Bank and DFID economists on developing a multi-donor budget support system.
- Overseeing and advising on the World Bank-funded public financial management component of the Institutional Reform and Capacity Building Project.
- Advising on DFID-funded PFM reform activities including Support to the Auditor General and Support to the National Revenue Authority.

Despite progress that the 2007 PEFA showed as a result of these initiatives, various analyses including that of the IMF report '*Sierra Leone: Implementing Public Financial Management Reforms*' indicated that areas of major weakness still remain. These weaknesses included lack of budget credibility and predictability, fiscal management challenges, weaknesses in expenditure control

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

(including payroll), and low levels of transparency. The Government felt that much remained to be done to move the system to a level that is capable of directing resources to priority areas and support high quality expenditure outcomes.

The challenges were felt to be compounded by a heavy reliance on DP-financed Sierra Leonean contract staff (“Local Technical Assistants” – “LTAs”) in the PFM institutional arrangement. Many of these ‘LTAs’ are performing key line functions in the Ministry of Finance and Economic Development (MoFED). They make up 40% of the total staff strength of MoFED, and significantly outnumber the regular civil servants at the professional level (grades 7 and above). This situation was becoming a potentially a precarious employer-employee relationship, and is unsustainable in the medium – long run.

In view of the above, the Government of Sierra Leone, in consultation with, and support from its key development partners, conceptualized and formulated an Integrated PFM Reform Project (IPFMRP) aimed at widening and deepening the PFM reform process through harmonized donor support for a coherent set of prioritized and sequenced PFM reforms.

The project was conceived in such a way that the various activities to be undertaken fall into a logical set of three “Platforms”. For each platform, a set of objectives that are reflective of the overall PFM Reform agenda of Sierra Leone (as guided by the PEFA findings and recommendations) are defined.

The project was supported by \$20.93m from Development Partners (IDA (\$4m), EC (\$8.32m) DFID (\$6.61m) and \$2 m from the Government). The implementation of the core PFM components will be undertaken in two phases separated by a mid-term review: (i) Phase 1: June 2009 - May 2011, and (ii) Phase 2: June 2011 - July 2013. Annual work plans will ensure that Platform 1 activities will be given priority in the initial phase. A mid-term review will take place at the end of Phase 1, to review progress and to develop and adapt the design of Phase 2 accordingly.

- Component 1 – Strengthening Macroeconomic Coordination and Budget Management
- Component 2 – Reinforcing the Control System for Improved Service Delivery (
- Component 3 – Strengthening Central Finance Functions
- Component 4 – Assisting Non-State Actors’ Oversight
- Component 5 – Project Management

AfDB provided an additional \$3 million in the form of budget support that the Government committed to use in support to IPFMRP activities.

Following a full review of business practises, the IFMIS project was started on November 2004 with FreeBalance Training and Certification of Accountant General Department (AGD) of the Ministry of Finance in April 2005. On June 2005, the Core FreeBalance system went live with General Ledger, Appropriations, Expenditure controls and the first cheque was issued by Ministry of Finance (AGD). In January 2006, FreeBalance Purchasing, Revenue, Assets, Inventory and Performance Budgeting modules were live. By April 2006, the HR/ Payroll – FreeBalance Human Capital Accountability was implemented. The underlying philosophy was phasing of acquisition of modules; think BIG, start small and the project was developed in phases. Phase 1 covered budget execution and accounting system to replace present system operating in MoF for the whole of government. The new HR/ Payroll system replaced the existing module with input in Ministry of Finance/ Establishment Secretary’s Office and the budget preparation system placed current spreadsheet system for 2006 FY budget. Phase 2 saw the rollout of IFMIS with data input and on- line information access to other central government Ministries –SL Police Force, Ministries of Finance, Health, Education, Agriculture, Works & the Auditor General’s Department. Phase 3 had the roll out to all other MDAs and Local Councils and brought in the Fixed Assets, Stores/ Inventory Management components. During 2009, The PFMRU continued providing training and support to IFMIS users across Ministries, Departments and Agencies in ensuring that activities are properly and adequately captured within the

system by the respective rolled out ministries. The IFMIS was further rolled out to the Office of the President with final preparations for the completion of roll-out to the Ministry of Foreign Affairs and International Cooperation. The PFMRU has developed appropriate coding structure within the IFMIS chart of accounts for the reporting of the PRSP 2 – Agenda for Change – activities. This was communicated to key agencies coordinating the budget preparation process within the central government and local councils.

There is an MTEF which is centred on the macro fiscal framework, but the link between policy and plans to expenditure at the sectoral level is weak. The Ministry of Finance uses the Public Expenditure Tracking Surveys (PETS) as an adjunct to the monitoring system, especially in terms of their ability to address a range of issues relating to accountability, transparency and efficiency under the Good Governance Pillar of the PRSP and these are institutionalised.

The World Bank is putting together a Fourth Governance Reform and Growth Credit to support the financing of the government program articulated in the PRSP-2 which seeks to maintain and deepen growth and structural reforms in the transition from post-conflict recovery. Specific objectives in this context are to: (i) improve the allocation and efficiency of public spending to support poverty reduction; (ii) strengthen domestic resource mobilization and management; and (iii) increase provision of electricity.

## 2.2. Budgetary Outcomes

Table 3 presents the aggregate budget and fiscal position for central government sector in Sierra Leone from 2004 to 2009. The coverage of central government includes all expenditure made by MDAs, as well as transfers to subvented agencies. It includes also transfers to local councils<sup>5</sup> and contribution payments (as part of salaries) made by central government to National Social Security Insurance Trust (NASSIT) to cover pension payment, survivor grant and invalidity grant to qualifying beneficiaries.<sup>6</sup>

Total expenditures declined from around 23 percent of GDP in 2004 to 17 percent in 2007 before returning to around 23 percent by 2009. This dip and subsequent recovery which was driven by recurrent expenditure, followed a similar trend in domestic revenue which also reached a trough in 2007, suggesting that recurrent expenditure growth may have been constrained due to poor revenue performance in the years leading up to 2007 before revenue growth picked up again.

Looking at the components of revenue, grants as a proportion of total revenues reached a peak in 2005, at 9.8 percent of GDP before dropping to 4.5 percent of GDP in 2008. Grants have increased in 2009 due to increased donor support to counteract the negative impacts of the global downturn. Tax revenue as a percentage of GDP fell by 1.6 percentage points of GDP between 2004 and 2007, but has since increased again. By 2009, tax revenue contributed 9.9 percent of GDP along with 1.8 percent of domestic non-tax revenues compared to 7.8 percent from grants.

---

<sup>5</sup> Central Government transfers to Local Councils accounts for roughly 95% of local council revenue.

<sup>6</sup> NASSIT was formed by the passing of the Social Security Act of 2001 mandating a compulsory contribution pension and social security scheme for all formal sector employment. It started operations in 2002. Employees contribute 5% of earnings and employers contribute 10% of an employee's earnings. In addition Government pays an additional contribution at the rate of 2.5% of civil service payroll for 20 years for crediting past service. The scheme covers both the public and private sectors and private sector contributions exceeded that of the public sector in 2006. NASSIT accounts are audited via the Auditor General and reports to Ministry Finance through the Other Government Accounts system of reporting. NASSIT also administers government pension payments not covered by the scheme for a fee and both the fee and pensions are included in central government expenditure.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

The budget deficit excluding grants stood at 11 percent of GDP in 2004 and remained relatively stable before declining in 2007 and 2008 before returning to 10.9 percent in 2009. Including grants, the budget deficit was just over 3 percent of GDP in 2009. The primary balance was negative in all years signifying the inability to raise sufficient domestic revenue to fund non-debt expenditure.

Table 3: Sierra Leone: Budget and Fiscal Indicators (as % of GDP)

	2004	2005	2006	2007	2008	2009
Domestic Revenue	12.3	11.5	11.8	10.8	11.4	11.7
Tax	10.8	9.7	9.9	9.1	9.6	9.8
Non Tax	1.4	1.8	1.9	1.7	1.8	1.8
Grants	8.8	9.8	8.2	4.8	4.5	7.8
Expenditure	23.2	23.1	21.8	16.8	21.0	22.5
Non-interest Recurrent	14.3	13.8	13.9	11.0	12.8	13.9
Interest Payments	4.4	3.5	2.8	2.3	2.1	1.6
Development and net lending	4.5	5.8	5.1	3.5	6.2	7.0
Overall Deficit (Commitment Basis)						
Excluding Grants	-11.0	-11.6	-10.0	-6.0	-9.6	-10.9
Including Grants	-2.2	-1.8	-1.7	-1.2	-5.1	-3.1
Primary Deficit	-2.9	-3.2	-3.1	-1.1	-2.7	-3.9
Changes in arrears	-1.1	-0.2	0.0	0.0	-0.5	-0.9
Overall deficit (cash basis)	-3.3	-2.0	-1.8	-1.2	-5.6	-4.0
Financing <sup>7</sup>						
Net External Financing	4.1	0.8	-0.5	0.4	2.5	2.4
Net Domestic Financing	-0.1	1.2	1.7	0.3	3.1	1.3
Float (unaccounted)	-0.5	-0.8	0.0	0	-0.3	0.2

Source: Ministry of Finance

Table 4 shows recurrent spending on services as a percent of GDP. The salient features are:

- General Public Services and Education have been the largest recipients of public expenditure, although education spending has declined from 4.1 to 3.2 percent of GDP over the period.
- Defence expenditure has generally been declining.
- Health Care expenditures have remained at around 1 percent of GDP except in 2007 and 2008 when they fell to 0.5 and 0.6 percent of GDP.
- Spending on Economic Services has increased substantially in the last two years and in 2009 is now the third largest expenditure category.

Table 4: Sierra Leone Expenditure (recurrent) on Services (as % of GDP)

	2004	2005	2006	2007	2008	2009
General Public Services	2.8	2.6	2.6	2.2	2.1	2.5
Defence	2.2	2.0	1.6	1.2	1.3	1.4
Education	4.1	3.7	3.5	3.1	2.9	3.2
Health	1.0	1.1	0.9	0.5	0.6	0.9
Social Security and Welfare	0.3	0.4	0.4	0.3	0.4	0.4
Housing and Community Amenities	1.1	1.0	0.4	0.3	0.4	0.8
Economic Services	1.4	1.1	1.0	1.0	2.8	2.2
Other Services	2.7	2.1	2.6	1.7	1.2	1.4
Adjustment <sup>8</sup>	-1.3	-0.2	0.9	0.7	1.1	1.1

<sup>7</sup> The financing does not sum to the cash deficit in most years because the fiscal tables have an additional financing line item "Privatization and Other Receipts" that is not in table 4.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Total non debt Recurrent	14.3	13.8	13.9	11.0	12.8	13.9
--------------------------	------	------	------	------	------	------

Source: Ministry of Finance

Table 5 presents recurrent expenditure by economic category. The wage bill fluctuated around 6 percent of GDP over the period 2004 to 2009, with no clear rising or falling trend and finished the period at 6.3 percent. Expenditure on goods and services fell from 6.5 percent of GDP in 2004 to 3.1 percent in 2007, before climbing back to 5.5 percent in 2009. Interest payments have been on a declining trend with foreign interest payments falling from 0.9 per cent of GDP in 2004 to 0.2 per cent in 2005 and domestic interest payments fall from 3.5 percent of GDP in 2004 to 1.4 percent of GDP in 2009.

Table 5: Sierra Leone Public Expenditure by Economic Category (as % of GDP)

	2004	2005	2006	2007	2008	2009
Wages and Salaries	6.0	6.4	6.4	6.0	5.7	6.3
Goods and Services	6.5	5.7	4.9	3.1	4.9	5.5
Subsidies and Transfers	1.5	1.8	2.4	1.9	2.1	2.3
o/w Education	0.7	0.6	0.7	0.6	0.5	0.6
o/w Local Government	0.0	0.4	0.6	0.4	0.7	0.9
o/w Pensions/Others	0.9	0.8	1.1	1.0	0.9	0.8
Interest	4.4	3.5	2.8	2.3	2.1	1.6
o/w Domestic	3.5	2.6	2.1	1.9	1.9	1.4
o/w Foreign	0.9	0.9	0.7	0.3	0.2	0.2
Adjustment <sup>9</sup>	0.3	-0.1	0.2	0	0.1	-0.2
Total Recurrent	18.7	17.3	16.7	13.3	14.9	15.5

### 2.3. Legal and Institutional Framework for PFM

The 1991 Constitution sets out the overall legal jurisdiction in Sierra Leone. The laws of Sierra Leone comprise:

- The Constitution;
- Laws made by or under the authority of Parliament as established by the Constitution;
- Any orders, rules, regulations and other statutory instruments established by the Constitution or any other law;
- Existing law which comprise the written and unwritten laws of Sierra Leone as they existed immediately before the coming into force of the Constitution and any statutory instrument; and
- Common law which comprises the rules of law generally known as the doctrines of equity, and the rules of customary law (applicable to particular communities) including those determined by the Superior Court of Judicature.

With respect the PFM, the Constitution sets out the legal and institutional framework in Part VI sections 110 to 120 covering the supremacy of Parliament with respect to matters of taxation (though in practice Parliament delegates some powers to the President and the Ministry of Finance) and expenditure, as well as the role of the Auditor General. Taxation (and waivers) must be approved by Parliament (Article 110) as well as borrowing (Article 118). The Consolidated Fund as the recipient of revenue (save for earmarked revenue) is the subject of Article 111 as is the withdrawal of funds authorised by an Act of Parliament. Article 112 provides for the annual and supplementary budgets, and Article 144 for the authorisation of expenditure warrants by the President. Section 114 (2) c allows the President to authorize warrants under his signature for extra-budgetary expenditure when

<sup>8</sup> Balancing item to tally with Table 3

<sup>9</sup> Balancing item to tally with Table 3

he considers that there is such an urgent need to incur the expenditure that it would not be in the public interest to delay.

Individual laws and regulations covering PFM implement the general provisions of the Constitution. These are described in the relevant indicator and include:

- The Local Government Act, 2004 and supporting Statutory Instrument
- National Commission for Privatisation Act 2002.
- The Income Tax Act (2000) and amendments through the annual Finance Bill
- Good and Services Tax Act 2010 (replacing Sales Tax Decree, 1995 and Finance Acts 2006 and 2007).
- The Excise Act, 1982.
- Customs Tariff Act, 1978 and ECOWAS Common External Tariff and Finance Act 2006 to be replaced by new Customs Act in 2010.
- The Government Budgeting and Accountability Act, 2005
- Financial Administration Regulations (replaced by the Financial Management Regulations of June 2007)
- National Revenue Authority Act, 2003
- Public Procurement Act, 2004
- Social Security Act of 2001
- The Audit Service Act, 1998

The Government Budgeting and Accountability Act and the Financial Administration Regulations authorises the Ministry of Finance as the principal agent in Government on PFM matters. The stated Mission statement of the Ministry is to formulate and implement sound economic policies and public financial management, ensure efficient allocation of public resources to promote stable economic growth and development in the context of a stable macroeconomic environment. The Minister of Finance has the ultimate responsibility with the Financial Secretary as his principal agent. The Ministry of Finance and Economic Development houses the Budget Bureau, which is responsible for budget preparation, and the Accountant-General's Department. Budget execution (payment) and supervision are through the Treasury and the Accountant General though there are Vote Controllers and Chief Financial Officer in each of the MDAs who are the first line of responsibility for PFM at the MDA level. There is an Internal Audit department in MDAs, which is supervised by the Ministry of Finance and Economic Development (Internal Audit Department). As well as a Department of Administration, the Ministry also has departments covering Economic Policy and Research, Information Communication and Technology, Central Planning Monitoring & Evaluation, Development Assistance Coordinating, Regional Integration and South-South Cooperation, Debt Management Unit, Revenue and Tax Policy, and Public Financial Management Reform.

External Audit is carried out through the office of the independent Auditor General which has the following mission statement "to continue to be a respected, agile, merit-based and ethically transparent institution dedicated to assuring the productive stewardship of the investments of taxpayers and other stake-holders, and safe-guarding of the citizen's interest in the public sector." The Audit Service Act of 1998 is the initial legal basis for External Audit and the Government Budgeting and Accountability Act 2005 also outlines roles and responsibilities.

Under the 2005 Act, the Auditor-General shall, within twelve months of the end of the immediate preceding financial year submit his report to Parliament and shall, in that report, draw attention to irregularities in the accounts audited and to any other matter which in his opinion ought to be brought to the notice of Parliament.

Parliament shall consider the report of the Auditor-General and either refer it to the Public Accounts Committee or any other committee in the public interest, to deal with any matters arising there from

Republic of Sierra Leone: PFM Performance Assessment Report 2010

and such committee shall review the Auditor-General's report and publish its own report. The practise is that the Public Accounts Committee of Parliament issues its own report to the House on the ASSL Report.

There is an active Non State Actors (NSA) group that provides oversight to PFM relating to budget management, accounting and management in the use of public funds.

### 3. Assessment of the PFM Systems, Processes and Institutions

The indicator scoring in this section is based on the PFM Performance Measurement Framework developed under the Public Expenditure and Financial Accountability (PEFA) partnership program ([www.pefa.org](http://www.pefa.org)).

#### 3.1. Budget credibility

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

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

Aggregate Government Expenditure Million Leone  
(excluding debt servicing and donor funded projects)

	Budget	Actual	+, -	%
2007	744,239	577,402	-166,837	22.4
2008	854,568	824,311	-30,256	3.5
2009	941,174	1,003,255	62,081	6.6

Source Ministry of Finance

The position relating to aggregate expenditure compared to budget shows a mixed picture. While 2006 showed a deviation of 1.1%, 2007 deviation ballooned to 22.4% and fell to 3.5% in 2008 before creeping up to 7.9% in 2009. This has been achieved while domestic revenues have fallen (PI-3) but outgoings on interest payments have also been declining (table 5). However, in 2009, actual grants were 117% of budgeted (40 per cent of total revenues), which ensured that expenditures were not cut. In 2007 and 2008, actual grants were 48% and 73% of budgeted grants.

Score B: the deviation from budget has exceeded 5% in two of the 3 years

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved budget	<p>Score: B.</p> <ul style="list-style-type: none"> <li>Dimension (i) Score B: In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure.</li> </ul>

##### PI-2. Composition of expenditure out-turn compared to original approved budget

(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years.

This indicator measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. The total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. Variance is calculated as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted expenditure on the basis of administrative or functional classification, using the absolute value of deviation.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

The budgeted and actual expenditure data and the variances in PI-1 above are as follows

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2007	22.4%	24.0%	1.6%
2008	3.5%	14.7%	11.1%
2009	6.6%	16.3%	9.7%

These variances have been derived from the 20 largest voted expenditure in each year with the rest grouped together to form a twenty-first category. These are presented in an annex to this indicator.

While there has been an improvement in the control of aggregate expenditure in 2008, there had been a worsening of the distribution of expenditure in that year. In 2008 over spending by central government, on the energy and water was above budget by 27%, but 27% below on the health budget and 28% on works, housing and infrastructure and transfers to local councils were 25% below budget. In 2009, the variation was less, but energy and water (65%) and works, housing and infrastructure (115%) were above budget reflecting the direction of the Agenda for Change policy framework.

Score C: The variances in excess of the total deviation have exceeded 10% in one of the 3 years.
--

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	<p>Score: C.</p> <ul style="list-style-type: none"> <li>Dimension (i) Score C: Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.</li> </ul>

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Annex to PI-2

2007								
Budget Head	Other Charges Budget	Payroll Budget	Domestic Development Budget	Total Primary Expenditure Budget	Total Primary Expenditure Actual	Difference	Absolute Difference	Abs. Diff. as % of Budget
301	52,117	110,608	3,700	166,425	152,042	-14,383	14,383	9%
201	43,732	30,154	1,000	74,886	60,189	-14,697	14,697	20%
304	35,554	21,264	1,420	58,238	25,429	-32,810	32,810	56%
701	47,083	2,200	5,000	54,283	21,718	-32,565	32,565	60%
206	19,841	26,666	2,000	48,507	41,669	-6,838	6,838	14%
411	37,278	-	-	37,278	34,364	-2,914	2,914	8%
401	13,880	10,711	7,340	31,931	19,860	-12,071	12,071	38%
406	3,424	631	25,805	29,860	25,041	-4,820	4,820	16%
128	9,073	19,026	600	28,699	29,899	1,200	1,200	4%
408	3,690	1,823	16,200	21,713	13,492	-8,221	8,221	38%
130	19,129	-	-	19,129	14,066	-5,063	5,063	26%
341	-	17,369	-	17,369	17,505	136	136	1%
110	5,306	9,227	2,600	17,133	8,438	-8,695	8,695	51%
342	-	15,754	-	15,754	15,742	-12	12	0%
134	15,090	109	-	15,199	13,858	-1,341	1,341	9%
207	7,649	2,904	250	10,803	7,633	-3,170	3,170	29%
101	-	7,145	-	7,145	10,569	3,425	3,425	48%
129	4,300	1,109	1,700	7,109	6,791	-318	318	4%
107	885	4,154	300	5,338	3,038	-2,300	2,300	43%
112	968	141	4,000	5,109	6,213	1,105	1,105	22%
Other	38,772	23,608	9,950	72,329	49,845	-22,485	22,485	31%
<b>Total Expenditure Deviation</b>	<b>357,772</b>	<b>304,602</b>	<b>81,865</b>	<b>744,239</b>	<b>577,402</b>	<b>-166,837</b>		<b>22.4%</b>
<b>Total</b>							<b>178,568</b>	<b>24.0%</b>

Republic of Sierra Leone: PFM Performance Assessment Report 2010

<b>Expenditure Variance</b>							
---------------------------------	--	--	--	--	--	--	--

Republic of Sierra Leone: PFM Performance Assessment Report 2010

2008								
Budget Head	Other Charges Budget	Payroll Budget	Domestic Development Budget	Total Primary Expenditure Budget	Total Primary Expenditure Actual	Difference	Absolute Difference	Abs. Diff. as % of Budget
301	47,987	126,920	2,100	177,007	171,081	-5,926	5,926	3%
406	77,593	759	16,916	95,268	120,730	25,462	25,462	27%
201	41,673	41,112	500	83,285	74,795	-8,490	8,490	10%
701	56,817	3,182	2,550	62,549	47,017	-15,532	15,532	25%
206	24,937	33,539	500	58,976	49,753	-9,223	9,223	16%
411	53,830	-	-	53,830	46,202	-7,629	7,629	14%
304	27,026	18,746	1,420	47,192	34,029	-13,163	13,163	28%
128	8,069	20,626	2,000	30,695	33,899	3,204	3,204	10%
401	12,428	12,077	3,150	27,655	26,105	-1,550	1,550	6%
408	2,878	1,946	21,054	25,879	18,946	-6,932	6,932	27%
130	19,166	100	1,000	20,266	18,772	-1,494	1,494	7%
342	-	19,669	-	19,669	20,588	919	919	5%
341	-	18,064	-	18,064	16,405	-1,659	1,659	9%
110	4,474	11,688	1,400	17,562	14,054	-3,508	3,508	20%
207	8,602	3,611		12,213	12,645	432	432	4%
129	5,704	3,010	3,410	12,124	10,630	-1,494	1,494	12%
101	-	10,655	-	10,655	11,595	940	940	9%
107	1,140	2,975	3,550	7,665	7,785	120	120	2%
134	7,450	-	-	7,450	6,318	-1,132	1,132	15%
121	772	3,483	-	4,255	4,200	-56	56	1%
Other	31,810	24,047	6,450	62,307	78,762	16,455	16,455	26%
<b>Total Expenditure Deviation</b>	<b>432,358</b>	<b>356,209</b>	<b>66,000</b>	<b>854,568</b>	<b>824,311</b>	<b>-30,256</b>		<b>3.5%</b>

Republic of Sierra Leone: PFM Performance Assessment Report 2010

<b>Total Expenditure Variance</b>							<b>125,321</b>	<b>14.7%</b>
-----------------------------------	--	--	--	--	--	--	----------------	--------------

Republic of Sierra Leone: PFM Performance Assessment Report 2010

2009								
Budget Head	Other Charges Budget	Payroll Budget	Domestic Development Budget	Total Primary Expenditure Budget	Total Primary Expenditure Actual	Difference	Absolute Difference	Abs. Diff. as % of Budget
301	65,434	141,988	3,500	210,922	206,681	-4,240	4,240	2%
201	40,040	46,936	550	87,526	91,701	4,176	4,176	5%
206	25,334	40,443	950	66,728	55,097	-11,631	11,631	17%
701	60,069	3,407	2,000	65,476	63,218	-2,258	2,258	3%
406	45,536	1,036	16,396	62,968	99,755	36,787	36,787	58%
304	39,810	18,591	880	59,281	54,816	-4,465	4,465	8%
411	56,162	-	-	56,162	48,620	-7,542	7,542	13%
128	9,986	25,908	3,400	39,294	43,835	4,540	4,540	12%
401	21,337	7,490	3,425	32,252	24,285	-7,967	7,967	25%
130	23,036	-	1,200	24,236	19,991	-4,245	4,245	18%
408	3,868	1,985	17,171	23,024	49,156	26,133	26,133	114%
342	-	21,685	-	21,685	24,468	2,783	2,783	13%
110	5,532	12,065	2,175	19,773	17,065	-2,708	2,708	14%
341	-	16,903	-	16,903	27,232	10,329	10,329	61%
129	5,747	3,481	5,380	14,609	21,082	6,473	6,473	44%
207	9,462	3,702	300	13,464	13,004	-461	461	3%
101	-	13,206	-	13,206	16,192	2,986	2,986	23%
107	1,373	2,325	6,117	9,815	10,040	225	225	2%
418	2,150	5,475	-	7,625	8,049	423	423	6%
121	1,263	4,215	1,200	6,678	6,703	26	26	0%
Other	44,047	29,361	16,142	89,550	102,266	12,716	12,716	14%
<b>Total Expenditure Deviation</b>	<b>460,186</b>	<b>400,202</b>	<b>80,786</b>	<b>941,174</b>	<b>1,003,255</b>	<b>62,081</b>		<b>6.6%</b>
<b>Total Expenditure</b>							<b>153,115</b>	<b>16.3%</b>

Republic of Sierra Leone: PFM Performance Assessment Report 2010

<b>Variance</b>						
-----------------	--	--	--	--	--	--

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

**(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget.**

Outturn and budgeted revenue data for 2007, 2008, and 2009 provisional actual are presented below. Actual revenue was lower than that forecast in the budget in each of the three years.

Economic conditions in Sierra Leone have reflected conditions world-wide.

This deterioration in revenue may also stem from the continued willingness of Government Ministries to grant duty free importation to commercial operations as part of an incentive package. While the NRA have been tasked with policing such arrangements in the 2007 Finance Bill, there may well be nothing that can be done if these arrangements have in effect been ratified by Parliament who is the only authority for granting exemptions (see PI-27 (ii)).<sup>10</sup> The Government should undertake a review of tax policy with a particular focus on exemptions urgently in this regard, if the revenue position is not to continue to deteriorate.

The scoring structure gives a score of C where actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in one of the last three years for the period 2007 to 2009.

Central Government Revenue (Leone Million)

	Budget	Outturn	+,-	%
2007	674,908	536,864	-138,044	79.5
2008	692,697	662,132	-30,566	95.6
2009	824,030	760,034	-63,996	92.2

Source Ministry of Finance

Score C: Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in 2007.

	Score and PEFA Scoring Criteria met (Scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score: C. <ul style="list-style-type: none"> <li>Dimension (i) Score C: Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no more than one of the last three years</li> </ul>

**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.**

Arrears cover arrears to domestic suppliers and parastatals, and ex-diplomats arrears relating to valid claims against diplomatic missions overseas during the civil war. The Auditor General carried out a verification exercise of all supplier arrears that were claimed during the 2005 to 2007 period, and

<sup>10</sup> Parliament may delegate this power, but ratifies its application

Republic of Sierra Leone: PFM Performance Assessment Report 2010

there was a further verification of arrears in 2008 and 2009 by the Internal Audit Department. In addition, there was a disputed claim from one of the suppliers for which an out of court settlement arrangement was reached and the agreed payment has been securitised. With respect to parastatal arrears a cross debt settlement was agreed offsetting tax arrears to Government against Government arrears to parastatals (for provision of utilities and telecom).

As a result the stock of arrears was fully verified and gross arrears that were due to suppliers stood as follows by end 2008 and 2009.

Le M	2008	2009
Arrears	162,150	142,161
Expenditure	824,311	1,003,255
%	16.0	14.2

Source: Public Debt Management Unit

The Government is committed to paying off these arrears consistent with an improved fiscal situation. The cross debt liability arrangement is finalised with the Sierra Leone Telecommunications Company. The net position is now being reflected as outstanding. Once the tax obligations for the other parastatals are finalised by the National Revenue Authority, it would form the basis for similar cross debt settlement arrangements. Payment of arrears is included in the annual Statements of Public Accounts of the Accountant General.

Score D: Arrears at end 2009 were 14.2 per cent of expenditure, but had been reduced by 12% in the past year.

**(ii) Availability of data for monitoring the stock of expenditure payment arrears.**

The verification exercise has generated information on the stock of arrears. Effective commitment control to avoid build-up of arrears is available through the IFMIS purchasing module. Should commitment entered into not be honoured due to cash availability in a quarter, payment is being rolled over to the next quarter and the final quarter allocations will recognise any carry over to avoid the accumulation of arrears into the next financial year in order to prevent the generation of new arrears.

While an age profile of old arrears is not maintained (but could be determined from the verification exercise), IFMIS could provide an age profile of any emerging arrears. All commitments would need to be entered as well as the due date of payment of all invoices for delivery of goods and services against commitments. MDAs would need to present due bills for payment in the system.

Score C: Information on arrears has been produced through a verification exercise.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	<p>Score D+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: D The stock of arrears exceeds 10% of total expenditure.</li> <li>• Dimension (ii) Score: C Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.</li> </ul>

### 3.2. Transparency and comprehensiveness

#### PI-5. Classification of the budget

##### (i) The classification system used for formulation, execution and reporting of the central government's budget.

The classification system/chart of accounts used by the GoSL IFMIS for formulation, execution and reporting of the central government's budget uses GFS/COFOG compliant classification based on GFS 1986.

Both revenue and expenditure accounts use a 27-digit code broken down into: organisation, fund source, PRSP activity/project code, location, and object (nature of revenue or expenditure). This system was introduced in June 2005 as part of IFMIS and revised for the 2006 fiscal year to better align the national budget with the PRSP. The activity/project codes are used to generate poverty reducing and MDG expenditure information following the revision to the coding structure within the IFMIS chart of accounts to facilitate the reporting of the PRSP 2 – Agenda for Change – activities.

Budget classification implementation is based on economic and administrative categories, although the IFMIS is capable of producing functional and sub-functional categories consistent with GFS 1986 Chart of Accounts. Numerous reports are available within FreeBalance, the financial package utilised by the Central Government for the IFMIS, including audit trail reports. Nevertheless, the functional classification is not used and instead poverty related expenditures are used.

Score C.: GFS/COFOG standards are being used, but only economic and administrative categories.

The standard requirement for all countries is now GFSM 2001 (whether cash or accrual basis). This produces GFS-consistent fiscal reports on a timely basis. GFSM 2001 can be applied for cash basis accounts and has the advantage of placing emphasis on stocks as well as flows and can help address asset and liability issues without moving to full accrual accounts. Using the functional classification as well as the poverty related expenditures would give an A score even using GFS 1986. Clearly changing to 2001 from 1986 would improve the quality of the A score when achieved.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-5. Classification of the budget	Score: C. Dimension (i) Score: C The budget formulation and execution is based on administrative and economic using GFS Standards or a standard that can produce consistent documentation according to those standards.

#### PI-6. Comprehensiveness of information included in budget documentation.

##### (i) Share of listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).

The Annual Budget Speech and the Estimates of Revenues and Expenditures along with the previous two years actual and budget and the current years provisional outturn are the documents which are submitted to parliament for scrutiny and approval.

The following elements are included in the Budget Documentation.

Element	Location
---------	----------

Republic of Sierra Leone: PFM Performance Assessment Report 2010

1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	Yes Budget Speech and Estimates
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes Budget Speech and Estimates
3. Deficit financing, describing anticipated composition.	Yes
4. Debt stock, including details at least for the beginning of the current year.	Yes Public Debt Management Unit Bulletin and the statements of debt in the AGD Annual accounts
5. Financial Assets, including details at least for the beginning of the current year.	Yes Appendix G of the 2008 Accounts
6. Prior year's budget outturn, presented in the same format as the budget proposal.	Yes in 2 volumes Budget Speech and Estimates
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes in 2 volumes Budget Speech and Estimates
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	Yes Budget Speech and Estimates
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No

Score A: Eight of the nine information benchmarks are used.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-6. Comprehensiveness of information included in budget documentation.	Score:A. <ul style="list-style-type: none"> <li>• Dimension (i) Score: B Recent budget documentation fulfills 8 of the 9 information benchmarks.</li> </ul>

**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.**

In 2005 the Other Government Accounts Unit (OGAU) was established in the Accountant General's Department of the MoFED to capture quarterly data for:

- Projects administered by Project Implementation Units (PIUs)<sup>11</sup>
- Subvented agencies<sup>12</sup>
- Departmental revenues not brought into account<sup>13</sup>

The OGAU has seen some recent staffing changes and now comprises three officials – the Head of Unit and two accountants who joined the unit in May 2010. The OGAU data capture system comprises a standalone spreadsheet and database into which printed statements received from the organisations to be monitored and bank balance details, received from the BoSL, are manually entered

<sup>11</sup> The utilisation of donor funded projects which do not go through the MoFED should be captured by the OGAU analyses

<sup>12</sup> Autonomous government agencies and local governments not reporting their accounts to the AGD

<sup>13</sup> Those not collected by the NRA

by the OGAU officers. This is the raw data on which the Unit's reconciliation of monetary data<sup>14</sup> and fiscal<sup>15</sup> data is based.

The Unit reports to the Accountant General on a quarterly and annual basis. This reporting comprises a simple quarterly and annual reconciliation between monetary and fiscal data and, on an annual basis, a series of accounting statements which show gross revenues and expenditures for each project managed by PIUs and each of the subvented agencies.

In terms of its methodological approach there appears to be some lack of clarity. The OGAU is now attempting to collect income and expenditure data for two self accounting MDAs<sup>16</sup> and seventy bodies classified as subvented agencies, all of which have been granted greater autonomy than MDAs and are thus not subject to the same spending rules as other MDAs under the supervision of the Accounting General. However, for control and monitoring purposes they are subject to the requirement of supplying fiscal statements and bank statements relating to their operations.

There is a lack of structure, logic and rigour to some aspects of the Unit's approach together with an absence of an explicit strategic vision or action plan in terms of what the Unit should be achieving. As a result, despite the increased OGAU activities during the period 2007-2010, and the recommendations made in the 2007 PEFA Report the database and data collection are deficient in its coverage.

Some sanctions are available if the required expenditure schedules and bank statements are not forthcoming. However, these sanctions are not consistent, comprehensive nor effective. A potential course of action available to the AG in respect of those agencies which rely on the quarterly financial transfer from Government is to stop the release of the next quarterly grant until the data is received; but even then this is not an effective punitive measure against those agencies which independently raise their own non tax revenues such as the SL Road Transport Authority<sup>17</sup>.

There is not a regular discipline of the required agencies submitting the schedules and bank statements on time. Ongoing problems remain in obtaining bank statements in respect of those agencies utilising commercial bank accounts.<sup>18</sup> It is clear that the OAG requires a clear legal mandate to enforce the supply of information for accounts under the purview of the OGAU.

The extent to which data is regularly introduced into the accounts of the AGD and fiscal reporting of the Budget Bureau is not evident, nor is the extent of meaningful verification of data.

**No Score:** Sufficient, complete and clear data is not available nor is it reflected in strategic fiscal and monetary reports of the GoSL.

**Dimension (ii) Income /expenditure information on donor-funded projects which is included in fiscal reports.**

<sup>14</sup> Independent bank balances received from BoSL and some commercial banks and copies of bank statements provided by PIU's and subvented agencies

<sup>15</sup> The statements of income and expenditure received on a quarterly basis from PIU's and subvented agencies

<sup>16</sup> Sierra Leone Police which has been running IFMIS since 2006 so their data also is captured by IFMIS and the Ministry of Defence which has been self-accounting since 2009 and is one of the "non respondents" quoted above.

<sup>17</sup> This would suggest that IFMIS should be extended to such agencies.

<sup>18</sup> An observation from the Auditor General's qualified opinion on the 2008 Accounts stated that " commercial bank balances in the financial statements could not be verified as confirmations were not received from the various commercial banks." And in respect of the 2007 Accounts "there were inadequate controls over commercial bank accounts opened under the authority of the AG...there was no evidence of reconciliations being prepared to validate these balances.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

The OGAU appears to collect only partial information in respect of projects managed by PIUs. The record of projects managed by PIUs held by the OGAU as at August 2010 showed 39 projects. A list obtained from DACO based on the DAD’s database indicated 176 projects and for the Fiscal Year 2009 OGAU compiled annual statements for 32 projects.

The OGAU database was originally compiled from information available from AGD; a more complete verification of the database would be to start with records held by DACO and identify those which fit the OGAU monitoring criteria. The discrepancies in the project managed by PIU numbers quoted above will in part be a reflection of those current during 2009 and the figures presented in August 2010, however, the scale of difference between the DACO figure of 176 compared to OGAU’s 39 projects is an indication of how serious the deficiency in PIU managed projects data remains.

Score D There is a need for a completeness check of those projects managed by PIUs which have a requirement to send fiscal and monetary data to OGAU.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-7. Extent of unreported government operations	<p>Overall: No Score</p> <ul style="list-style-type: none"> <li>• Dimension (i) No Score Sufficient, complete and clear data is not available nor is it reflected in strategic fiscal and monetary reports of the GoSL.</li> <li>• Dimension (ii) Score: D. Information on donor-financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed projects.</li> </ul>

**PI-8. Transparency of Inter-Governmental Fiscal Relations**

**(i) Transparent and rules based systems in the horizontal allocation among SN governments (ATUs) of unconditional and conditional transfers from central government (both budgeted and actual allocations).**

Inter-government budget relations are regulated by The Local Government Act, 2004 (Act No 1 of 2004) (LGA) and the supporting Statutory Instrument which provides the Regulations.

The allocation of transfers by the central government is based on articles 46, 47, 48 and 49 of the LGA. Each year, local councils shall be paid tied grants (a) for the discharge of the devolved functions; and (b) towards their administrative costs. The total amount of annual grants to local councils each year forms part of the national budget and is published by Government Notice and in the national newspapers.

A formulae- based approach has been adopted in determining the horizontal distribution of resources. This approach uses allocation criteria and criteria weights to determine the distribution of grants across the 19 local governments. The type and number of criteria has depended on the kind of grants to be transferred and the function to which it is to service. The factors differ from devolved function to devolved function, but each of the formulae incorporates the principles of equity. The formulae is revised annually and updated as necessary. In 2009 and 2010, the formulae and allocation to individual councils for the upcoming budget were published in February of the respective year.

Two components of vertical resource pool are allocated – covering recurrent and development components. The recurrent covers the non salary transfers for devolved services and operational

administrative costs and the development component is funded by the multi-donor trust fund and GoSL. The amount from GoSL is based on the overall budget resources but recognises the budgetary needs of the devolved services i.e. a service has not been devolved and the associated funds retained at the centre. In that regard, there has been an increase for agriculture as it was realised that previously the amount was wholly inadequate relative to the devolved services.

The relevant section from the Local Council PEFA states that “a reliable and transparent intergovernmental fiscal transfer system has been established. Once the overall resource envelope is determined by central government, the distribution of grants to each council is determined through a transparent formula system. These transfers are essentially divided into tied and untied grants. The Local Government Development Grant (LGDG) is untied and used to finance development projects as well as other LC operations not covered by tied grants. The size of the grant is determined in the formula by indicators such as, population, existing infrastructure and damage sustained during the civil war (though the latter was discontinued in 2009 to reflect current realities).”

Score A: The rules for transfers to local councils are transparent.

**(ii) Timeliness of reliable information to Sub National (SN) governments (Local Councils (LC)) on their allocations from central government for the coming year.**

The LGA states that every local council has to prepare a budget for each financial year three months before the beginning of that year. The budget reflects the priorities and needs of the locality as contained in the local council’s development plan and the balance of income and expenditure. Annual financial estimates of revenue and expenditure have to be prepared in accordance with procedures prescribed by law. It is a public document, which is to be posted on the notice board of the local council when approved by the council and during the whole of the financial year to which it applies. A copy of the budget has to be submitted to the Commission and the Local Government Finance Committee. The Ministry of Finance issues guidelines for the preparation of these budgets.

The budget process ensures that local councils are informed of their likely allocation in sufficient time before they set their budgets. The indicative allocations were set out in the Local Councils Equitable Grants Distribution Formulae and Annual Allocations 2009 and 2010. The Budget Call Circular provides the total for transfers to local councils and how this total is allocated to the individual devolved functions (July 2009). The LGFD then works with the individual councils in applying the formulae. The resultant allocation in 2010 was detailed in the Minister of Finance’s Budget Speech to Parliament on 4 December 2009. The Local Council PEFA indicates that this is correct for the recurrent transfer although it is claimed in each Local Council visited that the development transfer (a small proportion of the total) is not finally determined until the budget is sent from the Central Government back to the Local Council after approval by Parliament.<sup>19</sup>

Score A: Information on transfers is provided in time for Local Councils to prepare their budgets.

**(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.**

<sup>19</sup> Though not part of this indicator with respect to actual transfers, the LC PEFA (Indicator CG-1) indicates that they are often below the budgeted amounts for the year and are often delayed during the year for a variety of reasons (though at times are above budgeted to compensate for the previous year’s shortfall).

Local councils are required by the LGA to report monthly to the LGFD, quarterly and annually and they do. The information in the financial statements provides information by devolved service and can allow a consolidated general government account. This information from individual councils is consolidated by the LGFD and this information is provided to the Accountant General.

Score A: Annual statements from councils are consolidated within 10 months of the end of the financial year would allow consolidation into general government statement, but this is not done.

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	<p>Overall: Score A</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: A. The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems.</li> <li>• Dimension (ii) Score: A. SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.</li> <li>• Dimension (iii) Score: A. Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.</li> </ul>

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

**(i) Extent of central government monitoring of AGAs and PEs.**

The National Commission for Privatisation was established through the National Commission for Privatisation Act 2002. The overall role of the NCP is multi-fold: (i) to serve as the policy and decision-making body with regard to the divestiture and reform of public enterprises; (ii) to transfers management of all PEs to the Commission and remove the interference in the management of Public Enterprises (PEs) from Line Ministries; and (iii) to ensure transparent corporate governance and avoidance of conflict in the interest of the affairs of public enterprises. It is tasked with the supervision of the 21 public enterprises as well as preparing them for divestiture<sup>20</sup> or even liquidation if non-performing. The Secretariat carries out analysis and reports to the Commission as the oversight body. The Chairman of the Commission is a Presidential appointee who has the technical and managerial capacity to carry out its role and functions and the members are representatives of the Central Bank, Sierra Leonean trade and professional bodies.

With respect to oversight to reduce fiscal and management burden on the State, the NCP receives the strategic plan and annual budget submissions from the PEs and evaluate these in order to make recommendations to the Minister of Finance as to the allocation in the budget. During the execution of the budget, the PEs submit quarterly reports on income and expenditure and the Secretariat compares budget execution with the budget. Often these quarterly reports are late and the NCP sends out reminders. The NCP is also represented at the AGM of a client PE to discuss accounts and audited reports. It has produced a guidance manual on Corporate Governance and Budget Monitoring.

PEs may borrow for short-term working capital and this is allowed against revenue projections. PEs can only take a long-term loan only if it is approved by the Commission.

<sup>20</sup> Forest Industries, Lungi Ground Handling and Commodities Terminal at the Port have been privatised in the recent past. As well, the Broadcasting Department has been transformed into a Corporation.

PEs can be divided into two categories as five<sup>21</sup> PEs account for 95% per cent of the overall portfolio by value with the remainder small scale. NCP is also tasked with evaluating the annual audited financial statements of the PEs. Most of the PEs accounts are audited by private auditing companies. The information generated by the big 5 is satisfactory and their annual statement and audited accounts are timely. It is less so with the others and NCP has to force the submission of quarterly reporting by refusing trade credit until they are submitted. Their audited accounts are not timely. The National Power Agency has a programme supported by the World Bank and there are reporting requirements to the World Bank under this programme.

NCP is also tasked with the monitoring of the operations of the PEs under its purview to ensure that the PEs adjust to market and financial conditions. It enforces good governance and integrity by ensuring that the boards are properly constituted. However, it resists micro management.

NCP produces an annual performance report and extracts are used in the Budget Speech with respect to individual PEs. However, there is no indication to move in the direction of a consolidated overview of fiscal risk, even though the capacity to do so appears to be present in the NCP. Neither is there a proposal to establish a statement of risk in the budget documents.

Score C: There is no consolidated overview of fiscal risk produced in a report.
---

**(ii) Extent of central government monitoring of SN (LCs) governments' fiscal position.**

The Local Government Act outlines the relationship between local councils and Central Government with respect to monitoring. Monitoring and supervision remains with the Ministry responsible for the individual service so there is, in theory, a wide level of monitoring of service delivery and potential intervention.

A local council may raise loans or obtain overdraft within Sierra Leone within limits agreed previously with the Minister of Finance and the Minister who has the responsibility for the service being delivered.<sup>22</sup> The reason for the loan has also to be agreed. Under the still to be enacted but agreed by Cabinet, Public Debt Management Act, 2010, the Minister in consultation with the Minister responsible for local government shall by statutory instrument determine an annual borrowing limit for each local council based on its capacity to repay and such other considerations as the Minister may determine. A local council that intends to borrow above the limit prescribed limit has to obtain prior approval of the Minister through the Minister responsible for local government.

Local councils are required by the LGA to report monthly to the LGFD and they do. Quarterly financial statements are required in order to trigger the next quarter's release of the grant. Annual statements are submitted to LGFD and the Auditor General. The backlog audit of the annual statements up to the 2008 has been completed and 2009 financial statements are in the process of being audited. Sample audits viewed have all been given an unqualified opinion by the Auditor General.

This information from individual councils is consolidated into a report by the LGFD annually and an "all councils" financial statement is collated from the 19 individual financial statements. Nevertheless it not clear whether central government assesses the fiscal risk per se.

<sup>21</sup> Guma Water, Sierratel, National Power Authority, Rokel Commercial Bank and SL National Commercial Bank. The latter two are also subjected to Central Bank supervision.

<sup>22</sup> However, it is understood that Freetown City Council has agreed privately with two banks with apparently no information supplied to MOFED.

Score B: There is a consolidated overview of Local Councils fiscal position produced in a report.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	<p>Overall: Score C+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: C. (i) Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete.</li> <li>• Dimension (ii) Score: B. The net fiscal position is monitored at least annually for the most important level s of SN government, and central government consolidates overall fiscal risk into a report.</li> </ul>

**PI-10. Public Access to key fiscal information**

**(i) Number of the listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).**

Policy hearings and budget discussions are conducted for all MDAs at senior level during which MDAs presented their strategic plans and proposed plan of activities respectively, in accordance with the Agenda for Change. These ensure that the budget and procurement plans are prioritized based on the resource envelope (In 2009, these were in October against a planned August date, (but were in August in 2010)). A Senior Official from the Ministry of Finance chairs these hearings and a report with all findings and recommendations are prepared for presentation to Cabinet by the Minister of Finance.

Civil society is engaged in monitoring government expenditure through district level budget oversight committees. This initiative has been undertaken by the Budget Bureau in the Ministry of Finance. Each committee at district level comprises 15 members selected through a participatory process, which involves widespread community sensitisation meetings on budgetary and public financial matters. The oversight committees report to the MoFED through the Budget Bureau.

Public access to key fiscal information information is assessed through the six criteria for the indicator as follows.

Element	Where and when
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes. Available from the Government printers. The budget speech is available on the day. The estimates are available shortly afterwards in limited numbers (given its size). The Budget Speech and summary budget tables are placed on the MoFED website shortly after the speech .
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	No. The quarterly releases and actual expenditures are posted on the MoFED website, however not within the allotted time. The January – March expenditure report was not authorised for posting until 12 May and January - June six monthly expenditure report was not authorised for posting until 23 <sup>rd</sup> August.
(iii) Year-end financial statements: The	Yes. The unaudited annual Financial Statements

Republic of Sierra Leone: PFM Performance Assessment Report 2010

statements are made available to the public through appropriate means within six months of completed audit.	are posted on the web and in hard copy. The financial statements are presented by end March of the following year i.e 2008 on 31 <sup>st</sup> March 2009. The audited accounts for FY 2008 were available on 23 <sup>rd</sup> December 2009.
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes. The Auditor General posts the audited financial statements on the web and as a document.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	No. Tenders are published on the official website but only limited information on awards <sup>23</sup> . This is being improved through the passing on of Certificates of Clearance by MOFED to NPPA and this information on awards is to be posted on the NPPA website, but has yet to be.
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No (partially). PETS reports are published annually and include coverage in primary schools and primary health clinics though this covers only a sample of operations. Some local councils post transfer information on school and clinic notice boards, but this is not done systematically and is more of an ad hoc nature. <sup>24</sup> .

Score B: Three of the six listed types of information is made available to the public.

A NSA paper proposes that a statute to provide better access to information be introduced through a Freedom of Information initiative.<sup>25</sup>

	Score and PEFA Scoring Criteria met (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score: B. <ul style="list-style-type: none"> <li>• Dimension (i) Score: B The government makes available to the public 3-4 of the 6 listed types of information.</li> </ul>

### 3.3. Policy-based budgeting

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

##### (i) Existence of and adherence to a fixed budget calendar.

There is a budget calendar (as laid out in the Budget Call Circular (BCC)) for the preparation of the MTEF and Budget as a combined process. The Financial Year runs from January 1<sup>st</sup>. The main elements and dates set out in the 2010 BCC were:

<sup>23</sup> Only information on prisons awards is currently posted.

<sup>24</sup> As reported by LGFD and validated in SN PEFA. The Bo Council sets a standard that all 19 councils should follow.

<sup>25</sup> See Non State Actors Position Statement on Non State Actors (NSA) on the Medium Term Expenditure Framework (MTEF) 2011-2013 Bilateral Discussions with Ministries, Departments and Agencies (MDAs)

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Element/Activity	Dates	Effective
Pre-budget Consultative meetings with MDAs	1-17 July	
Consultative Meetings with Local Councils	TBA	
Issuance of Budget Call Circular & MTEF Guidelines	5 July	
Submission of Broad based MTEF proposals by MDAs	17 July	
Submission of FY 2010 Budget Proposals by MDAs	31 July	Not all completed some as late as Sept
Manpower Planning hearings	TBA	Took place
MTEF/TC members provide technical guidance to MDA for strategic planning and budgeting	1-31 July	
FY2010 Policy hearings	20 August	14 Oct
Participatory budget discussions (involving key stakeholders)	24 Sept-4 Aug-	15-24 Oct
Budget Framework Paper for Cabinet	9 Sept	1 Nov
Cleaning & Submission of Final Budget Estimates & MTEF Strategic Plans by MDAs	14 Sept	1 – 8 Nov (budget retreat)
Finalisation of Budget Speech, Budget Estimates and Strategic Plans for FY 2010	31 Aug – 12 Sept	1 – 8 Nov (budget retreat)
Submission of Budget Estimates & Budget Speech to Government Printer	1 Oct	Nov 22
Budget Day Laying of Budget to Parliament	30 Oct	4 Dec

The Budget day should fall at least 2 months before the beginning of the financial year. The budget should be approved by Parliament before the beginning of the financial year.

Score C: An orderly budget calendar exists, but there were substantial delays in its implementation and many MDAs do not submit according to the timetable.

**(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).**

The Ministry of Finance determines the ceilings (usually after the March visit of the IMF) which are sent to the MDAs in the Budget Call Circular. The Budget Call Circular is not formally sent/presented to Cabinet. Cabinet is not formally involved in budget preparation until it is sent the Budget Framework Paper, which was at the beginning of November in 2009, only 5 weeks before the actual budget speech. There are bilateral discussions between the Minister of Finance and individual ministers regarding their own MDA and its budget, but this is informal rather than within Cabinet.

Score C: Cabinet review of the budget is limited.

**(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).**

In each of the years between 2007 and 2009, the budget has been approved after the start of the financial year requiring a Presidential warrant to allow expenditures to be incurred, thus not adhering to the Government Budgeting and Accountability Act (GBAA) passed on the 3<sup>rd</sup> February 2005.<sup>26</sup>

Budget Year	Budget Speech	Approval by Parliament
2008	December 21, 2007	March 20, 2008
2009	November 21, 2008	May 14, 2009
2010	December 4, 2009	February 17, 2010

Source: Budget Bureau, Ministry of Finance

Scores D: Budget approval by Parliament has not been in the time set by the regulations in any of the three most recent years.

The NSA's analysis of the components of PI-11 concurs with the PEFA Assessment.<sup>27</sup>

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	<p>Overall Score: D+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: C An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.</li> <li>• Dimension (ii) Score: C. A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments.</li> <li>• Dimension (iii) Score: D. The budget has been approved with more than two months delay in two of the last three years.</li> </ul>

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

**(i) Preparation of multi -year fiscal forecasts and functional allocations.**

The FY 2010 Budget Call Circular only included ceilings for the 2010 budget and not for the two outer years. MDAs submitted their budgets with estimates for 2010, 2011 and 2012, as requested in the Call Circular. Many ignored the 2010 ceilings in their submissions and bid for additional resources in 2011 and 2012 to fund expenditures that would not have been affordable under the 2010 ceilings. .

The 2010 Budget document presents indicative revenue and expenditures, and the deficit and its financing for 2011 and 2012 as well as the budget for 2010. However, the Budget document is independent of the previous two budgets in that there is no reference to previous forecasts. Links

<sup>26</sup> The 2011 Budget Speech was on 12<sup>th</sup> November 2010.

<sup>27</sup> NSA Op. cit.

between multi-year estimates and subsequent setting of annual budget ceilings are unclear and differences are not explained. The MTEF estimates are updated each year, without any detailed explanation of the reasons for the changes and the implications for budget ceilings. There are no tables that describe the differences in budget ceilings from one MTEF to the next, with specification of which changes are due to technical and which to policy changes, which the indicator specifies as best practice.

Expenditures are broken down by economic categories and by MDAs grouped into broad sectors as well as poverty related expenditure for 2010..

Score C: The MTEF does not give any detailed explanation for changes and the implications for budget ceilings.

### **(ii) Scope and frequency of debt sustainability analysis**

A Debt Sustainability Analysis was carried out in 2009 and again in 2010 by the Public Debt Management Unit, which has established a capacity for addressing debt-related issues.<sup>28</sup> The DSA includes an analysis of both external and domestic debt. The debt sustainability and new financing analysis are measured using the following categories of indicators:

- solvency indicators, looking at the stock or present value of the debt burden e.g. Present Value of Debt to GDP, Present Value of Debt to Exports;
- liquidity indicators, which look at the burden of debt service e.g. Debt Service to Exports; and
- external assistance indicators which cover percentage concessionality of new external borrowing measured in terms of grant element of new public sector borrowing.

This exercise will be carried out annually.

Score A: The Debt Sustainability Analysis is conducted annually.

### **(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure**

The Budget Call Circular requests MDAs to present their budget requests with a strategic element – with mission statements, division and programme purposes, strategic overview and key policy developments, service delivery objectives and key performance indicators (PRSP, MDG, NAP and other targets). There is a format to link policy objectives to activities, funding sources and estimated cost for each of the years 2010, 2011 and 2012 and the expected outcomes. Examination of a sample of budget submissions indicates that MDAs have difficulty in presenting this information in a meaningful way (which suggest that they do not understand the concepts fully or are not interested in them). Objectives are not presented in a SMART (specific, measurable, achievable, realistic, timebound) way and in some cases activities are presented as objectives or even outputs. Generally, this presentation (as per the request) is done for goods and services only and personnel costs are not linked at all to these economic categories. This means that even if these were presented adequately in line with the request, the total inputs available are not linked to these strategic objectives which makes the exercise futile and meaningless.

---

<sup>28</sup> Nevertheless the 2011 Budget Speech stated that in order to further improve on debt management, the Government is requesting assistance from the World Bank and the IMF with respect to developing a comprehensive Medium-Term Debt Management Strategy (MTDS)

Where full blown sector strategies have been developed, these are financially unconstrained and as a result are not useful in the current resource constrained environment.

A cadre of budget officers (under the Budget Bureau) has been established and deployed into key MDAs. Budget committees have also been started in MDAs. These developments are designed to improve the budget preparation process in MDAs and establish a better link to planning. However, a significant amount of work is required which will need TA support and training to ensure that the budgets that the MDAs are in line with ceilings aaaaaand reflect priorities.

Score D: Sector strategies are not fully costed

**(iv) Linkages between investment budgets and forward expenditure estimates.**

The preparation of the Development and Recurrent budgets are now under the Budget Bureau in the MOFED under the supervision of the Financial Secretary

However, there is little formal linkage between the two budgets. The Development Budget contains projects of a current as well as a capital nature and is more of a donor funded budget. No mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates. There is a plan to merge both budgets which should then have a recurrent and capital component which may allow this linkage to develop<sup>29</sup>. This is yet to take place as the 2011 Budget retains the distinction between recurrent and development budgets.

Score D: Investment and recurrent expenditure are not fully linked.

The NSA position paper (op.cit) analysis on the MTEF process presents the same points as the narrative on dimensions (i), (ii) and (iv), and was articulated at the validation workshop by the executive coordinator of one of the NSA members Concern for Public Accountability and Transparency.

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p>Overall Score: C</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: C. Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.</li> <li>• Dimension (ii) Score: A. DSA for external and domestic debt is undertaken annually.</li> <li>• Dimension (iii) Score: D. Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.</li> <li>• Dimension (iv) Score: D. Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.</li> </ul>

<sup>29</sup> “Moreover, resource allocation will be enhanced by the integration of the recurrent and development budgets from the 2009-2011 MTEF and budgets onwards” An Agenda for Change page 116

### **3.4. Predictability and control in budget execution**

#### **PI-13 Transparency of Taxpayer Obligations and Liabilities**

##### **(i) Clarity and comprehensiveness of tax liabilities**

The main taxes in Sierra Leone are income taxes (including company tax) Goods and Services Tax (GST), Excise Tax and Import Duties.

The Income Tax Act (2000), and Income Tax (Amendment) Act 2004 (No. 6), and annual Finance Acts covers annual tax on net accrued income of domestic companies. Foreign companies who have assets or business within Sierra Leone are taxed on income from sources within Sierra Leone unless otherwise provided by treaty or statutes. Individual income tax is also covered by the Income Tax Act 2000 as well as Statutory Instrument no. 4 of 2005 Income Tax (Amendment) Act, No.8, 2005 and later amendments. Tax is payable by residents on their world wide income i.e. income from S.L. or outside S.L. Non residents persons are exempted from tax on Sierra Leone source income. The tax is imposed on net income, defined as difference between gross income and deductions permitted by law. Benefits in kind are included in income.

The Excise Act, 1982. An ad valorem tax is imposed on certain locally manufactured products and imports of the same goods, with the value of the goods taken to be the normal price; i.e., the open market price between independent buyer and seller, exclusive of the excise duty. Ad valorem taxes on petroleum products were effectively eliminated in January 1994 and replaced with specific duties. In April 2010, Fiscal Stamps on tobacco and alcoholic drinks were introduced.

Customs Tariff Act, 1978 and ECOWAS Common External Tariff and Finance Act 2006. Specific and ad valorem customs duties are imposed on all goods imported into Sierra Leone for home consumption as specified in the tariff. Rates are ad valorem except specific duties imposed on tobacco, beer, and spirits. Excise duties and GST taxes are also applied to the imports. A Draft Customs Act 2010 was adopted by Cabinet in 2009 and is waiting for enactment by Parliament. This law brings Sierra Leone in line with international standards (Kyoto convention, HTO valuation, HS system and World Customs Organisation Conventions).

A new Goods and Services Tax (GST) was introduced on 1 January 2010 replacing taxes such as Telecommunications Tax Act, Entertainment Tax Act, Restaurant Food tax, Hotel Accommodation Tax and Sales Tax.

The National Revenue Authority was created in 2002 (operational in 2003) by the amalgamation of the Income Tax and Customs Departments and is responsible for administering these tax laws. NRA is also responsible for the collection of Non Tax Revenue which is assessed by the relevant MDAs (although some have yet to allow NRA to carry out its responsibility). With the new GST and Customs Act, all taxes have a separate, consolidated, single, and easy-to-follow piece of legislation.

The NRA itself has no discretionary powers. However, there has been and continues to be a culture of exemption granting by various ministries as a tool to promote their sectors (See PI-27 also). The administration of imports that have duty waiver status is processed by the NRA from the MoFED. But this function simply reviews imports against the protocols that allow waivers in terms of allowable duty free imports to ensure that excess leakage is minimised. It does not address the fundamental policy of justifying and questioning the issuance of waivers in the first place. The 2010 Budget Speech, paragraph 104, does, however, recognise the problem of discretionary exemptions and indicates the intention to address them by changes in policy. The 2011 Budget Speech announced a Revenue Management Bill to regulate the management of revenues with particular reference to the granting of tax incentives and discretionary duty waivers. As well, Government is to publish a

statement of Tax Expenditure detailing tax exemptions, including the amount of revenue forgone, the beneficiaries and the specific tax provisions relating to these exemptions.

Score C↑: The introduction of GST has streamlined the number of taxes, but the exemptions regime is not transparent.

**(ii) Taxpayer access to information on tax liabilities and administrative procedures.**

A NRA website has been established ([www.nra.gov.sl](http://www.nra.gov.sl)). Documents are available for download (such as GST registration Application Form, Income Tax returns) and it provides details of relevant Acts.

There is a Public Affairs and Taxpayer Education Department (PATE) which is responsible for Stakeholder outreach, including taxpayer education, media relations, publicity, publications and internal communications.

NRA issues up-to-date tax information leaflets and uses the various forms of the media.

Individual departments also carry out taxpayer education. The Customs Department holds regular meetings with importers. During the preparation and lead up time for ASYCUDA++ and GST, the respective departments carried out extensive education for tax payers using all forms of the media, often without PATE, but through the DFID support programme for NRA Modernisation. These education campaigns carried out through DFID support needs to be mainstreamed into NRA.

Score A: The provision of information is up-to-date covering all taxes with a new website that contains relevant information.

**(iii) Existence and functioning of a tax appeals mechanism.**

Section 138 of the Income Tax Act provides for an appeal mechanism. An objections committee which is comprised of senior managers of the Income Tax Department provides a functional appeal / objection mechanism in the first instance. A Revenue Appellate Board has now been ratified by Parliament and the Chair and six Commissioners have been appointed by the President. The appeal process is in three stages – firstly, resolution is through the administration of the tax that is being disputed and secondly, through the Appellate Board. Finally, the process allows a party who is dissatisfied with decision of the Board to appeal to the High Court, within sixty days of the decision. While funds were first allocated in the 2007 budget the Tax Appeal function has yet to be fully operational and there have been no cases.

Score C↑: The independent appeals mechanism is not fully operational

Score and PEFA Scoring Criteria met (Scoring Method M2).	
PI-13 Transparency of Taxpayer Obligations and Liabilities	Overall Score: B <ul style="list-style-type: none"> <li>• Dimension (i) Score: C↑. Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.</li> <li>• Dimension (ii) Score: A. Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all the major taxes, and the RA supplements this with active taxpayer education campaigns.</li> </ul>

	<ul style="list-style-type: none"> <li>Dimension (iii) Score: C↑. A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.</li> </ul>
--	--

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

**(i) Controls in the taxpayer registration system.**

Tax Identification Number was introduced in 2009 and is now issued alongside the registration of a company as a one-stop-shop process in the same office which houses NRA TIN Secretariat and the Registrar General of Companies. A TIN and written statement are issued after a guidance interview and the TIN information form has been submitted. The TIN is used for all taxes<sup>30</sup> and is needed for a Tax Clearance Certificate and business registration, but not to a business bank account.

Public Procurement notices request a tax clearance certificate as part of the process and the IFMIS vendor data base uses the TIN. Without A TIN, a company or individual cannot tender for a government contract or be paid from public funds (for non tendered work)

Score B: There is a unique TIN linked to other databases.
---

**(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.**

There are provisions for penalties in the Tax Acts. The 2011 Finance Bill is to update the value of penalties for Income Taxes and the new Customs Code is to increase the value of penalties to reflect current values tied to the discount rate. GST was introduced with punitive penalties for non compliance including the closure of business and not permitting reopening until all liabilities are met. Returns one day late go straight to Debt Enforcement Unit. There is provision for custodial sentences in the Income Tax Act and the draft Customs Act has the introduction of custodial sentences and increased fines.

Score B: The procedures now accommodate penalties for non-compliance on registration and declaration.
---

**(iii) Planning and monitoring of tax audit and fraud investigation programs.**

Income Tax audits are not planned according to a systematic “audit plan” as it is understood under modern audit concepts. The Income Tax Department operates manually. Corporate taxes are paid in advance under a self-assessment system and audits only take place after audited accounts are submitted and initially this will be a desk review. Selection of companies to be audited is based on level of past compliance, level of disclosure and nature of sector and operations. The focus of audit is on the companies in the Large and Medium Taxpayers Categories and there is an approved audit plan for both the large and medium taxpayers annually.

<sup>30</sup>TINs are allocated to each taxpayer, whether they are an individual, a commercial business, a Government department, public corporation, or a special body. As its name implies, the TIN identifies taxpayers for the purpose of all their tax and other revenue liabilities, including: - Goods and Services Tax (GST, Income Tax on personal income, Corporation Tax, Capital Gains Tax, Non-tax revenues, Customs Duties, Excise Duties and Property Tax. The TIN is also required for identification in all other transactions and dealings with the NRA.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

There are now 14 Auditors in Income Tax and the number of audits targeted annually is in the region of 70 – 90 compared with 30 in 2007. Full financial audits are carried out. Compliance levels have increased.

GST audit have yet to be undertaken and will commence in the near future as information is being built up. The profiling of tax payers is currently being undertaken (e.g. for poor filing). GTI system is computerised using VIPS software which has been designed for VAT type GSTs.

Customs declarations are no longer done manually. Sierra Leone has now installed ASYCUDA and is fully operational (apart for the transit module which will soon) at the Customs Headquarters covering trade using Queen Elizabeth Port which covers over 90 per cent of trade. Roll out to Lungi airport and the border posts with Liberia and Guinea. The risk assessment module has been set up and staff are undergoing training. The risk assessment module will determine the status of an import (green – automatic import; yellow - document check; red – full inspection and blue - post clearance audit).

While both GST and Customs audit process have yet to be fully implemented, risk assessment is at the heart of the audit process.

Score B: Audits are now capable of being planned on clear risk assessment criteria using a computer based system for two major taxes. It is likely that an A score will be feasible once these are fully applied.

Discussions with the private sector indicates an appreciation of the introduction of the TIN, GST and ASYCUDA++ particularly in creating a level playing field for companies who operate in the correct manner relative to those who do not or who operate more informally. Nevertheless, the private sector did note that there appeared to be some teething problems in the implementation of ASYCUDA++ (not fully functioning) and GTS (with invoices and receipts and the absence of till machines).

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	<p>Overall Score: B</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: B. Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations.</li> <li>• Dimension (ii) Score: B. Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.</li> <li>• Dimension (iii) Score: B. Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.</li> </ul>

**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).**

There are no arrears on payments on imported items. As payment of assessed taxed has to be made before imported goods are released, the controls are in place to ensure no arrears. Warehousing

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

arrangements are now in place subject to a bank guarantee covering the full tax liability. Payment is made on withdrawal from the warehouse.

There are arrears on other taxes. Parastatals are responsible for the bulk of arrears. A Task Force has been set up to clean up and verify of arrears. This Task Force is due to report by end December 2010 which should provide a realistic arrears figure. As has been detailed in PI 4 (i), there has been an off-setting arrangement on GoSL arrears to parastatals and vice versa. In addition, NRA has established a strategy to improve its arrears collection. When a liability is established, this liability and any penalty will be communicated to the taxpayer by letter and followed up by a reminder and telephone calls. If there is no response, visits are made and the case discussed with tax education being given if required. If there is still no response, sanctions are imposed starting with a refusal to issue a tax clearance certificate and written statement for licence renewal, “naming and shaming” by notice in the press and gazette and finally distress proceedings being undertaken.

The current status of arrears are presented in the following table, which includes verified arrears with repayment plans, action to enforce collect and arrears swaps (see PI-4). There are still Le20 billion awaiting verification. It is realistic to judge that any estimates of arrears prior to 2009 would have been wholly unrealistic.

**Tax arrears**

Million Leones	As of 31 Dec 2009		Total	During	As of 30
	Tax Liability			2010	Nov 2010
	Corporate	Withholding		Paid	Outstanding
Verified and Payment Plan	6,655	14,900	21,555	5,632	15,923
Verified/1	16,186		16,186		16,186
<b>Total Verified</b>	<b>22,841</b>	<b>14,900</b>	<b>37,741</b>	<b>5,632</b>	<b>32,109</b>
Awaiting Verification/2	20,000				
Total Tax Receipts			760,034		987,790
Verified Arrears as % of total revenue			4.97		3.25
Total potential Arrears as % of total revenue			7.60		5.28
1/ out of Leones 23 billion 42 cases					
2/ 98 cases					

Score D. Arrears are in excess of a range between 5 to 7.6 per cent in 2009t of total collection falling between 3.35 and 5.28 percent in 2010 and the debt collection ratio of 26 per cent in 2009.

**(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.**

In Freetown and Kenema, taxes collected are transferred to the Treasury account in the Bank of Sierra Leone the following day. For GST payments, NRA is installing an-in house Commercial Bank so that payments are paid into this bank and transferred to the treasury account daily.

In other towns, transit accounts have been opened in commercial banks for payment of taxes and these deposits are transferred to NRA transit account at the headquarter of the commercial bank in Freetown the next day. These deposits are then transferred to the Bank of Sierra Leone the following day.

Score B: Up-country transfers are not made on a daily basis.

**(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.**

Weekly reconciliation is made between the Ministry of Finance Treasury and the NRA. NRA pay-in data are reconciled each month with the bank statement at the Bank of Sierra Leone and the amounts transferred to the Treasury.

Annual reconciliations are generally done by the end of the first quarter of the year following.

With respect to reconciliation with tax payments and assessments, when a payment is made, these are reconciled with the tax payers records immediately (so, therefore, on a daily basis). Where monthly

payments are due (payroll taxes) or quarterly (corporate) these are reconciled and if payment is not made when due, a reminder is sent out immediately. Where payments are made by direct debit the NRA reconciles these payments with the Accountant General monthly.

Score A: Reconciliations are made on a timely basis

	Score and PEFA Scoring Criteria met (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	<p>Overall Score: D+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: D. The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections).</li> <li>• Dimension (ii) Score: B. Revenue collections are transferred to the Treasury at least weekly.</li> <li>• Dimension (iii) Score: A. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.</li> </ul>

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

**(i) Extent to which cash flows are forecast and monitored.**

The Budget Bureau prepares quarterly allocations of the budget, which are distributed to all MDAs at the start of the fiscal year. Quarterly allotments are then made to all MDAs based on the budget. The Net Domestic Financing Committee (NDF) meets on a weekly basis and monitors the cash position. The Committee has representatives from the Central Bank, MoFED, NRA and the AGD. However, the MoFED does not amend forecasts except in the process of discussions with the IMF in March/April and September.

Score C: Cash flow projections are only updated twice a year, but the cash position is monitored on weekly basis.

**(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.**

The overall budget strategy is based upon the level of estimated revenues, which determines the affordable expenditure levels. MoFED notifies MDAs of the annual budget approved. MoFED also notifies MDAs of the quarterly ceilings based on procurement plans for non-salary/non interest expenditures. Wages and salaries are calculated centrally and are then entered directly into the IFMIS system.

The process described above gives heads of budget organizations an expenditure plan at the beginning of the fiscal year – a process in which they will have had some involvement, but probably little influence. Cash flow forecasts should be based on revised procurement plan based on the actual expenditure to date, but procurement plans are rarely revised in-year.

Quarterly allocations are based on the cumulative projected resources to the end of the quarter, less actual expenditures to date and projected expenditures for the quarter. This is to ensure that arrears are not being built up. The likelihood of fourth quarter allocations cuts provide a disincentive to contract for goods and services even if these are included in procurement plans as the final quarter

allocation will depend on the estimates of cash agreed with the IMF for the remainder of the year and expenditure incurred and commitments already made.

Score B: Adjustments to allocations for discretionary non-interest, non-wage expenditure are made on a quarterly basis and takes into account expenditure to date and commitments incurred to ensure that arrears do not emerge. Fourth quarter allocation also take account of the likely cash position.

**(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.**

There is provision for Supplementary Budgets to be submitted to Parliament (Constitution (Section 111 subsection (3) (b) (ii) and Section 112 subsection (3) and (4). Section 114 (2) c allows the President to authorize warrants under his signature for extra-budgetary expenditure when he considers that there is such an urgent need to incur the expenditure that it would not be in the public interest to delay. However, supplementaries are only applicable, however, when the amount of total expenditure is to be increased, and this has only taken place once since the turn of the century when HIPC agreement was concluded.

The reality is that MoFED has been imposing reductions because of recurring significant revenue shortfalls. The Budget Bureau has developed procedures to protect priority expenditures including poverty related expenditures, wages and salaries, debt service payments and other non-discretionary expenditure. These procedures, including commitment controls have been communicated to MDAs through the Financial Secretary’s Circular which sets out the rational for changes.

These expenditure adjustments have taken place in the fourth quarter after the review of the fiscal position with the IMF. In 2007 and 2008, actual expenditure was below the budgeted amounts, which meant that there were cuts for some MDAs. Nevertheless, there was, in 2009, above budgeted expenditure of some 6 per cent. MDAs are informed of their revised allocations through a meeting of all MDAs chaired by the Financial Secretary. It is clear from PI-2 that some votes receive increases in allocation during the year even in the context of expenditure cuts which appears to be contrary to GBAA/FMR, which limit MOFED authority to make changes within programmes. Often these changes are the result of Presidential instructions.

This point was strongly made by a member of an NSA at the validation workshop.

Score C: Formal reallocations have been imposed in each of the last three years and these have been communicated to the MDAs. However, the practice appears to contradict governing law.

Score and PEFA Scoring Criteria met (Scoring Method M1).	
PI-16. Predictability in the availability of funds for commitment of expenditures	Overall Score: C+ <ul style="list-style-type: none"> <li>• Dimension (i) Score: C. A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated.</li> <li>• Dimension (ii) Score: B. MDAs are provided reliable information on commitment ceilings at least quarterly in advance.</li> <li>• Dimension (iii) Score: C. Significant in-year budget adjustments are frequent, but undertaken with some transparency.</li> </ul>

## **PI-17. Recording and management of cash balances, debt and guarantees**

### **(i) Quality of debt data recording and reporting**

External debt monitoring and debt management are carried out by both the MOFED and the BoSL - the Public Debt Management Unit in the Ministry of Finance and Economic Development, and the Financial Markets Department in the Bank of Sierra Leone. External debt is recorded in the Commonwealth Secretariat Debt Recording and Management Systems (CS-DRMS) maintained by both the BoSL and the Public Debt Management Unit in the MOFED. There is aggregation and reconciliation on a quarterly basis. Quarterly reports cover all debt.

Efforts are also being directed towards integrating the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) utilised by the Bank of Sierra Leone and Public Debts Management Unit, MoFED, within the IFMIS. This process of providing a wide area network link between the Bank of Sierra Leone, Treasury and Ministerial Buildings housing MoFED and AGD respectively, in a bid to improve monitoring of commitments, disbursements and debt service obligations is now complete. Discussions have already been initiated with the software providers to facilitate the integration of the CS-DRMS with the IFMIS.

The Public Debt Management Unit of the MoFED produces annual Public Debt Bulletin providing comprehensive information on Sierra Leone's public debt profile and operations (covering both external and domestic debt and risk analysis on the debt portfolio). It also produces comprehensive reports for IMF Review Missions.

The Unit has undergone considerable training and capacity building.

The Public Debt Management Unit is closely working with other agencies to implement a wide area network among the Accountant General's Department, Bank of Sierra Leone and PDMU. Once established, it will provide the infrastructure for integrating the Commonwealth Secretariat Debt Recording and Management Systems (CS-DRMS) with the Integrated Financial Management Information System (IFMIS) at the Accountant General's Department.

Score B↑: External debt recording and monitoring and debt management are carried out by MOFED and the BoSL, and there is quarterly aggregation and reconciliation of the systems <sup>31</sup> .
--

### **(ii) Extent of consolidation of the government's cash balances**

GoSL operates a Single Treasury Account. However, the consolidation process only applies to the Single Treasury Account maintained at the BoSL and therefore excludes a number of departmental bank accounts, mainly for externally assisted projects and sub-vented agencies. Consolidation of many of these balances into the Treasury system would be a major improvement in the present cash management arrangements in Sierra Leone

Score C: Significant numbers of departmental accounts are not consolidated with the Treasury's STA
--

### **(iii) System for contracting loans and issuance of guarantees.**

---

<sup>31</sup> The Auditor General has qualified her reports on ground of differences between PDU and BOSL records, but there has been considerable work undertaken in this area.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

All central government loans and guarantees have to be endorsed by the MoF and approved by Parliament<sup>32</sup>. The present laws and regulations covering the management of debts, loans and guarantees are covered in a range of regulations<sup>33</sup>.

However, a draft framework<sup>34</sup> for Public Debt Management has been approved by Cabinet in July 2010. A Public Debt Management Bill would be drafted and tabled in Parliament in 2010. . Once this Law has been enacted and applied, the score for this dimension should move to a B and possibly an A

Score C↑: The criteria and ceilings for loans and guarantees are to be set in Public Debt Management Act, 2010 which has been drafted and approved by Cabinet.

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	<p>Overall Score: C+↑</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: B↑. Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of a fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually.</li> <li>• Dimension (ii) Score: C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances.</li> <li>• Dimension (iii) Score: C↑. Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.</li> </ul>

**PI-18 Effectiveness of payroll controls**

**(i) Degree of integration and reconciliation between personnel and payroll data**

The scope of payroll includes all payrolls<sup>35</sup> of central government including all MDAs and autonomous government agencies (AGAs). The processing and payment aspects of the payroll system remains highly centralised within AGD though with different levels of mandated autonomy for the maintenance of personnel records. Autonomous Government Agencies (subvented agencies) funded by the GoSL operate their own accounting systems which have no system interface with IFMIS and other records such as payroll. However, central payroll controls exist and AGD check salary payment vouchers which are submitted on a monthly or quarterly basis. Over recent years payroll, and other IT, system improvements have been introduced together with organisational changes designed to strengthen human resource management capacity. These were aimed at addressing the major concerns which existed particularly in 2006 after independent audits indicated significant weaknesses in the completeness and accuracy of personnel records and databases including the existence of ghost employees and the associated high levels of risk of payroll related fraud.

In terms of payroll data integrity the reform plan is to ensure that all 17,000 civil servants have a complete master file held in HMRO central records and that current payroll records in the respective

<sup>32</sup> Section 118 of the Constitution (1991).

<sup>33</sup> The Constitution (1991), The Local Government Act (2004) and individual enabling acts of Public Enterprises.

<sup>34</sup> The Framework provides the legality for the conduct of annual Debt Strategy Analysis.

<sup>35</sup> AGD Payroll unit has payroll details for MDAs (15,767) Police (9,651) Teachers (34,599) Contract Staff (24) Military (9,381) Sub-vented Agencies (1,500) Embassies (326) Total (71,248)

MDAs mirror this.<sup>36</sup> Since 2007 the planned clean up exercises has focused on the personnel records of civil servants in Education and Health. These are currently underway (including the teachers payroll to be funded by an ADB grant) though there has been a significant delay compared to the original timetable envisaged. The HMRO mandate is civil servants, however, it should be noted that there are also other categories of employees and payrolls outside of this definition which the GoSL funds.

There have been a number of specific clean up exercises undertaken since 2007 which have targeted the key MDAs as priorities. One has been undertaken for civil servants of all MDAs which is substantially complete, and one for the teachers' records, started in August 2010 which is a not yet complete. The records of health workers and their monitoring was planned to be in place for the commencement of donor funded salary top ups starting in September 2010.

The IFMIS –HCA system architecture is in place to facilitate integration and reconciliation between payroll and personnel records and this also provides system-based improved accountability, record keeping and audit trails. When the payroll module was introduced “default” data was uploaded from existing records which still needs to be fully “over-written” as additional accuracy and completeness of records is achieved.

A key control and the verification required to ensure meaningful integration of the payroll and personnel records can only be attained when physical checks of employees are established together with reconciliation of the personnel files held by MDAs, and the master file held by HMRO and the corresponding IFMIS-HCA data.

Score D↑: Despite the roll out of the IFMIS-HCA and the payroll verification exercises undertaken 2007-2010 including the current activity these activities remain incomplete, others also remain to be done. The conclusion is that the integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. GoSL efforts to date are acknowledged by the upward trajectory ↑ but these do not yet impact sufficiently to fully revise the score.

**(ii) Timeliness of changes to personnel records and the payroll.**

Once changes to personnel records and the payroll are notified to HMRO and the AGD they will normally be acted upon within a month. However, what is it not possible to verify is the delay from MDAs and other bodies in the notifications to AGD. Evidence still remains of inaccuracies in key payroll databases to conclude that delays of greater than three months are still an issue.

Score D: Delays in processing changes to payroll and nominal roll are often significantly longer than three months

**(iii) Internal controls of changes to personnel records and the payroll.**

The Payroll Unit within AGD has the main responsibility to ensure that all Government employees are paid on time and at the correct salary scale. During 2009 improvements were made to the Human Capital Accountability (HCA) system in order to strengthen internal controls<sup>37</sup>:

<sup>36</sup> A sustained effort and continuous programme of improvement is essential if the integrity of the total public sector payroll is to be achieved, and this is reflected in its status as PFM1 (DFID/EC) in the PAF Framework monitored by the donors.

<sup>37</sup> Source AGD Annual Report 2009

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

- Implementation of the new HCA which helped to improve the payroll process, in terms of speed, reporting and accuracy. The integrated IFMIS payroll module (HCA) operates for all MDAs included in IFMIS. The Payroll Application (HCA) is not integrated with the Financial Accountability (FA) module of the IFMIS. However, the EV's generated by the HCA are imported electronically into the FA module every month after the pay run
- Salary payments for the period under review were paid on time as per the agreed deadlines.
- The internal control system of the payroll was reviewed with checks on daily operations being instituted.
- Records management system in the payroll unit also improved in 2009
- In-house training for all staff involved in the payroll process.

Three levels of autonomy have been mandated by the AGD as follows:

- Full self accounting for Sierra Leone Police (since 2007) and the Ministry of Defence (since late 2009). The HCA has been rolled out to the Sierra Leone Police. They are responsible for updating the HCA with changes relating to their employees and the AGD does the pay run centrally after checking all amendments inputted against their respective amendment forms. In the case of the Ministry of Defence a request for supported by a schedule is passed to AGD which makes the payment to the bank account of the MOD to enable them to effect payment to their staff. Police use the IFMIS-HCA payroll module but does not operate their own database. And the Ministry of Defence, whilst operating IFMIS for all other payments, has its own payroll database but does not use the HCA module.
- A "rolled out status" has been given to ten MDAs of which nine benefit from a lower level of autonomy than the self accounting MDAs – these MDAs input and process all payroll vouchers up to approval level prior to sending them to the AGD. The AGD then undertakes a higher level of further scrutiny before the printing of cheques. For all other MDAs, AGD receives instructions for payroll input and amendments from HMRO except for teachers whose instructions come from the Ministry of Education, Youths and Sports. The latter MDA is currently undergoing an extensive exercise to improve the accuracy and integrity of its personnel records and teachers database.

However, there could still be scope for the GoSL payroll bill to be understated or compromised, for example:

- Any payroll related expenditures (casual contracts and ad hoc allowances) being inappropriately classified under "other charges" rather than the salary heading.<sup>38</sup>
- Questions over the integrity of the accuracy of numbers on the payroll – hence the importance of the completion of verification exercises / payroll audits which triangulate personnel files, payroll records and physical verifications.

The overall strong control environment referred to above contributes to the internal controls which operate over changes to personnel records and the payroll. Monthly checks are run on the central system as it captures data. Checks are run against PIN numbers and the establishment list and a report produced for HMRO. This IFMIS difference report is amended / confirmed against the HMRO archive list of personnel files before AGD makes payment.

Previous problems existed with the physical security of payroll records. Improvements were evidenced and the payroll files are now in a secure archive; the process underway (75% complete) of records being scanned; and physical accessed to personnel files is recorded in a logbook and CCTV camera monitor the archive room.

---

<sup>38</sup> The PI-20 indicator assessment looks at the control environment for other charges but does not make any assessment on the appropriateness of what is classified as other charges.

Score B: Authority and basis for changes to the personnel records and the payroll are clear and evidenced.

**(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.**

The evidence base for this dimension is the level of activity in the last three years before assessment so the key period for which there needs to be sufficient payroll audit activity is 2007-2009. The following activities have been identified during this period:

- During 2009 the Pensions Unit of the AGD collaborated with the Payroll unit to reduce the wage bill. This was done by sending lists of retired/deceased civil servants, teachers and police identified in the Payroll following their retirement/death dates. The unit also received a list of pensioners (NASSIT pensioners) from NASSIT, which was scrutinised for pensioners that were still in the Payroll. 187 retirees were found receiving both salaries and pension at the same time and about 80% of them were retired teachers that had received their benefits from NASSIT but were yet to apply for Government end of service benefits. The monetary value for such retirees was Le 134,353,671 per month.<sup>39</sup>
- Other one off audits or observations were identified such as the payroll verification exercise of Ministry of Education June 2008; this noted a number of bad practices such as payments to retired employees ; payments by HQ to staff who work in other institutions<sup>40</sup>.
- ASSL was requested to supply any available payroll specific audits although none were received. At a more general level the ASSL Annual Report identifies a number of payroll related weaknesses

The IMF consolidated payroll audit 2006 appears to be used as baseline report of systemic problems which was the start of the payroll reform. The records management improvement programme is now underway and at the time of the assessment:

- All civil servants were physically verified in 2008 and their personnel files completed.
- The Ministry of Health and Sanitation was undertaking a DFID supported intervention which will introduce a monitoring system covering health workers
- The Ministry of Education / teachers payroll is at an early stage as at September 2010.

This aspect of payroll remains deficient. Whilst there is evidence of some audit and verification exercises operating in respect of payroll these are not strong, consistent, nor comprehensive. Significant additional attention is required to introduce more rigour into systemic payroll audits.

Score C: Partial payroll audits or staff surveys have been undertaken in the past three years. However, these have not been comprehensive and have served to further highlight the problems in payroll. The more comprehensive and robust payroll audit and verification exercises have only commenced in recent times.

Score and PEFA Scoring Criteria met (Scoring Method M1).	
PI-18. Effectiveness of payroll controls	<p>Overall Score: D+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score D: Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists.</li> <li>• Dimension (ii) Score D: Delays in processing changes to payroll and nominal roll</li> </ul>

<sup>39</sup> Source AGD Annual Report 2009

<sup>40</sup> Source Anti Corruption Website

	<p>are often significantly longer than three months and require widespread retroactive adjustments.</p> <ul style="list-style-type: none"> <li>• Dimension (iii) Score B: Authority and basis for changes to the personnel records and the payroll are clear.</li> <li>• Dimension (iv) Score C: Partial payroll audits or staff surveys undertaken in the past three years</li> </ul>
--	--

### **PI-19 Competition, value of money and controls in procurement**

The NPPA was established five years ago and there have been measurable improvements in many aspects of the procurement activities under the scrutiny and oversight of the Authority. The supervisory mandate of the NPPA and Independent Review Panel (Part IV of the Act) covers central government, local government and other public bodies. The NPPA commenced operations towards the end of 2006 and the approach it has taken has been to roll out its activities and the related GoSL procurement controls starting with the largest MDAs in procurement spending terms. A spending analysis was undertaken in 2006 to identify an initial nine key spending agencies as pilots for improved procurement disciplines and NPPA oversight. It should be noted that the scope of this indicator applies only to national system procurements, however, to provide additional procurement context there are some references to procurements under donor regulations in the narrative.

In 2007 the revised procurement controls supervised by the NPPA were being applied to the nine key MDAs. The phased roll out by the end of 2009, the baseline for data to be used in the 2010 PEFA, had extended this to over 50 public bodies including 13 Central Government Ministries 13 local councils and 27 other Departments and AGAs. For the 2011<sup>41</sup> procurement planning process the NPPA aims to have 150 public bodies under its supervision.

Other procurement developments have been the requirement for public procurement plans and procurement committees as part of the budget formulation and enforcement process since 2007 Budget Year. Initially this applied only to the nine key MDAs but it has been rolled out year on year since. The latest public notice was placed on 25<sup>th</sup> August 2010 reminding all procuring entities that the deadline for the 2011 procurement planning process was 31<sup>st</sup> October 2010.<sup>42</sup>

The procurement plan is an important document in the overall procurement planning and budgeting process, but the procurement entity should always retains total ownership of, and responsibility for, its procurement process. The NPPA currently has a detailed involvement at an individual contract level in order to identify potential breaches in regulations such as contract splitting, use of incorrect thresholds for competitive tenders, adequacy of procurement timelines. The recent roll out of the NPPA supervision role to an increased number of entities, without a commensurate increase in its resources, is an opportune moment time to review NPPA activities. At the operational level, NPPA should guard against over involvement at the expense of its supervisory role which should focus on the capacity building of procurement officers.

The latest initiative is to improve the quality and capacity of procurement officers in Central Government where there have been long standing acknowledged weaknesses. Central government procurement is undertaken by civil servants in an administrative capacity with no career path and in positions where they are subject to being moved frequently so experience and knowledge is lost to institutions. Arrangements are currently underway to establish a Central Government Procurement cadre with a defined career path and commensurate remuneration. Local Councils were held up as a

---

<sup>42</sup> NSA paper op.cit advocates the linking of Procurement Plans as part of MDA's budget submissions.

good example of organisations where there had been a 90% retention rate of procurement officers because the specialism had been properly acknowledged in status and grading terms from the outset.

**(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold).**

GoSL procurement thresholds for open competition are set out below; everything beneath these thresholds is purchased using “national shopping” however, this method under the Procurement Law is still subject to obtaining a minimum of three quotes.

- Goods Le 60,000,000 (\$15,000)
- Services Le 60,000,000 (\$15,000)
- Works Le 150,000,000 (\$37,500)

The NPPA’s procurement planning and scrutiny process described above is clear evidence of the existence of a structured and well managed system which operates by recording and monitoring the procurement planning information received from public entities. The thresholds for each procurement type were explicit and the control processes operating over the entities and contracts included within the system appeared comprehensive.

However, it should also be noted that at this stage not all entities are yet receiving the full level of NPPA scrutiny; that there are other often much higher thresholds for “national shopping” which are applied by the different donors and when applying local procurement methods it should not simply be about thresholds but also local regulations in terms of the contracting of proper entities.<sup>43</sup>

The NPPA 2009 database included a total of 629 contracts. Of those, 177 contracts (111 Goods; 56 Works; 10 Services) were above the respective thresholds shown above for the different contract types. The monitoring spreadsheet indicated that 27 of the 177 contracts were awarded by an “other route” than national or international competition. So, 150 out of 177 were awarded on the basis of open competition; this gives a percentage (based on number of contracts within the database) was, of 84.7% of the contracts monitored by NPPA; an important caveat because this does not currently represent complete data for GoSL procurement. This incompleteness of the database is reflected in the scoring level of B. It is not possible to a score of “A” which requires that “accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.”

---

<sup>43</sup> Registered for taxation etc

**Data on Use of Open Competition (based on approximately 50<sup>44</sup> procurement entities) Year ended 31 December 2009**

	Total Contracts	Contacts below Threshold	Contracts at or above Threshold	Contracts Awarded through Open Competition	% total no of contracts above Threshold subject to competition (%)	Comments
By Count <sup>45</sup>	629	452	177	150	84.7% <sup>46</sup>	This % is based on the contracts captured by the current level of roll out

**Score: B:** The application of the appropriate thresholds which trigger competitive processes was clear and transparent and in line with GoSL national procurement requirements for those entities and contracts captured by the NPPA monitoring. However, at an administrative level some data accuracy issues were identified during the review of the database. At a more significant level there is a comprehensiveness issue. Not all entities procuring works, goods and services with public funds are currently included in the NPPA database. Calculations, adjusted to reflect the data accuracy issues referred to above indicate a percentage of 84.7% of contracts over the threshold being awarded in open competition. The NPPA own figure shows 90.6%.

**(ii) Extent of justification for use of less competitive procurement methods**

Justification was given for instances where less competitive methods had been used. These included restricted or sole source methods. For example, where particular vehicles or replacement parts were required; emergency situations where either sole source or direct purchase of vaccines was appropriate; situations where competitive bidding processes had resulted in fewer than three bidders so a more restricted option would then be applied. “The Public Procurement Act under Section 1 allows exemptions to specific procurement rules where these conflict with donor rules. Procurement under donor funded projects generally follows donor procurement rules particularly in the case of international tendering”.<sup>47</sup>

**Score C:** The justification for less competitive procurement methods was clear and in line with requirements for those entities captured by the NPPA monitoring, however, there is not the same level of assurance evident for entities outside of this process.

**(iii) Existence and operation of procurement complaints mechanism**

The Procurement Act and Regulations provide a solid legal and regulatory framework for the two tier appeals process. In the first instance this is to the Head of the Procuring Entity and in the second instance referrals are made to the Independent Procurement Review Panel (IPRP).

<sup>44</sup> In the 2007 PEFA the comparable database was that of the 9 key MDAs.

<sup>45</sup> PEFA indicator is based on the number of contracts

<sup>46</sup> The figures supplied to the PEFA team indicated 84.7%. The PEFA Team also had access to the outcome of separate independent reviews undertaken earlier in the year including PAF assessment June 2010 which indicated 58% of contracts were made through open competitive bidding.

<sup>47</sup> Pg 41 IMF FAD Report

There is some evidence to show that there are some first level appeals<sup>48</sup> and also appeals dealt with by the IPRP<sup>49</sup>, however, the numbers are low relative to the total numbers of contracts and discussions with the NPPA indicate that the utilisation of the remedies system is still at an early stage. Implementation, therefore, remains weak although the framework itself is comprehensive.

A number of factors may contribute to the low level of use of the complaints mechanism.

- Perceived lack of independence of the IPRP due to the shared logistical arrangements with the NPPA.
- Cultural reticence and understanding, in the sense that there is not a culture of appeal

The lack of resources available to the IPRP should be addressed. Currently, this must affect the actual and perceived independence of the Panel. For example, the IPRP has no premises, no website and no budget with which it can obtain the specialist advice it may require in order to conduct a thorough hearing. Consequently, the IPRP relies on the NPPA to provide specialist procurement advice; the NPPA website is used to post the IPRP appeal judgements; the lack of premises compromises the integrity of appeals files which are retained by Panel members. There has also been 3-4 month gap early in 2010 due to a delay in the appointment process.

Score C : A procurement complaints mechanism exists but is not fully implemented

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	<p>Overall Score: C+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score B: Available data (which is not complete) shows that over 75% of contracts are above the threshold are awarded on the basis of open competition, but the data may not be accurate</li> <li>• Dimension (ii) Score C: Justification for use of less competitive methods is weak or missing.</li> <li>• Dimension (iii) Score C: A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints.</li> </ul>

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

### (i) Effectiveness of expenditure commitment controls.

The IFMIS system incorporates the hard controls of budgets which ensure cash limits are not exceeded. The core modules of IFMIS now being used are budget and appropriation; purchasing; expenditures; HRM / payroll revenues (though the NRA data has to be input it is not automatic)

The Other Charges Unit, since 2009, has been monitoring ongoing utilisation of budget allocations across MDAs, other bodies and the transfer to local councils (one aggregate figure)

The extent of the documents used in the control processes is indicative of the amount of control and oversight applied by the AGD. The following current forms or methods were cited:

<sup>48</sup> Sierra Leone State Police and Ministry of Education were two MDAs which confirmed this. NPPA database for 2009 indicated a total of 30 procurements described as "contested"

<sup>49</sup> Approximately 6 cases were available to review.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

- Commitment control form – commits the Government (through LPO , contract or other ways) to paying for goods and services and once processed through IFMIS it ascertains the availability of funds on a specific budget line
- PETS forms 1&2 are used to trace expenditure and ensure a wider participation in budget at all levels (four signatures are required for both budget and execution)
- Performance bond – authority given by the bank that if a contractor fails to perform during the life span of the contract that it shall bear the cost. Advance payment guarantees- an authority held by the bank itself to repay the advance made to the contractor in case of default.
- Stock verification, service delivery, works, road transport motor vehicle repair certificates – shows stock delivered in the correct quantity and quality, service has been delivered, work has been done, or vehicle has been repaired.

Detailed processing checks are performed in respect of all budget executions, firstly by the MDA and then by AGD Other Charges Unit. Cheques, their listings and payment vouchers are forwarded to AG/DAG/AAG for signatures.

Score B: Expenditure commitment controls and OC Unit monitoring and supervision processes are established which should limit commitments to actual cash availability and approved budget allocations for most types of expenditure

**(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.**

The Financial Management Regulations outline the basis of the internal control procedures, the approval processes and levels of responsibilities of various officers. MDAs initiate the appropriate requisition and control documents in order to purchase goods, services or works in line with the agreed budget ceilings. Extensive checklists exist covering the checks and verifications to be made. Once these are prepared they are submitted to AGD (Other Charges Unit) which undertakes further scrutiny and checks. The Other Charges Unit of the AGD has the following responsibilities:

- Processing of payments (apart from payroll and pensions) from the Consolidated Revenue Fund for all ministries, departments and agencies and reporting on these payments.
- Ensuring that the MDAs adhere to all financial regulations in force
- To enable the AGD to maintain a sound pre-audit verification process

The control environment comprises a number of levels of detailed checks and verifications aimed at FMR compliance

It is evident that a comprehensive set of controls exist which are designed to address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting.

The Other Charges Unit appears to be proactive not only in checking compliance but in providing guidance to MDAs and in March 2010 the Unit delivered training based on the FMR's and supporting the control documents used.

These controls do exhibit a high level of centralisation, duplication, multiple signatories and will almost certainly absorb significant amounts of officers' time. However, they should also be assessed in terms of their proportionality against the significant control problems and levels of corruption experienced in Sierra Leone.

Score B: "Other Charges" internal control rules and procedures incorporate a comprehensive set of controls at a transaction level. The error rate monitoring statistics indicate that there is more

understanding and compliance by those who operate them but may in some instances create significant duplication whilst not fully addressing full systems based controls.

**(iii) Degree of compliance with rules for processing and recording transactions.**

In 2009 the Other Charges Unit introduced a recording system that records error or rejection rates in routine financial procedures. Error (query) rates compared to the number of vouchers received by AGD have been recorded for 72 MDAs and other bodies since 2009. Based on AGD analysis of vouchers presented for payment during 2009 out of 10,794 vouchers received 92.64% were processed.

Against this, the Auditor General reports and other audit reports still highlight ongoing system problems and non compliance problems which link to internal control.

Score C: The introduction of query statistics to measure accuracy of vouchers and documents sent to the AGD for payment is useful management information to be collecting, and on which to base feedback to controllers and to make systems improvements. However, there are also other bases of evidence which still cast some doubt on the wider internal control compliance at this stage.

Score and PEFA Scoring Criteria (Scoring Method 1)	
PI-20. Effectiveness of internal controls for non-salary expenditure	<p>Overall Score: C+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score B: Expenditure commitment controls and OC Unit monitoring and supervision processes are established which should limit commitments to actual cash availability and approved budget allocations for most types of expenditure.</li> <li>• Dimension (ii) Score B: Other internal control rules and procedures incorporate a comprehensive set of controls which are widely understood but may in some areas be excessive.</li> <li>• Dimension (iii) Score C: Rules are complied with in a significant majority of transactions but use of simplified or emergency procedures in unjustified situations is an important concern</li> </ul>

## PI -21 Effectiveness of internal audit

### (i) Coverage and quality of the internal audit function

Internal Audit was established under the Government Budget and Accountability Act 2005. The 2005 Act raised the profile of Internal Audit by acknowledgement of the function in statute and by elevating Internal Audit to the status of a full department.

GBAA Section 6 sets out the responsibilities of the Internal Audit Department and provides for the establishment of internal audit units in all other MDAs of Government. The definitions and scope are comprehensive and reflect the full range of functions to be expected of a fully developed and established internal audit function. Establishing effective internal audit, however, is a long term development and the present unit has been in operation for less than five years, much remains to be done. Capacity building of the Units themselves is much needed, but much more effort is also required to sensitize all stakeholders to the proper role of internal audit within the overall control environment.

The Internal Audit Unit of the MoFED leads on harmonisation and supervision of internal audit units and the audit officials. In the past, international technical assistance has helped with drafting of audit manuals, hands on training for auditors, formal certificate training for key audit officers, and sensitisation training for officials of MDAs. These practitioners' guides, which cover all aspects of the scope of internal audit set out above, now need to be implemented in practice so that they become embedded as the standard audit methodology. The Internal Audit Unit has made a positive start but sustained effort is needed for it to develop a modern audit methodology and to function well as an internal audit function across GoSL as required under the GBAA 2005.

Internal Audit Units are established but not necessarily adequately resourced for all MDAs and are far from being fully implemented in a consistent way. There are examples of those that are better established than others but overall it is not yet a strong institutional platform. In August 2010 there was a significant injection of resources which should have a measurable impact in taking the internal audit function forward. Fifty new staff, with higher entry level qualifications than have previously been required, have been recruited. This takes the number of internal auditors to 130. It will increase

capacity in numbers, in calibre and by the new intake having a clearly defined designation of internal auditor from the outset; previously there have been some legacy issues in that the Audit Division comprised mainly of transferred staff from the AGD audit unit.

The audit manual is extensive and incorporates international audit standards and principles which when fully implemented will increase the coverage and quality of the internal audit function.

The Director of Internal Audit (MoFED) chairs quarterly meetings of the Heads of Audits across MDAs. The discipline of these meetings annual audit planning is in the early stages. Similarly, other strategic actions such as establishing functioning Audit Committees still remain to be fully implemented.

Score C. The internal audit function has been introduced for at least the most important central government entities and undertakes some audits which comment on systems issues, although it does not yet fully meet recognised professional standards.

**(ii) Frequency and distribution of reports**

Audit reports to auditees are being produced though these are not regular across all units and there have been some issues arising regarding the requirement to copy all reports to the Head of IAD in the MoFED in his supervision and harmonisation role.

Reporting by Internal Audit Units regarding their own activities including to the Head of Internal Audit is also not consistent and regular. For example, quarterly reports of Audit Unit activities are not regularly produced by most MDA's internal audit units. There is not yet a practice of Annual Reports.

Score C. Reports are issued (with differing regularities) for most government entities but may not be submitted to the Ministry of Finance and the SAI on a consistent basis.

**(iii) Extent of management response to internal audit findings**

There are examples of audit reports where management has responded to audit finding and recommendations. For example, the regular audit reports of entities which focus on the review of systems and transactions tend to raise a number of common issues such as lack of knowledge of the GBAA and the financial management regulations; incomplete reporting of transactions; lack of supporting documentation for transactions. The IAD from MoFED also undertook a financial audit of the PETS forms (2007, 2008, and 2009) the results of which were used by MoFED to improve some practices.

Score D<sup>↑</sup>: There are examples of audit reports where management has responded to audit finding and recommendations, but it is not a sufficiently comprehensive and consistent picture to improve the score at this stage.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	<p>Overall Score: D<sup>↑</sup></p> <ul style="list-style-type: none"> <li>• Dimension (i) Score C: The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.</li> <li>• Dimension (ii) Score C: Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.</li> </ul>

Republic of Sierra Leone: PFM Performance Assessment Report 2010

	<ul style="list-style-type: none"><li>• Dimension (iii) Score D↑ Internal audit recommendations are usually ignored (with few exceptions). .</li></ul>
--	--

### **3.5. Accounting, recording and reporting**

#### **PI-22 Timeliness and regularity of accounts reconciliation**

At the time of the last PEFA assessment the Accountant General's Department was emerging from a period where it had encountered significant delays in bank reconciliation activities which had also had a detrimental effect on the production of the annual accounts. March 2007 saw the end of a period of catch up when for the fiscal years 2002-2005 the reconciliations to the STA were completed.

During 2007 reconciliations started to be carried out on a regular basis and have been sustained. Improvements to the IFMIS reconciliation module in 2007 have delivered measurable improvements to the bank reconciliation process.

As at August 2010 there are 57 Treasury and 131 Departmental Bank Accounts operating.

#### **(i) Regularity of bank reconciliations**

Currently, there is a daily cash balance summary available of all Treasury Accounts and a discipline of regular monthly reconciliations which are completed by the 15<sup>th</sup> day of the following month.

The Accountant General's Office receives statements from the BoSL twice weekly (based on a Wednesday to Friday and Monday –Tuesday transactional split) and these form the basis of the regular batch input into the IFMIS reconciliation module. An additional control operated is that the opening and closing balances of the consecutive BoSL statements are checked and agreed before the data is input to IFMIS; the reconciliation of cash book reference to monetary amount occurs automatically during the input and upload of the data with only mismatches and any input errors requiring correction.

In respect of the reconciliation of OGA bank accounts it has been noted under PI-7 that there is not a regular discipline of the required agencies submitting the schedules and bank statements on time. Such ongoing problems, particularly in obtaining bank statements in respect of those agencies utilising commercial bank accounts fetter the ability for timely bank reconciliations to be carried out.

Score B. There is a daily cash balance summary available of all Treasury Accounts and a discipline of regular monthly reconciliations.
--

#### **(ii) Regularity of reconciliation and clearance of suspense accounts and advances.**

The Assistant Accountant General has confirmed that there are no suspense accounts operating.

The Government does, however, operate a system of salary advances on a 'rolling' basis. Examples of the reasons for such advances are that they are given to cover college fees or for sickness. There are controls over the maximum advances permitted and these must be repaid over a 36 month period before a further advance can be made. The Head of Entity / MDA approves any advances which are then checked and verified by the AGD before the advance is made. There is control over the repayments by AGD ensuring that these deductions from salary are made every month and these deductions form part of the monthly accounting and reconciliation disciplines. Maximum advances are Le 1.5 million for junior officers, Le 2.5 million for senior officers and Le 4 million for parliamentarians.

Score B: There are no suspense accounts operating in the system and the procedure for advances appears to have been significantly improved since the previous assessment.

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-22. Timeliness and regularity of accounts reconciliation	<p>Overall Score: B</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: B: Bank reconciliations for all Treasury Managed Bank Accounts takes place monthly and usually within four weeks of the month end.</li> <li>• Dimension (ii) Score: B: Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.</li> </ul>

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

**(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.**

Public Expenditure Tracking Surveys (PETS) are the subject of paragraph 164D of the Financial Management Regulations 2007, which sets out the authority and procedures for implementing recommendations through a Steering Committee.

In 2001, the Economic Policy Research Unit (EPRU) of the MoFED established the PETS Task Team. PETS continue annually and are regarded as a central component of the expenditure control<sup>50</sup> system, especially in terms of their ability to address a range of issues relating to accountability, transparency and efficiency. The 2009 report became available in September 2010 and presents the findings and observations on financial year 2008/2009 selected expenditures conducted in October 2009<sup>51</sup>.

The tenth report was based on a PETS carried out in September/October 2008 tracing the distribution of essential drugs to health centres in 2007, payment of school fees subsidy and the distribution of text books during academic year 2007/2008, the procurement and distribution of seed rice to farmers during the 2008 planting season. In addition, the survey assessed the utilisation of public resources at facilities and civil works carried out by contractors in the rehabilitation and reconstruction of schools in 2008. The eleventh report covers the procurement and distribution of essential drugs in 2008, the distribution of teaching and learning materials and textbooks to primary schools during the 2008/2009 academic year, by the Islamic Development Bank Project and the SABABU Education Project, respectively. The survey also covered the procurement and distribution of seed rice to farmers during the 2009 cropping season. The QSDS component of the survey assessed the utilization of public resources at the service delivery facilities. In addition, the field exercise also assessed civil works carried out by contractors on the rehabilitation and reconstruction of schools under the SABABU Education and the Islamic Development Bank projects.

These reports also contain recommendation for improving the flow of resources and service delivery in the sectors. This is a feature of preceding reports. The reports continue to indicate that poor record

<sup>50</sup> PETS are too restricted in their scope, which varies each year, to be regarded as part of the regular monitoring system. They are a useful adjunct to the IFMIS-based monitoring system.

<sup>51</sup> The PETS eleventh survey (in some years there were two PETS carried out).

keeping remain a major challenge in public financial management. Poor records management and weak internal controls continue to be the major findings of the PETS. The reports indicate some shortfalls in the receipt of funds compared to disbursements, but poor record keeping in some instance at point of receipt preclude firm conclusions as to why these shortfalls may have taken place, if at all. Addressing record keeping at the point of receipt has to be a matter of some urgency.

Score A: PETS are a feature of the monitoring system and are conducted annually. The institutionalization of PETS is a strong feature, but the modification of practices resulting from the information is essential to ensure the system is effective and sustainable.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score: A. Dimension (i) Score: A. Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.

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

**(i) Scope of reports in terms of coverage and compatibility with budget estimates**

The in year budget reports produced by the IFMIS system provide an extensive budget reporting system on expenditures and revenues. The reports encompass budgetary integrity and indicate whether resources been used in conformity with legal authorisations and mandatory requirements. The reports also show the status of resources and expenditures (uncommitted balances and undisbursed commitments).

The regular reports take into account the needs of different users<sup>52</sup> and in addition to standard monthly reports, “flash reports” can be produced at any time. The level of centralisation in GoSL gives MoFED the key role in producing the reports and dissemination to the MDAs.

The reports listed below are the regular in year reports produced and sent to the various MDAs to help them with decision making:

- **Allocation monitoring** - the analysis of funds provided for and used by an MDA during a specified period. The report normally indicates the variance between the provision of funds and the use of funds and this is a measure of the capacity of an MDA in budget planning and execution. The report is provided quarterly on a cumulative basis to vote controllers though it can be provided on demand as well.
- **Vouchers received** - shows the number of vouchers received by the AGD from MDAs for a period and it also shows the number of vouchers queried and returned by the AGD for non-compliance with Financial Regulations.
- **Expense analysis report** – shows the processed transactions by MDAs which can be used to track all payments made on their behalf
- **Cheque management** - gives the total number of cheques printed, the number sent to bank, those cancelled and those still at hand for signing.

<sup>52</sup> With reference to the Accountant General Report 2009 and Action Plan 2010 – introduction of extra budgetary funds into the reporting by Dec 2010 is planned.

- **Expenditure by budget line** - shows how much of the total expenditure was spent by each budget line item
- **Expenditure by MDA** - shows the total amount spent by each MDA for the period. Also shows the percentage of the expenditure made by each MDA of the total amount expended by the Government.

Score B: There is a systematic production system of regular in year budget monitoring reports. Those produced are extensive in the detailed analysis; however, there are concerns about the total coverage as they do not yet incorporate expenditures arising to and from transfers to AGAs which is planned to be a future improvement.

**(ii) Timeliness of the issue of reports**

Standard reports are produced on a monthly basis though they can be requested and issued at any time. The introduction of IFMIS has improved the regularity of the production of the reports.

Score A: In year budget reports can be produced at any time and MDAs can request them at any time

**(iii) Quality of information.**

The quality and accuracy of information is increasing. This is being achieved in a number of ways including from the roll out of IFMIS and the additional accuracy and levels of reconciliations which are inherent system improvements. Also, there are increasingly tighter controls and greater levels of scrutiny and data integrity being introduced into the separate feeder systems such as the HRM/Payroll module and the purchasing module.

Score B: There are still further improvements to be made in the completeness and accuracy of the information captured by the IFMIS management reports, however, some progress has been made in the past three years.

Score and PEFA Scoring Criteria met (Scoring Method M1).	
PI-24. Quality and Timeliness of in-year budget execution reports	<p>Overall Score: B+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score B: Classification of data allows direct comparison to the original budget, however, information still excludes full incorporation of OGA accounts</li> <li>• Dimension (ii) Score A: Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.</li> <li>• Dimension (iii) Score B: There are some concerns about accuracy but data issues are generally highlighted in the reports and do not compromise overall consistency / usefulness.</li> </ul>

**PI-25. Quality and timeliness of annual financial statements**

**(i). Completeness of the Financial Statements.**

The financial statements include the results of the financial operations of the GoSL's MDAs processed through the Treasury. Other public funds including many aspects of donor funds and AGAs are not included in the financial statements, or not included gross as a complete and accurate reflection.

Score C: The statements do not represent full consolidated accounts full information not shown in respect of donor funds, some statements required under the GBAA are omitted.

**(ii) Timeliness of submission of the financial statements**

There has been a significant increase in timeliness of the Financial Statements. The last annual financial statement prepared was that for the financial year ended 31<sup>st</sup> December 2009 which was submitted to the Auditor General on the 7<sup>th</sup> April 2010. The ongoing improvements can be seen in the table below:

Statement of Accounts Year Ended	Submitted to Auditor General	No. of Months after end of Fiscal Year
31 <sup>st</sup> December 2009	7 <sup>th</sup> April 2010	3.25 months
31 <sup>st</sup> December 2008	31 <sup>st</sup> March 2009	3 months
31 <sup>st</sup> December 2007	31 <sup>st</sup> March 2008	3 months
31 <sup>st</sup> December 2006	22 <sup>nd</sup> June 2007	6 months
31 <sup>st</sup> December 2005	22 <sup>nd</sup> June 2007	18 months

Score A: Since the 2005 Financial Statements (which were presented for audit 18months after the end of the fiscal year) there has been sustained and significant improvement in the timeliness of accounts preparation and in their submission to the Auditor General.

**(iii). Accounting Standards Used**

The evidence base for this indicator covers the last three financial years. The importance of financial accounting standards is their contribution to transparency of presentation in year and consistency of presentation between years.

Where national standards are applied rather than full international standards – those national standards should be aligned with recognised international standards. Currently GoSL prepares accounts which are not in line with IPSAS (cash) neither is the full set of statements required by the GBAA Section 57(5) produced.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	<p>Overall Score: C+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score C: A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete but the omissions are not significant</li> <li>• Dimension (ii) Score A: The statement is submitted for external audit within six months of the end of the fiscal year.</li> <li>• Dimension (iii) Score C: Statements are presented in consistent format over time with some disclosure of accounting standards</li> </ul>

**3.6. External scrutiny and audit**

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

Audit Service of Sierra Leone (ASSL) was established as the Supreme Audit Institution of Sierra Leone from its forerunner the Auditor General’s Department in 2004. Under the Audit Services Act 1998 it has the responsibility and mandate to carry out the external audit of all central and local

government revenue and expenditure as well as those parastatals which receive more than 50% funding from the GoSL. One aspect of ASSL independence which arises from time to time<sup>53</sup> is the financial independence of the institution which can have an impact on the Auditor General's ability to complete all external audit obligations. No specific examples were cited which effected the ASSL operations for 2009, however, in the medium term the international best practice<sup>54</sup> This figure compared with 63% audit coverage for of ASSL, as a constitutional body reporting to Parliament, should also include Parliament determining the ASSL budget.

**(i) Scope/nature of audit performed (incl. adherence to auditing standards)**

The ASSL audit work performed in 2009 covered 69.3% of the total national actual expenditure of central government for the fiscal year 2008.

Private audit firms are contracted to audit specialist organisations such as state owned enterprises although it can sometimes be difficult to obtain the audit reports management letters in respect of these audits. The audit of some categories of funds to the Government for example PIU project funds are subject to different arrangements, typically auditors appointed by the donors, and these audit findings are not brought to the attention of the Supreme Audit Institution.

In respect of the local council audit opinions issued by ASSL the auditee response procedure is that local councils submit their responses directly to the Local Government Ministry which reports to Parliament in respect of local councils. ASSL do not routinely receive these responses which can negatively impact on the follow up work of ASSL.

During 2009 work was undertaken in respect of performance audits. The first of these covering Education Inspection Service was reported on in 2010 and a second report is yet to be completed. Nevertheless, it is an early indication of the audit focus beginning to shift to a wider scope from financial audits and transaction testing. Sustained long term effort will be required for performance and other specialist audits to become a regular and accepted aspect of the Auditor General's scrutiny. This will encompass capacity building within ASSL but also building awareness and sensitisation of all key stakeholders including auditees, parliamentarians and the public.

Running parallel to the human resource and organisational aspects of reform has been international technical assistance to support profession building and improvements to the timeliness, scope and content of audit reporting in order to address the different expectations by all stakeholders of the re-focused SAI body. This includes a high standard of financial audits of the key MDAs and other organisations funded by GoSL together with an improved capacity to carry out performance audit, other specialised audits and auditing within the increasingly computerised environment of the GoSL. There is a need for ongoing capacity development in audit specialisms such as procurement, forensic, IT, public enterprises and local government which in the medium term should have a measurable impact on improved audit scope and coverage of the Auditor General's full mandate.

Examples of capacity building in some of these specialisms already exist.<sup>56</sup> The ASSL has a financial audit manual which recognises international standards; there are two further manuals in draft which cover Local Government and Public Enterprises (commercial and non-commercial modules). The

---

<sup>53</sup> PAC Committee in its report on 2003-2005 (finalised in 2009) expressed concern about the budgetary allocations to the audit service. IMF Report 2008 "the Auditor General has raised concerns over the lack of financial independence of the OAG even though it is established as an autonomous constitutional body"

<sup>54</sup> LIMA Declaration Section 7

<sup>55</sup> Figures supplied by ASSL.

<sup>56</sup> DFID project steering committee reports 2008 -2009

ASSL is addressing computer audit in a number of ways and it plans to audit “through the computer” from 2010/2011 supported by audit tools such as IDEA software and specific training for auditors in PETRA accounting software which is currently being rolled out to Local Councils . In 2009 pilot parastatal audits were undertaken.

There has also been significant logistical support and currently there are plans for jointly donor and GoSL funded new office premises for ASSL.

Score C: Central Government entities representing 69.3% of total expenditures are audited annually considering revenue and expenditure.

**(ii) Timeliness of submission of audit reports to legislature**

On the 23<sup>rd</sup> December 2009 the Auditor General issued a qualified opinion on the Accountant General’s Statement of Accounts for the Year Ending 31<sup>st</sup> December 2008. This opinion should be read with care as it is “qualified” by some materially significant issues in respect of those accounts. The Auditor General’s opinion includes the qualification “...that the financial statements do not present fairly, in all material respects, the financial position of the Accounts of the Government of Sierra Leone as at 31<sup>st</sup> December 2008.”<sup>57</sup>

The GoSL should now ensure that IFMIS and related control improvements acknowledged within other indicators of this assessment are sustained and deepened; that the material concerns raised in the 2008 audit opinion are acted upon with the ultimate aim of producing timely and accurate Statements of Accounts which can be given an unqualified opinion.

The submission of the 2008 Accounts met the Auditor General’s constitutional mandate to submit to Parliament her report on the accounts to the legislature within twelve months of the end of the period covered. This report was laid before Parliament on 14<sup>th</sup> January 2010.<sup>58</sup>

In addition, a VFM report on Inspection and Supervision of Secondary Schools was submitted to Parliament on 2<sup>nd</sup> March 2010 and laid before Parliament on 16<sup>th</sup> March 2010. Training was given to PAC members on the concept of performance audits and guidance on appropriate questions on prior to the PAC hearing on the VFM audit report.

The clarification of Standing Order 75 in 2009 means that Auditor General’s reports can now be made public as soon as they are laid before Parliament and based on last year’s decision the 2006 and 2007 audit reports were made public in electronic format at that time. This is an improvement in transparency and accountability – under the previous interpretation the 2006 Audited Accounts would not have been made public until mid 2010 and because PAC are still to issue their final report on the 2007 Audited Accounts (as at September 2010) those accounts would not be public at this time.

Score C: The Audit Report for 2008 was submitted to the legislature by the 31<sup>st</sup> December 2009, as required. In addition, the first value for money report was also submitted to Parliament in a timely manner.

<sup>57</sup> The nature of highlighted issues have consequences for other indicators such as commercial bank balances could not be verified; other public funds including donor funds as well as retained internally generated funds were not included in the financial statements; regular reconciliations not carried out between NRA and Accountant General’s Department; revenue arrears relating to income tax and other income generating MDAs were not disclosed; the amount of NASSIT accruals in the financial statements could not be verified.

<sup>58</sup> The (Qualified) Audit Opinion on the Financial Statements for 2007 was dated 10<sup>th</sup> March 2009

**(iii) Evidence of follow up on audit recommendations**

All auditees are required to respond to the ASSL on the Auditor General’s management letter on systems weaknesses within 30 days. Figures provided by ASSL indicate that 79%<sup>59</sup> of responses from vote controllers are received within the statutory requirement of 30 days. In some instances vote controllers will only submit responses to their management letters during the PAC hearings. This has a negative impact on the work of the ASSL in this regard. The Auditor General can withhold salary of a Vote Controller if responses are not received within 30 days. A particular problem area for OAG can be in respect of local government, referred to in section (i) above.

The ASSL reported that new procedures are now in place to monitor the management letters issued; responses received within 30 days; recommendations implemented; follow up letters issued; surcharges issued. The introduction of the improved monitoring system is acknowledged, however, it is too early for the results of it to be reflected at this time.

Score C: Formal responses are made to the Auditor General though not always in a timely manner and sometimes responses are not forthcoming until requested by the PAC. There is little evidence of follow up and certainly not in a systematic way, although the recent introduction of a new monitoring system provides the potential for this aspect to improve in the future.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	<p>Overall Score: C</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: C: Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.</li> <li>• Dimension (ii) Score: C: Audit reports are submitted to the legislature with twelve months of the end of the period covered</li> <li>• Dimension (iii) Score: C: A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.</li> </ul>

**PI-27: Legislative scrutiny of the annual budget law**

**(i) Scope of the legislature’s scrutiny**

The Parliamentary Finance Committee is tasked with supervising the Ministry of Finance and its subordinated institution such as the Accountant General’s Departments, the Bank of Sierra Leone and other financial institutions, and the NRA, among others. It provides advice on Bills and amendments as required. It is serviced by one Senior and one Junior Clerk.<sup>60</sup>

The Committee examines the budget in the context of the legal statutes (Constitution, and other relevant legislation). It scrutinises the budget proposed by the Minister of Finance by examining the estimates for each MDA and the previous year’s actual expenditure. In carrying out this function, the Committee has the power to summons relevant officials and ministers to explain past performance. The focus of the review is to ensure that money is spent as intended and allocations do not exceed

<sup>59</sup> ASSL supplied figure (79%)

<sup>60</sup> In 2007, there were 35 Parliamentary Committees with only four clerks to service the Committees. In 2010 there are 20 additional clerks

budget. There is some involvement in the budget preparation process in the public meetings, which involves civil society on the Call Circular, through the Budget Oversight Committee.

The Finance Committee also looks at inflows into the Consolidated Account – both domestic and donor flows – and profiles and examines variations between actual and budget revenue.

For debating the Budget, Parliament splits itself into five Appropriation subcommittees, each chaired by senior MPs (though not necessarily a member of the Finance Committee, but mostly so). There is a questionnaire<sup>61</sup> issued to MDAs to provide information. Each Committee prepares a statement, which is presented to Parliament and these are debated by the whole House in the Committee of Supply. If there is any dissatisfaction with evidence or any issue regarding an MDA, the matter can be passed to the Anti Corruption Commission.

Until satisfactory evidence is given by a Vote Controller, the overall vote for the forthcoming year is not released and the Vote is suspended until satisfactory information is submitted. While Parliament has a constitutional right to refuse to pass a budget estimate, it has no real power against the President and Cabinet and there does not appear to be any example of their holding up approval of any MDA budget. In this circumstance, Parliament appoints a committee to investigate the MDA, which eventually issues a Certificate of Rectification when it is fully satisfied.

The Finance Committee also goes up country to scrutinise how money and associated services have been delivered in the context of the PETS. It has also been active in disseminating information regarding budget allocation in constituencies.

Score C: The Committee examines the budget in the context of the legal statutes after it has been formulated and presented to Parliament.

**(ii) Extent to which the legislature's procedures are well-established and respected.**

Parliament is constitutionally responsible for approving the fiscal situation including the original budget and any supplementary budgets. An area where Parliament has been by-passed in recent times has been in the area of duty waiver on imports which is indicative of a lack of parliamentary authority. Only Parliament has the right to waive duty although it may delegate this power to the President as it has done recently but even in this situation, waivers should be approved by Parliament. This has not always been the case. Individual Ministries have been granting waivers in their areas of responsibility without ratification by Parliament. Notwithstanding this, on August 20 2010, Parliament did endorse the Africa Minerals (SL) Ltd. licence and agreement which contains many waivers and special tax treatment not in the Minerals and Mining Act, although it is unclear whether a lack of Parliamentary ratification would have led to the deal being cancelled. Nevertheless, the general continued by-passing<sup>62</sup> of Parliament with respect to tax exemptions has been damaging to the fiscal position, which negates the established expenditure approval process.<sup>63</sup>

Score C: Parliament has been by-passed in the area of duty waiver on imports.

<sup>61</sup> This questionnaire was revised in 2010 with assistance from the Budget Bureau. Training has also been provided by UNDP and the Budget Bureau.

<sup>62</sup> As a result of this, the Parliamentary Finance Committee is looking at amending the relevant laws to address this situation.

<sup>63</sup> The by-passing and lack of respect for Parliament's calendar was highlighted by NSA at the validation workshop.

**(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle.**

In none of the past three years has the budget speech been delivered to Parliament by 31 October to allow Parliament the statutory two months to debate and pass the budget, which should be before the end of December as indicated in PI-11 (iii). Parliament took at least two months to approve the budget and a Presidential Warrant was needed to ensure that expenditure could be made.

The legislature is not involved in any debate on macro fiscal aggregates earlier in the budget cycle.

Score A: Although, the budget speech was not delivered to Parliament by October 31 to allow Parliament the statutory two months to debate and pass the budget before the end of December, Parliament took less than two months to pass the budget.

**(iv) Rules for in year amendments to the budget without ex-ante approval by the legislature.**

Rules for virement are set out clearly in the Financial Management Regulations, 2007 Sections 30 to 36. Virement does not apply<sup>64</sup> if the amount is less than 10 per cent of the annual provision of the line item (Section 31 (3), but there is an upper limit of 40 per cent of the annual provision of the line item (section 32). The responsibility for granting virement is afforded through the Minister of Finance or the Financial Secretary. The Financial Secretary is responsible for preparing schedules at the end of the financial year resulting from virement and submitting these to Parliament Section 34 (1) and (2). MOFED does make reallocations between programmes and votes.

Score C: The limit for virement ranges between a lower limit to 10% and an upper limit of 40% of the line item. MOFED makes reallocations between programmes and votes, contrary to FMR

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	<p>Overall Score: C++</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score: C. The legislature’s review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.</li> <li>• Dimension (ii) Score: C. Some procedures exist for the legislature’s budget review, but they are not comprehensive and only partially respected.</li> <li>• Dimension (iii) Score: A. The legislature has at least two months to review the budget proposals.</li> <li>• Dimension (iv) Score: C. Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure. .</li> </ul>

**PI-28: Legislative scrutiny of external audit report**

**(i) Timeliness of examination of audit reports by the legislature**

Overall, the timeliness of the review by the Public Accounts Committee of the Auditor General’s reports has improved significantly since 2007. However, most of these improvements were only introduced or gained real momentum from 2009 onwards so it is essential to ensure this effort

<sup>64</sup> Allowing administrative reallocations,

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

continues for the legislative scrutiny reforms to be sustained. In addition, the PAC now receives greater technical support from ASSL; public hearings have commenced together with regional hearings, when appropriate; and Standing Order 75 which precluded the publication of the Auditor General's Report on the Financial Statements until after consideration by the PAC was clarified in 2009.

At the time of the last PEFA the PAC had just issued its report on the AG's Reports for 2000-2002. During the intervening years it has considered the 2003, 2004 and 2005 AG Reports and issued a combined PAC report for those years in 2008; PAC issued its report on the 2006 AG Report in 2010 and the 2007 report is expected to be published in October 2010.

Currently the PAC is considering the 2008 AG's Report, including a number of hearings during the Parliamentary recess, with the intention of these being completed before the end of 2010. During 2010 there was consideration of the first value for money report "Schools Inspection" by the Auditor General which was presented to the PAC in July 2010.

However, the evidence base of this indicator is on PAC performance in respect of audit reports submitted to the legislature for three preceding fiscal years, which was the period of catch up, so the very recent improved performance is not yet reflected in the score. In addition to the improving timing of their consideration of the AG's Reports the PAC must also consider the timeline of its examination process which should be within twelve months or less.

Score D↑: PAC scrutiny of the 2008 Auditor General's Report is ongoing, and the timeliness of the PAC scrutiny has improved significantly from the previous performance - it cannot yet be scored higher because the scrutiny record cannot be demonstrated as sustainable for the preceding three years.

### **(ii) Extent of hearings on key findings undertaken by the legislature**

PAC is currently holding hearings, including a number during the Parliamentary recess, to review the 2008 Auditor General's Report with the intention of these being completed before the end of 2010.

The PAC hearings cover in depth the detailed findings of the Auditor General's reports, responsible officials are called to the hearings, and the PAC itself issues a detailed report on its own observations. Since the additional technical support of the ASSL auditors are available to support the PAC prior to and during hearings so that there is "real time" verification of any evidence presented by the auditees.

Hearings are open to the public and since 2009 have also been held in the districts which relate to the consideration of audit reports and public bodies under scrutiny. For example, Special Audit hearings were conducted at the Provincial levels in Bo, Kenema, and Makeni from 29<sup>th</sup> April – 11<sup>th</sup> May 2008.

Score A: PAC holds hearings, including a number during the Parliamentary recess, and are open to the public and since 2009 have also been held in the districts under scrutiny. MDA management are called to the hearings.

### **(iii) Issuance of recommended actions by the legislature and implementation by the executive**

The implementation and follow up of the recommended actions of the PAC continues to be a weak link in overall scrutiny and oversight. A significant number of recommendations are made in the PAC's report but there is little evidence of these being acted upon. The PAC has considered

Republic of Sierra Leone: PFM Performance Assessment Report 2010

introducing an enforcement [of recommendations] team which would be a sub-committee of PAC and comprise three MP's though it is understood that no progress has been made with this.

Currently, there is no systematic approach or database in place to monitor recommendations. In the past the significant delays in consideration of the Auditor General's reports would have made enforcing any sanctions more problematical, as enforcement would have been many years after the event. However, now that the scrutiny process is becoming timelier, attention should be focused on improvements in enforcing PAC recommendations and applying appropriate sanctions where irregularities have taken place.

Score C: There is little evidence of follow up action on the PAC recommendations.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	<p>Overall Score: D+↑</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score D↑: Examination of audit reports by the legislature does not take place or usually takes more than twelve months to complete.</li> <li>• Dimension (ii) Score A: In depth hearings on key findings take place with responsible officers from all or most audited entities which receive a qualified or adverse audit opinion.</li> <li>• Dimension (iii) Score C : Actions are recommended but rarely acted upon by the Executive</li> </ul>

### 3.7. Donor practices

#### D-1 Predictability of Direct Budget Support

Direct budget support is a significant source of revenue for GoSL and the three year period 2007-2009 under review saw an exceptional level of volatility in the disbursement against the original forecasts. However, these delays occurred due to significant fiduciary concerns of donors over GoSL activities together with delays in the publication of financial statements.

The tables below indicate the scale of withholding from 2007 (0% disbursement), through 2008 (65.6% disbursement) and the 2009 disbursement levels of 139 % including the release of withheld sums from earlier years:

DONOR	TOTAL 2007		Q1		Q2		Q3		Q4	
	Original	Actual	Original	Actual	Original	Actual	Original	Actual	Original	Actual
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK DFID	37.38	0	0	0	18.69	0	0	0	18.69	0
EU	19.18	0	10.23	0	0	0	0	0	8.95	0
World Bank	10	0	0	0	0	0	0	0	0	0
African Development Bank	0	0	0	0	0	0	0	0	0	0
	66.56	0	10.23	0	18.69	0	0	0	27.64	0
DONOR	TOTAL 2008		Q1		Q2		Q3		Q4	
	Original	Actual	Original	Actual	Original	Actual	Original	Actual	Original	Actual
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK DFID	25.13	18.38	0	0	20.1	0	0	18.38	5.03	0
EU	16.62	7.6	0	0	10.5	0	0	7.6	6.12	0
World Bank	10	13.09	10	0		0	0	3		10.09
African Development Bank	8	0	0	0		0	8	0		0
	59.75	39.07	10	0	30.6	0	8	28.98	11.15	10.09
DONOR	TOTAL 2009		Q1		Q2		Q3		Q4	
	Original	Actual	Original	Actual	Original	Actual	Original	Actual	Original	Actual
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK DFID	25.13	18.03	0	14.56	18.5	0	0	0	6.63	3.47
EU	16.62	56.61	0	9.85	12	0	0	20.54	4.62	26.22
World Bank	10	0	0	0	0	0	0	0	10	0
African Development Bank	8	8.52	8	0	0	0	0	8.52	0	0
	59.75	83.16	8	24.41	30.5	0	0	29.06	21.25	29.69

**(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).**

The backdrop to the initial suspension and continuation of more than a year included two specific fiduciary issues (i) in 2007 the \$65 million Income Electric energy deal passed in violation of procurement<sup>65</sup> regulations, and (ii) in 2008 the \$20 million ‘Wanza’ commercial creditor arrears. These incidents had to be dealt with at the same time as the Government was addressing the severe backlog of the Financial Statements for the years 2002-2004. A new Accountant General was appointed in 2006. These backlogs and other issues were managed relatively successfully, although delay still existed at that time over the preparation of the 2005 Financial Statements<sup>66</sup>.

The disbursements resumed in 2008 Q3 and Q4 based on the outcomes of the IMF’s second and third PRGF reviews<sup>67</sup> and the MDDBS PAF review in July 2008.

“...after more than a year of uncertainty during which the IMFPRGF programme was on the edge of being declared off-track... MDDBS donors had suspended their budget support disbursement during almost a year, putting the Government in a difficult position... The decision from the IMF Board as well as the MDDBS PAF review in July 2008 provided assurance that macro-economic and macro-fiscal stability was on the way to be restored.”<sup>68</sup>

Since 2008 the major donors have developed a more harmonised PAF framework against which to assess direct budget support conditions.

In recent years UK DFID has generally been the largest provider of direct budget support. During 2007-2009, however, the European Union was the single largest donor, providing \$64.21 million compared to DFID’s \$36.41 million. The EU contribution included some exceptional fund items such as €6.4million food crisis ad hoc tranche and a €12million vulnerability flex ad hoc budget support to GoSL mitigating the fiscal impact of the global economic downturn.

Predictability of direct budget support forecasts and actual disbursements is essential for GoSL strategic planning<sup>69</sup> and control purposes though during this time there was high volatility due to an exceptional period of withholding.

Score D: The disbursement levels of budget support saw high levels of volatility 2007 – 2009 with disbursements against forecasts of 0%, 65.6% and 139% respectively.

**(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)**

This was an exceptional period and all of the points raised in the section above are also valid for this dimension. As shown in the tables above, the impact on quarterly timing was as acute as on the actual versus forecasted budget support on an annual basis. Accordingly, this dimension is also scored as a D.

Score D: The actual disbursement delays (weighted) *have* exceeded 50% in two of the last three years.

<sup>66</sup> The 2005 and 2006 Financial Statements were submitted to the Auditor General on 22 June 2007

<sup>67</sup> 7<sup>th</sup> July 2008 and 22<sup>nd</sup> December 2008

<sup>68</sup> GoSL – European Union Cooperation between the European Union and the Republic of Sierra Leone Joint Annual Report 2008 (Published August 2009)

	Score and PEFA Scoring Criteria met (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	<p>Overall Score: D</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score D: In at least two of the last three years budget support outturn fell short of the forecast by 15%</li> <li>• Dimension (ii) Score D: The actual disbursement delays (weighted) have exceeded 50% in two out of the last three years therefore the requirement for Score C is not met.</li> </ul>

## **D-2 Financial information provided by donors for budgeting and reporting on project and programme aid**

A number of changes have occurred, and are still in transition, in respect of donor aid co-ordination since 2007.

Organisationally, there has been an integration of the various units and departments of the Institutional Reform and Capacity Building Projects (IRCBP) into their respective line ministries of MoFED, and Internal Affairs, Local Government and Rural Development.

The DACO unit is now within the MoFED with an expanding mandate. It is planned that DACO will have an Aid Co-ordination section and a Monitoring and Evaluation Section, which will monitor project implementation against development objectives.

Since 2008 the DAD database has been used by donors to directly upload information on their aid commitments and disbursements. Underlying issues affecting comprehensiveness of the total aid flow captured by DACO which were raised at the time of the last PEFA still remain; it continues not to include information about non-traditional aid flows (including Chinese aid) due to their lack of cooperation with DACO. There are significant aid flows via projects and International Non Governmental Organisations are not fully captured by DACO (see the link to PI-7 comments)

### **(i). Completeness and timeliness of budget estimates by donors for project support**

The amount of detail available in respect of Donor budget estimates is not consistent. Some donors provide medium term forecasts for example up to 2011 and 2012 depending on their own planning timescales. Much reliance appears to be placed on the donors to provide the information so completeness of the database where this is not followed up is an issue.

Score D: Donors do not uniformly and completely submit complete budget estimates for disbursement of project aid at least three months before the start of the 2010 Fiscal Year.

### **(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.**

Information supplied was that from the DAD database. This contains information uploaded on line by the donors themselves. The latest figures available in August 2010 were those to 31<sup>st</sup> July 2010 “based on information provided by the donors.”<sup>70</sup>

Score C: The major traditional donors provide quarterly reports on actual aid flows within two months of each quarter end. This represents more than 50% of the externally financed project estimates in the budget from those donors.

<sup>70</sup> Aid Information Analyst, DACO.

	Score and PEFA Scoring Criteria met (Scoring methodology: M1)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	<p>Overall Score: D+</p> <ul style="list-style-type: none"> <li>• Dimension (i) Score D: Not all major donors provide budget estimates for disbursement of project aid at least for the Government’s coming fiscal year and at least three months prior to its start</li> <li>• Dimension (ii) Score C: Donors provide quarterly reports within two months of end-of-quarter on all the disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not uniformly provide a breakdown consistent with the government budget classification</li> </ul>

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

**(i). Overall proportion of aid funds to central government that are managed through national procedures.**

In terms of the proportion of aid that is managed by national resources the best proxy is to use the budget support figures as there is little evidence of other aid flows using IFMIS.

The Summary Grants and Loans table from the 2009 Financial Statements shows the donor financed grants and loans amount of Leones 423.8 million. Applying the 2009 direct budget support figure to this gives a percentage of 19.6%; using DACO supplied figures as in previous years of Leones 358.7 million. Against this the direct budget support gives a “use of national procedures” proportion of 23.18%.

This figure falls well short of the 35% indicative target set for 2010 in the GoSL Aid Policy Document<sup>71</sup> from the baseline of 20% in 2007. At the time in 2008 because Sierra Leone was participating in the Paris monitoring for the first time a target of 35% for 2010 was seen as representing “a suitable level of ambition”.<sup>72</sup>

Score D Around 23% of donor support used national procedures.
---

	Score and PEFA Scoring Criteria met (Scoring methodology: M1)
D-3 Proportion of aid that is managed by use of national procedures	Score: D Less than 50% of aid funds to central government are managed through national procedures

<sup>71</sup> Indicator 5a Table II: Paris Declaration Survey Results

<sup>72</sup> Full 2008 Paris Survey Chapter on Sierra Leone.

## 4. Government Reform Process

### 4.1. Recent and on-going reform measures<sup>73</sup>

Since the publication of the 2007 PEFA and reforms highlighted as part of Chapter 3, the following activities relating to central government reform<sup>74</sup> are on-going. These reflect the extensive reform programme in terms of content and also timeframe, as well as the not inconsiderable achievements to date.

#### **Legal and Regulatory Framework**

Consultations have been initiated with relevant stakeholders for the revision of the Local Government Act 2004 (including the formulation of a decentralisation policy which is now at an advanced stage), Government Budgeting and Accountability Act, 2005 and Procurement Act 2004 together with the relevant regulations supporting the respective Acts to take into cognizance issues embodied that warrant review.

#### ***Government Budgeting and Accountability Act, 2005 and Financial Management Regulations, 2007***

A team of consultants has been contracted to facilitate the review of the GBAA, 2005 and Financial Management Regulations 2007. This is being done in consultation with key agencies including Parliament, Ministry of Finance and Economic Development (MoFED) Accountant General's Department (AGD), Audit Service Sierra Leone (ASSL) and Law Reform Commission amongst others. A draft 'Options and Issues Paper' has recently been submitted by the consultants and key issues highlighted presented at a meeting of key stakeholders. Following the submission of the final 'Options and Issues Paper', a wide consultation process of all stakeholders (including Ministries, Departments and Agencies) will be organised during which participants across Central Government and Local Councils will deliberate on issues highlighted. An accelerated plan to revise the GBAA and FMR to include 'Public Investment Programme' is now underway with a revised bill entitled 'The Government Budgeting and Accountability (Amendment) Act 2010' already drafted and will shortly be laid in Parliament. "Public Investment Programme" means a three-year rolling programme containing the development plan of the Government, including the projects planned to be implemented during the three years of the MTEF, together with the development spending for the ensuing year and the indicative development estimates for succeeding years.

#### ***Public Procurement Act, 2004 and Procurement Regulations, 2006***

Following the previous consultative meeting in December 2009, The National Public Procurement Authority (NPPA) continued the consultative process for proposed revisions to the Procurement Act 2004 and Procurement Regulations 2006 in March 2010 with a National Consensus Forum chaired by the Solicitor-General and attended by senior officials across Central Government. In addition to consultations held with the members of Parliament, further consultations are being planned to ensure that the revised legislation adequately addresses all pertinent issues. Public Financial Management Reform Unit, MoFED

#### ***National Debt Law***

In pursuance of developing an improved legal, policy and institutional framework for sustainable debt management, the Public Debt Management Unit of MoFED championed a sensitisation seminar for

<sup>73</sup> Adapted from Public Financial Management Reform Update – Status Report – September 2010, PFMURU.

<sup>74</sup> There are related reforms in these areas which relate to Local Government as well.

the formulation of a legislative framework and the preparation of a procedures manual for public debts management in March 2010 which attracted participants from Central Government and Local Councils. Further consultations have been held at various levels culminating in Cabinet's approval of a comprehensive national debts policy and procedures manual.

Currently, various aspects of public debt management are addressed in separate legislations including the Constitution of Sierra Leone, 1991, the Government Budgeting and Accountability Act, 2005 and the Government Loans Act 2005 resulting in incoherence and inadequate transparency and accountability in the acquisition, utilisation, management and control of public debt.

The national debts law will lay out the framework for public sector borrowing and debt management and clearly define sub-national borrowing limits and procedures. The process for on-lending, issuing Government guarantees and monitoring of contingent liabilities will also be regulated and further track private sector external borrowing and reporting.

The practice of loan contracting, disbursement and debt service payments will be outlined in the procedures manual thereby guiding the day-to-day management of public debts and risk management generally.

A Bill entitled 'Public Debts Management Act 2010' has now been drafted and will shortly be laid in Parliament.

### **Macroeconomic Fiscal Framework (MEFF) and Medium Term Expenditure Framework (MTEF)**

#### **Macroeconomic Fiscal Framework**

##### ***Establishment of Macrofiscal Section***

A Macro Fiscal Section now functions within the Economic Policy and Research Division, MoFED, charged with the responsibility of generating reliable and consistent macroeconomic fiscal projections to facilitate credible and reliable forecasting of revenue flows. This is aided by an Integrated Macroeconomic Modelling and Forecasting Steering Group (IMMF) comprising officials from MoFED, Bank of Sierra Leone (BSL), Statistics Sierra Leone (SSL) and National Revenue Authority (NRA), which ensures consistency of macro-forecasts in Government and thus improves on the macroeconomic evidence base available for policy formulation. Efforts are now being directed towards ensuring the Public Financial Management Reform Unit, MoFED effective and efficient functioning of the IMMF to adequately support the operations of the Macro Fiscal Section.

##### ***Financial Programming and Policies Model***

An IMF-style Financial Programming and Policies Model (Sierra Leone Integrated Macroeconomic Model – SLIMM) has been developed which seeks to ensure transparency, ease of use and consistency of application in the development of macrofiscal forecasts for 2011-2013 medium term budgeting period and beyond. Two sets of consultative retreats/training programmes have been organised by the Economic Policy and Research Unit of MoFED for key stakeholders involved in macrofiscal forecasting to foster the effective utilisation of the SLIMM for the MTEF budgeting period 2011 – 2013.

The first output – a Macro-economic and fiscal framework (MEFF) - was produced in June 2010 and revised in September and a budget framework paper was produced. The MEFF was used to provide expenditure ceilings, detailed revenue forecasts and comprehensive macroeconomic forecasts which were subsequently discussed with and endorsed by the IMF. This work will be further developed in 2011 including capacity building, and integrated into the 2012 budget cycle which is planned to start earlier in the year to inform the budget process.

#### **Public Debt Management**

### ***Debt Management Performance Assessment (DEMPA)***

Following the initial Debt Management Performance Assessment (DEMPA) undertaken last year covering debt management strategy, evaluation of debt management operation, coordination with fiscal and monetary policy, legal framework and auditing, loan guarantees and contingent liabilities amongst others, the Public Debts Management Unit (PDMU) of MoFED ensured the compliance with basic international standards for debts management as evidenced in the report of the last DEMPA assessment. However, the fragmented legal framework noted from the assessment is now being addressed through the enactment of a new national debt law as highlighted within legal framework outlined above.

### ***Debt Buy-Back***

The PDMU is facilitating the process of external commercial debt buy-back operation in accordance with the second external commercial debt reduction programme. This process is now underway.

### **Public Procurement**

#### ***Development of a procurement cadre***

In a bid to generally develop and retain procurement specialists within the central government, the National Public Procurement Authority (NPPA) has engaged relevant stakeholders within the Central Government including the Human Resource Management Office, in directing efforts towards the establishment of a procurement cadre. With this in place, specific procurement officers will then be recruited to undertake procurement activities in MDAs. Taking from the lead provided by the local councils in the recruitment of dedicated procurement officers for the respective local councils, efforts are being directed towards replicating this within the Central Government, with the view of bringing about increased monitoring and control over the procurement process. A study of experience Public Financial Management Reform Unit, MoFED gained by other countries with established procurement cadres was organised and lessons learnt are now being used in finalising the procurement cadre for Sierra Leone. The process of recruiting forty (40) procurement officials into the civil service to be assigned to various MDAs is now underway and being led by the Public Service Commission (PSC) in concert with the Human Resource Management Office (HRMO).

#### ***Capacity Building***

In addition to capacity building initiatives organized by the NPPA in enhancing the pool of qualified procurement trainers, the University of Sierra Leone has now introduced Procurement as majors in degree courses being offered. Furthermore, several training programmes were organized for personnel assigned procurement responsibilities both within the Central Government and Local Councils thereby increasing their awareness and technical abilities in carrying out procurement functions.

A one-day sensitization seminar for Councillors of Local Councils in the Western Area and private sector service providers respectively was conducted in September 2010 on the theme 'Procurement for sustainable economic development in Sierra Leone'. This seminar addressed several issues including the following:

- 1 Procurement structures and the role of the local councillors in the procurement process
- 2 Procurement overview and the role of the private sector service providers
- 3 Understanding the effects of procurement monitoring and delivery at local levels
- 4 Common errors in the bidding process
- 5 Processes and procedures in the award of contracts
- 6 Procurement ethics and issues of corruption

This sensitization seminar will be regionally extended to Councillors of Local Councils and service providers in the Provinces during the last quarter of 2010.

### ***Procurement Operations***

In support of the 2011 budget process, MDAs are in the process of submitting draft procurement plans for 2011 to NPPA for review following which the final procurement plans will be formally submitted to both the Ministry of Finance and Economic Development and NPPA. This forms part of the technical assistance proffered by NPPA to MDAs in a bid to facilitate the preparation of acceptable procurement plans and further guides the basis of procurement monitoring.

### **Integrated Financial Management Information Systems (IFMIS)**

#### ***Support to rolled-out MDAs***

The PFMRU continued providing training and support to IFMIS users across Ministries, Departments and Agencies (MDAs) in ensuring that activities are properly and adequately captured within the IFMIS by the respective rolled out MDAs.

#### ***Imminent roll-outs***

Following the roll-outs of the IFMIS to the Office of the President and the Ministry of Foreign Affairs and International Cooperation, plans are now at an advanced stage for further rollouts of the Expenditure and Purchasing Modules of the IFMIS to Office of the Vice President and Ministry of Lands, Country Planning and the Environment. The procurement and installation of Local Area Network and equipments in both MDAs has furthered the progress made in ensuring that the infrastructure is ready for the rollouts. Once the licensing arrangements are finalized, full training of all identified users of both Ministries will ensue.

The human resource aspect of the HCA will be rolled out to the Ministry of Education Youths and Sports upon completion of the verification and validation exercise for Teachers.

### **Information Communication and Technology**

With the setting up of an Information Communication and Technology (ICT) Division within MoFED, efforts are now being directed towards providing an enabling ICT environment to facilitate the smooth operation of MoFED activities and also provide support to the IFMIS within MDAs and financial management information systems within local councils.

#### ***ICT infrastructure***

A revamp of the MoFED website was recently undertaken in order to create a more robust and user-friendly environment wherein the uploading and publication of financial management and other key updates is now much more feasible.

Efforts are now being directed by the ICT Division towards revamping of the IFMIS network infrastructure in all online MDAs to ensure that the interconnectivity between all IFMIS connect MDAs is operational, effective and secure. This will be undertaken during the last quarter of 2010.

Complete networking of the Treasury Building housing the MoFED has now been completed and VSAT equipments installed to address internet connectivity needs. Plans are underway for the acquisition of adequate bandwidth suitable for the Ministry's information processing needs.

A revamp of the Ministerial Building is also underway and will be fitted with a fibre optic backbone in line with the technology at the Treasury Building. Both buildings will be linked via a fibre optic backbone with VOIP phones installed to enhance communication.

### **Aid Coordination**

The Development Assistance Coordination Office (DACO), MoFED facilitated the preparation of an aid policy for Sierra Leone and its subsequent distribution to stakeholders within Government and the Development Partners. A second Development Partnership Committee (DEPAC) meeting was held in September 2010, chaired by the Hon. Minister of Finance and Economic Development, and co-chaired by the Executive Representative of the Secretary General of the United Nations, and the Country Manager of the World Bank. Updates on progress in the implementation of the PRSP 2 - Agenda for Change, progress Public Financial Management Reform Unit, MoFED towards achieving the Millennium Development Goals (MDGs) and governance issues formed the thrust of the meeting. The next DEPAC meeting is scheduled for the fourth quarter of 2010.

## **Monitoring and Evaluation**

### ***Cap Scan***

The Central Planning Monitoring and Evaluation (CPM&E) Unit of MoFED has recently introduced the Cap Scan tool in its Monitoring and Evaluation (M&E) framework with the formal launch of the process scheduled for October 2010.

The CAP-Scan is a managing for development results (MfDR) assessment tool which aims at reviewing the capacity status of institutions for effective delivery of development results. It is a short-term, broad, and high-level diagnostic review to identify and prioritize needs in the five central pillars of MfDR namely:

1. Leadership
2. Accountability and Partnerships
3. Monitoring and Evaluation
4. Planning and Budgeting and
5. Statistical Capacity.

This MfDR assessment tool enables countries conduct assessments that provide a clear view of strengths and capacity gaps in institutions set-up for public service delivery. It is envisaged that the CAP Scan assessment will result in the development of actions to address resource needs and inform sectoral and national development policy direction.

## **Internal Audit**

### ***Strengthening of Internal Audit Units of MDAs***

The Ministry of Finance and Economic Development through the Public Service Commission (PSC) and Human Resource Management Office (HRMO) in August 2010 recruited fifty one (51) Internal Audit personnel including Deputy Director, Principal Auditors and Senior Auditors into the Internal Audit Department. Orientation and training on audit fundamentals were provided for all newly recruited employees following which most were assigned to targeted MDAs to further strengthen their internal audit units.

### ***Capacity Building***

Continuous capacity building initiatives are being undertaken by the Internal Audit Department, Ministry of Finance and Economic Development in strengthening internal audit units of MDAs. This is being augmented by quarterly meetings of all internal audit heads of MDAs, chaired by the Director Internal Audit, Ministry of Finance and Economic Development (MoFED), during which urgent issues affecting the conduct of internal audit in MDAs are further addressed.

Plans have been initiated for the conduct of a Personnel Audit Training Programme for the newly recruited internal auditors to enable them to adequately address this aspect of auditing in their respective assigned posts. Furthermore, those assigned to IFMIS online MDAs shall receive training on the 27 Digits Chart of Accounts and IFMIS Reporting during the last quarter of 2010.

### ***Audit Committees***

MDAs are now being encouraged to adopt the practice of instituting Audit Committees with membership drawn from both internally and externally. To date, audit committees have been instituted in the following six (6) MDAs:

1. Ministry of Defence
2. Sierra Leone Police
3. National Electoral Commission
4. Anti Corruption Commission
5. Ministry of Finance and Economic Development
6. Ministry of Foreign Affairs and International Cooperation

### **External Oversight - Audit Service Sierra Leone (ASSL)**

#### ***Auditing and Reporting***

With focus now being extended to other areas of audit including Procurement, Information Technology, Civil Works and Performance Auditing, a Performance Audit of Ministry of Education Youths and Sports on the Inspection and Supervision of Secondary Schools was completed in March 2010 and report subsequently submitted to Parliament.

#### ***Capacity Building***

In pursuance of the expanded role in promoting accountability and good governance through the introduction of Performance Auditing in 2009, ASSL partnered with AFROSAI-E, the regional audit body, in organising a three module Performance Audit Training Course, the first of which was undertaken in September 2010. This training was geared to enabling Performance Audit staff to work independently in accordance with established audit plans and implement methods instituted by the INTOSAI and AFROSAI-E auditing standards.

The training which attracted participants from neighbouring countries was attended by twelve (12) ASSL Performance Auditing employees.

Further sessions are planned for the last quarter of 2010 and first quarter of 2011.

### **External Oversight - Parliament**

#### ***Scrutiny of Audit Reports***

Steady progress is also being made with respect to parliamentary review of the audit reports by the Public Accounts Committee (PAC) with backlog audit reports for 2004 to 2006 already examined. The report for 2006 was issued in early 2010.

Public hearings and in some instances regional hearings in Provincial Headquarter Cities (Makeni, Bo and Kenema) organized by the PAC for the Auditor General's report on 2007 financial statements are now ended and the report is expected to be published during the last quarter of 2010.

The PAC is presently reviewing the 2008 Auditor General's Report, having undertaken a number of hearings during the Parliamentary recess. It is envisaged that this review will be completed during the last quarter of 2010 or early 2011.

Following receipt of the Performance Audit Report on the Inspection and Supervision of Secondary Schools in April this year, initial public hearings were held during May 2010. Prior to this, training was provided to the PAC members on the concept of Performance audit and guidance provided on the relevant value for money (VFM) questions to pose during the public hearings. Furthermore, technical support is further provided by the ASSL to PAC in the review of audit reports laid in Parliament.

## **External Oversight - Non State Actors**

### ***Formation and launch***

Following the recruitment of a Non-State-Actors (NSA) Coordinator for the IPFMRP, several consultations have been held with various NSA groups nationwide in a bid to establishing a common ground and co-create a common road map. This culminated in a launch of the NSA component of the Project in August 2010 which was initially conducted in Freetown and subsequently in the provincial headquarter cities of Bo, Kenema and Makeni.

### ***Network for information sharing***

Subsequent to the launch of the NSA component, a network of Non Governmental Organisations (NGOs) and Civil Societies for information sharing and collaboration has been established regionally. Attempt is being made to replicate this in the respective districts.

### ***Engagement of State and NSA on PFM***

The NSA secretariat also facilitated the process of engagement between state and non-state actors by providing a platform where both parties (Directors within Public Financial Management Reform Unit, MoFED. MoFED and NSAs) debated on issues relating to public financial management. Also, the NSA secretariat and some NSA institutions held radio and TV programmes on PFM issues.

### ***Participation in Policy Hearings and Budget Discussions***

NSAs participated in Policy Hearing and the bilateral budget discussions for the MTEF period 2011 – 2013 held in August 2010 and had meaningful and systematic engagement with Ministries, Departments and Agencies (MDAs). NSAs were very active in the bilateral MDA discussions, and very instrumental in the scrutiny of budgets presented for ratification and approval.

At the end of the policy hearing and bilateral budget discussions, the NSA secretariat facilitated the production of an NSA position statement reflecting all the observations, concerns, good lessons and recommendations of the NSA constituency which was shared with the Financial Secretary, the Budget Bureau, and the Chief of Staff in the Office of the President.

## **4.2. Institutional factors supporting reform planning and implementation**

The reform programme is an essential part of the GoSL's democracy and stabilisation plan as set out in the PRSP and Vision 2025. It is supported by the political process and implemented through the Vice President and the Minister of Finance. A new overarching policy framework was outlined in the second Poverty Reduction and Strategy Paper (PRSP II) or *Agenda for Change* which covers the period (2008-2012). The PRSP II was designed to address a number of key strategic priority areas including power, infrastructure, agriculture, education and health considered vital for economic growth, poverty eradication and economic development.

Donor partners actively support the reform programme by linking budget support to it but also provide technical assistance to ensure it is supported in its implementation. The current Multi-donor Budget Support is centred on a Progress Assessment Framework based on indicators focused on PEFA (See PAF at end of Chapter).

Institutional factors, which appear to be critical in supporting the reform programme, include the following:

- The full, including locational, integration of the PFMRU into the MOFED, with clear lines of responsibility for the implementation of PFM reform
- Strengthening of parliamentary capacity in the analysis of public finance, such as increased numbers of parliamentary clerks, researchers and exposure to best practice in other countries

Republic of Sierra Leone: PFM Performance Assessment Report 2010

- The strengthening of aid management. Although DACO MOFED appears to have primary responsibility for aid management, elements are still the responsibility of other institutions such as MOFED Development Division. The current development of an Aid Policy will, no doubt, look to resolve the current fragmented nature of aid management
- Autonomy of the Auditor General. Although autonomy has been secured *de jure*, there are ongoing and continued improvements to be made in line with full international best practice such as the financial independence of the ASSL, though a number of these are outside the scope of PI-26

The implementation of the Budget Speech aim of integrating the recurrent and capital/development budgets should be furthered, which would imply the integration of planning and budgetary procedures. The continued availability of key skills set in undertaking PFM reform activities outlined in the IPFMRP to achieve the results detailed in Progress Assessment Framework below remains a key challenge to the success of the reform. The heavy reliance on contract staffs to undertake key reforms over the past years suggests that this category of employees is crucial to the GoSL achieving the PFM objectives outlined. The IPFMRP includes substantial training and capacity building initiatives together with an exit strategy designed to ensure sustainable human capacity within the Ministry of Finance and Economic Development through the decline of contract staffs overtime. Careful consideration must be given in bringing these to fruition to ensure that gains made over the past years are well-consolidated and targets set out for the ensuing years remain achievable. These are to be addressed by Components 3.3 and 3.4 of the IPFMRP outlined in Chapter 2.

**GOVERNMENT OF SIERRA LEONE AND MULTI DONOR BUDGET SUPPORT PROGRESS ASSESSMENT FRAMEWORK 2010**

Priority Area	Proposed Actions	Source	Proposed Indicators/Evidence of progress	Accountable MDA(s)
<b>PFM I: Payroll Integrity</b>	<p>1. Set-up payroll management process that includes auditable documentation and complete payroll verification exercise resulting in a validated personnel record for all teachers, and recorded trail of payments to schools. Systems ensuring integrity of civil service payroll are implemented.</p>	<b>GoSL</b>	<ul style="list-style-type: none"> <li>• Create files marked with PIN for every teacher on the payroll. [weight 0.20]</li> <li>• Action plan to deal with anomalies between census data and payroll agreed by MEYS, PSRU and AGD, including clear policy on record management [weight 0.20]</li> <li>• Vouchers payments to schools retrieved within 48 hours improve to 75% (from 68% baseline in 2008) [weight 0.20]</li> <li>• New HRMO Records Office security measures are in place (including electronic security systems) [weight 0.20]</li> <li>• Monthly reconciliations are prepared of the HRMO establishment list and AGD payroll records [weight 0.20]</li> </ul> <p><i>Evaluation method for the proposed indicators: Met = 0.80 Substantial progress = 0.60</i></p>	AGD HRMO PSRU MEYS
<b>PFM II: Procurement Reform</b>	<p>2. The government will have made substantial progress towards implementing the procurement legislation, achieving a more transparent and competitive procurement systems.</p>	<b>DFID/EC/WB/AfDB</b>	<ul style="list-style-type: none"> <li>• At least 50 public entities will have prepared procurement plans for 2010 that are approved by MOFED or other applicable oversight institutions, including each of the 45 that produced plans in 2009. [weight 0.25]</li> <li>• The share of 20 randomly selected 2010 procurement plans that meet agreed criteria* for good quality will increase by 5 percentage points over the benchmark of 42 percent established against 2009 procurement plans. In addition at least 10 plans will be completed and approved by MOFED before January 1, 2010. [weight 0.25]</li> </ul>	NPPA

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Priority Area	Proposed Actions	Source	Proposed Indicators/Evidence of progress	Accountable MDA(s)
			<ul style="list-style-type: none"> <li>• The share of procurement transactions in 2009, for entities with approved procurement plans, which are conducted through open competition, will improve by 6 percentage points over the benchmark of 69 percent established against the 2008 procurement transactions. [weight 0.25]</li> <li>• MOFED will have established a procurement unit and a procurement committee in compliance with the applicable procurement law and regulations. (WB only)</li> <li>• Amendment of the Public Procurement Act including the revision of threshold for the publication of awarded contract for goods and services, establishment of procurement cadres, and rigorous obligations by the contracting government department to ensure a mandatory review of transactions above a certain threshold. (AfDB performance indicator)</li> <li>• All invitations to tender and awards are published in accordance with the Act, the latter within one month of award. (DfID/EC only) [weight 0.25]</li> </ul> <p>* See annex 1 for definition of agreed criteria.  <i>Evaluation method for the proposed indicators:</i>  <i>Met = 0.75</i>  <i>Substantial progress = 0.50</i></p>	
<b>PFM III: External Oversight</b>	3. Auditor general reports are published and disseminated in a timely and accessible manner	<b>DFID/EC/AfDB</b>	Auditor General report up to 2008 published by end March 2010	Auditor General PAC, AGD
<b>PFM IV: Budget Execution</b>	4. <u>PEFA II Indicator</u> : The variance in expenditure composition in 2009 for the 20 largest budget heads will not exceed overall deviation in domestic primary expenditure by more than 10 percentage	<b>DFID/EC/WB</b>	<ul style="list-style-type: none"> <li>• The variance in expenditure composition in 2009 for the 20 largest budget heads will not exceed overall deviation in domestic primary expenditure by more than 10 percentage points; [weight 0.33]</li> <li>• Transfers to Local Councils in FY10 adhere to the</li> </ul>	Budget Bureau

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Priority Area	Proposed Actions	Source	Proposed Indicators/Evidence of progress	Accountable MDA(s)
	<p>points.</p> <p>Funds are transferred to local councils in a predictable, manner. (EC/DFID)</p>		<p>quarterly disbursement schedule published in the beginning of each fiscal year; [weight 0.33]</p> <ul style="list-style-type: none"> <li>The variance between available resources and executed LC budgets should not be more than 10 percent in FY 2010. [weight 0.33]</li> <li>The portions of budget head 501 assigned to the Office of the Vice-President and to Miscellaneous Services General will be reassigned to other appropriate budget heads and, starting from January 2010, all remaining expenditures from budget head 501, or any other budget head for unallocated expenditures, will be made in full conformity with sections 25(4) and 25(5) of the Government Budgeting and Accountability Act (2005). (WB only)</li> </ul> <p><i>Evaluation method for the proposed indicators:</i>  <i>Met = 1</i>  <i>Substantial progress = 0.66</i></p>	
<b>PFM V: Internal Audit</b>	<p>5. Government acts to ensure that the number of internal audit units in central government ministries and agencies is increased each year to benchmark level or better.</p>	<b>DFID/EC/AfDB</b>	<p>Number of internal audit units in central government ministries and agencies meeting minimum criteria: adequately staffed, reporting to Vote Controller, independent of finance function / not involved in pre-audit, issues of regular reports and time table for 2010 report publication for each MDA, copies to OAG, evidence of management follow up. (<b>Target: 13 units</b>)</p>	30 April 2010
<b>PFM VI: Macro Policy</b>	<p>6. MoFED will appoint a core team within the Economic Policy Research Unit, who shall be responsible for the production of high quality and consistent macro-fiscal projections</p>	<b>AfDB</b>	<p>A letter from the Minister of MoFED or his representative that</p> <ul style="list-style-type: none"> <li>(a) sets out the functions and job descriptions or ToR of the Macro-fiscal core team members</li> <li>(b) the relevant appointment or transfer letters</li> <li>(c) minutes of the first meeting of the Macro-fiscal core team members.</li> </ul>	30 December 2009
<b>PFM VII: Public</b>	<p>7. Government will improve legal</p>	<b>WB</b>	<p>Submission to Parliament of amendments to the</p>	

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Priority Area	Proposed Actions	Source	Proposed Indicators/Evidence of progress	Accountable MDA(s)
<b>Investment</b>	<b>framework for public investment</b>		Government Budgeting and Accountability Act (2005) and the Financial Management Regulations (2007) in support of an appropriate framework for public investment.	
<b>PFM VII: Tax Exemptions</b>	<b>8.</b> Tax exemptions are reduced and regulated	<b>WB</b>	Submission to Parliament of a law or amendments to the laws governing taxation of income and external trade that will reduce the opportunities for discretionary tax exemptions and increase the transparency and accountability of exemption decisions.	
<b>PFM IX: FOI Act</b>	<b>9.</b> Government introduces accountability measures through access to information.	<b>WB</b>	Submission to Parliament of a Freedom of Information Act	
<b>Civil service reform</b>	<b>10.</b> Progress has been made in implementing the civil service reform work plan adopted in March 2008, as measured by the specified monitoring indicators and weights.	<b>DFID/EC</b>	<ul style="list-style-type: none"> <li>• Approval of a revised civil service pay structure in conformity to the principles approved by Cabinet in 2007. [weight 0.20]</li> <li>• Approval of a Civil Service Reform policy, establishing clear objectives for the size, grading structure and remuneration of civil servants through the participation of the PSRU, the Cabinet office, the HRMO and the Public Service Commission. [weight 0.20]</li> <li>• Approval of Medium term expenditure framework to establish the costing of the pay reform. [weight 0.20]</li> <li>• Identification of the resource envelope and financing modalities to implement the CSR plan. [weight 0.20]</li> <li>• New human resources procedures are applied across all MDAs by end first quarter 2010. [weight 0.20]</li> </ul> <p style="text-align: center;"><i>Evaluation method for the proposed indicators:</i> <i>Met = 0.80</i> <i>Substantial progress = 0.60</i></p>	Office of the President (PSRU)  MoFED  Establishment Secretary's Office/HRMO
<b>Service Delivery: PETS</b>	<b>11.</b> Ministry of Health, Ministry of Education and Local Councils will ensure increases in percentage of	<b>DFID/EC</b>	% of essential drugs transferred from DMOs to PHUs in FY2008 shows significant improvement over 2007 (>80%). [weight 0.50]	

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Priority Area	Proposed Actions	Source	Proposed Indicators/Evidence of progress	Accountable MDA(s)
	teaching and learning materials and essential drugs arriving at destination, as measured by the PETS survey.		% of textbooks transferred from local councils to schools in scholastic year 2007/2008 increases on 2004/2005 results (>90%). [weight 0.50] <i>Evaluation method for the proposed indicators: Met = 1 Substantial progress = 0.50</i>	
<b>Service Delivery: Education</b>	<b>12.</b> The number of National Primary School Examination passes for girls will increase annually to the benchmark levels or better	<b>DFID/EC</b>	Percentage of girls enrolled at Junior Secondary School to increase from 40.9% (2006/07 according to annual school survey) to 42.5% for 2009/2010 academic year	MoEYS
<b>Service Delivery: Health</b>	<b>13. Increase of percentage of deliveries attended by a skilled birth attendant from baseline of 52% in 2008</b>	<b>DFID/EC</b>	% of deliveries <b>attended by a skilled birth attendant &gt; 55% as measured by monthly data collected by districts</b>	MoH, Districts (for data collection)
<b>Economic Management: Private Partnership</b>	<b>14.</b> Government establishes framework for management of public-private partnerships.	<b>WB</b>	Submission to Parliament of a bill to regulate the formation of public-private partnerships to encourage investment while minimizing risks to government.	
<b>Economic Management: Electricity</b>	<b>15.</b> The National Power Authority will increase revenue collection, and improve financial management.	<b>AfDB/ WB</b>	<ul style="list-style-type: none"> <li>Government will agree on a schedule for a phased transition to a cost driven tariff formula for power supplied by NPA and BHP.</li> <li>The tariff will be informed by a poverty and social impact analysis. (World Bank only.)</li> <li>The National Commission for Privatization will publish the financial accounts for NPA for 2006 and 2007 and indicate if these are audited or un-audited.</li> </ul>	
<b>Aid coordination</b>	<b>16.</b> Progress is made in implementing the GoSL aid policy. Donor coordination and aid management will improve.	<b>DFID/EC</b>	<ul style="list-style-type: none"> <li>The adoption of an action plan for the implementation of the aid policy by end March 2010. [weight 0.50]</li> <li>Quarterly meetings between the GoSL and the donors as proposed in the aid policy are convened. [weight 0.50]</li> </ul> <i>Evaluation method for the proposed indicators: Met = 1</i>	DACO, MoFED

Republic of Sierra Leone: PFM Performance Assessment Report 2010

Priority Area	Proposed Actions	Source	Proposed Indicators/Evidence of progress	Accountable MDA(s)
			<i>Substantial progress = 0.50</i>	
<b>Economic Management: Public Debt</b>	<b>17.</b> Government establishes framework for management of public debt and liabilities.	<b>WB</b>	Submission to Parliament of a bill that will govern public debt management including the accumulation and management of contingent liabilities.	

**Annex 1: Note on the assessment methodology applied by DFID and the EC.**

The MDDBS partners have agreed to use a common assessment methodology for the annual review in 2010. .

For those benchmarks where several indicators have been agreed for a proposed area of action, a weight will apply to each individual indicator. A threshold is also provided to determine the level of achievement (met, substantial progress, or not met) against each benchmark. The weight of each indicator is added up to determine what threshold has been achieved.

Other benchmarks simply have one indicator, against which progress is either met or not met.

**Annex 2: Note on use of PAF in budget support decisions and agreements**

The PAF is one of several different tools used to determine the budget support decisions and outcomes, as set out in the joint MDDBS Memorandum of Understanding, and the individual Memorandums of Understanding between each donor partner and the Government of Sierra Leone.

**Annex 3: Criteria and Benchmarks for Assessing Procurement Plan Quality**

The agreed criteria and benchmark outcomes drawn from 45 approved procurement plans for 2009 are as follows:

- i) number of public procuring entities that provide only one plan per procurement category (goods, works, services): 42 out of 45;
- ii) number of plans with all details filled in: 44 of 45;
- iii) number of plans that are fully consistent with the procurement Act and Regulations: 34 of 45;
- iv) number of plans that do not include any attempts to split procurements: 29 of 45.

The number of 2008 plans that met each criteria: 19 of 45 (42%).

**Annex 4: Benchmarks for Decentralized Service Delivery**

The following benchmarks are reviewed by the MDDBS partners but the outcome will inform decisions only for the World Bank's decentralized Service Delivery project.

- (i) In SL FY10 and SL FY11, at least 30 percent of domestic revenues (less wages, interest obligations, statutory transfers to NRA, and the Road Fund) are transferred to Local Councils (LCs) on an annual basis;
- (ii) GoSL transfers to LCs in FY10 and FY11 adhere to the quarterly disbursement schedule published in the beginning of each fiscal year;
- (iii) A reduction in the number of Government grants to Councils to fund education, health, solid waste management and water services from 9 to 4 by FY12;
- (iv) In SL FY10 and SL FY2011, (a) variance between available resources and executed LC budgets should not be more than 10 percent; and (b) at least 9 LCs in SL FY10 and 15 LCs in SL FY11 should meet at least 75 percent of their LC-specific service output targets (as per LC MOUs); and
- (v) A policy developed on the assignment procedures and "terms of secondment" for sector staff at LCs

**Annex 1. Summary and Explanation of Indicator Scores**

	2007		2010	
	Score	Explanation	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	The position relating to aggregate expenditure shows an improving picture with the provisional data for 2006 showing a deviation of 1.1% down from 5.5% the previous year and 7.6% in 2003. This has been achieved while revenues have fallen, but outgoings on interest payments have also been declining, and not all donor budget support is included in the budget.	B	The position relating to aggregate expenditure compared to budget shows a mixed picture. While in 2006 showed a deviation of 1.1%, 2007 deviation ballooned to 22.4% and fell to 3.5% in 2008 before creeping up to 7.9% in 2009.
PI-2. Composition of expenditure out-turn compared to original approved budget	C	The variances in excess of the total deviation have exceeded 10% in one of the 3 years. While there has been an improvement in the control of aggregate expenditure, there has been a worsening of the distribution of expenditure when 2006 is considered.	C	The variances in excess of the total deviation have exceeded 10% in one of the 3 years – 1.6% in 2007 widening to 11.1% in 2008 before falling slightly to 9.7% in 2009.
PI-3. Aggregate revenue out-turn compared to original approved budget.	B	In 2003 and 2004, actual revenue was higher than that forecast in the budget, but fell below in 2005 and 2006. Economic conditions in 2006 for businesses have been difficult which will have contributed to the downturn. This deterioration in revenue may also stem from the willingness of Government Ministries to grant duty free importation to commercial operations as part of an incentive package.	C	Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in 2007, only. Economic conditions in Sierra Leone have reflected conditions world-wide. This revenue performance may also stem from the continued willingness of Government Ministries to grant duty free importation to commercial operations.
PI-4. Stock and monitoring of expenditure payment arrears.	No Score (i) NS (ii) D	Known arrears have been over 10% albeit falling in two of the three years but there is a lack of complete arrears data to score this dimension. Effective commitment control to avoid build-up of arrears is available through the IFMIS purchasing module but this is not currently	D  (i) D (ii) C	The verification of arrears exercise that was carried out by the Auditor General indicated that arrears are greater than 10% of total expenditures at end 2009. Payment of arrears is planned in line with revenue and off-setting

Republic of Sierra Leone: PFM Performance Assessment Report 2010

		fully utilised.		arrears between Government and parastatals has been used a means of settling agreed arrears from both.
PI-5. Classification of the budget	A	The classification system/chart of accounts used by IFMIS for formulation, execution and reporting of the central government's budget uses GFS/COFOG compliant economic classification.	C	The classification system/chart of accounts used by IFMIS for formulation, execution and reporting of the central government's budget uses GFS/COFOG compliant economic and, administrative classification.
PI-6. Comprehensiveness of information included in budget documentation.	C	Recent budget documentation fulfills 3 of the 9 information benchmarks.	A	Recent budget documentation fulfills 8 of the 9 information benchmarks.
PI-7. Extent of unreported government operations	No Score (i) NS (ii) D	The Other Government Accounts Unit (OGAU) does not produce comprehensive documentation on a regular and timely basis of the operations of the 46 extra-budgetary and sub-vented agencies. Reporting on donor-funded projects is seriously deficient.	No Score (i) NS (ii) D	In respect of extra budgetary expenditure and subvented agencies the data collection is not complete, nor is it reflected in strategic fiscal and monetary reports. The OGAU collects only partial information in respect of PIU's resulting in the information on donor-financed projects included in fiscal reports being seriously deficient.
PI-8. Transparency of Inter-Governmental Fiscal Relations	B (i) A (ii) A (iii) D	The Local Governments Equitable Grants Distribution Formulae provides clear and timely information on allocations to each of the 19 local councils for each of the devolved services. However, follow up on the monitoring of budget execution is still being developed.	A (i) A (ii) A (iii) A	The Local Governments Equitable Grants Distribution Formulae provides clear and timely information on allocations to each of the 19 local councils for each of the devolved services. Reporting is done monthly with quarterly returns triggering the payment of the following quarter's transfer. Annual Accounts are audited by the Auditor General
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C (i) C (ii) C	The present system for overseeing fiscal risk from other public bodies is in place, but there is no consolidated reporting.	C+ (i) C (ii) B	Fiscal risk on PEs is undertaken, but there is no consolidated overview of fiscal risk produced in a report. An annual report on local councils includes all

Republic of Sierra Leone: PFM Performance Assessment Report 2010

				19 councils and these are aggregated into an “all council” table.
PI-10. Public Access to key fiscal information	B	Government makes available to the public 3 of the 6 listed types of information.	B	Government makes available to the public 4 of the 6 listed types of information.
PI-11. Orderliness and participation in the annual budget process	C+ (i) A (ii) C (iii) D	There is a calendar for the preparation of the MTEF and Budget as a combined process. Cabinet is not formally involved in budget preparation until it is sent the Budget Framework Paper in mid-September. The approval of the 2007-09 MTEF budget was the first time that a budget calendar had been followed. Previous years had seen the budget approved in the second quarter, requiring a presidential warrant during the first four months to enable expenditures. Expenditure was still halted for 10 days in 2005 and 5 days in 2006.	D+ (i) C (ii) C (iii) D	An orderly budget calendar exists, but there were substantial delays in its implementation and many MDAs do not submit according to the timetable. Cabinet review of the budget is limited. Budget approval by Parliament has not been in the time set by the regulations in any of the three most recent years
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+ (i) C (ii) B (iii) D (iv) D	The budget document presents a three year rolling (on an annual basis) forecast of revenue and expenditures, the deficit and its financing. The MTEF estimates are updated each year, without any detailed explanation of changes and the implications for budget ceilings. Expenditures are broken down by economic categories and by sector, which usually corresponds to a ministry. A Debt Sustainability Analysis includes an analysis of both external and domestic debt and is now conducted annually. There are no costed sector strategies available with some either close to completion, or in an advanced stage under PRSP and MDG. The Development and Recurrent budgets are currently produced separately. At present, there is little formal linkage between the two budgets. No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure	C (i) C (ii) A (iii) D (iv) D	The 2010 Budget document presents indicative revenue and expenditures, and the deficit and its financing for 2011 and 2012 as well as the budget for 2010. The MTEF does not give any detailed explanation for changes and the implications for budget ceilings. A Debt Sustainability Analysis is carried out annually. The Budget Call Circular requests MDAs to present their budget requests with a strategic element but MDAs have difficulty in presenting this information in a meaningful way. Generally, this presentation (as per the request) is done for goods and services only and personnel costs are not linked at all to these economic categories which makes the exercise redundant.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

		estimates.		No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.
PI-13 Transparency of Taxpayer Obligations and Liabilities	C+ (i) C (ii) B (iii) C	Tax administration has been unified under the NRA. The inherited system did not incorporate modern tax administration systems and was not service orientated.	B (i) C↑ (ii) A (iii) C↑	The introduction of GST has streamlined the number of taxes, but the exemptions regime is not transparent. The provision of information is up-to-date with a website and tax payer education used. A Revenue Appellate Board has now been ratified by Parliament and the Chair and six Commissioners have been appointed by the President. While funds were first allocated in the 2007 budget the Tax Appeal function has yet to be fully operational.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C (i) C (ii) C (iii) C	The separate systems inherited by the NRA are now beginning to be amalgamated and computerised, but at present are underdeveloped, particularly in terms of risk assessment.	B (i) B (ii) B (iii) B	There is a unique TIN linked to other databases. The procedures now accommodate penalties for non-compliance on registration and declaration. Audits are now capable of being planned on clear risk assessment criteria using a computer based system for two major taxes.
PI-15 Effectiveness in collection of tax payments	D+ (i) D (ii) B (iii) D	There is a significant stock of declining arrears. Administrative systems are being put in place to improve transfers and reconciliation.	D+ (i) D (ii) B (iii) A	A Task Force has been set up to address the question of arrears which should provide a realistic arrears figure to emerge. There has been an off-setting arrangement on GoSL arrears to parastatals and vice versa. Arrears are in excess of a range between 5 to 7.6 per cent in 2009t of total collection falling between 3.35 and 5.28 percent in 2010 and the debt collection ratio of 26 per cent in 2009. Up-county transfers are not made on a daily basis (reflecting transit arrangements, which generates up to 2 days delay.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

				Reconciliations on assessments and payments are made on a timely basis
PI-16. Predictability in the availability of funds for commitment of expenditures	C+ (i) C (ii) B (iii) B	The Budget Bureau prepares quarterly cash flow forecasts at the start of the fiscal year and notifies MDAs of the quarterly ceilings based on procurement plans for non-salary/non interest expenditures. Wages and salaries are calculated centrally. Quarterly allotments are made to all MDAs. The Net Domestic Financing Committee meets on a weekly basis and monitors the cash position. Quarterly allocations are often paid in tranches and fourth quarter budget cuts provide a disincentive to contract for goods and services even if these are included in procurement plans.	C+ (i) C (ii) B (iii) C	Cash flow projections are only updated twice a year, but the cash position is monitored on weekly basis. Adjustments to allocations for discretionary non-interest, non-wage expenditure are made on a quarterly basis and takes into account expenditure to date and commitments incurred to ensure that arrears do not emerge. Fourth quarter allocations take account of the likely cash position. Formal reallocations have been imposed in each of the last three years and these have been communicated to the MDAs.
PI-17 Recording and management of cash balances, debt and guarantees.	C+ (i) B (ii) C (iii) C	A Single Treasury Account has been operating for some time. The sub-accounts within the Treasury Account are treated as a consolidated of cash balance within the BoSL which is reconciled on a regular basis. However, the consolidation process only applies to the Single Treasury Account maintained at the BoSL and excludes a significant number of departmental bank accounts. All central government loans and guarantees have to be endorsed by the MoF and approved by Parliament, however the criteria and ceilings are not clear.	C+↑ (i) B↑ (ii) C (iii) C↑	External debt recording and monitoring and debt management are carried out in two Agencies and there is quarterly aggregation and reconciliation of the systems. GoSL operates a Single Treasury Account. However, the consolidation process only applies to the Single Treasury Account at the BoSL and excludes a significant number of departmental bank accounts. The criteria and ceilings for loans and guarantees are to be set in Public Debt Management Act, 2010 which has been drafted and approved by Cabinet.
PI-18. Effectiveness of payroll controls	D+ (i) D (ii) D	MDAs' personnel records are maintained by the Establishment Secretariat. The Sierra Leone Police and Ministry of Education, Science and Technology maintain separate personnel databases. Payroll matters	D+ (i) D (ii) D	The IFMIS–HCA system architecture is in place to facilitate integration and reconciliation between payroll and personnel records and this also provides system-based improved

Republic of Sierra Leone: PFM Performance Assessment Report 2010

	<p>(iii) B (iv) B</p>	<p>are handled centrally by the Accountants General Department. A payroll module of IFMIS was introduced in April 2006. Recent independent audits have shown major concerns regarding the completeness of personnel records and databases. These audits indicate that the risk of large-scale undetected payroll fraud is extremely high in respect of the incidence of ghost workers and out-of scale payments.</p> <p>For civil servants, personnel details and payroll are integrated in one database with different access and supervisory rights for ESO and AGD staff, which ensures a basic segregation of duties in the system. Logbooks control the movement of amendment forms between ESO, MoEST, SLP and the AGD. However, beyond the logbooks, there is no process batching system to control the movement of amendment forms between and within Departments.</p>	<p>(iii) B (iv) C</p>	<p>accountability, record keeping and audit trails. When the payroll module was introduced “default” data was uploaded from existing records which still needs to be fully “over-written” as additional accuracy and completeness of records is achieved.</p> <p>A key control and the verification required to ensure meaningful integration of the payroll and personnel records can only be attained when physical checks of employees are established together with reconciliation of the personnel files held by MDAs, and the master file held by HMRO and the corresponding IFMIS-HCA data. Despite the roll out of the IFMIS-HCA and the payroll verification exercises undertaken 2007-2010 including the current activity these activities do remain incomplete, others remain to be done and so the conclusion is that the integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. GoSL efforts to date are acknowledged by the upward trajectory ↑ but these do not yet impact sufficiently to fully revise the score.</p>
--	---------------------------	--	---------------------------	---

Republic of Sierra Leone: PFM Performance Assessment Report 2010

<p>PI-19 Competition, value of money and controls in procurement.</p>	<p>C (i) C (ii) C (iii) C</p>	<p>All entities should provide the National Public Procurement Agency regular reports within 14 days of the end of the quarter. This has yet to be fully implemented. The Procurement Act regulatory requirements have established criteria for the use of open competition. Contract splitting results in widespread use of non-competitive methods of procurement. The Act also provides for complaints. While the complaints mechanism is well defined, implementation is extremely weak and significant levels of capacity building will be required.</p>	<p>C+  (i) B (ii) C (iii) C</p>	<p>The NPPA's procurement planning and scrutiny process is clear evidence of the existence of a structured and well managed system to monitor the procurement planning information received from public entities. However, at this stage not all entities (50 out of 300 in number ) are covered by the full level of NPPA scrutiny and outside of this there are other higher thresholds applied by the different donors Justification for less competitive procurement methods is clear for those entities captured by the NPPA monitoring but there cannot be the same level of assurance for entities outside of this process. A two tier procurement complaints mechanism exists but is not fully implemented</p>
<p>PI-20 Effectiveness of internal controls for non – salary expenditure</p>	<p>C+ (i) B (ii) B (iii) C</p>	<p>The appropriations module of IFMIS provides a hard budget control. The purchasing module has the capacity to record specific commitment obligations and Local Purchase Orders. A recent independent evaluation of the implementation of IFMIS noted that this module was not well understood even within the AGD. The AGD is able to produce monthly statements comparing approved budget with the total of the executed budget and the outstanding contractual commitments. The AGD does not allow the budget/cash limits to be exceeded. In practice, the main focus at present is on keeping payments within approved limits, rather than closely supervising outstanding expenditure commitments. The budgetary control system is tightly operated and in</p>	<p>C+  (i) B (ii) B (iii) C</p>	<p>The IFMIS system incorporates the hard controls of budgets which ensure cash limits are not exceeded and this is supplemented by a "hands on" approach to central monitoring by the AGD (Other Charges Unit) The introduction of query statistics to measure accuracy of vouchers and documents sent to the AGD for payment is useful management information to be collecting, and on which to base feedback to controllers and to make systems improvements. However, there are also other bases of evidence which still cast some doubt on the wider internal control compliance at this stage.</p>

Republic of Sierra Leone: PFM Performance Assessment Report 2010

		theory there is no possibility of a budget being exceeded. Financial Administration Regulations are reasonably comprehensive and well understood by those who apply them. A revised version compatible with current PFM is being reviewed by the legal service prior to being submitted to Parliament.		
PI-21. Effectiveness of Internal Audit	D+ (i) C (ii) C (iii) D	Although the concept of internal audit is new, there are now 14 separate Internal Audit Department units functioning independently from the finance department and report directly to Vote Controllers. The MoF Internal Auditor has statutory authority to coordinate and manage the internal audit cadre, to set standards and monitor performance. Internal audit reports prepared by the MoF IAD are well structured, comprehensive, have clear objectives and are focused on key risk areas. Overall, they demonstrate a practical understanding of modern internal audit techniques. However, quality assurance reports for the IA function in four key MDAs raised issues that indicate that the development of fully functioning internal audit departments will prove a considerable challenge. The response to internal audit reports is poor and audited entities are often slow to respond to internal audit reports or fail to address issues raised in reports adequately.	D+↑ (i) C (ii) C (iii) D↑	The Internal Audit Unit has made a positive start but sustained effort is needed for it to develop a modern audit methodology and to function well as an internal audit function across GoSL. Internal Audit Units are established but not necessarily adequately resourced for all MDAs and are far from being fully implemented in a consistent way. Overall it is not yet a strong institutional platform. In August 2010 there was a significant injection of resources which should have a measurable impact in taking the internal audit function forward. Fifty new staff, with higher entry level qualifications, have been recruited. Other strategic actions such as establishing functioning Audit Committees still remain to be fully implemented. Management responses to audit reports need to be improved.
PI-22 Timeliness and regularity of accounts reconciliation	C (i) C (ii) D	Failure to conduct regular bank reconciliations between the Treasury bank accounts in the BoSL with the cash book has been a major weakness in the overall control environment. This has been a contributing factor to the delay in the production of the public accounts. With regard to the timeliness and procedures relating to bank reconciliations, in 2007, reconciliations are being done	B (i) B (ii) B	There are improvements to the bank reconciliation process. The regular reconciliation disciplines including the improved IFMIS reconciliation module which were reported as recent changes at the time of the last PEFA in 2007 have been sustained and strengthened.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

		on a regular basis throughout the month and reports are completed by the 15th of the month following the month end.		
PI-23. Availability of information on resources received by service delivery units	A	Public Expenditure Tracking Surveys are undertaken annually and are regarded as a central component of the monitoring system, especially in terms of their ability to address a range of issues relating to accountability, transparency and efficiency under the Good Governance Pillar of the PRSP.	A	PETS are a feature of the monitoring system and are conducted annually. They indicate that record keeping at the point of receipt of public funds requests attention.
PI-24. Quality and Timeliness of in-year budget execution reports	C+ (i) A (ii) A (iii) C	In-year budget reports can be generated at any time. At present, only expense analysis reports (detailed dates of cheques paid) and allocation monitoring reports are routinely sent to MDAs, on a quarterly basis within 4 weeks of quarter end. It is now intended that a full set of reports are sent to MDAs, including the commitment/obligation analysis report.	B+ (i) B (ii) A (iii) B	The quality and accuracy of information is increasing. This is being achieved in a number of ways including from the roll out of IFMIS and the additional accuracy and levels of reconciliations which are inherent system improvements. Also, there are increasingly tighter controls and greater levels of scrutiny and data integrity being introduced into the separate feeder system. There are still further improvements to be made in the completeness and accuracy of the information captured in the reports- namely the incorporation of expenditures arising to and from transfers to AGAs which is planned as a future improvement. However, some measurable progress has been made in the past three years.
PI-25. Quality and timeliness of annual financial statements.	D+ (i) C (ii) D (iii) C	Following the appointment of a new Accountant General in 2006, draft 2002, 2003 and 2004 public accounts have been prepared and submitted to the Auditor General. The completed financial statements are an improvement on previous years, and include extensive disclosure of accounting policies. However, they do not include	C+ (i) C (ii) A (iii) C	Accounts Year Ended 2009 to Auditor General 7 <sup>th</sup> April 2010 Accounts Year Ended 2008 to Auditor General 31 <sup>st</sup> March 2009 Accounts Year Ended 2007 to Auditor General 31 <sup>st</sup> March 2008

Republic of Sierra Leone: PFM Performance Assessment Report 2010

		contingent liabilities, in particular of SOEs.		Accounts Years Ended 2005 and 2006 to Auditor General 22 <sup>nd</sup> June 2007
PI-26. Scope, nature and follow-up of external audit.	D+ (i) C (ii) D (iii) C	The Auditor General is required to submit report to Parliament within 12 months of the end of the financial year covering a summary of irregularities arising and other matters. However, the Auditor General has only completed Annual Reports up to end 2003. These were submitted to Parliament in March 2006 and are under review by the Public Accounts Committee. Annual Reports for 2004 and 2005 are almost completed and are soon to be submitted. Delays in publishing the Annual Reports further diminish the impact of the Auditor General's work. Reports are published only after they have been discussed by the PAC and approved in Parliament. The Audit Service issues a management letter to the Vote Controller highlighting systems weaknesses and other recommendations arising from the audit. The audited entity should respond within 30 days. Responses are rarely received on time and many of the responses received have been less than satisfactory.	C (i) C (ii) C (iii) C	There are some improvements in the ASSL since the last assessment. The key improvement which has increased the score is that the Auditor General's report is now submitted to Parliament within 12 months of the end of the financial year. In addition, audit coverage of central government expenditures has increased from 63% to 69.3% and there is some consideration of value for money audits. Overall, the audit still tends towards a high level of vouching and detailed audit work and further reforms remain to be introduced which will further embed a modern audit methodology including systems based audit and the development of specialist audit skills.
PI-27. Legislative scrutiny of the annual budget law.	C+ (i) C (ii) C (iii) A (iv) A	Scrutiny by the legislature has to be seen in the context of 35 Parliamentary Committees with only four clerks to service the Committees, no Parliamentary draftsman, few research assistants and no offices for members. The Finance Committee carries out the scrutiny function on the budget.	C+ (i) C (ii) C (iii) A (iv) C	The Committee examines the budget in the context of the legal statutes after it has been formulated and presented to Parliament. Parliament has been by-passed in the area of duty waiver on imports. The budget speech was not delivered to Parliament by October 31 in the past three years to allow Parliament the statutory two months to debate and pass the budget. The limit for virement ranges between a lower limit to 10% and an upper limit of 40% of the

Republic of Sierra Leone: PFM Performance Assessment Report 2010

				line item
PI-28. Legislative scrutiny of external audit report	D+  (i) D (ii) A (iii) C	Scrutiny by the legislature has to be seen in the context of 35 Parliamentary Committees with only four clerks to service the Committees, no Parliamentary draftsman, few research assistants and no offices for members. The Public Accounts Committee carries out the scrutiny function on audited accounts.	D+↑  (i) D↑ (ii) A (iii) C	<p>The PAC now receives technical assistance from a dedicated team led by a Deputy Auditor General which appears to be having a favourable impact on the workings of the PAC during 2010 and its consideration of the Auditor General's 2008 Report which is currently being scrutinized.</p> <p>There have been improvements – such as in the timeliness of the consideration of Reports but not sufficient to register as an improvement on the indicator.</p> <p>The Standing Order 75 has been clarified so that the Auditor General no longer has to wait for the publication of the PAC report before she can issue her own report.</p> <p>PAC committees are open to the public and since 2009 there have been hearings held in districts / regions to consider the reports relating to Local Councils.</p> <p>The ongoing weakness continues to be in the lack of action on and follow up of PAC recommendations, sanctions and recoveries.</p>
D-1 Predictability of Direct Budget Support	C+  (i) A (ii) C	Not all donors formally provide forecasts to the GoSL. The forecasts used for budgeting purposes are those suggested by the IMF as a result of discussions between government and donors. The deviation of actual budget support from forecast was above forecast in 2 years resulting in an A score for dimension (i). However, there were numerous in-year disbursement delays resulting in a score of C for dimension (ii). A PEFA	D  (i) D (ii) D	Direct budget support is a significant source of revenue for GoSL and the three year period 2007-2009 under review saw an exceptional level of volatility in the disbursement against the original forecasts. However, these delays occurred due to significant fiduciary concerns of donors over GoSL activities together with delays in the preparation of financial statements.

Republic of Sierra Leone: PFM Performance Assessment Report 2010

		calculation sheet was used inserting figures agreed by both GoSL and donors.		The scale of withholding is indicated by the statistics for 2007 (0% disbursement), through 2008 (65.6% disbursement) and the 2009 disbursement levels of 139 % including the release of withheld sums from earlier years:
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	D+ (i) D (ii) C	There is no evidence that donors provided complete budget estimates for disbursement of project aid at least three months before the start of the 2007 fiscal year. Estimates provided by donors are not generally classified according to the government's budget. The major traditional donors all provide quarterly reports on actual donor flows within two months of end-of-quarter with the exception of the UN.	D+ (i) D (ii) C	Since 2008 the DAD database has been used by donors to directly upload information on their aid commitments and disbursements. Underlying issues affecting comprehensiveness of the total aid flow captured by DACO which were raised at the time of the last PEFA still remain. Namely, that it excludes information about non-traditional aid flows (including Chinese aid) and there are significant aid-flows via projects and INGOs which are not fully captured by DACO (see the link to PI-7 comments). Not all major donors provide budget estimates for disbursement of project aid at least for the Government's coming fiscal year and at least three months prior to its start. Major donors provide quarterly reports within two months of end-of-quarter on all the disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a breakdown consistent with the government budget classification
D-3 Proportion of aid that is managed by use of national procedures	D	No evidence was found of aid using national procedures in Sierra Leone. Only Budget Support qualifies as using national procedures.	D	In terms of the proportion of aid that is managed by national resources the best proxy is to use the budget support figures as there is little evidence of other aid flows using IFMIS. The Summary Grants and Loans table from the

Republic of Sierra Leone: PFM Performance Assessment Report 2010

			<p>2009 Financial Statements shows the donor financed grants and loans amount of Leones 423.8 million. Applying the 2009 direct budget support figure to this gives a percentage of 19.6%; using DACO supplied figures as in previous years of Leones 358.7 million. Against this the direct budget support gives a ‘ use of national procedures’’ proportion of 23.18% This figure falls well short of the 35% indicative target set for 2010 in the GoSL Aid Policy Document<sup>75</sup> from the baseline of 20% in 2007.</p>
--	--	--	---

<sup>75</sup> Indicator 5a Table II: Paris Declaration Survey Results

Republic of Sierra Leone: PFM Performance Assessment Report 2010

**Annex 2. Schedule of Meetings for PEFA 2010 – Central Government**

<b>DATE</b>	<b>Indicators</b>	<b>Persons to Meet (GoSL)</b>	<b>PEFA Rep.</b>	<b>TIME</b>	<b>VENUE</b>
<b>Monday, August 16</b>	PI 1 – PI 3; PI 5 & PI 6	Director, Budget Bureau and Team	JS	10:00 am	MoFED
	PI 11 & PI 12	Director, Budget Bureau and Team	JS	2:00 pm	MoFED
<b>Tuesday, August 17</b>	PI 5 & 6; PI 11 & 12 cont'd; PI 16	Director, Budget Bureau and Team	JS	10:00 am	MoFED
	PI 18	Director-General HRMO and Team	SEHC	10:00 am	MoFED
	PI 18	Accountant General and Team	SEHC	12:00 noon	AGD
	PI 4, 12 & 17,	Head, Public Debts Unit and Team	JS	2:00 pm	MoFED
	PI 24	Director, Budget Bureau and Team	SEHC	2:00 pm	MoFED
<b>Wednesday, August 18</b>	PI 21	Director, Internal Audit and Team	SEHC	10:00am	MoFED
	PI 23	Director EPRU and Team	JS	10:00 am	MoFED
	PI 13 -15	Deputy Financial Secretary, RTPU and Team	JS	12:00 noon	MoFED
	PI 13 – 15	Commissioner General NRA and Team	JS	2:00 pm	NRA
	PI 22 & 25	Accountant General and Team	SEHC	2:00 pm	AGD
<b>Thursday, August 19</b>	PI 26 & 28	Auditor General and Team; PAC	SEHC	10:00 am	ASSL
	PI 27	Parliament Finance Committee	JS	10:00 am	Parliament
	PI 20	Accountant General and Team	SEHC	2:00 pm	AGD
	PI 8 & 9	Director LGFD and Team	JS	2:00 pm	LGFD
	PI 26 & 28	Claude LeLonde , Long Term Adviser	SEHC	3.30pm	ASSL
<b>Friday August 20</b>	PI 10	Director, ICT and Team	JS	10:00 am	MoFED
	PI 7	Other Government Accounts AGD	JS/SEHC	11:30	AGD
	PI7	Assistant Accountant General	SEHC	12:00	AGD
		Director EPRU and Team	JS	3:00 pm	MoFED
<b>Monday August 23</b>	PI-13-16	President & Secretary Chamber of Commerce	JS	10.00 am	CoC
	PI-9	NC Privatization	JS	11.00am	NCP
	PI 19	CEO NPPA and Team	SEHC/JS	2:00 pm	HRMO
<b>Tuesday August 24</b>	Various	Police Budget, Accounts and Internal audit	JS/SEHC	10.00	Police

Republic of Sierra Leone: PFM Performance Assessment Report 2010

<b>Wednesday August 25</b>	Various	Ministry of Education Budget, Accounts and Internal Audit	JS/SEHC	2.00 pm	MoEd
	D1-D3	DACO Director	SEHC	10:00	MOFED
	PI22	Assistant Accountant General	SEHC	11:00	AGD
	PI7	Head of Other Government Accounts Unit	SEHC	12.00	AGD
<b>Thursday 26</b>	PI 13 – 15	NRA Team	JS	11:00 am	NRA
	Various	Sierra Leone Police Management Team	JS/SEHC	10:00	SLP
	Various	Ministry of Education PS and team	JS/SEHC	1:00pm	Min of Ed
<b>Friday 27</b>	PI19	Head, Compliance, Monitoring and Evaluation Department of NPPA	SEHC	10:00	NPPA
<b>Monday 30<sup>th</sup></b>	D1-D3	Head of the Economic Trade & Regional co- operation Section	SEHC	9:00	EC
	PI28	Acting Chair of PAC	SEHC	11:00	Parliament
	PI22	Head Other Charges	SEHC	1:00pm	AGD
	PI 19	Head, Compliance, Monitoring and Evaluation Department NPPA	SEHC	3:00	NPPA
Tuesday 31 <sup>st</sup>	D1-D3	DFID Economic Adviser	SEHC	9:00	DFID
Wednesday 1 <sup>st</sup>	PI18	Deputy Director HMRO	SEHC	1:00pm	HMRO
	D1-D3	DACO Analyst	SEHC	2:00pm	HMRO
Thursday 2nd	D1-D3	ADB , Economic Adviser	SEHC	2:00pm	ADB

JS – John Short  
SEHC – Sharon Hanson Cooper

### **Annex 3. Documents Consulted**

Accountant General's Department Annual Report 2009  
Accountant General's Department Annual Report 2009  
Auditor General's Report on the Accounts of Sierra Leone for the Year Ended 2006  
Auditor General's Report on the Accounts of Sierra Leone for the Year Ended 2007  
Auditor General's Report on the Accounts of Sierra Leone for the Year Ended 2008  
Employer's Guide to PAYE  
GoSL Anti Corruption Strategy 2008-2013  
GoSL Report and Annual Statement of Public Accounts for the Year Ended 31<sup>st</sup> December 2007  
GoSL Report and Annual Statement of Public Accounts for the Year Ended 31<sup>st</sup> December 2008  
GoSL Report and Annual Statement of Public Accounts for the Year Ended 31<sup>st</sup> December 2009  
GoSL Budget 2010-2012  
GoSL Internal Audit Manual for Ministries, Departments and Government Agencies Volumes I, II and III  
Government of Sierra Leone – EU Joint Annual Review Report 2008  
Government of Sierra Leone 1991 Constitution  
Government of Sierra Leone Agenda for Change  
Government of Sierra Leone Aid Policy  
Government of Sierra Leone Country Financial Accountability Assessment 2002  
Government of Sierra Leone Customs Tariff Act, 1978 and ECOWAS Common External Tariff and Finance Act 2006.  
Government of Sierra Leone Financial Administration Regulations  
Government of Sierra Leone Improved Governance and Accountability Pact (IGAP)  
Government of Sierra Leone Local Government Act, 2004  
Government of Sierra Leone Memorandum of Understanding Partnership framework between the government of Sierra Leone and its Development Partners for Joint Budget Support for the Poverty Reduction Strategy  
Government of Sierra Leone National Commission for Privatisation Act 2002.  
Government of Sierra Leone National Revenue Authority Act, 2003  
Government of Sierra Leone Poverty Reduction Strategy Paper  
Government of Sierra Leone Public Procurement Act, 2004  
Government of Sierra Leone Public Procurement Act, 2004  
Government of Sierra Leone Public Procurement Regulations 2006  
Government of Sierra Leone Public Procurement Regulations 2006  
Government of Sierra Leone Public Sector Pay Reform Report of the Public Sector Reform Unit. Cabinet Secretariat, Human Resource Management Office, August 2010.  
Government of Sierra Leone Sales Tax Decree, 1995 and Finance Acts 2006 and 2007.  
Government of Sierra Leone Social Security Act of 2001  
Government of Sierra Leone The Excise Act, 1982.  
Government of Sierra Leone The Government Budgeting and Accountability Act, 2005  
Government of Sierra Leone The Government Budgeting and Accountability Act, 2005  
Government of Sierra Leone The Income Tax Act (2000) and amendments through the annual Finance Bill  
Government of Sierra Leone Vision 2025  
IMF 'Sierra Leone: Implementing Public Financial Management Reforms

## Republic of Sierra Leone: PFM Performance Assessment Report 2010

IMF Fiscal Affairs Department Report – Sierra Leone Implementing Public Financial Management Reforms June 2008

Income Tax Basic Procedures for all Businesses

Internal Audit Unit Reports – Examples from Sierra Leone Police Review of Police Training School 2008 and Financial Audit of the PETS Tracking Survey 2007, 2008,2009

Ministry of Finance and Economic Development IPFMR Project Administration Unit: Project Implementation Manual October 2009

Ministry of Finance and Economic Development Public Financial Management Reform Unit Public Financial Management National Action Plan (PFM-NAP) Status Report September 2009

Ministry of Finance Annual Budget Speech

Ministry of Finance Brief update notes on progress in PFM reforms

Ministry of Finance Budget Call Circular

Ministry of Finance EPRU Economic Bulletin

Ministry of Finance Estimates of Revenues and Expenditures

Ministry of Finance Financial Statements 2003 and 2004

Ministry of Finance Local Governments Equitable Grants Distribution Formulae and Allocations Paper (Annual)

Ministry of Finance MTEF guidelines

Ministry of Finance Public Expenditure Tracking Surveys various annual

Ministry of Finance Public Financial Management National Action Plan

Ministry of Finance PFMRU Public Financial Management Reform Update – Status Report – September 2010.

National Commission for Privatisation Annual Reports

National Public Procurement Authority (NPPA) Notification for the 2011 Year Procurement Planning, 28 July 2010

Non State Actors Position Statement on Non State Actors (NSA) on the Medium Term Expenditure Framework (MTEF) 2011-2013 Bilateral Discussions with Ministries, Departments and Agencies (MDAs)

National Social Security Insurance Trust Annual Reports

NRA Information Sheets

NRA Modernisation Plan

PAYE explanation for employees

Pre-shipment for inspection and price verification

Republic of Sierra Leone ‘‘An Agenda for Change – Second Poverty Reduction Strategy (PRSPII) 2008-2012’’

Sierra Leone Anti Corruption Commission Annual Report 2008

Sierra Leone PEFA 2007

Sierra Leone Police Strategic Plan 2009-2011

Sierra Leone Public Expenditure Review 2 February 2010 PREM4 Africa Region Report No 52817-SL Starting a New Business

Tonkolili District Council MTEF Budget for 2007 – 2009.

UN Human Development Report

World Bank Project Appraisal document on a Proposed grant in the amount of SDR 2.70 million (US\$4.0 million equivalent) to the Republic of Sierra Leone for an Integrated Public Financial Management Reform Project May 8, 2009

World Bank Public Expenditure Review: From Post-Conflict Recovery to Sustained Growth 2004

[www.nra.gov.s](http://www.nra.gov.s) NRA website

[www.mofed.gov.sl/](http://www.mofed.gov.sl/) Ministry of Finance and Economic Development website

[www.auditservice-sl.org/](http://www.auditservice-sl.org/) Audit Service Website

Republic of Sierra Leone: PFM Performance Assessment Report 2010

[www.dad.synisys.com/dadsierraleone/Development Assistance Database Sierra Leone](http://www.dad.synisys.com/dadsierraleone/Development Assistance Database Sierra Leone)

[www.statistics.sl/](http://www.statistics.sl/)

[www.publicprocurement.gov.sl/](http://www.publicprocurement.gov.sl/)